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Wescott

FINANCIAL ADVISORY

SECOND QUARTER 2025

Economic and Market Outlook

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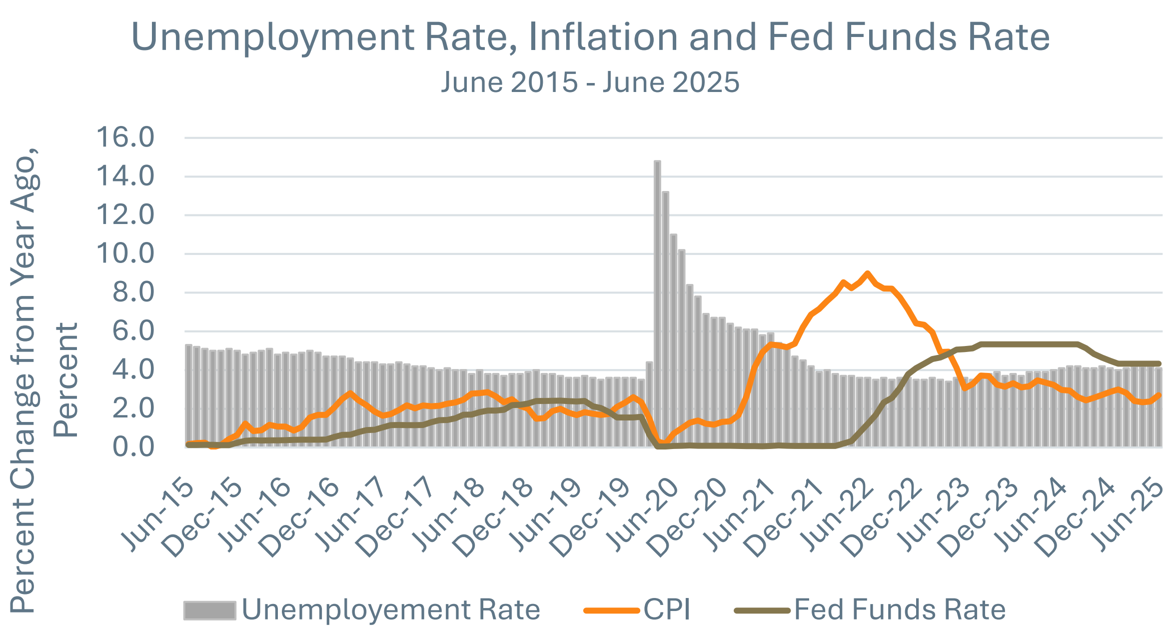
Intro

"Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves" – Peter Lynch, American Investor, Fidelity Magellan Fund Manager

Second Quarter 2025 Economic and Market Outlook

The challenge for investors (and the Federal Reserve's policy making committee) is to determine what impact the latest trade policy will have on revenue, growth, and inflation. In addition, Congress passed the Big, Beautiful, Bill in early July 2025, which has the potential to increase growth, inflation, and deficits according to the Committee for a Responsible Federal Budget. Key provisions of the Bill extend and expand on the 2017 Tax Cuts and Jobs Act passed during the first Trump Administration. The President's tariff policies are designed to partially offset the tax and spending cuts in the bill by bringing in more revenue. This may be the case, but it also could be that higher tariffs and the higher debt service associated with ongoing budget deficits could slow the U.S. economy rather than generate growth. While early signs show that tariffs have brought in revenue, there is also evidence that the announced tariffs have contributed to falling confidence surveys and have put capital expenditure plans on hold.

Figure 1: Economic Conditions Are Stable, but Inflation Expectations are Rising



While some of the soft data points, such as surveys and expectations, are indicating weakness, hard economic data, such as consumer spending, remains relatively strong. Although inflation has been falling over the course of the past six months, progress has stalled, according to the latest Consumer Price Index report. Inflation expectations are also rising again, as evidenced by the rising 10-year bond yield.

The labor market has been resilient, despite the weakness in business surveys, and the unemployment rate has only modestly increased to 4.2% over the last year. Yet, the number of job openings have started to decline, which is often the first sign of weakness. The Federal Reserve, despite pressure from the White House to cut rates, has held policy rates (Fed Funds Rate) since October of 2024, given the lack of clarity with respect to both tariffs and fiscal stimulus. The next move by the Federal Reserve's Open Market Committee (FOMC) is likely to be a cut in rates, but the timing and magnitude of the cuts continues to remain data dependent.

Geopolitical Risks Remain

The ongoing Israeli/Iranian conflict reached heightened levels in the last several months. Adding to the military campaigns in Gaza and those against Hezbollah in Lebanon, targeted strikes by Israel on Iranian soil against the country's air defenses, ballistic missile arsenal, and nuclear capabilities, became a part of the evolving tactical strategy. The conflict broadened with direct U.S. military involvement in the form of targeted strikes against Iranian nuclear facilities on June 22, 2025. Early reports suggest that damage was indeed inflicted on the Iranian nuclear facilities. Currently, a tentative ceasefire seems to be holding, but, as we have seen on a number of occasions, conflict resolutions can quickly deteriorate.

Interestingly, from an economic and market perspective, oil prices did not spike in response to the unrest. Another surprise? Gold, which is often seen as a hedge against geopolitical uncertainty, fell from recent highs. While we do not know what the ultimate outcome will be geopolitically, we rely on the risk mitigation strategies that we thoughtfully weave into our target portfolios' allocation(s) and diversified set of investments.

Past Performance is No Guarantee of Future Performance.

Reminder: The returns for your accounts are affected by the timing of new investments, cash flow patterns (deposits, withdrawals, and transfers), client-specific asset allocation policies and retained individual securities. All of these variables may cause dispersion among returns, as compared to our Models.

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**These returns do not represent a composite of actual client accounts; they are based upon actual model allocations and manager returns of the contemporaneously approved models and managers by the Wescott Investment Committee. Model performance results have certain limitations, including the fact that they do not reflect actual trading nor the performance of an actual client account and, accordingly, the performance results may differ significantly from the performance of actual client accounts. Portfolio returns for individual Wescott clients are influenced by, among other things, their individual investment objectives, variations in asset allocation preferences, cash flow patterns, the timing of transactions, and other securities held by clients.*

Wescott returns are calculated assuming annual rebalancing each January and reinvestment of all dividends and capital gains. The model returns assume that the portfolio remained invested for the entire period, with manager changes reflected, but with no deposits or withdrawals. Clients' individual portfolio returns are influenced by cash flow patterns, the timing of transactions, "client-held" securities or managers and client specific asset allocation policies. Investor returns vary due to cash flow patterns and portfolio customizations.

Benchmark returns used in this analysis are net of the underlying managers' fees and trading costs. Wescott returns are also net of the underlying managers' fees and trading costs, but gross of Wescott's management fee. Clients' returns will be reduced by such fees, which are described in the Firm's ADV Part 2A Disclosure Brochure.

Past performance is no guarantee of future results. Investing involves risk, including the possibility of loss.