



Mid-Year Outlook | 2025

## Fiscal Fitness

### TK Viewpoint

It is only mid-year, so way too soon to count any chickens—but the major indices are positive year-to-date! This report will be light on hard data and numbers because the traditional play book is not being employed. Therefore, referencing statistics would be like rocking in a rocking chair; something to do, but not getting us anywhere. We are in fact doing a lot of running around. Sometimes seemingly in place, but we are in shape and on our toes!

Historically, we forecast the prospects for returns based on macro-economic trends like interest rates, inflation, GDP, and earnings. A predictable cadence of corporate and economic data releases has been supplanted with new rules in doing business, upending the predictable pattern of the way correlated and cross-correlated assets perform during stressed environments. The sweeping, fluid, policy changes have triggered broad dislocations across stocks, bonds, commodities, and currencies, undermining the benefits of diversification. The first half of the year saw tremendous volatility marked by ~10% swings to the upside and ~20% declines in many of the major equity indices, as well as bonds and commodities. What made the move particularly noteworthy was the degree of correlation between all major asset classes with equities, fixed income, commodities, and currencies all declining together during the quarter.

The simultaneous focus on immigration, taxes, and trade, along with presidential attention on specific companies, has brought a high degree of macroeconomic uncertainty. This level of uncertainty is fraught, not just because of the volume of change but also because it is mercurial rather than organic. This requires portfolio managers to be particularly attentive and nimble to identify durable macroeconomic trends.

Stylistically, we have performed well in environments of instability or periods of indecision. We build portfolios that are defensive and flexible, and the current climate is giving us an opportunity to shine.

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Our portfolios are performing above their benchmarks. Agile and disciplined risk management with a readiness to respond as new information unfolds has served us well year-to-date. Typically, we opine about the rhythms of economic cycles or patterns of macroeconomic trends to offer visibility and clarity about what has happened in the last quarter and prospects for the next. This update is different and more akin to addressing the confusion experienced during the pandemic in 2020.

Then, as now, we had not experienced this type of disruption and confusion. Then, as now, there is not a historical framework to triangulate likely outcomes for the economy and portfolios. Those willing to lean in with unwavering trust and confidence, as well as those removing their capital from participation, may both be risking their financial wellbeing for principles. We prefer a dynamic, flexible application of capital that reflects a prudent, skeptical yet optimistic view of capitalism, the laws of supply and demand, and a healthy fear of pain.... pain of both losing capital and opportunity.

The major US equity indices have returned to positive performance year-to-date. The aggregate bond index is positive and virtually all developed international indices are positive, including Asia!

We are grateful for your trust and confidence in allowing us to advise your families and steward your hard-earned savings. We are gratified by the durability and performance of our disciplined, self-reflective, and healthy skepticism of the crowd's approach to managing money.

Our constant intention is to remain fit and nimble as we manage your families' wealth, allowing us to remain resilient and recover quickly as volatility continues in 2025.

Yours,



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