UMB

Summer 2018

Private Wealth Management

InSight

"Will I be able to continue living my current lifestyle during retirement?" It's a question many Americans are asking and one that we've been talking with you, our clients, about regularly for some time. This has become an even bigger discussion as health care expenses continue to steadily increase.

In a 2018 EBRI survey, more than four in 10 retirees report that their health care expenses in retirement are higher than they expected. This leaves many nearing retirement with lingering questions about if and how they will need to adjust once they exit the workforce. In this issue, I will share important details on how to you can effectively manage health care costs through a proactive retirement plan.

This summer's InSight issue will also include several pieces that address other questions we've heard and been discussing with all of you.

As summer vacations begin, learn from Sara Flores on how to protect your accounts while traveling internationally. Also in this issue of InSight, Susan Teson, senior vice president and legal counsel at UMB Bank, explores when clients should establish a trust and how they can ensure it is properly established. KC Mathews, chief investment officer at UMB Bank, also provides insights on how monitoring the bond market can help investors proactively identify stock market shifts.

Thank you for being a valued member of the UMB family, and I wish all of you a relaxing and enjoyable summer.

Sincerely,

Dana Abraham
President, Personal Banking, UMB Bank

Looking for a Stock Market Crystal Ball? Watch the Bond Market

KC Mathews, Chief Investment Officer

Wouldn't it be nice to have a crystal ball that forecasts the future of the stock market—a tool that would help investors experience fewer surprises and mitigate risk? While no one will ever be able to look into a glass orb to see what's ahead, there is something investors can monitor to help identify stock market shifts – the bond market.

Reading the Fixed Income Variables

There are two fixed-income variables that have a strong track record of predicting looming recessions and significant changes in the stock market direction: the slope of the yield curve and high-yield spreads. When analyzing these two variables, if one changes course, it signals a yellow flag. If they both change at the same, time, then a shift in the market can be expected.

Yield Curve Predictions for the Market and the Economy

The slope of the yield curve, the difference between the two-year and the 10-year Treasury yields, has a virtually perfect track record of predicting oncoming recessions. Historically, there is a lag effect—once the yield curve flattens and becomes inverted (long rates lower than short rates), the economy goes into a recession within 12 to 24 months. Why is this important? Equity bear markets (when stocks are down 20 percent or more) are associated with recessions. In recessions, economic activity slows and companies' sales decline, leading to a contraction in earnings that results in a stock market debacle.

The yield curve has been flattening over the past few years. Currently, the spread is 50 basis points, but it does not appear that the yield curve will invert, meaning we do not believe neither an economic recession nor an equity bear market will occur in 2018. We anticipate the economy will continue to move along at an increasing pace, creating more competition for workers and higher wages. This should keep interest rates moving up, and will modestly increase the yield curve slope throughout this year. However, we are closely watching the yield curve slope for an inversion, as this will be a yellow flag for the economy and markets.

High-Yield Spread Warning Signs

Spreads on high-yield bonds are another great barometer for oncoming pressure in the stock markets. These spreads show the difference in yield between low-grade corporate bonds (junk bonds) and U.S. treasury notes. The spread tends to widen (increase) before major sell-offs in the stock market, and typically occurs several months before the stock market peaks and begins a downward cycle. The last four major changes in the equity market were preceded by a widening of high-yield spreads.

Currently, high-yield spreads are anchored near cyclical lows and are showing no warning signs that a significant negative cycle for stocks is close at hand. Historically, when spreads materially widen, it is also a yellow flag.

Continued ▶

The Crystal Ball Conclusion

There is no crystal ball when it comes to predicting stock prices. However, as outlined, the bond market provides clear warning signals to monitor. If the yield curve inverts and high-yield spreads widen at the same time, this is a red flag that signals the economic cycle and the bull market are close to a material change of direction. Currently, this is not the case.

At this time, both of these indicators are sending the "all clear" signal. We are deep into this economic expansion, so we are watching these signals very closely. As we've seen in the past, they might once again provide important warning signs that lead us to reduce equity exposure. In the meantime, it appears that 2018 should be another year for reasonable equity market returns.

Retirement health costs: are you prepared?

Dana Abraham, president personal banking

There is no question that the cost of health care in America is continuing to steadily rise. According to the Kaiser 2017 Employer Health Benefits Survey, the premiums for family coverage have increased by 55 percent in the past 10 years. One group that is particularly impacted by the rising cost of health care is baby boomers nearing retirement age.

As seniors continue to age they will need more health-related services. Between the need for increased services and growing cost, the financial impact health care can have on a retirement plan is substantial. A 2017 Employee Benefits Research Institute (EBRI) study estimates the average couple will need $259,000 to cover out-of-pocket medical expenses during retirement.

The financial implications of health care costs in retirement are driving people to evaluate what kind of health care they will be able to afford and assess how much they should be saving. One question that most often arises when examining the health care portion of a retirement plan is "will I be able to continue living my current lifestyle during retirement?" According to the Financial Needs of Affluent and High Net Worth Customers 2016 Mintel report, one-third aren't sure they have enough saved for retirement.

Effective retirement plans must include a detailed strategy for managing healthcare costs. Following are some items to consider.

Understand coverage options and costs

One of the most important ways to prepare for healthcare costs during retirement is understanding what costs will be incurred. There are many different healthcare options for seniors and there is not a one-size-fits-all selection. Knowing what option is best for an individual retirement plan is critical to a successful retirement.

Healthcare plans include employer-backed, federal programs such as Medicare and Medicaid and health care through the individual marketplace.

An important aspect to consider for coverage options is the qualification factors and amount of coverage Medicare provides. Many people assume they will automatically qualify for Medicare and that it will cover a vast majority of health care needs during retirement. In reality, Medicare may not cover as much as anticipated. The most recent data from a 2017 EBRI report states that in 2013, Medicare covered 62 percent of healthcare services for Medicare beneficiaries ages 65 and older. Again, each person's situation is unique, so a financial planner can help determine the best option.

Consider long-term care insurance

According to the U.S. Department of Health and Human Services, about 70 percent of people over the age of 65 will need some type of long-term care for a period of their retirement. Just a few years of paying for long-term medical costs can quickly drain retirement funds with the average cost of a semi-private room in a nursing home being $6,844 per month.

During this phase, people often enter the continuum of health care that includes a spectrum of long-term services. Once people enter the continuum, they often transition through the spectrum. For example: one path of long-term care could begin with independent living assistance, that transitions to assisted living, and ends with 24/7 care. Individuals should evaluate options regarding long-term care insurance and determine if this is something they should consider to help supplement costs of potential long-term medical costs.

Talk with a professional

Planning is the most important aspect of a successful transition into retirement. Planning early and reevaluating often is critical. One way to establish a sound financial plan is to work with a financial advisor. They can help not only establish goals, but work to make them a reality. A financial advisor can consider a 360-degree view of an entire financial situation and assess additional preparation needed for a successful retirement.

Maximize savings tools, including HSAs

There are also tools that can be used to help build and maximize long-term wealth. Health savings accounts (HSAs) are a tool that can be used for current or future health expenses and can serve as a key part of an overall retirement strategy. Their triple tax advantage makes them uniquely tax-advantaged in the retirement space and a solid complement to 401(k)s and IRAs when looking at future savings. According to the 2017 Midyear Devenir HSA Research Report, HSAs continue to grow in popularity and have reached 21 million accounts nationwide with balances of $42.7 billion.

When looking toward the golden years, people should be excited about living their best retirement. While growing healthcare costs should be carefully planned for and

Continued ▶

managed, it does not need to be an additional burden if individuals properly plan and seek professional advice. Having an estate plan allows one to achieve peace of mind and plan for the future. An estate plan enables people to have a say in what happens to their assets when they pass or become unable to make financial decisions during their lifetime. Estate planning may include the creation of a trust as part of the larger plan.

A trust, like a last will and testament, allows a person to direct how and when assets are distributed to family members, charities or other individuals. A trust is a private agreement and unlike a will, a properly-funded trust helps keep assets out of probate. A trust can also be beneficial for small business owners to help with the succession of business interests. A thorough estate plan including a trust can help ensure financial stability that may last for generations to come.

Establishing a Trust: Planning for the Future with Intention

Susan Teson, senior vice president, deputy chief fiduciary officer and legal counsel

Every legacy is unique; there is not a "one size fits all" approach to the creation of an estate plan. With every estate plan, which might include one or more trusts, understanding the goals of the family or business is critical. It is also important to remember that goals and circumstances can change throughout the lifecycle of a financial plan. Revisiting your plan frequently is important. Below are examples of different stages in which people may find themselves when a trust might work for them.

A trust can offer protection

This is often the entrance point for people who realize the need to create a trust. This occurs when an individual or business owner begins to identify the need for strategic planning to ensure the safety of his or her finances and the continuity of financial management.

The first step of this stage is to identify the goals of the estate plan and consider establishing a trust structure. During this phase, working to identify business or other asset growth potential and establish long-term planning is key. Through this initial process, the foundation is laid for readjustments that may be needed as goals shift or change over time.

By working with individuals to establish goals such as business or other asset growth, a tax savings plan, and a gifting strategy, substantial amounts of money might be saved. This is a point where individuals, along with their financial advisors, may decide to create a trust that cannot be changed.

A trust can ensure a legacy

A trust can help establish a legacy that may last for generations. Setting up trusts for children or grandchildren who may be too young to manage finances for themselves or establishing a process for distribution of wealth over the long term, is often a strategic step in building meaningful inheritance plans.

This is also the time where, if possible, people start thinking about setting up a foundation or establishing gifting strategies to charities. There are many aspects to consider that stretch far beyond finances; for example, trusts can be established for fine art pieces and collectibles as well.

A trust can support peace of mind

As individuals move into the latter phases of their financial lifecycle, questions can begin to arise. This often starts when people are nearing retirement. They have planned for their legacy and feel financially comfortable. However, now that retirement is closer, they now wonder, "Am I going to be able to continue living the life I am used to?" Trusts can work to ensure that retirement is properly funded and individuals can continue living the lives they are accustomed to with the money they have.

Additionally, using a trust to plan for the end of the financial lifecycle is a way to provide peace of mind for individuals and their families, so that bills can be paid and investments managed even in the event of disability. Living trusts (trusts that can be revoked during lifetime where the trust creator serves as the trustee initially) can be beneficial as people age, especially if they become mentally or physically impaired. A living trust can also help relieve family burden and ensure a smooth transition when an individual passes away, by naming a successor trustee to step in and continue to manage the trust.

Estate planning is critical to establishing a legacy and helping achieve an individual's dreams and goals. At UMB Private Wealth Management, we recommend reassessing your estate plan at least every five years, or sooner if major life changes have occurred, to ensure it is working to meet individual needs and reflects current life circumstances. There are many different types of trusts that can be established for any aspect of needs, and we work to find unique solutions for every client.

Next article ▶

Account protection when traveling internationally

Sara Flores, Chief Information Security Officer

Cyberattacks have increased considerably in both number and severity in recent years, and when traveling abroad, the potential of being impacted is even higher. According to a recent article in Security Magazine, cybersecurity experts generally agree that about 20 percent of travelers are subject to cyber targeting when abroad.

The increased risks of traveling

For those with several types of accounts, like email, social media, savings, checking or investment, the likelihood of being a victim of cyber fraud may increase simply because criminals have more avenues to exploit. And, although it's discouraged, many people use the same usernames, PINs or passwords for more than one of their accounts, meaning a breach of one could make it much easier to access another. Traveling can increase this risk due to the use of various, often public or unsecured, internet connections and because people tend to be more distracted and relaxed while vacationing. Travelers should be aware that U.S.-designed cyber protections and regulations may not carry over into the countries they cross in to. Without domestic cybersecurity in place, individuals should be on high alert, especially with how and when they access their financial accounts.

Top tips for protecting your accounts

1. Alert financial institutions beforehand

If you make a transaction abroad, your bank will likely flag the purchase because it is not aware that you are out of the country. While this protective measure is important and shows that your bank is taking active steps to deter fraud, it can also freeze your account, leaving you with no access to funds. By notifying all of your financial institutions of your plans to travel, it can decrease the chances of unauthorized credit card transactions.

2. Backup all personal files

If you travel with electronic devices like smartphones, laptops or tablets, be sure to backup each one prior to departing. In the case of cyber theft, or the physical loss of property, you will still have full access to your files once you return home.

3. Make copies of important documents

IIt is best practice to make photo-copies of credit cards (front and back) as well as passports and other important documentation. Be sure to secure the photo-copies in a safe place separate from the actual hard copies. Most hotels will provide in-room safes or offer an alternative safe storage option to guests. If a purse or wallet is stolen with the cards and passport, the cardholder will have access through the paper copies to the bank contact and card information. This extra step will also make reporting theft to the bank easier as well as reporting a stolen passport to the US Embassy or Consulate in the country being visited.

4. Update your mobile software

Update operating system software, apps and antivirus software before your trip. These updates may help prevent your device from malware infection that could be used to capture account information.

5. Refrain from connecting to public internet connections

It's common to regularly check the status of financial accounts online. However, logging into online financial platforms abroad could increase your risk of a cyberattack, especially if you connect to public Wi-Fi. It's often difficult to locate a secure connection in areas that do not have stringent cyber regulations; nevertheless, public and unsecured Wi-Fi should be avoided. Consider using an international data plan as an alternative.

6. Disable unused features

Accessing personal credit card information or using online financial tools will be necessary from time to time, but when devices are not in use, all discoverable features should be disabled. Bluetooth, GPS and location services allow others to identify your network and personal device. And if you have a significant amount of money linked to an online account, hackers may be able to breach the server. Turn off these settings and limit usage as much as possible.

7. Change your PIN

Sharing personal identification numbers (PINs) across multiple accounts is never a good idea, which is why your PINs should vary among your accounts. Changes your PINs prior to traveling and upon your return to thwart hackers who may have obtained access to that crucial piece of data.

Financial management goes beyond the physical safeguarding of assets, making digital security a critical component to any financial plan, especially when traveling outside of the U.S. Be sure to implement security measures that can help protect your accounts and devices as your cross international borders. For more information on how you can take steps to be more secure, visit umb.com/security.

Continued ▶

May 2018 Outlook by the Numbers

		2014 (year end)	2015 (year end)	2016 (year end)	2017 (year end)	Most Recent	2018E	Trend
ECONOMY	**Real GDP Growth SAAR** (Annual Average)	2.60%	2.90%	1.50%	2.30%	2.30%*	2.80%	
	The US economy slowed to 2.3% in Q1. Consumer spending grew at it's weakest pace in nearly five years as auto consumption fell 15% after the strong reading in Q4 following the Hurricanes in Q3 that destroyed a significant number of vehicles. Clearly, this is temporary. We expect 2018 GDP of 2.8%.							
LABOR MARKET	**Unemployment Rate** (Annual Average)	6.20%	5.30%	4.90%	4.30%	3.90%**	4.00%	
	The unemployment rate dropped to a 17 year low of 3.9%. Importantly, the marginally attached unemployment rate (U-6) dropped below 8.0% for the first time since 2006. The average workweek remained at 34.5 hours while the labor force participation rate dropped slightly to 62.8%.							
	Payroll Employment (Annual Average)	251k	229k	187k	182k	164k**	185k	
	The US added 164k jobs in April, which were lower than expectations of nearly 200k. The six and twelve month averages remained steady at 198k and 190k, respectively. This suggests the labor market continues to be healthy. Average hourly earnings rose 2.6% y/y. Wage growth is still range bound.							
HOUSING	**Housing Starts** (Annual Average)	1,003k	1,111k	1,166k	1,257k	1,319k***	1,275k	
	U.S. housing starts increased by 1.9% in March to an annual rate of 1,319k units. Multi-family starts increased by 14.4% while single-family starts fell by 3.7%. All regions were flat except for the Midwest, which saw an increase of 22.5%.							
	Building Permits (Annual Average)	1,053k	1,178k	1,172k	1,258k	1,379k***	1,325k	
	Building permits increased by 4.4% to an annual rate of 1,379k units in March. Multi-family permits rose 22.2% while single-family permits fell by 4.3%. All regions had gains above 5.0% except for the Northeast which saw a drop of 7.5%.							
	Housing Prices Y/Y (Annual Average)	4.30%	5.60%	5.30%	5.90%	6.80%****	4.00%	
	Single-family home prices rose by 6.8% in February. Home prices continue to increase, driven by low inventories and a tightening labor market. We believe rising home prices combined with an increase in mortgage rates could slow the pace of home prices gains.							
INFLATION	**PCE Index Y/Y** (Annual Average)	1.50%	0.30%	1.10%	1.70%	2.00%***	2.20%	
	The US PCE price index rose by 2.0% y/y in March. This is the first time since February 2017 that PCE came in at 2.0%. Rising commodity prices have put upward pressure on headline inflation. We expect inflation to increase moderately due to a tight labor market and rising wage growth.							
	Core PCE Index Y/Y (Annual Average)	1.60%	1.30%	1.80%	1.50%	1.90%***	2.00%	
	The core PCE price index, which excludes food and energy, rose 1.9% y/y in March. We believe core inflation will pick up gradually to the Fed's 2.0% target by the end of the year as wage growth begins to increase due to the tightening labor market.							
	Consumer Price Index (CPI) Y/Y (Annual Average)	1.60%	0.10%	1.30%	2.10%	2.40%***	2.30%	
	Consumer prices in March rose 2.4% y/y. A rebound in commodity prices continues to put some upward pressure on headline inflation. Price gains were also seen in gasoline, shelter, clothing, medical care, and food. We expect inflation to increase modestly over the next few years.							
	Core CPI Y/Y (Annual Average)	1.70%	1.80%	2.10%	1.80%	2.10%***	2.10%	
	Excluding the volatile food and energy categories, core consumer prices increased 2.1% y/y in March. We expect modest increases in core CPI over the next few years as wage growth improves. We believe wage growth is what leads to sustainable inflation in the economy.							

Continued ▶

May 2018 Outlook by the Numbers

		2014 (year end)	2015 (year end)	2016 (year end)	2017 (year end)	Most Recent	2018E	Trend
CONSUMER	Consumer Spending (PCE) (Annual Average)	2.90%	3.20%	2.70%	2.90%	2.40%***	2.90%	
	US consumer spending rose by 2.4% y/y in March. Consumption growth has been fairly steady between 2.5%-3.0% for nearly two years. We believe consumer spending will likely remain well supported given a solid labor market and business backdrop in the US.							
	Consumer Confidence (U of MI) (Annual Average)	84.1	92.9	91.8	96.8	98.8**	98.0	
	Consumer confidence came in at 98.8 for April, which is the lowest level in three months, but still remains at a healthy level. The positive effects from the strength in the labor market and lower taxes are being somewhat offset by concerns over potential trade tariffs.							
INTEREST RATES	Projected Fed Funds	0.25%	0.50%	0.75%	1.50%	1.75%**	2.25%	
	We believe the Fed will raise the Fed Funds rate two more times in 2018, reaching 2.25% by year end. Fed rate increases are a positive reflection of the improvement in economic conditions, but at the same time tighten financial conditions.							
	Projected 10-Year Treasury	2.17%	2.30%	2.44%	2.41%	2.95%**	3.25%	
	The 10 Year Treasury Yield will likely be driven by increasing inflation expectations from an improved fiscal policy outlook. We expect the 10 Year Treasury yield to trend higher throughout 2018 and end the year at 3.25%.							
EQUITIES	S&P 500 Price	2,059	2,044	2,239	2,674	2,648**	3,000	
	Market fundamentals remain strong due to robust earnings and revenue growth. The recently passed tax reform has boosted corporate earnings. We believe total returns will be in the low double digit range over the next 12 months.							
	S&P 500 Operating EPS Growth	6.30%	-3.30%	0.00%	13.00%	23.70%*****	15.00%	
	We believe earnings will grow by 20.0% y/y in 2018 due to an improving economy and tax reform. Tax reform will be a tailwind to EPS growth by 10.0% in 2018. Additionally, global synchronized growth and share buybacks will drive sales and earnings growth.							
GLOBAL ECONOMY	World GDP (Annual Average)	3.40%	3.10%	3.10%	3.60%	3.90%*	3.80%	
	We believe global growth will accelerate in 2018 to 3.80%, driven by both a rebound in emerging markets (China) and better developed market growth (U.S. and Eurozone). However, longer-term slowing labor force population, weak productivity, and high levels of debt will limit the expansion.							
	Emerging Markets GDP (Annual Average)	4.60%	4.40%	5.40%	4.40%	5.40%*	5.00%	
	The recent strength in commodity prices confirms our belief that emerging markets have bottomed. As such, we expect growth to pick up to around 5.00% in 2018. China continues to be the economic growth engine in the emerging markets.							

*Quarter over Quarter Seasonally Adjusted Annualized Rate, as of Q3 2017
**As of December, 2017
***As of November, 2017
****As of October, 2017
*****Trailing 4 quarters
[1] E=Estimate

Positive
Neutral
Negative

Trending Down
Trending Up
Trending Down
Trending Up

OFFICE LOCATIONS

ARIZONA

Phoenix
480.315.6809

COLORADO

Colorado Springs
719.442.4371

Denver
303.839.2272

KANSAS

Overland Park
913.967.6580

Salina
785.826.4530

Wichita
316.266.6019

MISSOURI

Kansas City
800.862.6670

Plaza
816.714.1760

Stateline
816.508.8021

Springfield
417.891.2100

St. Louis
314.612.8048

St.Louis-Clayton
314.719.4376

NEBRASKA

Omaha
402.779.3034

OKLAHOMA

Oklahoma City
405.239.5917

TEXAS

Dallas
214.387.3000

Fort Worth
817.334.4600

UMB Private Wealth Management
1010 Grand Blvd.
Kansas City, MO 64106

800.862.6670

UMB.com/PrivateWealth

Disclosure and Important Considerations

UMB Private Wealth Management is a division within UMB Bank, n.a. that manages active portfolios for employee benefit plans, endowments and foundations, fiduciary accounts and individuals. UMB Financial Services, Inc.* is a wholly-owned subsidiary of UMB Financial Corporation and an affiliate of UMB Bank, n.a. UMB Bank, n.a., is a subsidiary of UMB Financial Corporation.

This report is provided for informational purposes only and contains no investment advice or recommendations to buy or sell any specific securities. Statements in this report are based on the opinions of UMB Private Wealth Management and the information available at the time this report was published.

All opinions represent our judgments as of the date of this report and are subject to change at any time without notice. You should not use this report as a substitute for your own judgment, and you should consult professional advisors before making any tax, legal, financial planning or investment decisions. This report contains no investment recommendations and you should not interpret the statements in this report as investment, tax, legal, or financial planning advice. UMB Private Wealth Management obtained information used in this report from third-party sources it believes to be reliable, but this information is not necessarily comprehensive and UMB Private Wealth Management does not guarantee that it is accurate.

All investments involve risk, including the possible loss of principal. This information is not intended to be a forecast of future events and this is no guarantee of any future results. Neither UMB Private Wealth Management nor its affiliates, directors, officers, employees or agents accepts any liability for any loss or damage arising out of your use of all or any part of this report.

*Securities offered through UMB Financial Services, Inc. member FINRA, SIPC, or the Investment Banking Division of UMB Bank, n.a.

Insurance products offered through UMB Insurance, Inc. You may not have an account with all of these entities. Contact your UMB representative if you have any questions.

Securities and Insurance products are:
NOT FDIC INSURED • NO BANK GUARANTEE • NOT A DEPOSIT • NOT INSURED BY ANY GOVERNMENT AGENCY • MAY LOSE VALUE