SUMMER 2020

Florida | Canandaigua National Trust Company

WEALTH OF KNOWLEDGE

NEWSLETTER COVERING THE WEALTH CONTINUUM

The Likely Paths Out of COVID-19

Recessions, defined by economists as negative GDP growth for two consecutive quarters, are a natural component of the business cycle and on average have happened every four years since 1900. Our current situation is different in that it is not solely driven by economic forces. The global pandemic created a sense of urgency to dramatically limit our ability to interact with each other, so what we are experiencing now can be best described not as a recession but rather an economic shutdown. This distinction may be obvious, but it is important for us to understand this as we make our way out of this unprecedented predicament.

Businesses can only operate when they are allowed to be open, and reopening the economy will be key to our economic revival. But what will that look like going forward? Will it be a rapid V-shaped recovery, or a slower U-shaped one? Will a second infection wave convert our fledgling recovery into a W-shaped disaster that would cause a double-dip recession or will this drag on for an extended period of time in an L-shaped recovery, which could pose a risk to emerging markets? The frustrating answer may be, “Yes.” That is, we may be eating alphabet soup.

The purpose of the global shutdown was to slow the spread of COVID-19. Reversing the shutdown without reigniting a dangerous spread of the illness is complicated. Just as the initial shutdown was not uniform and absolute, economic revival will be subject to the phased re-opening. As a result, some sectors will feel economic relief sooner than others, and some groups of workers will regain employment sooner than others.

In New York State, the four-phase re-opening strategy began with activities deemed essential and gradually extended to a wider range of businesses. Those industries able to restart more quickly also suffered less damaging disruption and have been among those enjoying a more rapid recovery. Activities requiring people to be in close proximity with each other are being reopened in the later phases and can all expect a much slower recovery. For some businesses, recovery may ultimately not be possible but organizations that are able to innovate and adapt to the COVID-19 environment will improve their ability to recover. The massive shift of companies, schools and families to online video calls is just one example of such flexibility.

The stock market impact reflects the dynamics just discussed. After a sharp selloff for most stocks, many technology companies quickly rebounded, with some setting new highs. Stocks of companies in the entertainment and travel industries continue to languish, though most are well above their recent lows. Many other stocks are somewhere in between as their varied economic scenarios offer both challenges in dealing with COVID-19 and new opportunities for growth.

On a macro scale, the economic impact of the COVID-19 shutdown is yet to be determined. Second-quarter GDP may post an historic 30% decline, while a third-quarter economic rebound may be a comparably historic 20%.

In a recession, government policy makers focus on efforts to spur economic activity. In the COVID-19 shutdown, policy has primarily been to help organizations and families maintain solvency. While the Federal Reserve Board did slash interest rates to near zero, the low rates are not intended to encourage new loans, but to maintain much-needed liquidity in the economy. In recessions, tax cuts and spending bills are typically intended to increase aggregate demand. With COVID-19, the goal has not been economic *rev*ival but financial *sur*vival. Two key policies in the Coronavirus Aid, Relief and Economic Security (CARES) Act were intended to help businesses and families simply stay afloat.

One of the early challenges faced by most organizations was to avoid insolvency when the economic shutdown also turned off their cash flow. A critical policy response from the federal government was the Paycheck Protection Program (PPP)—a bank-administered lending program that provided critical cash that allowed businesses to continue employing their workers. Ongoing adjustments to the program are intended to provide needed flexibility as companies await the full re-opening of their industries.

Assistance also was needed for households. An economic shutdown meant many workers were unable to pay their rents, mortgages and taxes—not to mention food bills, etc. Nor were landlords able to collect income to pay their bills; and states and municipalities lost tax revenues needed to pay their employees and provide public services. The dominoes began to fall quickly. The CARES Act also provided automatic payments to nearly all households and expanded unemployment benefits to workers whose jobs were temporarily or permanently ended due to coronavirus. While the more lenient rules for the COVID unemployment insurance may eventually impede rehiring efforts as economic sectors reopen, continued support may be needed for the economic sectors and communities whose reopenings are deferred for an extended period.

The key criterion for economic revival is safety from coronavirus, whether that comes from acquired immunities or from an eventual vaccine. With neither of those being immediately available, the outlook for recovery remains uneven across the broad economy. Uncertainty will persist, but we remain confident that creativity and the desire for a brighter tomorrow will produce the needed changes to spur a resurgence of growth and opportunity.

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Alternative Cash Solutions for Millennials Before Getting a Second Job

According to a recent Bankrate report, more than 50% of millennials have a "side hustle." Finding a way to earn extra cash to pay down debt or invest in your future may ultimately be a prudent strategy to help with limited cash flow. But before making that decision, it may make better sense to evaluate the foundation of your financial situation.

First and foremost, know where your money is going. Some people have a natural tendency to budget. It provides them with a sense of comfort knowing they are living within their means and whether they are on track to meet their goals. For others, budgeting is constricting, challenging and unnatural. Regardless, it is a necessary task for anyone who wants to create efficiencies in their cash flow management. There are ample resources available to help track expenditures for review, from spreadsheets to online tools such as Mint, PocketGuide, or Clarity Money. Many are free and aggregate all financial accounts to help organize and track your spending. Most importantly, it allows you to understand where your money is going so you can determine what expenditures are important and necessary and others that are non-essentials.

Adhere to the 50/30/20 rule. If you still are challenged with tracking your money, a simple way to budget is to adhere to the 50/30/20 rule. In a nutshell, 50% of take-home pay is allocated to needs, 30% to wants and 20% on savings or paying off debt. At the very least, it requires you to spend within your means and gets you thinking about your regular recurring expenses, or essentials, versus your wants, or non-essentials.

Utilize a credit card. If you are confident in your ability to spend only what is within your means and you have a strategy to pay off your debt or increase your savings, utilizing a credit card is preferential to using a debit card. Credit cards allow you to earn cash back, provide rewards on spending, and take advantage of perks that debit cards don't offer. Additionally, they allow you to build credit and provide protection if your card is lost or stolen.

Financially re-evaluate housing costs. If you are in the fortunate position of owning a home, it may make sense to investigate refinancing. Generally, if you can reduce your interest rate by 2%, it can make a lot of sense. Other ways of reducing your housing costs can be downsizing or looking for a roommate. As a general rule, housing costs should never surpass 30% of your gross income. If you rent, this would include utilities. For homeowners, this would include mortgage interest, property taxes, and home maintenance.

Consider what cash benefits might be provided by your employer. If your employer offers an employer-sponsored retirement account, take advantage of it. In many plans, an employer will agree to match the funds you contribute up to certain amount. That match is virtually "free" money. You should always contribute enough to capture the match.

Specifically related to health, Employee Wellness Programs typically offer employees a discount on their insurance premium, paid time off, a contribution to an HSA (Health Savings Account) or HRA (Health Reimbursement Arrangement), or a lower co-pay or deductible as an incentive.

Lastly, many companies have augmented their Employee Benefits programs to encompass more than what has been historically offered. These can include the aforementioned health wellness programs but also include professional development opportunities and memberships, financial wellness programs, and discount programs.

Sometimes getting a second job is necessary to make ends meet. However, it should be considered only after a thorough review of your financial situation has occurred. Looking at all available resources and opportunities can often provide the bridge needed to avoid the additional job.

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2020 Annual Picnic

In an effort to help ensure the health and well-being of our customers, employees, and communities, we will not be holding our Annual Picnic in 2020. We will miss celebrating this event with you. Rest assured that we are already in the planning phases to resume this event for 2021!

We look forward to seeing you next year.

CNC Shareholder Corner

Not enrolled in direct deposit for your semi-annual CNC dividend payment? Enroll today and enjoy these benefits with direct deposit:

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If you are interested, please contact Shareholder Relations at (585) 394-4260, ext. 36067.

1180 WHAM Ask the Experts

Our professionals are featured on radio talk show, "Ask the Experts", to discuss a variety of financial topics. The show is broadcast on WHAM 1180 in the Western NY region, Saturdays at 8:00 pm. Those who reside outside of the region can listen online at wham1180.com.

2020 Shows

July 25
September 26
November 28