

July 1, 2025

The first half of 2025 was eventful for investors, with tariff discussions shaping economic and market conditions. Despite a complex environment, the macroeconomic landscape exhibited notable resilience in the face of monetary and fiscal policy uncertainties. If history is any guide, the second half of the year is likely to be equally dynamic. We are expecting a pivotal period in the coming months, as key policy decisions take shape that will influence outcomes for both the economy and financial markets. Hopefully, investors will once again see their patience rewarded.

The domestic equity market had a promising start in 2025, reaching a new all-time high in the month of February for the S&P 500 Index. However, sentiment shifted downward for stocks due to economic and trade policy headlines. The weeks following this momentum change saw the index gradually fall into negative territory to begin the second quarter. Investor concerns were further escalated after the April 2nd “Liberation Day” announcement, and the shockwave concerning potential tariff rates surged through the markets, deepening the market decline. As a result, the S&P 500 Index spent 17 trading days in correction territory (a decline of 10% from the previous market high), and domestic small company stocks and technology stocks plummeted into bear market territory (a decline of 20% from the previous market high).

Thankfully, a worst-case scenario did not materialize, and the market correction was brief. Robust job data, optimism around trade agreements, and anticipated tax reforms contributed to a swift recovery during the final two months of the quarter. The market rally was one of the more memorable events for investors in recent history as domestic stocks rebounded across various sectors, styles, and regions. From its February high, the S&P 500 Index experienced an 18% decline before recovering all losses and achieving a new all-time high at 6,204.95 points on the last day of the second quarter. Although the year-to-date total return for the index settled at a modest +6.20%, the resilience shown by the equity market was remarkable and, in our view, made this mid-year milestone an impressive achievement.

Elsewhere, international stocks continued to outshine their domestic counterparts, and fixed income investments quietly contributed to portfolio outcomes during the quarter despite the volatility during the tariff-induced drawdown.








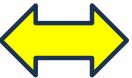




For those who stayed committed to their investment strategies, this period provides yet another reminder of excellence during this long running bull market.

See the following table for the mid-year performance for bonds and stocks.

| Bond and Stock Index Total Return January 2025 - June 2025 | | |
|--|------------------------------|--------|
| Sector | Index | Return |
| Short-Term U.S. Bond | Bloomberg 1-3 Year Treasury | 2.84% |
| Intermediate-Term U.S. Bond | Bloomberg Interm Treasury | 3.98% |
| Long-Term U.S. Bond | Bloomberg Long-Term Treasury | 3.08% |
| Inflation Protected Bond | Bloomberg Treasury TIPS | 4.67% |
| Domestic Large Company | Dow Jones Industrial | 4.55% |
| Domestic Large Company | S&P 500 | 6.20% |
| Domestic Small Company | Russell 2000 | -1.79% |
| Domestic Large/ Information Tech. | NASDAQ | 5.85% |
| Developed International | MSCI EAFE (net div) | 19.45% |
| Emerging Markets | MSCI EM (net div) | 15.27% |
| Real Estate/REITs | DJ U.S. Select Real Estate | -0.60% |
| Oil and Gas | DJ U.S. Oil and Gas | 0.84% |
| Commodities | Bloomberg Commodity | 5.53% |
| Source: Dimensional Fund Advisors, YCharts | | |

The U.S. economic landscape this past quarter resulted in a mix of signals. Growth declined for the first time in three years, with the first quarter's final estimate showing a 0.5% annualized drop. Labor market conditions held steady with 147,000 jobs added and 4.1% unemployment. Inflation data increased slightly, reflecting minor tariff pricing impacts, though rising shelter costs played a larger role. Uncertainty continued to weigh on the manufacturing sector, and growth in consumer spending showed signs of modest deceleration. Meanwhile, private investment surged due to tariff-related inventory spikes, and business profits closed the earnings season on solid footing. Despite various obstacles, economic conditions remained resilient in the face of significant headwinds.

The table below illustrates the observed economic trends for 2025.

| GDP | Inflation | Interest Rates | Jobs | Unemployment Rate | Manufacturing |
|---|---|---|---|---|---|
|  |  |  |  |  |  |
| Housing | Consumer Spending | Business Spending | Corporate Profits | Energy Prices | Stock Market |
|  |  |  |  |  |  |

The Federal Reserve's June meeting communicated solid economic data based on estimates of rising second quarter growth with weaker household and business sentiment. They also noted elevated uncertainty amid evolving developments for trade policy, other government policies, and geopolitical risks. For these reasons, the Federal Open Market Committee (FOMC) unanimously voted to hold the federal funds rate steady at a range of 4.25% to 4.50%.

Revisions to the FOMC's economic projections included some stagflation elements (lower growth paired with higher inflation), but the Committee felt they were well positioned to wait for more clarity on the outlook for inflation and economic activity before making changes to monetary policy. Most participants agreed that some reduction in the target range for the federal funds rate would be appropriate this year if conditions evolved modestly. However, they also noted the upside risks to inflation and labor market conditions remained meaningful. If elevated inflation proves to be more persistent while employment grows weaker, the Committee stated they would take a more guarded approach in adjusting monetary policy. Based on the potential economic developments, it appears the Fed is prepared to maintain a more restrictive policy stance.

Our outlook for the rest of 2025 is hazy and includes many unknown possibilities due to the current era of tariff turmoil. Domestic economic conditions are likely to remain subdued, and evolving trade pressures may reshape how countries engage in commerce and think about globalization. While these changes will undoubtedly have widespread impacts, the full extent of their influence remains uncertain. We expect weaker U.S. dollar conditions to continue, but we do not believe it is a crisis. Instead, this is more of a cyclical decline due to the heavy weights of trade policies and fiscal burdens. Solid job market data coupled with steady inflation trends are likely to keep the Federal Reserve in a wait-and-see mode for the time being. We expect a rate cut this year, with a question only as to the timing. A September cut is likely, but the FOMC will be cautious and scenarios of a delayed cut or no cut until 2026 are becoming more possible as conditions evolve.

Overall, the international situation seems to be on steadier ground, and we believe there is growing optimism for a developing long-term growth story. Governments around the world are prioritizing security (national defense), reliable energy sources, and stable infrastructure and supply chains given geopolitical uncertainties. We expect this catalyst to lead to a multi-year boost for a broad range of industries in multiple regions.

Recession fears have become elevated again with the ongoing trade policy concerns. More companies have shifted to a holding pattern on future operations as they await a new set of rules. Even if tariff results end up being more favorable, the slowdown in business activity will have a rippling effect on economic growth. The resilience displayed throughout this economic cycle provides us with hope that the global economy can once again sidestep any negative outcomes.

The implementation of tariffs can often feel complex and unsettling for investors. From our perspective, tariffs generally serve four primary purposes:

- Negotiating tool (create leverage) to achieve policy goals.
- Reciprocal actions to restore balance with other trading partners and boost domestic production.
- Decoupling designed to shift supply chains and reduce dependence on certain countries.
- Raise revenue to fund domestic budget priorities.

Trade wars can play a major role in shaping the global economy. While some objectives may be achieved, history suggests that extended trade conflicts rarely produce clear winners. Instead, each country involved tends to face varying levels of economic struggles.

As we progress into the second half of the year, we are closely monitoring many key risks that could impact financial and economic outcomes. Some of the top concerns include escalating trade tensions, stringent immigration policies, labor market shifts, fiscal pressures, stagflation, monetary policy decisions, economic nationalism, the ongoing Russia-Ukraine conflict, and unrest in the Middle East. While these challenges are significant, we remain optimistic that long-term outcomes will continue to present promising opportunities for investors.

At the writing of this newsletter, a widely anticipated piece of legislation, titled the “One Big Beautiful Bill Act” was signed into law. This new act aims to extend and replace provisions originally established in the 2017 Tax Cuts and Jobs Act (TCJA). This bill also introduces multiple items that could impact tax planning strategies. Here are some of the key highlights:

- Permanent extension of the TCJA tax brackets.
- Increased standard deduction. \$15,750 (single); \$23,625 (head of household); and \$31,500 (joint) indexed for inflation.
- State and local tax (SALT) deduction cap increase to \$40,000 for filers earning less than \$500,000 in 2025. Cap increases by 1% per year through 2029. The cap would revert to \$10,000 beginning in 2030.
- Estate tax exemption is raised to \$15 million per person (\$30 million per couple) starting in 2026, with further inflation adjustments.
- The child tax credit is raised to \$2,200.
- An enhanced deduction for seniors age 65 and older of \$6,000 per person from 2025 through 2028. The below-the-line deduction is subject to a 6% phase out limits for high earners.
- Qualified deduction for tax on tip income up to \$25,000 for 2025 through 2028. Subject to several restrictions on who is eligible and a phase out limits for high earners.
- Qualified deduction for tax on overtime compensation paid for 2025 through 2028. Subject to a cap of \$12,500 per person and phase out limits for high earners.
- Auto loan interest deduction up to \$10,000 a year for loan interest paid on a vehicle that is built in the United States. Expires in 2028 and is subject to phase out limits for high earners.
- Accounts for newborns. The bill creates a new type of custodial account, dubbed a "Trump account" for newborns. Parents will get a \$1,000 tax credit for opening an account for babies born between January 1, 2025, and December 31, 2028. Parents can add up to \$5,000 a year until the child turns 18.
- Charitable contribution deduction for non-itemizers up to \$1,000 (\$2,000 for couples), beginning in 2026. The provision is permanent.
- Establishes a floor in 2026 for charitable contribution deductibility of 0.5%-of-AGI.
- Amends section 199A deduction for qualified business income (QBI).
- Expansion of eligible expenses for 529 Plans.
- Establishes a new itemized deduction for educator expenses.
- Repeal of clean energy credits.
- Increased tax on college and university endowments.

Uncertainty is an unavoidable part of investing, which is why investors need strategies designed to adapt to changing market conditions. Our investment philosophy is built on strong fundamentals that emphasize patience, discipline, and stability through market fluctuations. Central to this process is implementing a diversified asset allocation strategy tailored to individual risk tolerances and financial goals. Remember, ***it is time in the market, not timing the market***, that drives long-term success.

Given the current investment landscape, scheduling a financial check-up during the second half of this year could be a good idea to help evaluate your financial health and highlight adjustments.

On a personal note, I'm delighted to share some wonderful news with you. Madilyn Morris and Lillian Hoyer, two valued members of the William Howard & Co. team, have recently earned their Financial Paraplanner Qualified ProfessionalSM certifications. This accomplishment will undoubtedly strengthen their ability to serve our clients' financial needs. Please join me in celebrating their outstanding achievement.

If you'd like to discuss any updates to your financial situation, explore the potential impacts of recent tax legislation, or have any general questions, please don't hesitate to contact us. We are here to support you every step of the way.

In closing, I want to thank you for the opportunity of working with you and for your continued confidence and trust.

Wishing you a fantastic summer, good health, and a prosperous remainder of 2025.

With kindest personal regards, I am

Very truly yours,

WILLIAM HOWARD & CO. FINANCIAL ADVISORS, INC.

A handwritten signature in black ink that reads "Bill". The signature is stylized with a large, looped 'B' and a simple 'ill'.

William B. Howard, Jr., ChFC®, CFP®

WBH/bdb

Enclosures: Index Performance and U.S. Economic Data

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| 2025 Total Return Index Performance | | | |
|-------------------------------------|---|----------------------|--------|
| Asset Class | Index | 2 nd Qtr. | YTD |
| Cash | BofA/ML Three-Month U.S. Treasury | 1.04% | 2.07% |
| U.S. Bonds | Bloomberg Intermediate-Term Treasury | 1.46% | 3.98% |
| U.S. Large Co. Stocks | S&P 500 | 10.94% | 6.20% |
| U.S. Small Co. Stocks | Russell 2000 | 8.50% | -1.79% |
| International Stocks | MSCI EAFE (net div.) | 11.78% | 19.45% |
| Real Estate | DJ Select Real Estate Securities Total Return | -1.73% | -0.60% |
| Source: Morningstar | | | |

| U.S. Economic Data | |
|--------------------|---|
| GDP | 0.5% decrease (annual rate) – 1 st Quarter 2025 |
| Inflation | 2.9% CPI (less food and energy) and 2.7% CPI (all items) over the last 12-months ending June (Energy index fell 0.8%; Food index up 3.0%). |
| Interest rates | Federal Funds Rate range at 4.25% - 4.50%. No change at June FOMC meeting. |
| Jobs | June 2025 data - Unemployment at 4.1%; non-farm payroll employment rose by 147,000 jobs; Labor force participation rate 62.3%; Job gains occurred in state government and health care. |
| Manufacturing | Economic activity in the manufacturing sector contracted; June ISM Report Manufacturing PMI registered at 49.0%. Manufacturing contracted for the fourth consecutive month. Demand and output remained mixed. Input contracted after completing pull-forward activity ahead of tariffs. |
| Business Spending | Private non-residential investment continued to trend higher (39.31% increase since Jan 2021); New orders for manufactured goods increased five out of the last six months. YTD - Durable orders increased 6.9% and Nondurable orders down 0.3%. |
| Corporate Profits | 1st Quarter 2025 - U.S. corporate profits decreased -2.3%. S&P 500 Earnings per share = \$57.51 (one-year increase of 5.27%). |
| Housing | May 2025 year-over year data - New home sales down 6.3%; Existing home sales declined 0.7%; Median sales price of existing homes increased 1.3% from the prior year to \$422,800; Housing starts declined 4.6%; Building permits fell 1.0%; Housing inventory was up 20.3% from last year; Unsold inventory = 4.6 month supply; MBA fixed 30-yr mortgage rates = 6.79% ending 7/2/2025. |
| Consumer Spending | Disposable income remained flat; Consumer Confidence Index weakened in June but increased slightly since last quarter; Retail and food services sales increased; Total vehicle sales declined; Personal durable and nondurable spending remained high; Personal savings rate decreased to 4.5%. |
| Energy | Oil price (West Texas Intermediate) = \$66.30/bbl – 6/30/2025 (2025 decrease of 8.48%); Gas price (U.S. average regular unleaded) = \$3.164/gal – 6/30/2025 (2025 increase of 5.26%) |