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SPRING 2025

THE NAVIGATOR

THE COMPASS WEALTH GROUP

Tariffs, policy uncertainty weighs on economic, investing outlooks

As tariffs and policy uncertainty continue to dominate headlines and impact global markets, how are US economic and market outlooks being affected by the developments? Raymond James Chief Investment Officer Larry Adam takes a look and provides insight into his team's outlooks in his quarterly update.
The economy forms the foundation of our investment decision-making, and despite a few near-term headwinds, the US economy remains on solid footing, and we do not see any signs of a recession developing.

However, with the Trump administration implementing fresh ground rules, there has been a significant uptick in uncertainty for both consumers and businesses. The main concern is economic policy uncertainty, especially regarding tariffs. The more aggressive tariff rollout will have a bigger negative impact on economic growth and inflation than we were originally anticipating. While the effective trade-weighted tariff should settle below the current 22.5% forecasted level (up from 2.5% at the beginning of the year), as negotiations gain steam, the final rate is likely to stay well above our original 10% estimate. However, avoiding the expiration of tax cuts and benefiting from deregulation later this year should help support growth.

While the one-time impacts of a harsh flu season, cold winter, and accelerated company imports to avoid tariffs weighed on first quarter growth, the significant increase in tariffs poses a greater challenge to the economy going forward. As a result, we have reduced our 2025 GDP forecast from 2.4% to ~1.0% as the downside risks to the economy increase, but a recession should be narrowly avoided. Healthy job growth, still solid consumer spending, continued AI investment, and a Federal Reserve poised to cut interest rates three times this year should keep the economic expansion going. These insights from our economists guide our decision-making as we maintain constructive, positive views on most asset classes.

The recent decline in the US equity market has made valuations more reasonable, and we have confidence in their ability to grow earnings, especially with the addition of emerging stars from the artificial intelligence (AI) sector.

We view the recent Tech sector weakness as a temporary setback, not reflective of the sector's strong fundamentals. However, the significant increase in tariffs will reduce growth and be a bigger drag on corporate margins. These downgrades have led us to lower our S&P 500 corporate earnings estimate to $250-$255 (from $270), which still represents positive earnings growth of 4-6% in 2025.

With our lower earnings forecast, we have reduced our year-end S&P 500 target to 5,800 (from 6,375) and recommend using any periods of weakness as buying opportunities. If our target is achieved, the equity market will have rallied strongly between now and the end of the year. Historically, the equity market has provided the best long-term performance among the major asset classes for building wealth.
From a market-cap perspective, we continue to prefer mid-cap stocks over small caps, as they need more time for the economy to develop further and for short-term interest rates to fall.

We're resisting the temptation to switch our preference from the US equity market to international equities, although some tout European equities as the next great market to rebound. However, our analytics suggest that the fundamentals remain in favor of US equities, with greater earnings growth, profitability, less exposure to tariffs, and more dominant companies in the sectors we prefer, especially Technology. Additionally, the US has a better educational infrastructure, greater entrepreneurship, and significantly lower taxes compared to Europe. These dynamics should keep investment money flowing to the US and help maintain its premium valuations.
After years of record-low interest rates, with the 10-year Treasury yield briefly trading below 1%, the recent uptick in interest rates across the maturity spectrum has increased the income bonds can generate.

(Continued on next page...)

Additionally, bonds have served as a diversifier and risk mitigator during the recent volatility in the equity markets, just as they have done consistently through time. The big question is whether the anticipated lifting of the debt ceiling this summer will cause a surge in government issuance that sends interest rates dramatically higher. We do not think so, as demand for government bonds remains healthy among retail investors, foreigners, and pension funds. With the downward revisions to our economic outlook, we have modestly reduced our year-end 10-year Treasury yield forecast to 4.25% (from 4.50%).

There are no guarantees in the near-term performance of any asset class, and that's why a long-term perspective is crucial, allowing your portfolio to mesh. Short-term, panic-driven decisions rarely help your overall goal. With volatility on the rise, maintaining the right asset allocation, a diversified portfolio, and a long-term horizon is key. Successful investing requires strategy, patience, and resilience. A strong investment portfolio grows through disciplined decisions and a long-term vision. Remember, while you're the owner of your portfolio, let your advisor use their expertise to help you construct it.

Be patient and focused on the long term

Charitably-minded investors can satisfy RMDs with QCDs

ESTATE & GIVING

Qualified charitable distributions allow your required IRA distributions to benefit a worthy cause – while you benefit from a reduced tax liability.

Helping others when you're gone is a noble and rewarding aspiration. But think how much more rewarding it could be, both personally and charitably, to help others while you're still here.

Giving during your lifetime can take many forms, one of which is using qualified charitable distributions (QCDs). It's an option that can also reduce your tax liability, as it involves donating pre-tax dollars before they become taxable income as a required minimum distribution (RMD).

Transform RMDs into QCDs

Philanthropy is often reward enough, but charity and tax deductions seemingly go hand in hand. As the standard deduction has risen to $15,000 for individuals in 2025 (double for married filing jointly), you may want to consider giving strategies that don't require itemizing on your tax return. A QCD is a great way to carry out your charitable intent that doesn't require itemizing and also reduces your taxable income.

The required start age to begin taking distributions from your IRA has increased over the past few years from 70 1/2 to 73. However, the age that you can begin QCDs is still 70 1/2. These RMDs are generally treated as taxable income. Thankfully, the Protecting American from Tax Hikes (PATH) Act of 2015 permanently allowed an IRA owner to make qualified charitable distributions directly from their IRA to a charity without getting taxed on the distribution.

Basically, you can satisfy your RMD amount without reporting additional income. There is, however, another important benefit. When a QCD is used to satisfy an RMD, that amount is also excluded from tax formulas that could impact multiple categories such as Social Security taxation, Medicare Part B and D premiums, and the Medicare tax on investment income.

RULES TO FOLLOW

You must be eligible. You must be age 70 1/2 or older at the time of the QCD (but remember, RMDs now begin at age 73). QCDs from Ongoing SEPs and SIMPLE IRAs are not permitted.
There is an annual limit. Your QCD cannot exceed $108,000 per tax year, even if your RMD is greater than $108,000. New legislation, the SECURE 2.0 Act, will index this $108,000 limit for inflation starting in 2025.

Only qualified organizations count. The IRA trustee or custodian must make the distribution directly to a qualifying charity (private foundations and donor advised funds are not eligible). For instance, you cannot take the distribution yourself then write a check to the charity.

RMDS: A REAL-TIME LEGACY

By donating the RMD to a qualified charity, you can enjoy the satisfaction of knowing you are helping a worthy cause while simultaneously reducing your taxable income. This strategy also helps you live out your values in real time, effectively living your legacy in the here and now.
To learn more, please call our office and your tax advisors. We are a good source of information when it comes to living and giving generously.

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CONGRATULATIONS RANDY HALFPOP

Please join us in congratulating Randy Halfpop on an incredible achievement—being ranked #1 on the Barron's list for the state of Wyoming as well as #25 in Colorado by Forbes "Best-In-State".

This recognition reflects not only his dedication to his clients but also his consistent excellence in the financial services industry. Randy's hard work, leadership, and commitment to integrity have made a lasting impact on those he serves.

Randy, thank you for all that you do—not just for your clients, but for setting a standard of excellence that inspires those around you. Your leadership, generosity, and commitment to always doing what's right do not go unnoticed. Congratulations again on this well-deserved honor!

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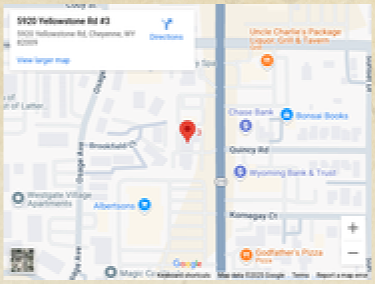

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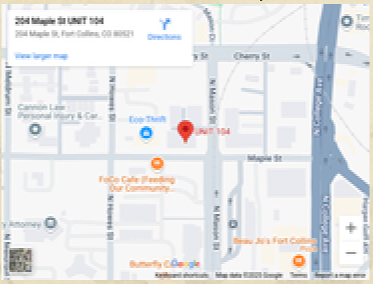

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Find Brian, Randy, and Jess on LinkedIn for their posts and insights

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We gladly accept referrals. If you know someone who might benefit from our services, please let us know. Here is a list of services that we offer:

- Financial Planning
- Retirement Planning
- College Planning
- Portfolio Management
- Charitable Gift Planning
- Business Planning
- Long-Term Care, Life &Disability

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