



CALDWELL TRUST COMPANY

PERSONAL • TRADITIONAL • INDEPENDENT

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INVESTMENT LETTER

"Don't Fight The Fed"
Martin Zweig in
Winning on Wall Street

AWARDS

Caldwell Trust Company Honored
as FPRA's Communications
Corporate Team of the Year

PROFILE

Celebrating a Decade of Dedication:
Donna Scaglione Marks 10 Years at
Caldwell Trust Company

Building Wealth | Preserving Legacy
The Way It's Meant To Be

Marty Zweig's classic book was originally published in 1970, but his advice could well describe the markets' focus in 2024. To apply the wisdom of this axiom, it is important to deepen our understanding of "the Fed" and the ways in which their specific actions impact the equity and bond markets.

"The Fed" refers to the Federal Reserve System. As the central bank of the United States, it wields enormous influence over the domestic economy and by extension plays a significant role in global financial conditions. Its actions and pronouncements dominate financial headlines and the minds of investors. With such sway, it is important to understand the overall structure and purpose of the central bank, then examine the actions of most importance to investors.

STRUCTURE AND PURPOSE OF THE FEDERAL RESERVE SYSTEM

The Federal Reserve System was established by Congress in 1913 when the Federal Reserve Act was signed into law by President Woodrow Wilson. With some amendments over the years, the Act has endured more than a century, providing stability, safety, and flexibility to the financial system.



The structure of the central bank consists of three key entities:

- THE BOARD OF GOVERNORS – an agency of the federal government that is accountable to Congress and guides the System itself. The Board also provides oversight of the twelve Reserve Banks.
- TWELVE REGIONAL FEDERAL RESERVE BANKS – dotted across the country, they collectively conduct the operations of the central banking system. By providing services to commercial depository institutions and the federal government e.g., holding reserve balances, making loans, and processing payments, they can be thought of as "the bankers' bank". They work closely with the Treasury in issuing and redeeming government securities and have a supervisory role over all banks that are members of the Federal Reserve System. Their respective Presidents have a key role in the setting of monetary policy.
- THE FEDERAL OPEN MARKET COMMITTEE (FOMC) – as the monetary policymaking body of the Federal Reserve System, the FOMC has a mandate to promote maximum employment, stable prices, and moderate long-term interest rates.

The Fed's website distills the purpose of the System to five general functions that together "promote the effective operation of the U.S. economy":

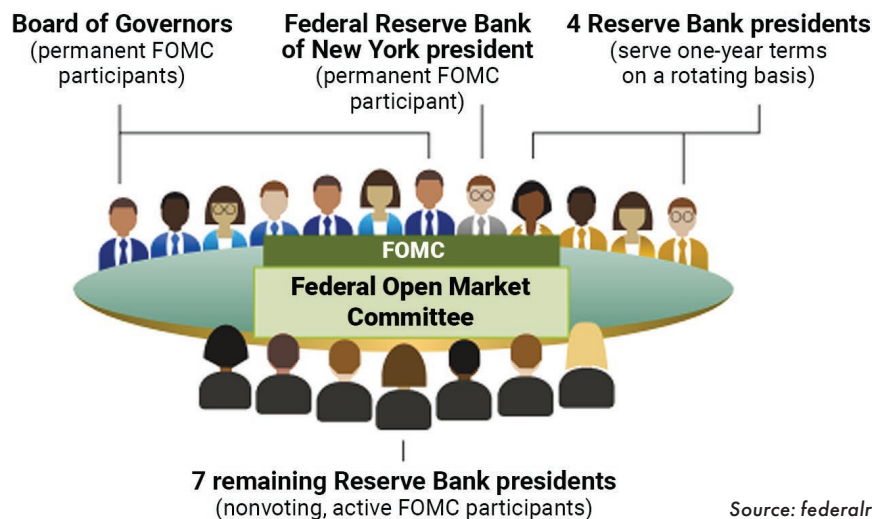
1. **MONETARY POLICY:** The Fed sets and implements monetary policy through a set of tools and mechanisms designed to influence economic activity, manage inflation, and stabilize the financial system.
2. **FINANCIAL STABILITY:** It works to maintain the stability of the financial system and contain systemic risk that may arise in financial markets.
3. **SUPERVISION AND REGULATION:** The Fed supervises and regulates banks and other important financial institutions to ensure the safety and soundness of the banking and financial system.
4. **OPERATION OF NATIONAL PAYMENTS SYSTEM:** It operates and oversees key components of the nation's payment and settlement systems.
5. **CONSUMER PROTECTION:** The Fed plays a role in protecting consumers' rights in their dealings with banks and other financial institutions.

Other functions that bear mentioning include conducting extensive economic research to provide analysis on national and global economic issues, managing the money supply, acting as the lender of last resort in times of financial crisis, and working with other central banks and international financial organizations to promote global financial stability. For investors, monetary policy has the most impact on the valuation of financial assets, so we will focus on the FOMC and how markets react to their decisions.

FOCUS ON THE FOMC

A full discussion of the tools and mechanisms used by the FOMC is beyond the scope of this newsletter, but the key tool which influences monetary policy is the federal funds rate, often referred to simply as the "fed funds rate." It is the interest rate at which depository institutions (such as banks) lend reserve balances to other depository institutions overnight on an uncollateralized basis. The fed funds rate is set at FOMC meetings.

The FOMC meets regularly (typically every six to eight weeks) to discuss and decide on monetary policy. During these meetings, the FOMC assesses economic conditions e.g., inflation, employment, and overall economic growth and decides on the target range for the federal funds rate. This range reflects the Fed's "policy stance."



Source: [federalreserve.gov](https://www.federalreserve.gov)

INVESTMENT LETTER CONTINUED

After each FOMC meeting, the Committee officially announces the target range for the federal funds rate. This announcement is accompanied by a statement explaining the rationale behind the decision and the economic conditions influencing it.

FOMC decisions impact the stock market through their effects on interest rates, economic growth expectations, investor sentiment, liquidity, and financial stability. The market reacts to both the direct changes in rates and the broader implications for economic conditions and corporate profitability. These reactions can be immediate and sometimes pronounced, reflecting the market's sensitivity to monetary policy and the Fed's guidance on future economic conditions.

Here are examples of how these decisions typically move the stock market:

- **INTEREST RATES AND COST OF CAPITAL** – When the FOMC adjusts the federal funds rate, it changes the cost of borrowing for businesses and consumers. Lower interest rates reduce borrowing costs, which can boost corporate earnings by making it cheaper for companies to finance expansion, invest in new projects, or repurchase their own stock. Lower interest rates also reduce the discount rate used in discounted cash flow (DCF) models to value stocks. This leads to higher stock prices as the present value of future earnings becomes more valuable.
- **ECONOMIC GROWTH EXPECTATIONS** – FOMC decisions often signal the Fed's outlook on economic growth and inflation. A rate cut may suggest that the Fed is concerned about slower economic growth or a potential recession, which can lead to market volatility as investors reassess growth expectations. Conversely, a rate hike might indicate concerns about rising inflation, which can erode corporate profit margins if companies cannot pass higher costs onto consumers. This can negatively affect stock prices.
- **INVESTOR SENTIMENT** – Changes in monetary policy often affect investor sentiment. A rate change can lead to shifts in investor behavior, with stock prices moving in anticipation of or in reaction to the Fed's actions and the perceived implications for the economy. Absent a rate change, the Fed's statements and forward guidance provide clues about future monetary policy. Positive or negative signals about future interest rate changes can lead to immediate market reactions as investors adjust their expectations and portfolios.
- **LIQUIDITY AND ASSET ALLOCATION** – Lower interest rates increase liquidity in the financial system, making it easier for investors to access capital. This can lead to increased investment in equities as investors seek higher returns compared to low-yielding bonds and other assets. This movement of funds to stocks often drives up stock prices.
- **MARKET EXPECTATIONS VS. REALITY** – The stock market often reacts not just to the actual decisions but also to whether those decisions align with or differ from market expectations. Unexpected moves or changes in the Fed's tone can lead to volatility as investors reassess their outlook.

As for the bond market, Fed policies directly impact bond yields. Bond prices move inversely to interest rates e.g., when rates/yields go up, bond prices go down. The bond market's reaction to Fed policy also influences long-term interest rates throughout the economy.

It is worth noting that monetary policy often involves tradeoffs. For example, policies that stimulate growth might risk increasing inflation, while those that control inflation might slow economic growth in the short term. The Fed must constantly analyze economic data and forecasts to make informed decisions, balancing multiple objectives in a complex and ever-changing economic landscape.



AWARDS

Sheryl Vieira and Jan Miller Win Corporate Communications Team of the Year by Florida Public Relations Association

Sheryl Vieira, Vice President of Marketing and Communication at Caldwell Trust Company, was honored at the Florida Public Relations Association's (FPRA) Pinnacle Awards Gala. The event took place on August 6, 2024, at the Grand Hyatt Tampa Bay during the 3-day PR & Comms Summit, a premier conference celebrating achievements in communications and marketing.

This year's submissions showcased exceptional work from nonprofit and for-profit organizations across the U.S., highlighting excellence in public relations, marketing, digital media, advertising, and more. Each project was meticulously reviewed by industry leaders, reflecting the best in public relations and communications.

Caldwell Trust Company earned the coveted Gold Pinnacle Award for Corporate Team of the Year, recognizing the outstanding leadership of Sheryl Vieira and Jan Miller, Senior Executive Vice President & Trust Officer. This honor was awarded for the company's remarkable 30th Anniversary Campaign, a two-year initiative that celebrated Caldwell Trust Company's rich history while deeply engaging clients, stakeholders, and the community. Their collaborative efforts stood out within the FPRA community.

FPRA, the oldest public relations organization in the United States with over 1,000 members, is dedicated to fostering ethical standards and professional development within the public relations profession. The Pinnacle Awards were introduced to recognize exceptional individuals, agencies, and teams in public relations and communications. The Gold Pinnacle Awards honored top performers in categories such as Corporate Team of the Year, Nonprofit Team of the Year, and Communicator of the Year. Nominations were accepted earlier in the year, and winners were selected by FPRA's past state presidents.

Sheryl has been a dedicated FPRA member since 2015, recently serving as President of the Central West Coast Chapter from 2022-2023.



Sheryl Vieira
Vice President of Marketing
& Communications



Jan Miller
Senior Executive Vice
President & Trust Officer



Wendy Crites Wacker,
APR, CPRC, the outgoing
president of FPRA,
presented Sheryl Vieira
with the inaugural Pinnacle
Award for Corporate Team
of the Year.

PROFILE

Celebrating 10 Years: Donna Scaglione's Journey with Caldwell Trust Company



Donna Scaglione
Assistant Vice President
and Trust Officer

We are delighted to celebrate the 10-year anniversary of Donna Scaglione, Assistant Vice President and Trust Officer at Caldwell Trust Company. Donna's journey began in Venice, she has lived there since she was 3 years old, and after graduating from Venice High School, she started her banking career with a local independent bank, where she worked for over a decade.

Her interest in the legal field led her to pursue legal training, and she spent the next 13 years working alongside estate planning, probate, corporate, and real estate attorneys. In 2008, Donna earned her Florida Registered Paralegal certification with the Florida Bar, demonstrating her commitment to professional growth.

Donna's connection with Caldwell Trust Company started through her long-standing friendship with Wendy Fishman, our Executive Vice President and Senior Trust Officer. They first met in the banking world and maintained a professional and personal relationship over the years, often bumping into each other at the Venice YMCA. When the company was looking for a new trust assistant, Wendy knew Donna's expertise and dedication would be a perfect fit for our growing team.

Over the past decade, Donna has brought incredible value to Caldwell Trust, especially with her vast knowledge of the legal field, adding depth to our Trust Administration team. But beyond her professional talents, Donna is known for her warm personality and the joy she brings to the office every day. She enjoys spending time outdoors and has a passion for singing and music, often sharing stories of weekend outdoor adventures or her love for music with colleagues.

Donna's positivity, kindness, and commitment have made her an integral part of our Caldwell family. We look forward to many more years of success and memories together!





CALDWELL TRUST COMPANY

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