

**Q1 2025**

**QUARTERLY COMMENTARY**

2024 was a year of surprising equity market strength, producing pleasing results for disciplined patient investors. Others continued to miss a powerful two-year bull market influenced by lingering memories of 2022’s negative returns caused by the presumption of continued run-away inflation and lingering talk of a pending recession. Gains made in fixed income markets quickly dissipated with President-elect Trump’s call for tariffs which poses a risk to lower inflation. Although not always apparent, high-quality fixed income securities provided portfolio insurance with the anticipated benefit of offsetting declines in other asset classes during recessionary periods. As expected, money market yields continued to drop unable to compete with more attractive opportunities elsewhere. Industrial and residential real estate held on to previous gains while the commercial sector stopped falling and showed signs of price stabilization due to Trump’s call for workers to return to their offices. To a significant extent, achieving future desired returns for most asset classes are contingent upon lower interest rates as the Federal Reserve expects in the coming years. Finally, bitcoin proved to have another exciting year with never a dull moment. After recent years’ boom and bust experiences, bitcoin’s price reached an all-time high. Moments of calamity and euphoria accompanying big moves have proven too difficult to know.

2025 invites more questions than answers compared with other incoming presidential years. Investors are asking if the Federal Reserve will be able to control inflation or will Trump‘s policies overwhelm the Fed’s efforts. Similarly, will U.S. deficit spending continue expanding or get under control as Trump pledged? Investors want to know because higher inflation and deficits are positively correlated with higher interest rates. Higher rates result in reducing the value of most asset classes. Trump has insisted that cutting the deficit is vital. He is a self-declared low-interest rate advocate and has pressured Federal Reserve Chair, Jerome Powell, to embrace his request. If Trump is successful in restoring fiscal responsibility, then capital markets can have further upside to gain.

Once again, investors are asking if the Magnificent Seven (Apple, Microsoft, Google’s parent company Alphabet, Amazon, Nvidia, Meta, and Tesla) will continue to dominate global stock market gains, enticing investors to abandon the longer-term safety of diversification in exchange for concentrating their wealth in the handful of the largest technology and communications companies cited above. More experienced investors have witnessed that prudence ultimately trumps speculation when sufficient patience is exercised. Conversely, undisciplined investors sometimes win in the short-run, appearing smarter than others, but almost always regret their decisions later because high-risk environments never last forever.

The most difficult outcome to foresee is how the world will perform, not just capital markets, with Trump’s America First agenda combined with all three branches of the Federal government controlled by the same party. The economic, political, and security ramifications of extreme and/or prolonged tariffs, annexation of the Panama Canal, forced sale of Greenland, pressuring Canada to join the U.S., deportation of millions of undocumented workers, a “drill baby drill” approach to energy and other Trump proposals (and threats) can’t be known. There are strategists, economists, and others on Wall Street that are predicting equity returns for 2025 from low single digits up to gains exceeding 20%. Liz Ann Sonders, Chief Investment Strategist at Charles Schwab, recently stated, “Good luck figuring this one out.” Importantly, the perceived consequences related to promises candidates make can materially differ from the actual outcomes.

The question that is not asked enough is will Trump’s agenda include a change in the federal tax structure from a progressive to a flat tax for both personal and corporate taxpayers. The outcome, if successful in enacting such a change, could be enormous. Some say a simplified flat tax is the best way to “drain the swamp” and supercharge

our economy. No one will receive special-interest breaks and the super-rich will pay their fair share. The White House Office of Information and Regulatory Affairs calculates that Americans spent almost eight billion hours filling out tax forms in 2024. The world’s leading nonpartisan tax policy 501(c)(3) nonprofit organization, Tax Foundation, estimates that this cost the economy $413 billion in lost productivity. The Internal Revenue Service estimates that taxpayers spent $133 billion on out-of-pocket compliance costs. That adds up to an economic burden of $546 billion according to Steve Forbes, Editor-in-Chief of Forbes business magazine. Any cost savings can be rechanneled back into the economy with far more productive results.

Given the choice, The Investment Counsel Company team believes that it is better to avoid being totally wrong than perfectly right, especially during periods of greater uncertainty when the consequences related to risk and reward are highest. Most of today’s companies priced for perfection are tied to artificial intelligence. The promise of AI is real but how many or few winners cannot be known. If prior periods of transformative economic advancement are any indication, such as when railroads, auto manufacturers, and airlines were first introduced, the number of companies existing years later will pale in comparison to those during the earliest stages of development. Today’s mania is no different than the past. Investors continue chasing the highest valuation stocks where if any disappointment occurs the greatest magnitude of loss can follow. For this reason, prudent diversification, not speculating which stocks are going to perform best is the smarter course of action and offers the highest probability of sustained success.

Building and protecting wealth involves decisions based upon correct perspective, prudent judgement, and reasonable expectations. We recognize that financial markets do not rise continually without occasional setbacks but are encouraged by the opportunities ahead and are confident that the time-proven process ICC has built will stand up to those challenges that surface in the interim. My team and I extend our warmest wishes for a wonderful year ahead, full of moments to cherish and reasons to celebrate. Thank you for your trust and confidence.



Sincerely,

Randy Garcia

Chief Executive Officer

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