Monthly Update

August 2020

*COVID-19's Potential Impact to Deficits*

Junius V. Beaver, III

*Co-Chief Investment Officer, Principal*

The COVID-19 pandemic is an unprecedented, worldwide event that, as of this writing, is still unfolding. While the full impact may not be known for months or more likely years, the consequences on many aspects of daily life are advancing day by day.

This piece focuses on the financial implications that the pandemic is likely to impact local and state revenues. The effects will vary from government-to-government, and depend on how long the pandemic lasts. Other important factors to consider include a government's overall revenue structure, economic base, whether they have a rainy day fund and overall financial condition prior to the crisis.

On the revenue side, in an effort to curb the spread of COVID-19, public officials have ordered businesses to close and people to shelter in place. This sudden and sharp modification in consumer spending means state and local governments' excise and sales tax revenue have and will be impacted. The drop in the rate of in-person spending may be somewhat mitigated by online sales, and consumer spending could spike once restrictions are lifted.

There are 45 states in the United States that have a general excise or sales tax. The portion of revenue derived from general sales taxes ranges from a high of 31% (Nevada) to a low of 6% (Vermont). On average, general sales tax revenue accounts for roughly 16% of states' total revenue. The reliance on consumer activity for state revenue is even greater when taxes for items like alcohol, gaming, motor-fuel, and tobacco are included. All fifty states derive some revenue from gross sales taxes, ranging from a low of 3% (Alaska) to a high 46% (Nevada), and an average of 22%.

In addition to <u>state</u> sales taxes, cities can also add additional excise and sales taxes. More than half of the 19,000 cities in the US have a tax. Though cities are less reliant on general sales tax revenue than states, their sales taxes accounted for some portion of revenue. On average, gross sales tax revenue accounted for 14% of total revenue.

Beyond direct declines in revenues as a result of a sales tax drought, cities can also be negatively impacted by declines in intergovernmental revenue. State governments provide aid to city governments in a variety of ways, one of which is revenue sharing; state government distributes a portion of its tax collections to cities. Of the 45 states with a general sales tax, thirteen share part of that revenue with cities. Because of revenue sharing, declines in state revenue may also manifest in impacts to local governments' finances.

Given the ever-evolving COVID-19 environment coupled with the aforementioned complexities and interconnectedness of tax revenues and allocations, the net financial impacts are unknowable at this time. That said, a few projections for fiscal year 2021 are deficits of $18 billion and $13.3 billion for the states of California and New York, respectively. As such, in the near-term, governments will likely be required to turn to debt financing to cover shortfalls. Mid to longer term, more options are available for gap closure including expense cuts and tax legislation.

The pandemic and corresponding ordered restrictions have drastically altered consumer behavior. This creates an absolute dollar impact and mix shift in tax revenue at the federal, state, and local levels. Given the length of the pandemic these consumer behaviors may be systemic leading to many downstream implications. As a result, predictability of short-term tax revenues for local, state, and federal governments will be more challenging and will require governments to be agile to address any potential shortfalls.

In summary, the pandemic will unquestionably have a material impact on the finances of state and local governments.

*Junius V. (Trip) Beaver III, is a co-founder of Lanier Asset Management and serves as its Co-Chief Investment Officer. Trip has been a financial advisor delivering high-value investment solutions to affluent individuals since 1994. In addition to his work at Lanier, Trip donates his time and investment expertise to charitable organizations such as the Library Foundation and the Metro United Way.*

## Key Points From Our Investment Meeting – 8/17/20

### Macro Viewpoint

- US equity markets continue higher and now sit right below the all-time highs. Is it sustainable?
- COVID-19 continues to have a profound effect on people's lives, even as much of the country and businesses are reopening.

### Asset Class Comments

- Diversification is paramount at this time. Review your portfolio to make sure you are still in balance with your risk tolerance.
- While there has been a slight rotation into value stocks, large cap growth stocks continue to outperform year-to-date. Use caution when buying at this time.
- With fixed income prices at historic highs, investors should be very cautious in this asset class.

# Performance Update

| | Investment Vehicle | Total Return (%) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Annualized | | | |
| | | July | QTD | YTD | 1-Year | 3-Year | 5-Year | 7-Year | 10-Year |
| **TRADITIONAL ASSETS** | | | | | | | | | |
| **Cash** | | | | | | | | | |
| Vanguard Federal Money Market Reserve | | 0.0% | 0.0% | 0.4% | 1.2% | 1.7% | 1.3% | 0.9% | 0.7% |
| **Fixed Income** | | | | | | | | | |
| Domestic (Barclays US Agg) | | 1.5% | 1.5% | 8.0% | 10.6% | 6.0% | 4.6% | 4.2% | 3.9% |
| Vanguard Total Bond Market | VBMFX | 1.6% | 1.6% | 7.9% | 10.3% | 5.7% | 4.4% | 4.0% | 3.7% |
| RiverNorth Doubleline | RNDLX | 1.8% | 1.8% | 0.8% | 3.1% | 3.5% | 4.3% | 4.6% | 4.2% |
| Eaton Vance Floating Rate | EIBLX | 1.4% | 1.4% | -3.3% | -1.7% | 1.9% | 3.1% | 2.9% | 3.9% |
| US Preferred Stock ETF | PFF | 5.0% | 5.0% | -0.9% | 2.4% | 2.9% | 3.9% | 4.9% | 5.2% |
| High Yield (Barclays US Corp HY) | | 5.4% | 5.4% | -0.3% | 3.3% | 3.6% | 4.4% | 4.1% | 4.2% |
| Short Term High Yield | SJNK | 3.9% | 3.9% | -0.4% | 1.6% | 3.0% | 4.0% | 3.3% | 5.0% |
| **Equities** | | | | | | | | | |
| Domestic Large Cap (S&P 500 TR) | | 5.5% | 5.5% | 1.3% | 9.8% | 9.8% | 9.2% | 9.9% | 11.5% |
| S&P Equal Weight | RSP | 5.0% | 5.0% | -6.3% | 0.6% | 6.4% | 7.7% | 9.2% | 12.0% |
| Domestic Mid Cap (S&P 400 TR) | | 4.5% | 4.5% | -9.0% | -3.8% | 3.6% | 5.9% | 7.7% | 11.0% |
| Vanguard Mid-Cap ETF | VO | 6.3% | 6.3% | -1.3% | 4.7% | 8.0% | 8.0% | 9.9% | 12.4% |
| Domestic Small Cap (S&P 600 TR) | | 4.0% | 4.0% | -14.7% | -8.9% | 1.5% | 5.3% | 7.1% | 10.9% |
| Vanguard Small-Cap ETF | VB | 4.6% | 4.6% | -7.5% | -2.5% | 6.8% | 7.4% | 8.6% | 11.9% |
| Developed Intl. (MSCI EAFE) | | 2.2% | 2.2% | -10.6% | -4.0% | -2.0% | 0.5% | 2.3% | 4.2% |
| MSCI EAFE | EFA | 1.9% | 1.9% | -9.4% | -1.3% | 0.1% | 1.9% | 3.2% | 4.8% |
| Emerging Intl. (MSCI EM) | | 8.4% | 8.4% | -3.2% | 4.0% | 0.5% | 4.7% | 3.3% | 2.6% |
| Vanguard FTSE Emerging Markets ETF | VWO | 8.6% | 8.6% | -2.7% | 6.3% | 2.3% | 4.9% | 3.9% | 2.8% |
| **Real Assets** | | | | | | | | | |
| Real Estate (FTSE NAREIT US REIT) | | 3.8% | 3.8% | -9.5% | -4.1% | 3.6% | 5.3% | 6.9% | 9.2% |
| Mortgage Real Estate | REM | 4.7% | 4.7% | -37.6% | -32.8% | -9.0% | -0.2% | 1.7% | 3.0% |
| REIT ETF | VNQ | 3.6% | 3.6% | -10.8% | -5.1% | 3.0% | 4.9% | 6.6% | 9.1% |
| Commodities (Thomson Reuters/Jefferies CRB Index) | | 6.2% | 6.2% | -28.8% | -20.0% | -0.8% | -2.8% | -7.8% | -5.2% |
| DBC | DBC | 5.1% | 5.1% | -18.9% | -15.4% | -4.0% | -3.3% | -10.2% | -5.5% |
| BlackRock | BCSAX | 6.1% | 6.1% | -7.1% | -3.7% | 1.3% | 2.1% | -2.4% | -2.0% |
| Gold | GLD | 10.8% | 10.8% | 29.8% | 39.2% | 15.4% | 12.1% | 5.9% | 5.1% |
| **DIVERSIFYING STRATEGIES** | | | | | | | | | |
| **Hedge Funds** | | | | | | | | | |
| HFRI WCI | | 3.2% | 3.2% | 8.7% | 11.4% | 5.8% | 4.9% | 4.8% | 4.8% |
| INFINITY* | OCEAN | 1.4% | 1.4% | 5.7% | 7.3% | 5.3% | 4.3% | 5.7% | 6.7% |
| Boston Partners Long/Short Equity | BPLEX | 0.8% | 0.8% | -13.4% | -9.8% | -7.0% | 0.2% | 0.0% | 4.1% |
| Catalyst/Millburn Hedge Strategy | MBXIX | | | | | | | | |
| Millennium* | MILLENN | 1.5% | 1.5% | 11.2% | 15.2% | 9.6% | 7.6% | 9.2% | 9.4% |
| Verition* | VERITION | 1.7% | 1.7% | 17.5% | 23.5% | 12.6% | 11.3% | 11.8% | 11.4% |
| Renaissance* | RENAISS | 2.3% | 2.3% | -13.4% | -8.2% | 3.4% | 10.1% | 10.4% | 13.3% |
| Third Point* | THIRD P | 3.5% | 3.5% | -3.8% | -3.1% | 1.0% | 2.0% | 3.9% | 7.5% |
| Lanier Hedge Fund* | LHF | 1.8% | 1.8% | 2.7% | 6.0% | 5.5% | 6.3% | 7.4% | 8.8% |
| Boston Partners Global Long/Short | BGLSX | 1.8% | 1.8% | -10.3% | -8.5% | -3.9% | -1.2% | 1.0% | 2.1% |

= Benchmarks
= Lanier Selections

* For Accredited Investors

# Our Team

Mark R. Hoffman
*CEO, Principal*

Junius V. (Trip) Beaver, III
*Co-Chief Investment Officer, Principal*

Carl W. Hafele, CFA, CPA
*Co-Chief Investment Officer, Principal*

John A. Hamilton
*Financial Consultant*

John E. Thompson
*Director, Private Client Group*

Dr. Daniel L. Bauer
*Financial Consultant*

Sara B. Thomas, JD, CPA
*Financial Consultant*

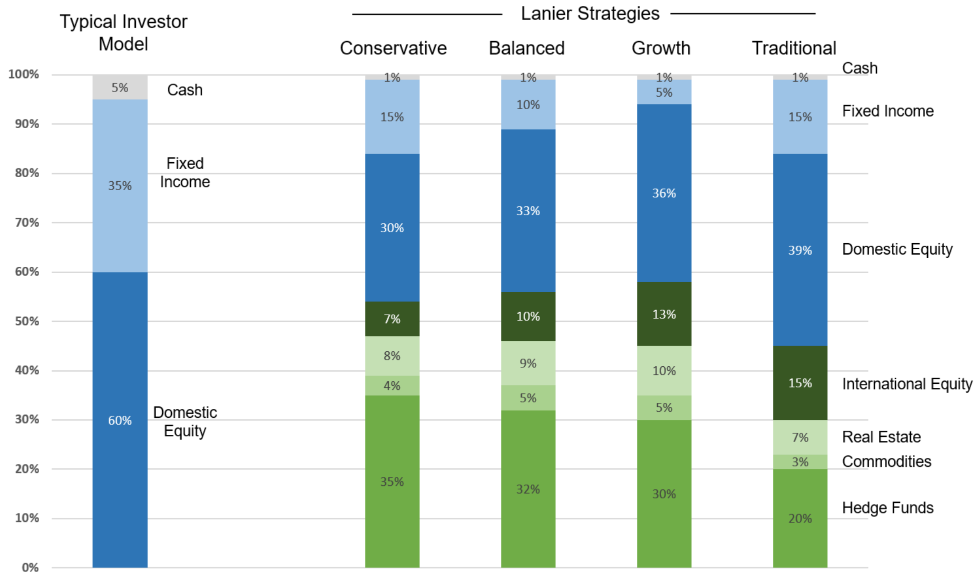
Deidre M. Durbin
*Chief Compliance Officer*

Stephanie E. Milby
*Investment Associate*

**Building Confidence and Security in Your Financial Future**

# Our Approach

At Lanier, we believe that portfolios designed to deliver superior performance and lower correlation with the overall markets must decrease reliance on stocks and bonds and be complemented with a set of diversifying strategies and alternatives




*Each of our clients has a unique set of needs (based on age, risk tolerance, income need, etc.) and an asset allocation model designed specifically to meet those needs. Consequently, actual client investment models can and do vary from the allocation percentages listed above.*

Lanier Asset Management is an independent Registered Investment Advisory firm. Our mission: ***To Build Confidence and Security in our Clients' Financial Future***. We use an open architecture investment structure to combine the best of proprietary and independent investment strategies. At Lanier, we deliver superior service and performance to our clients as a result of four distinguishing elements:

- People: we are an independent firm, providing objective advice from experienced investment professionals working in your best interests

- Investment Philosophy: we seek to smooth investment returns, providing superior investment performance and a significantly lower correlation to the overall market
    - Focus on projected returns rather than historic for all asset classes
    - Similar to the largest U.S. endowments

- Investment Process: combine active and passive management in traditional asset classes; complement with diversifying strategies/ alternatives

- Conviction: we believe in our approach – this is how we invest our own money

*Past performance is no guarantee of future results. Investing entails risk, including possible loss of some or all principal. Historical performance results for investment indices and/or categories have been provided for general comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges. It should not be assumed that your account holdings correspond directly to any comparative indices.*

*Lanier Asset Management, LLC ("Lanier") is an SEC registered investment adviser located in Louisville, Kentucky. The firm's CRD number is 150888. Certain Representatives of Lanier hold Series 7, 31, 63, and 65 Securities Licenses. Certain representatives of Lanier are also Registered Representatives offering securities through APW Capital, Inc., Member FINRA/SIPC. 100 Enterprise Drive, Suite 504, Rockaway, NJ 07866 (800) 637-3211.*

**Building Confidence and Security in Your Financial Future**