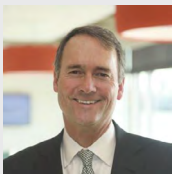


PLANNING & STRATEGIC ADVISORY

Strategic Advisory 2024 Outlook

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Last year was, by many metrics, an excellent year for investors. Many core fixed income strategies generated returns near 5% for the year, and the S&P 500® Index returned more than 20%—an unusual result on the heels of rapid rate hikes throughout 2022 and 2023. As we write this at the beginning of March the S&P 500® Index is in record-breaking territory although the path to get here was anything but a straight line.

It was a near-textbook case of “climbing the wall of worry.” The only problem? The wall of worry is still there.

In our conversations with clients over the past several months, we have heard over and over how clients are concerned about the future—about their financial picture, certainly, but also about the impact of social and political issues affecting markets, society and communities. These are areas where many feel limited in their ability to control the outcome and look to protect their strategic plans (which need to reflect each individual client’s priorities, goals and desired impacts).

We do not expect these sentiments to abate; if anything, we know our clients are increasingly anxious about upcoming elections that could reshape their countries. The U.S. presidential contest is getting the most attention, but nearly two billion voters across 50 countries will go to the polls for important national elections in 2024 (according to the World Economic Forum). And given the geopolitical, social and financial crosswinds that are buffeting markets as we speak, we cannot say that their concerns are unfounded.

With this in mind, we wanted to send a short letter to talk about how we, as strategic advisors, try to address today’s environment within the context of each of our clients’ identified goals. In short, we can’t eliminate risk or volatility from many investments, but we can help clients be better prepared for said risk and make decisions that advance their plans. Specifically, we want to talk about the sibling concepts of “readiness” and “resilience,” and how we pursue these high-level goals alongside our clients.

READINESS AND RESILIENCE

At first glance, the terms above may seem to mean the same thing: “Be Prepared.” But to us, these are opposite sides of the same coin.

When we think of **readiness**, we are thinking about playing “creative offense”—preparing for alternative outcomes, looking for opportunities and being ready to capitalize on them—whereas with **resilience** we are thinking about “stalwart defense”—being focused on the long-term and on withstanding temporary setbacks and disruptions, including the ability to adapt to changing circumstances, such as the emergence of AI or geopolitical upheavals. These ideas are complementary, and both are essential for building a strategy to navigate volatile markets.

The bottom line: to be “ready” and “resilient,” investors need a robust long-term plan, and they are always well served by adhering, even in times of crisis, to a set of core principles and objectives that guide their decisions over time.

PLANNING TOPICS TO CONSIDER

Our 2024 Investment Outlook discusses the investment risks ahead, and how our asset allocation team plans to navigate those risks, from a more quantitative perspective. Our role in the Brown Advisory “ecosystem” is to help clients reconcile the quantitative aspects of investing with the more qualitative aspects of family dynamics, personal circumstances and ultimately their long-term aspirations. Some of the specific topics we plan to raise with clients throughout the year include:

Preparing for, and taking advantage of, market volatility.

Investing in volatile markets can be challenging, but an optimist would point out that both “up” and “down” markets offer investors plenty of planning opportunities.

When the market is at an all-time high like today, it is prudent to look ahead at your likely liquidity needs over the coming months and years; when appropriate, it can make sense to reduce market exposure from appreciated holdings, while building up cash and fixed income positions to take care of your needs and insulate against a downward market turn. And, given that 2024 is a “global election year” with real national and global stakes, we feel that building such reserves can be an important part of being ready and resilient.

For most of the past decade, building a liquidity reserve came with a fairly heavy opportunity cost, as near-zero interest rates prevented investors from earning a reasonable return on cash and equivalents. Today’s higher rates offer much better compensation for those seeking to build a store of value. A healthy reserve can also be a powerful way to counter the volatility of high-growth equities—especially important given how much of the market is being powered by new opportunities like generative AI or GLP-1 drug treatments.

“Fully valued” markets usually offer the best opportunities for certain strategies, such as gifting appreciated assets to charity including donor-advised funds and private foundations. Other approaches, such as gifts to family members or trusts, or the exercise of stock options, may work best when market values are depressed. It is rarely possible to achieve the best results if you are reacting at the last minute to changing market conditions, so it is critically important to lay the foundations for such planning well in advance. For example, a client who has received stock options as part of an executive compensation package will want to analyze the tax and liquidity impacts of an exercise at various prices—well in advance of the period when they plan to exercise. Doing so allows them to be prepared to act when the price is most advantageous.

Preparing for, and taking advantage of, regulatory change.

As we move toward the end of 2025, when current estate tax laws in the U.S. are set to expire, many clients will look to take advantage of the current augmented exemption amount. Now is the time for those clients to begin planning their gifting strategies: it takes time to draft trusts, form family business entities, transfer assets from one spouse to another and otherwise prepare to finalize gifts when asset valuations are most attractive. That end-of-2025 deadline also brings the expiration of several important U.S. income tax provisions from 2017—should they expire, marginal rates for high earners may increase, state and local taxes may once again qualify as federal tax deductions, and in general high earners should consider adjusting their plans accordingly.

Moreover, for our global clients, or for those who are considering a relocation to another state or another country, there are complex, multi-jurisdictional tax and legal issues to consider—all of which should be analyzed and mapped out well in advance of a move. In particular, U.S. citizens living (or thinking of living) in the U.K. generally seek to align the U.S. and U.K. tax systems as far as possible, often with reliance on the “non-domiciled” regime and “remittance” basis of taxation. However, the recent U.K. budget contained the government’s intention to abolish the non-domiciled regime and to introduce the “Foreign Income and Gain (FIG)” regime effective April 6, 2025. Legislation has not yet been published and, while we know the Labour Party had also intended to abolish the non-domiciled regime, there is no certainty that should they win the U.K. election they will follow the FIG proposals. We are beginning to work with clients to assess various scenarios going forward and evaluate possible alternative strategies.

Finally, we try to emphasize the importance of sticking with ongoing plans, through full market cycles. Fear can easily derail long-term planning strategies (for example, if a client is seeking to reduce their taxable estate over time but abandons plans for annual gifts or charitable contributions because of market anxiety). Creating, and periodically stress-testing, financial plans and capital sufficiency analyses can play an important role in enforcing discipline and consistency.

Family communication/education.

A critical area of importance for families – especially larger, multigenerational ones – is clear communication. We have found this to be especially true when planning, sharing guiding values and understanding the impacts of decisions. It is immensely helpful that the family understands the why behind planning actions and inactions. It is also a beneficial way to identify what is most needed to support the growth and education of emerging family leaders. This understanding and clarity can be expressed in a letter of intentions, a family mission statement or other document that is a living document and tool for multigenerational families.

A range of families and other clients have expressed interest in exploring impact investing as an important tool for aligning generations around guiding values and asset management. Our Strategic Advisory team can assist these families in devising and implementing such plans.

Anticipating broader changes brought on by risk.

When markets are shaken by major events, it is possible that those same events may also affect family dynamics. For example, it is our experience that election years almost always bring about conversations about domicile—partly from political angst, but more often due to potential changes in state and national laws that might affect a client's tax status. Any such changes should of course be guided by prudent planning that considers your long-term goals, tax consequences, and impacts on personal happiness and well-being.

Risk needs should also be assessed and addressed on an individual basis by minimizing exposure to third-party claims, considering each client's assets, activities, and public profile. Addressing risk on the individual level can take several forms, including appropriate liability insurance coverage (including standard and specialized policies) and the use of trusts and limited liability entities.

In sum, we are here to help clients and their families engage in readiness planning and develop strategies to enhance resilience. These two concepts sit at the heart of the work we do, and we look forward to discussing them further throughout the year with all of you.

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