GREENLEAF® TRUST

Perspectives

A Greenleaf Trust Newsletter

APRIL 2024 VOLUME 33, ISSUE 4

Michael F. Odar, CFA®
President
Chief Executive Officer

From Generation to Generation

As I get older, I find myself in situations where I feel like those commercials from Progressive Insurance referencing people "turning into their parents." I know how to take a "selfie," but I actually do still have some car floor mats from a car I do not own anymore. Yikes. I also find myself trusting brands that they did. They believed in doing business with companies and brands committed to quality, value, and the customer. So, when I bought my first lawnmower, I went to Sears and bought a Toro push mower.

That belief is what we want from our clients and their children. It guides us. We were founded and structured to serve our clients and their families in perpetuity. We do this by taking a long-term holistic approach to serving our clients that includes their entire family. Our approach starts with a comprehensive wealth management plan that drills down deep on family goals. We want to know the essence of what makes each family their unique selves. How did they get to where they are today? What's most important to them? What are their family values? What do they want for the generations that follow? If we can deeply understand who they are, we can then construct the most meaningful customized plan to help them accomplish their goals. This is all done before our clients hire us.

Portfolio management is just one part of our clients' wealth management plan and how we serve them. The plan also details our expert thoughts and recommendations on generational goals related to philanthropy, estate planning, education planning, business succession planning, insurance, and retirement planning when present. All of this is coordinated with the clients' other advisors (e.g. estate planning, tax, and insurance) to ensure coordinated comprehensive service from all their advisors.

When it comes to making sure family members are fully informed, our clients have found Greenleaf Trust's facilitation of family meetings very valuable over the years. The focus of the meeting is directed by the client and can include anything they feel important to discuss with their family. Often, they include discussions on specific topics such as wealth transitions, next generation financial literacy, philanthropic planning, estate tax management, estate settlement actions, etc. Or they can include a simple review of their dynamic wealth management plan. We recognize that family dynamics and needs are not static and change as they grow and change.

From Generation to Generation, continued

"Our ownership structure secures our ability to serve clients and their generations that follow."

And, if we are ultimately involved in the settlement of a client's estate, our intimate knowledge of the whole family helps to ensure timely and efficient transitions that are coordinated with the grantor's desires.

To serve from generation to generation, it is essential that we remain independent. Our ownership structure secures our ability to serve clients and their generations that follow. Through intentional business succession planning, our founders and owners have made sure Greenleaf Trust cannot be bought or sold.

Our desire is to serve clients and their next generation. And, when appropriate, this includes serving multiple generations within the same family concurrently. This is because we believe that family is an investment with the highest returns.

Nicholas A. Juhle, CFA®
Chief Investment Officer

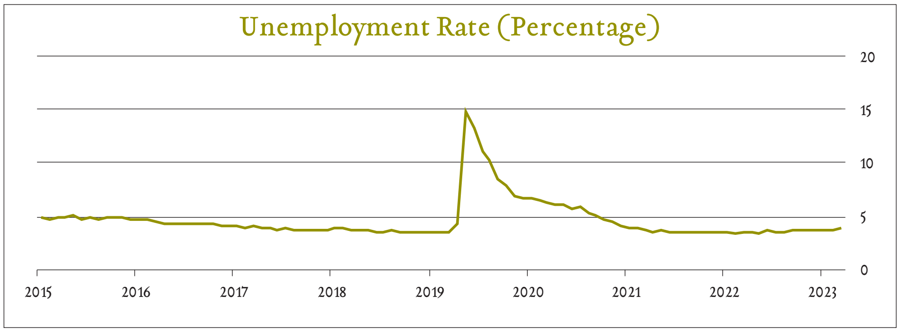
Be-Labored

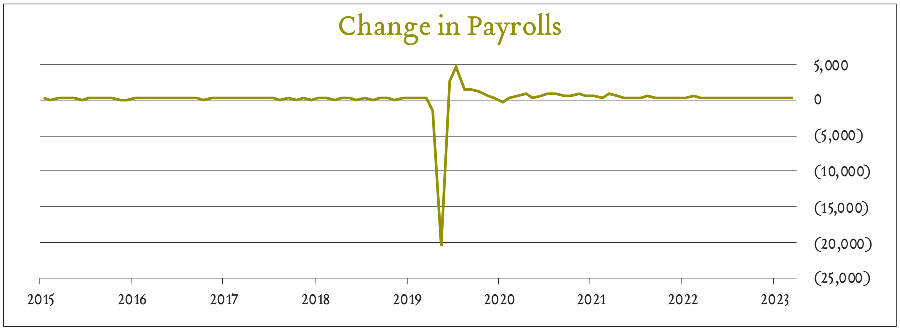
For some time now, surprising resilience in the U.S. labor market has underpinned a favorable narrative for the economy. Healthy demand for labor has kept American consumers employed and spending. This strength allowed the Fed to deliver the fastest rate-hiking cycle in 30 years to counter inflation. It was also one of the key factors that prevented a recession in 2023.

Entering 2024, the labor market remains strong, but when evaluating a broad set of data there are areas that have softened over the last two years in now-noticeable ways. In this article, we will look beyond monthly payroll numbers and highlight some of the more nuanced considerations regarding the path forward for the labor market. While the current pace of softening is both normal and manageable, accelerated deterioration could pose risks to the economic expansion.

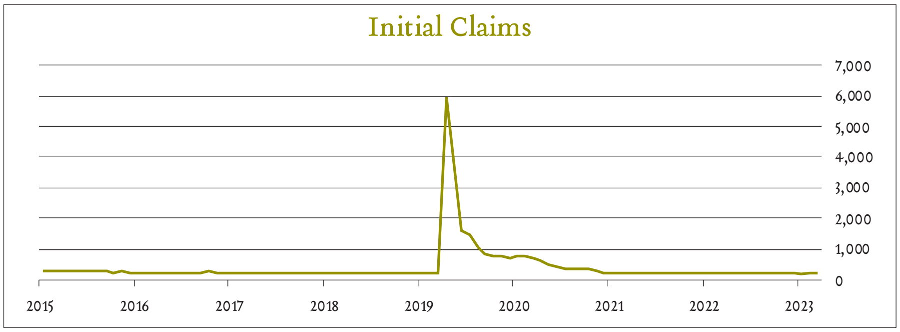
The Strong

The main data set used to monitor and evaluate the labor market is the monthly Employment Situation Summary from the Bureau of Labor Statistics. The report has consistently painted a positive picture of the state of the US labor market. Over the past year, the economy has added an average of 230K new jobs per month with the most recent three months averaging 265K new jobs. At 3.9%, the unemployment rate has held below 4% for more than two years and remains low by historical standards.





Looking across our dashboard, we see other indications that the labor market remains on solid footing. For instance, after reaching unprecedented highs at the onset of the pandemic, initial jobless claims have settled into a normal range averaging just over 200K per week since 2022. Year-to-date in 2024, weekly initial jobless claims have averaged just 208K. Initial jobless claims are released weekly and provide a higher frequency look into the strength of the labor market. So far, they show no indication of a soft labor market.



The Moderating

While these core metrics indicate strength, we find initial indications of a softening labor market in data from the monthly Job Openings and Labor Turnover Survey (JOLTS) from the Bureau of Labor Statistics. I want to communicate carefully here; I am not suggesting that the labor market is soft, just that softer is the direction of the trend. If you're traveling down the highway at 100 miles per hour and ease your foot off of the gas pedal such that you decelerate to 99 miles per hour, you're going slow(er) but you're not going slow.

Job openings, vacancy rates, and the quits rate all point to moderating demand for labor, which means we're seeing the balance between supply and demand move closer to equilibrium. Based on these metrics, demand for labor peaked around the end of 2021 and has been slowly moderating for the last two years.

Job openings (vacancies) is a concept that tracks the number of newly created or unoccupied positions in the economy where an employer is taking specific actions to fill these positions. Total job openings peaked at 12.2 million

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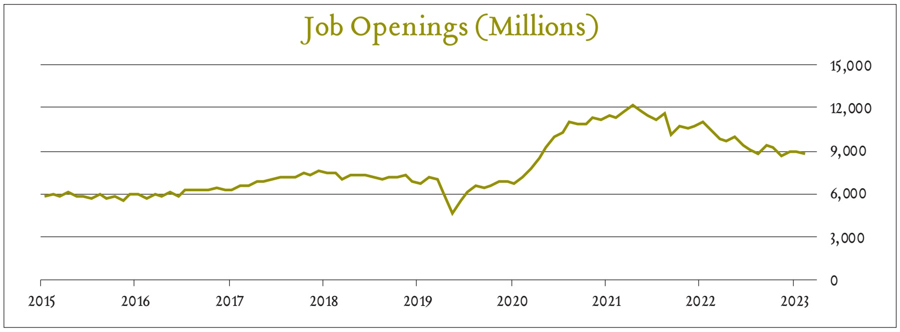
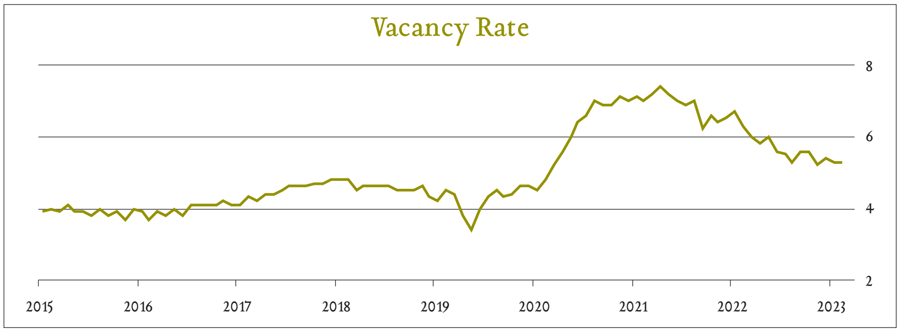
Be-Labored, continued

in March 2022 and declined to 8.8 million entering 2024. For perspective, job openings averaged 7.2 million in the year preceding the pandemic.

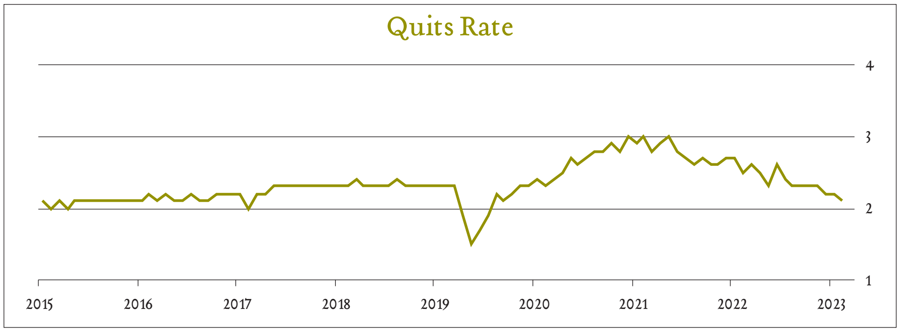


The vacancy rate (open jobs divided by total jobs) normalizes for changes to the total number of jobs in the economy – filled and open – and offers context for the absolute figures detailed above. Entering 2024, open jobs accounted for 5.4% of total jobs, down from a peak of 7.4% in March 2022, but still elevated compared to a pre-pandemic average of 4.5%.



"After peaking at 3.0% in late 2021 and early 2022, the quits rate stands at 2.1% entering 2024 - a level consistent with pre-pandemic norms."

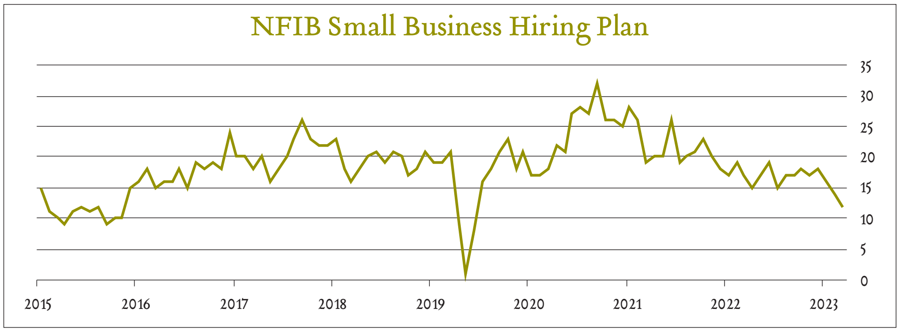
Lastly, the quits rate tracks voluntary job separations initiated by the employee as a percentage of employed persons – said simpler: the percentage of workers who quit their job. The quits rate tends to rise when demand for labor is higher because job opportunities are more plentiful and workers feel more confident in their ability to secure a position. After peaking at 3.0% in late 2021 and early 2022, the quits rate stands at 2.1% entering 2024 - a level consistent with pre-pandemic norms.



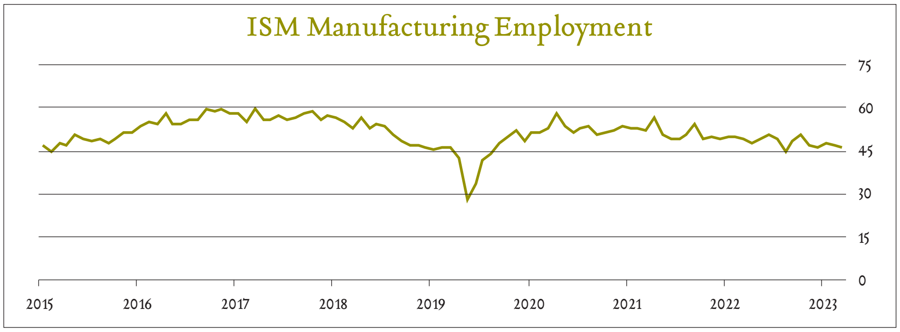
The Weak

We've covered several data points that suggest the labor market remains on solid footing despite initial indications of moderation. These metrics are helpful in assessing the state of the labor market today and how it compares to history but, unfortunately, they're all backward looking in nature. In order to evaluate forward expectations for the labor market, we turn to soft data. Unlike hard data, which consists of numbers, soft data involves capturing sentiments, attitudes, and expectations through surveys of individuals who might offer valuable insights on the matter.

The National Federation of Independent Businesses (NFIB) tracks the percentage of small businesses that plan to create new jobs in the next three months. As of February, only 12% of approximately 800 small businesses surveyed responded affirmatively. That figure is down from a peak of 32% in August 2021 and well below the 2019 average level of 19%.



Similarly, the Institute of Supply Management (ISM) tracks whether executives at manufacturing and services-based companies expect to employ more or fewer workers in the current month compared to the previous month. Readings above 50% represent expectations for net expansion in employment and readings below 50% represent expectations for net contraction in employment. February readings indicated contraction in both manufacturing (45.9) and services (48.0) companies. These figures stand in stark contrast to the overwhelming expectations for expansion seen in 2021 and prior to the onset of the pandemic.



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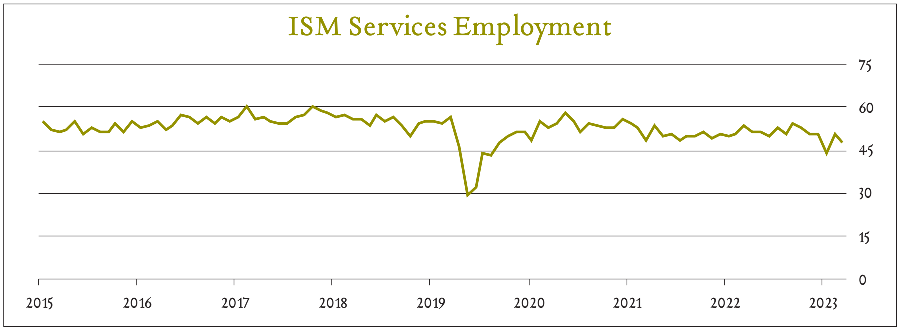
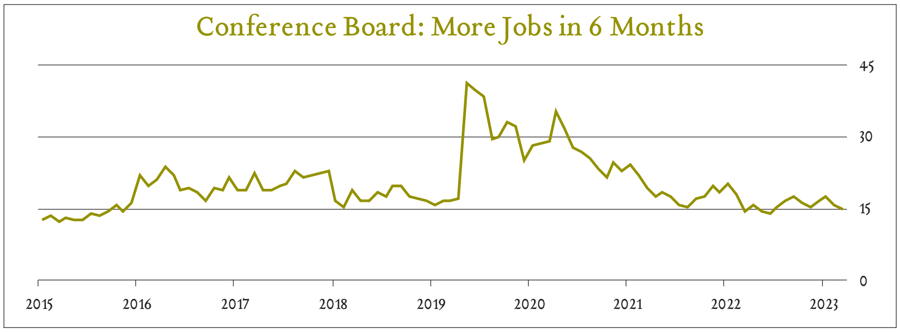
Be-Labored, continued



Through household surveys, the Conference Board monitors the percentage of respondents that think there will be more jobs six months into the future than there are today. Apparently, households are perpetually pessimistic as the average reading over the last 20 years suggests only 17% of households typically expect demand for labor to increase. In April 2020, with unemployment at 14.8%, 41.8% of households thought the labor market would improve in the months ahead. Today, only about 15% feel that way.

"Today, the US labor market is indeed healthy but is also slowly moderating, and several leading indicators suggest that continued moderation is the likeliest path forward."



Conclusion

A healthy labor market is foundational to a healthy economy. Today, the US labor market is indeed healthy but is also slowly moderating, and several leading indicators suggest that continued moderation is the likeliest path forward.

This is not necessarily cause for alarm. Tight labor markets can lead to rapid wage growth which can create undesirable inflation. The labor market was likely too tight in late 2021 and early 2022, which exacerbated inflation, and prompted policymakers to respond by ratcheting up interest rates. The labor market needed to soften to a level consistent with Fed objectives with regard to inflation and it indeed appears to be softening. However, there's a concern that more rapid deterioration could occur if monetary policy stays too tight for too long.

Policymakers are aware of the tradeoffs inherent in their decisions. In March, against a backdrop of moderating demand for labor and inflation well off of peak levels, Fed officials kept their policy rate steady and reiterated plans to implement three 0.25% interest rate cuts in 2024. Ideally, a well-timed move towards modest accommodation will help to protect against the possibility of accelerating deterioration of labor market conditions without impairing the progress that has been made in containing inflation. For now, labor market moderation appears to be occurring at a manageable pace, but we will continue to monitor indications of a turning point over the rest of the year.

Sources: Bureau of Labor Statistics, Department of Labor, National Federation of Independent Businesses, Institute for Supply Management, Conference Board.

The Corporate Transparency Act

Wendy Z. Cox, J.D., CTFA
Director of Personal Trust,
Chief Fiduciary Officer

The Corporate Transparency Act (CTA) went into effect on January 1, 2024. The CTA broadens the reporting to the Financial Crimes Enforcement Network (FinCEN) of information, including personal information, concerning the control and beneficial ownership of nearly all small U.S. companies. The Act is designed to combat money laundering and other financial crimes.

The CTA is simple in concept, but more complicated in its application. The following items are key to navigating the new reporting requirements:

- Is an entity a "Reporting Company" that must file a report?
- Who are the "Beneficial Owners" and "Company Applicants" whose information must be reported?
- When is the report due?

"The CTA broadens the reporting to the Financial Crimes Enforcement Network (FinCEN) of information..."

Definitions:

- **Reporting Company.** Unless an entity is specifically exempted, a reporting entity is any domestic entity that was *"created by the filing a document with a secretary of state or any similar office under the law of a State or Indian tribe."* This includes corporations, partnerships, business trusts, limited liability companies (LLCs), and partnerships.
- **Exempt Entities.** The CTA exempts 23 types of entities from reporting. Examples include: banks, regulated financial institutions, insurance companies, CPA firms, pooled investment vehicles, tax-exempt entities, business entities with more than 20 employees, and business entities with annual gross receipts of greater than $5.0 million.
- **Beneficial Owner.** Any individuals who either (i) exercise substantial control over a reporting company; or who (ii) own or control at least 25% of the ownership interests of a reporting company.
- **Substantial Control:** Substantial control individuals who are required to be reported under the CTA include: (i) senior officers, like president, CFO, general counsel, CEO, or any other officer, regardless of title, who perform a similar function; and (ii) any person who *"directs, determines or has substantial influence over important decisions made by the reporting company or has*

The Corporate Transparency Act, continued

any other form of substantial control over the reporting company."

- **Company Applicant:** A company applicant includes the individual who directly files the document that creates the reporting entity, and the individual who is primarily responsible for directing or controlling that filing. A Company Applicant would include lawyers, paralegals and other service providers who file the document with the state.

Every entity will need to determine whether it is a Reporting Company or whether it falls under an exception. If it is a Reporting Company, the entity will need to identify its Beneficial Owners and Company Applicants and obtain the name, birth date, address, and an identifying number such as driver's license or passport along with a copy of the document for each individual.

"Trusts create some additional complications. A trust, standing alone, is not a Reporting Company. However, if the trust holds an interest in a Reporting Company...reporting will be required. "

Trusts create some additional complications. A trust, standing alone, is not a Reporting Company. However, if the trust holds an interest in a Reporting Company, such as an LLC that owns real estate for liability protection purposes, or an LLC wrapper used for valuation discounts, reporting will be required. The individuals who will be required to be reported as beneficial owners will generally include: trustees; others who possess authority to dispose of trust assets, e.g. a trust director; any beneficiary who is the sole permissible recipient of income or principal from the trust, or who possesses the right to demand a distribution of, or withdraw substantially all of the trust assets; and, any settlor who possesses the right to revoke the trust or otherwise withdraw the assets of the trust.

Deadlines for CTA Compliance

Reporting Companies created before January 1, 2024 must file their initial report by January 1, 2025 and are not required to identify their Company Applicants.

Reporting Companies created between January 1, 2024 and December 31, 2024 must file their initial report within 90 days after receiving actual or public notice, whichever is earlier, of their company's creation or registration. Reporting Companies created after January 1, 2025 must file within 30 days.

A Reporting Company must file an updated report whenever there is a change in its basic information, a change in Beneficiary Owners, or the status as a Reporting Company changes. The updated report must be filed within 30 days of the change.

Penalties for Non-Compliance

Civil penalties are $500 a day up to a maximum of $10,000. Criminal penalties can also be charged with up to two years imprisonment. However, it appears that in order to trigger such penalties there must be the willful failure to file, or the provision of false or fraudulent information, or the willful failure to provide complete or updated beneficial information to FinCEN.

There are additional unanswered questions, such as who needs to file on behalf of a corporate trustee because an individual is required to be identified. Greenleaf

Trust is keeping a close eye on developments.

If you have created Reporting Entities, you should be in contact with your advisory team to determine who will be filing the FinCEN report and identifying the Beneficial Owners. Greenleaf Trust will be working closely with our clients and their advisors to make certain that appropriate reporting is completed.

Navigating Lifestyle Inflation in the Age of Social Media

James R. Curry, CFP®, CPWA®
Senior Vice President,
Director of Wealth Management

Lifestyle inflation is not a new phenomenon as most of us have been cautioned about "keeping up with the Joneses," read the statistics and stories from The Millionaire Next Door: The Surprising Secrets of America's Wealthy by Thomas J. Stanley, watched Lifestyles of the Rich and Famous and MTV Cribs, or heard from the various financial pundits regarding debt and budgeting. However, in an era dominated by the 24-hour news cycle and social media, it's become easier to fall prey to the allure of lifestyle inflation. Lifestyle inflation can be defined as the tendency to increase spending as income rises. The following article explores lifestyle inflation in the current media environment, as well as discusses a few of the dangers of social media on your happiness and lifestyle.

Social media platforms offer a glimpse into the glamorous lives of others; they also contribute to the perpetuation of lifestyle inflation. Carefully curated snapshots of lavish lifestyles fill our feeds as we scroll through Instagram or Facebook, flashing images of luxurious vacations, designer wardrobes, and extravagant dining experiences. Friends, acquaintances, social media influencers, and celebrities showcase their seemingly flawless lives, creating a perception of wealth and success that may not align with reality. This constant exposure to excess can subconsciously influence us to adjust our spending habits to match the experiences we are seeing online.

"Lifestyle inflation can be defined as the tendency to increase spending as income rises."

The risk of lifestyle inflation has been around for centuries. A new term has emerged to describe the distorted view of one's finances, "money dysmorphia." According to a recent report by Credit Karma, while 29% of Americans indicate that they are experiencing money dysmorphia, many of these same individuals have above average savings. The distorted view of their financial picture is likely having a negative impact on their happiness and self-esteem.

The *Wall Street Journal* recently reported on the world's happiest countries based on data collected from the 2024 Gallup World Poll for the World Happiness Report. The United States fell from 15th place in happiness in the prior year's poll to 23rd in the 2024 poll. More alarming was that Americans 30 years old and younger ranked 62nd in the poll. According to researchers, the decline in happiness for younger adults is likely attributable to spending less time interacting

Navigating Lifestyle Inflation in the Age of Social Media, continued

with people in person than on social media.

As individuals strive to maintain appearances consistent with the inflated standards set by social media, debt often becomes a consequence. The pressure to live up to unrealistic standards can drive individuals into debt traps. High-interest credit cards and loans become the means to sustain a lifestyle that is unsustainable in the long run, jeopardizing their financial stability and future goals. Establishing clear financial goals and priorities can serve as a shield against the temptation of lifestyle inflation. By distinguishing between needs and wants and adopting a disciplined approach to spending and saving, individuals can mitigate the adverse effects of social media-induced financial pressure.

"Establishing clear financial goals and priorities can serve as a shield against the temptation of lifestyle inflation."

Recognizing this article has presented social media only in a negative light, there are benefits such as unprecedented connectivity and exposure to opportunities for new experiences. However, social media also presents inherent dangers in a negative, potentially distorted, view of one's situation fueling lifestyle inflation and dissatisfaction with your current circumstances. Knowledge and awareness will assist individuals in mitigating the adverse effects of social media on lifestyle inflation. Know your priorities for spending and learn how to balance your short-term enjoyment without harming your long-term goals.

As wealth management advisors, we are able to play a role in guiding our clients through the complexities of personal finance, particularly in navigating the challenges posed by lifestyle inflation. Education on budgeting, investing, and debt management empowers our clients to make informed decisions aligned with their long-term financial goals and objectives. Awareness of the influence of social media on spending habits may encourage an evaluation of your consumption patterns and adoption of strategies for financial success.

Chris A. Middleton, CTFA
Executive Vice President,
Director of Retirement Plan Division

American Retirement Plan Progress

Critics, politicians, and many in academia have been highly critical regarding the effectiveness of the qualified retirement plan industry in the United States. To be sure, it is not a perfect system, and there remain significant numbers of American workers that do not have access to a company sponsored retirement plan. Many more are not saving enough and not investing their retirement plan assets wisely, which reduces financial capabilities in retirement years. But with nearly 39 trillion dollars (for effect, that is $39,000,000,000,000) amassed in these qualified investment accounts, the American retirement plan system can hardly be called a failure.

According to the Congressional Research Service, approximately two-thirds of US households had a financial stake in the U.S. retirement system. Nearly a quarter of those households boast more than $100,000 in these accounts, showing the system is working for a significant percentage of Americans. Adding these growing retirement plan assets with Social Security benefits easily demonstrates that replacement income during retirement has been continually improving over the recent decades.

Still, tens of millions of workers are not currently being covered by private retirement plans, so there is work to do in improving access. Many of these uncovered workers are younger and are at an opportune time to begin the healthy habit of incremental saving and wise investing over a long time horizon. The recently proposed Federal Auto IRA bill highlights yet another effort to extend coverage to many of these uncovered folks. Additionally, there has been a renewed push for more financial professionals to get involved in the retirement plan industry to support the recent explosion of defined contributions plans. This trend that is only expected to accelerate, due to government mandates and tax credits through the recent SECURE 2.0 Act.

As new employees enter the 401(k) marketplace, the enrollment tools have become simpler, removing some friction triggered by misguided advice and bogus insights pedaled through social media platforms ubiquitously accessed through most smart phones today. Not surprisingly, people born after 1997 (Generation Z) appear particularly susceptible to reliance on social media for investment insights. A recent survey by WallStreetZen found that 75% of Gen Z respondents admitted to using TikTok, YouTube, and Reddit for their primary financial education. Although those channels can offer accurate and valuable information, it is hard to separate the wheat from the chaff, leaving too many of these young people vulnerable to misinformation and overthought. Fortunately, plan design enhancements to counteract these tendencies, such as automatic enrollment defaults, have been steadily rising in popularity and raising the saving rates of many employees. Nearly 60% of all defined contribution plans now default new employees into a retirement savings rate to easily put them on the track to long term success.

> "Additionally, there has been a renewed push for more financial professionals to get involved in the retirement plan industry to support the recent explosion of defined contributions plans."

There remain legitimate concerns that too many Americans have yet to engage the current retirement plan system. Perhaps a wiser gauge of success is to observe the incredible growth of participants and assets within these qualified investment accounts over the recent decades. Despite the inherent challenges of creating a system that works for all population groups, the retirement plan industry has made amazing strides to improve the retirement outlook for the majority of Americans. The retirement plan industry and prevailing wisdom of large portions of the US working population have led to decades of consistent savings, which is increasing their chances of retiring with dignity. The Greenleaf Trust Retirement Plan division remains proud to participate with our corporate clients to ensure we are doing our part by helping tens of thousands of employees be more and more prepared for retirement!

Stock Market Pulse

Index	3/28/2024	Total Return Since 12/31/2023
S&P 1500	1,191.90	10.31%
Dow Jones Industrials	39,807.37	6.14%
NASDAQ	16,379.46	9.32%
S&P 500	5,254.35	10.55%
S&P 400	3,046.36	9.94%
S&P 600	1,344.66	2.45%
NYSE Composite	18,312.67	9.29%
Dow Jones Utilities	882.24	1.15%
Barclays Aggregate Bond	2,145.23	-0.78%

P/E Multiples	3/28/2024
S&P 1500	24.6x
Dow Jones Industrials	22.8x
NASDAQ	39.1x
S&P 500	25.2x
S&P 400	19.9x
S&P 600	18.8x

Key Rates

Fed Funds Rate	5.25% to 5.50%
T Bill 90 Days	5.26%
T Bond 30 Yr	4.34%
Prime Rate	8.50%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	1,191.90	24.6x	1.38%
S&P 500	5,254.35	25.2x	1.36%
Dow Jones Industrials	39,807.37	22.8x	1.81%
Dow Jones Utilities	882.24	17.1x	4.03%

Spread Between 30 Year Government Yields and Market Dividend Yields: 2.96%

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