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CLA Outlook

Staying the Course Amidst Volatility

April 3, 2025

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Polling *Question*

I'd like CLA to call me about:

- a. Tax-efficient investment strategies
- b. Financial planning
- c. Owner transition strategies
- d. Wealth transfer: estate and gift planning
- e. Insurance and risk management
- f. Other planning items
- g. Nothing at this time



Our CLA Outlook



Speakers



Clayton Bland
Chief Wealth Advisory Officer



Chris Dhanraj
Managing Principal of Investments



Key Topics:

Policy

- DOGE, government spending, tax cuts, tariffs, and interest rates

Economy

- Will GDP growth slow or will it go into a recession?
- What is the outlook for the remainder of 2025?

Markets

- Year-to-date performance and outlook for equities, fixed income, and alternatives



Setting the Stage: 2025 New York Times Headlines

“An ‘untradable’ market: Trump sows profound uncertainty for stocks”

– **March 13, 2025**

“U.S. Stocks have worst day of 2025 as economic fears grow”

– **March 12, 2025**

“Stocks drop as recession fears surface”

– **March 10, 2025**

“Trump’s policies have shaken a once-solid economic outlook”

– **March 9, 2025**

“Trump’s tariffs hit stock markets”

– **March 4, 2025**

Source: The New York Times

“Shutdown avoided as congress passes funding extension”

– **March 15, 2025**

“Investors eye potential gains from Trump’s deregulation push”

– **March 13, 2025**

“U.S inflation eased more than expected in February”

– **March 12, 2025**

“S&P 500 holds steady as Trump signals flexibility on trade”

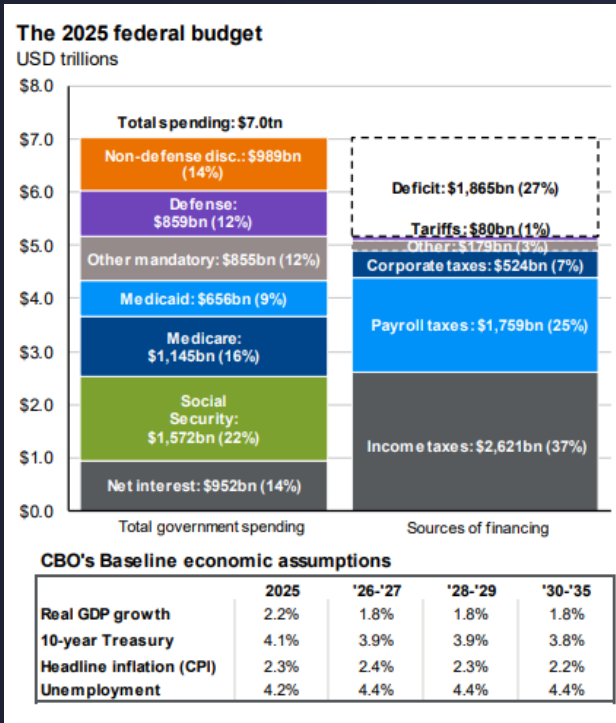
– **March 11, 2025**



“There are two kinds of people who lose money: Those who know *nothing* and those who know *everything*.” — Henry Kaufman



Policy: Tackling Budget Deficits



Total Government Spending Has Moved Higher

Federal Net Outlays as Percent of GDP

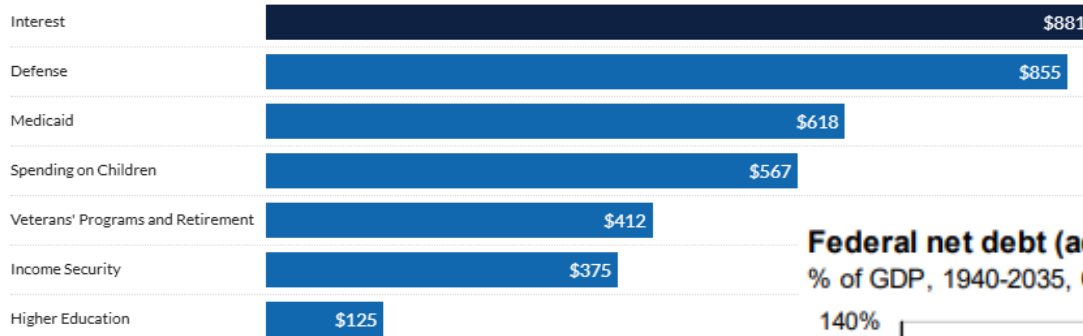


Source: JP Morgan, "Guide to the Markets," February 28, 2025. Department of Treasury, Receipts and Outlays of the United States Government, Fiscal Year 2025 Through February 28, 2025.



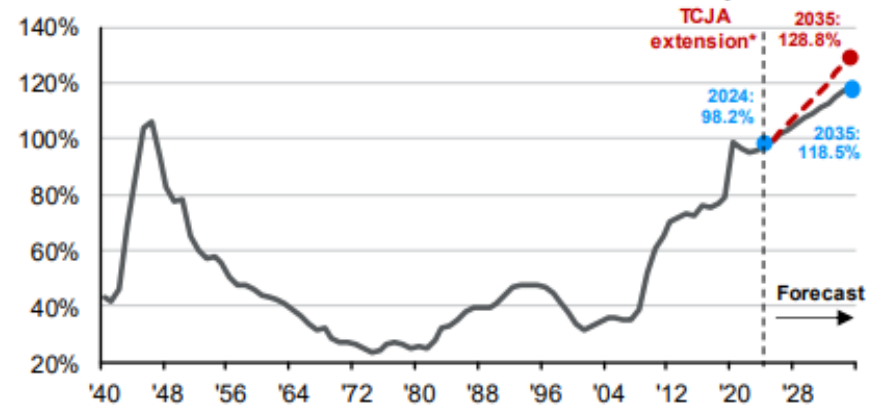
Higher Spending = More Debt and Interest Expense

Federal Spending in Fiscal Year 2024 (Billions of \$)



Federal net debt (accumulated deficits)

% of GDP, 1940-2035, CBO Baseline Forecast, end of fiscal year

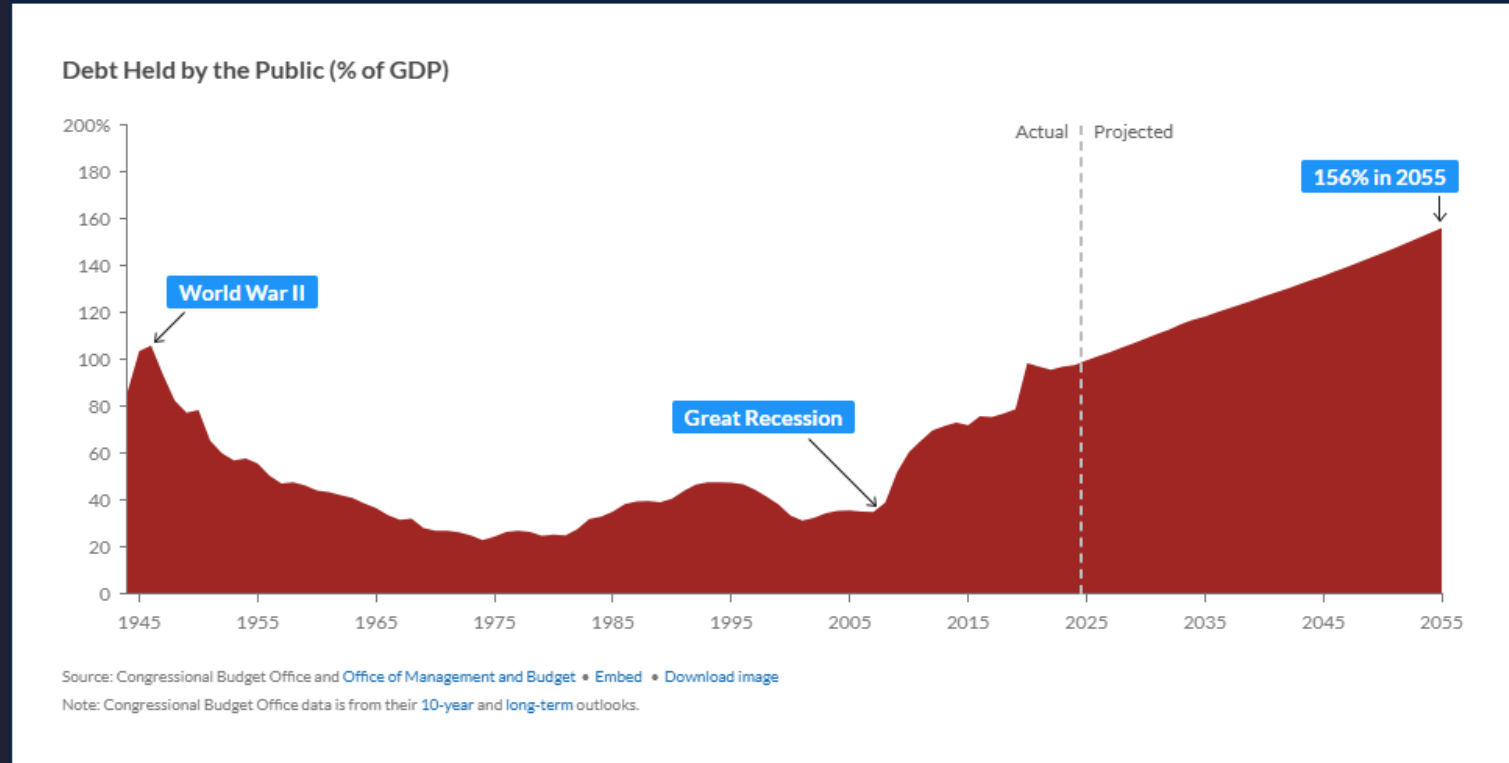


Source: CBO, Federal Net Outlays as a Percent of Gross Domestic Product. 1948 - 2023

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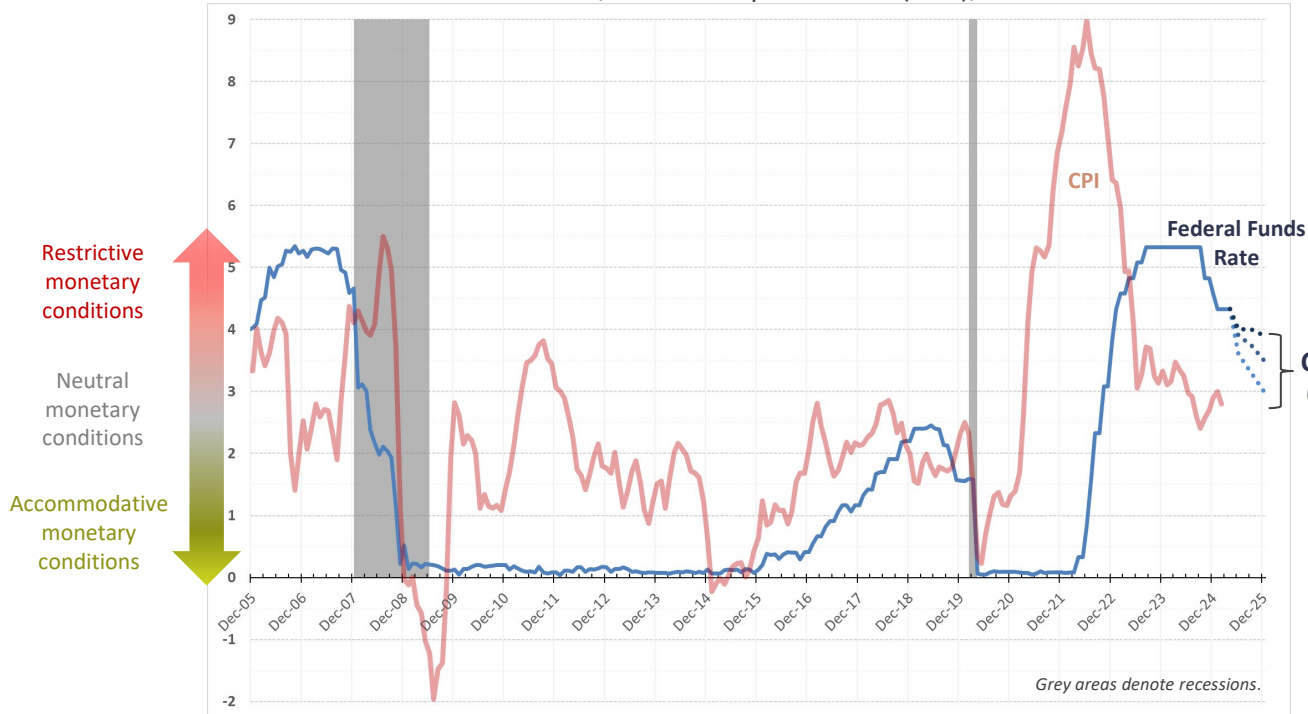
US Debt



Economic Outlook

Despite recent rate cuts, monetary policy is likely to remain restrictive until late 2025.

Federal funds rate, consumer price index (YOY), recessions



The Fed is expected to continue cutting interest rates, but that is not likely to boost M2 growth significantly until 2026.

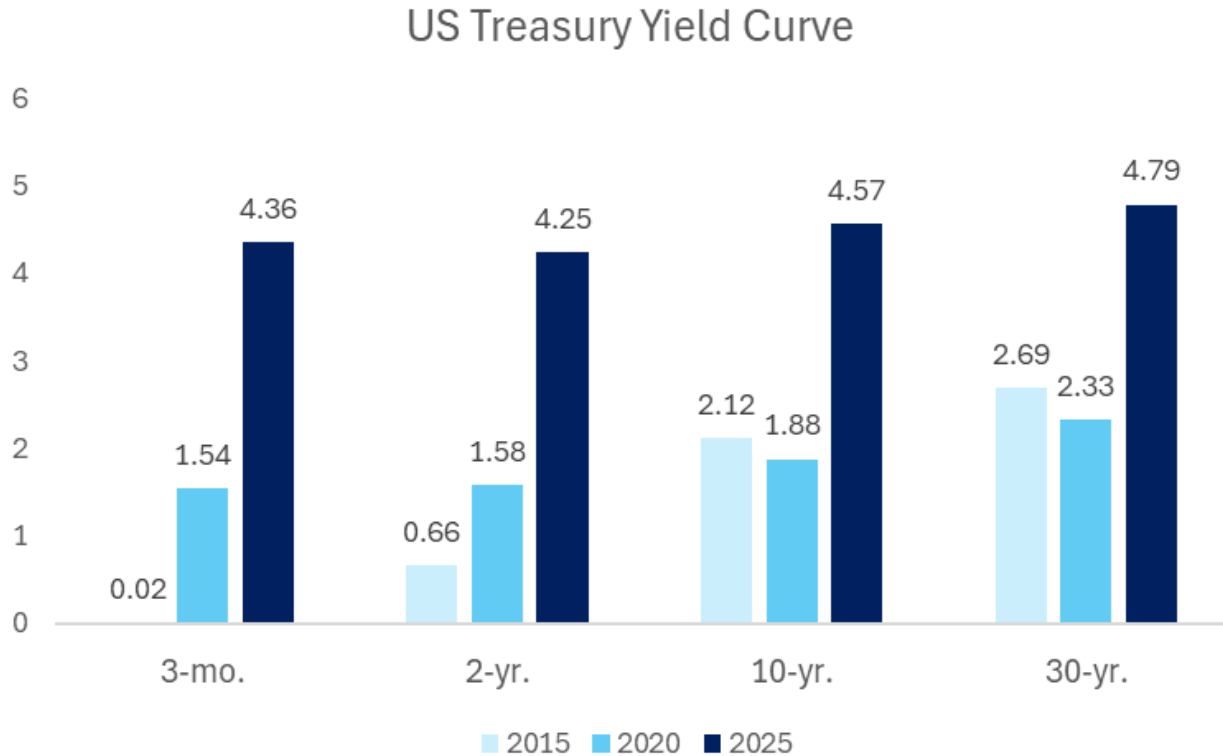
CLA Forecast
(High, med, low)

Source: Board of Governors of the Federal Reserve System, U.S. Federal Open Market Committee, Federal Reserve Bank of St. Louis, NBER, Organization for Economic Co-operation and Development, CLA Wealth Advisors

Data is based upon availability as of 3/19/2025



Bond Market: Treasuries



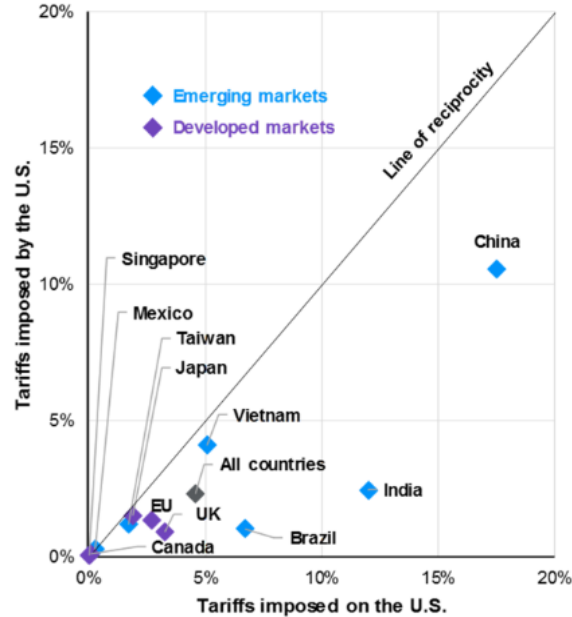
Source: US Treasury Yield Curve



The US has not imposed tariffs on other countries – despite the US being a large consumer of their products.

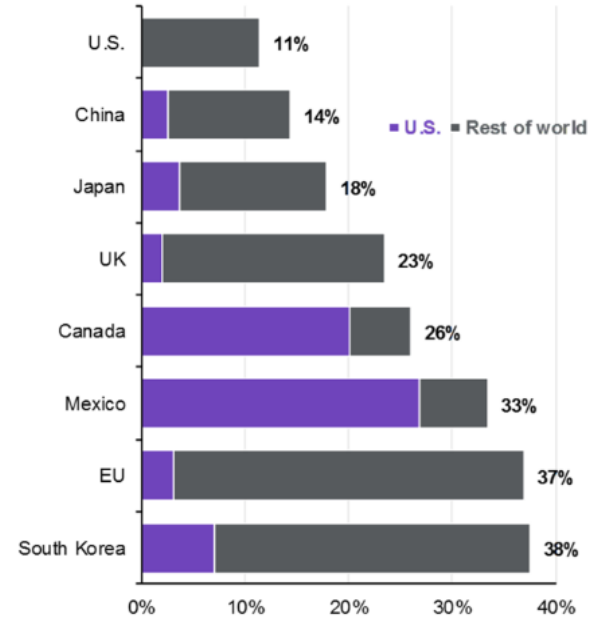
Tariffs between the U.S. and its trade partners

2023, average weighted tariff rate on goods imports



Exports exposure by country

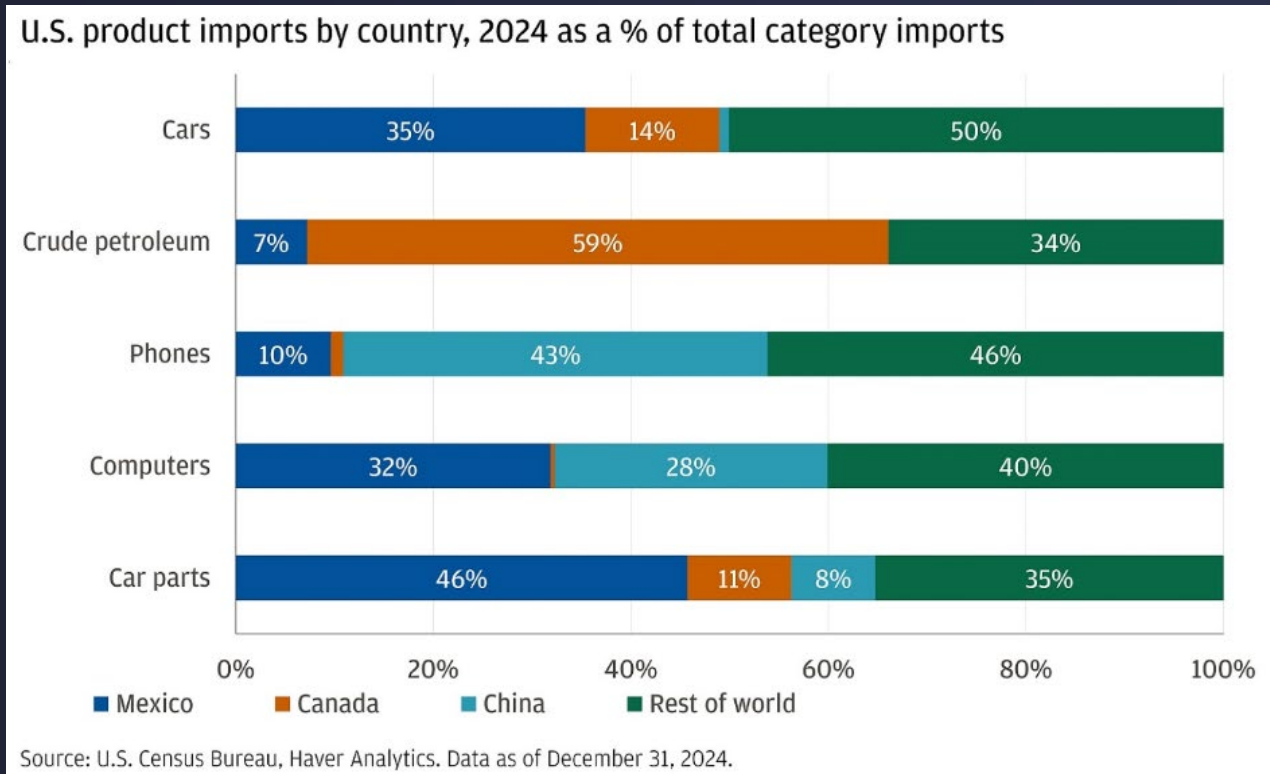
Exports as a % of nominal GDP, USD, goods, 2023



Source: *Guide to the Markets* | J.P. Morgan Asset Management



Tariffs on Manufacturing Goods in Focus



Tariff Scenarios and Potential Response

 **U.S. Tariffs Go Up (Reciprocal)**

International tariffs on U.S. goods go down

Trade War Escalates (other countries raise tariffs further)

Currency	US Policy	US Growth
<ul style="list-style-type: none"> • USD weakens • International currencies strengthen 	<ul style="list-style-type: none"> • Easier monetary policy • Easier fiscal policy 	<ul style="list-style-type: none"> • Higher long-term growth on increased tariff revenues and onshoring
<ul style="list-style-type: none"> • USD strong; • International ccy are weak 	<ul style="list-style-type: none"> • Tight monetary policy • Easy fiscal policy 	<ul style="list-style-type: none"> • Higher economic growth and US Company profits
<ul style="list-style-type: none"> • USD weakens • International currencies strengthen 	<ul style="list-style-type: none"> • Easier monetary policy • Easier fiscal policy 	<ul style="list-style-type: none"> • Short-term market volatility with higher long-term growth



Observations

- Reduce corporate taxes at the federal level
 - Companies that have moved from California to Texas for more favorable tax treatment:
Tesla, CBRE, AirBnb, Chevron, Hewlett Packard
- Reduce regulatory burden:
 - Companies announcing reincorporation from Delaware to other states:
Tesla, SpaceX, Meta, Simon Property Group, DropBox
- Onshoring manufacturing – both for U.S. and global companies
- Attract wealthy foreign nationals to the US with incentive for citizenship and business formation

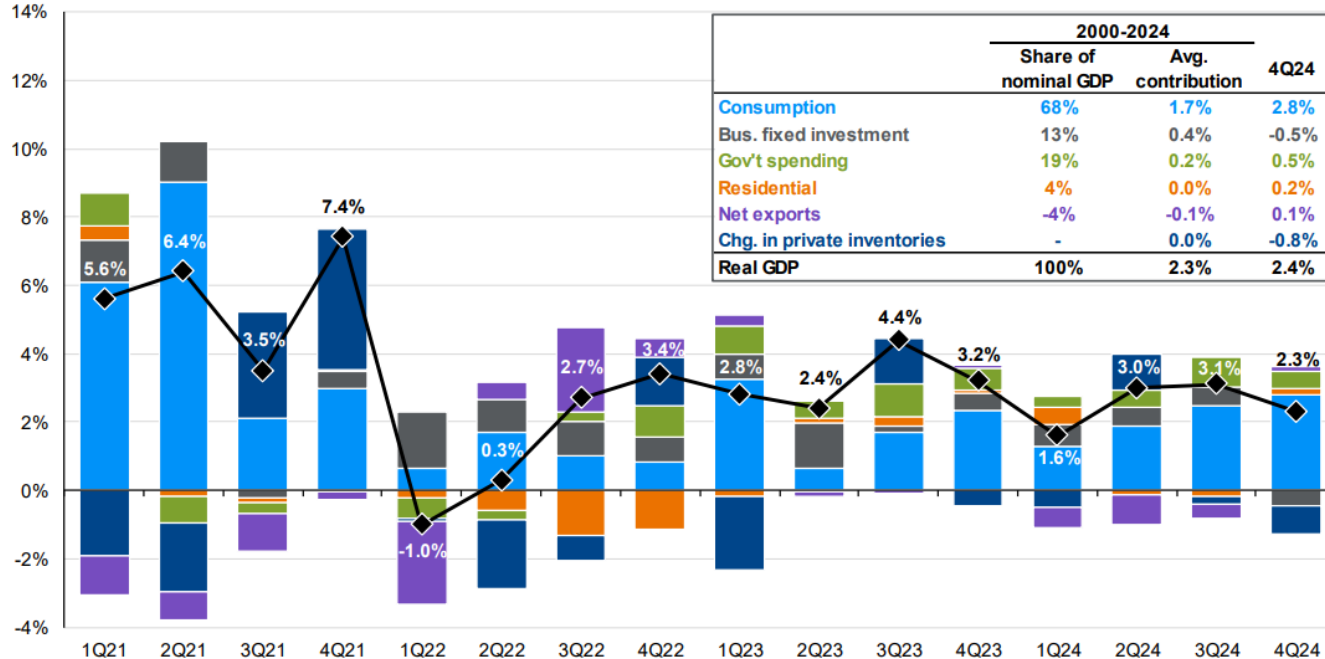


Economic Outlook

GDP has defied all recessionary expectations since rebounding in second half of 2022

Contributors to real GDP growth

Quarter-over-quarter, seasonally adjusted annualized rate

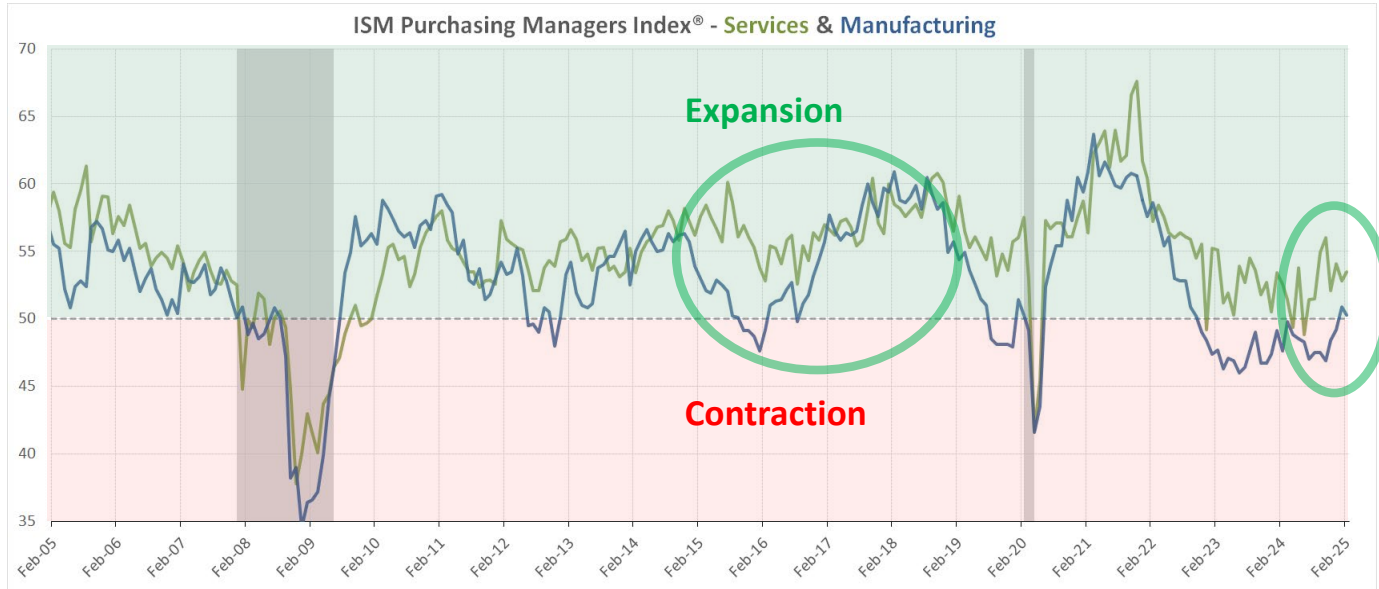


Source: BEA, FactSet, Standard and Poor's, J.P. Morgan Asset Management | Data is based upon availability as of 3/19/2025



Current Conditions - Businesses

Services are expanding, Manufacturing is contracting



Grey areas denote recessions.

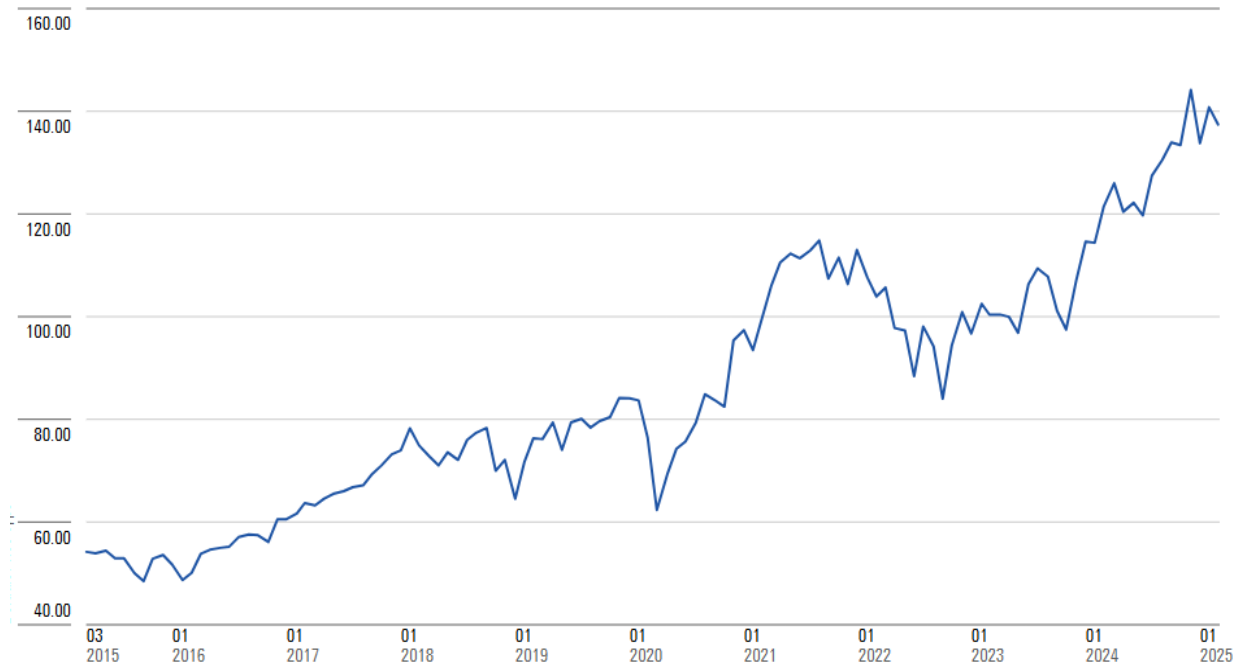
Note: With a diffusion Index, any reading above 50 (dotted line) indicates growth. Readings below 50 indicate contraction.

Data is based upon availability as of 3/5/2025

Source: Institute for Supply Management, CLA Wealth Advisors



Manufacturing Stocks Shrugged Tariffs in 2017 Before Rallying



Economic Outlook Shows Evidence of Slowdown But No Recession

Economic activity

↓ ● GDP

U.S. economic growth to slow from current levels.

Consumer strength

↓ ● Income/spending
● Consumer finances

Spending to slow amid higher unemployment and slower wage growth.

Business conditions

● Earnings growth
↓ ● Profit margins
● ISM Purchasing Managers Index®
↑ ● Small business confidence

Profit margins likely to compress given sticky input costs and tariffs. Small business confidence was boosted by election results.

Labor

● Unemployment rate
↓ ● Wage gains
● Number of job openings

Labor market continues to weaken while wage gains moderate.

Fed policy

↑ ● Interest rates
↑ ● Inflation
● Fed's balance sheet

Monetary policy remains restrictive, keeping inflation on a downward path. Fed continues “quantitative tightening.”

Fiscal policy

↓ ● Spending
↑ ● Taxes
● Regulatory environment

Spending cuts likely. Taxpayer favorable legislation highly likely this year.



Market Returns

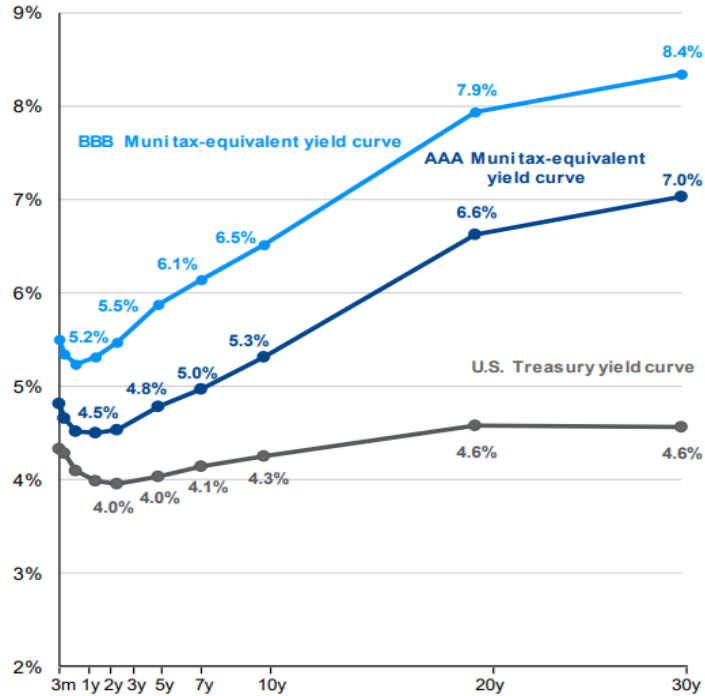
Index	YTD	1-Year	3-Year	5-Year
			Annualized	
S&P 500	-7.6%	4.1%	9.4%	19.4%
Global	-3.4%	3.6%	7.2%	16.0%
Global ex-US	4.8%	2.8%	4.9%	11.8%
Small Cap	-14.3%	-7.9%	0.7%	15.0%
US Taxable Bonds	3.8%	6.0%	0.7%	-0.4%
US Tax Free Muni Bonds	-0.5%	2.1%	1.6%	1.7%
US REITs	-1.0%	7.8%	-2.2%	12.0%
As of April 3, 2025				

Source: Morningstar



Bond Market: Munis

Muni tax-equivalent and Treasury yield curves



Tax equivalent spreads over treasuries for AAA-rated and BBB-rated munis provide an opportunity to capture attractive after-tax yield.

With relatively low debt, municipalities are in a healthy financial position.

Data is based upon availability as of 3/19/2025.

Source: Bloomberg, Census Bureau, Congressional Budget Office, Federal Reserve, FactSet, S&P Global, JP Morgan Asset Management, CLA Wealth Advisors

Source: US Treasury Yield Curve

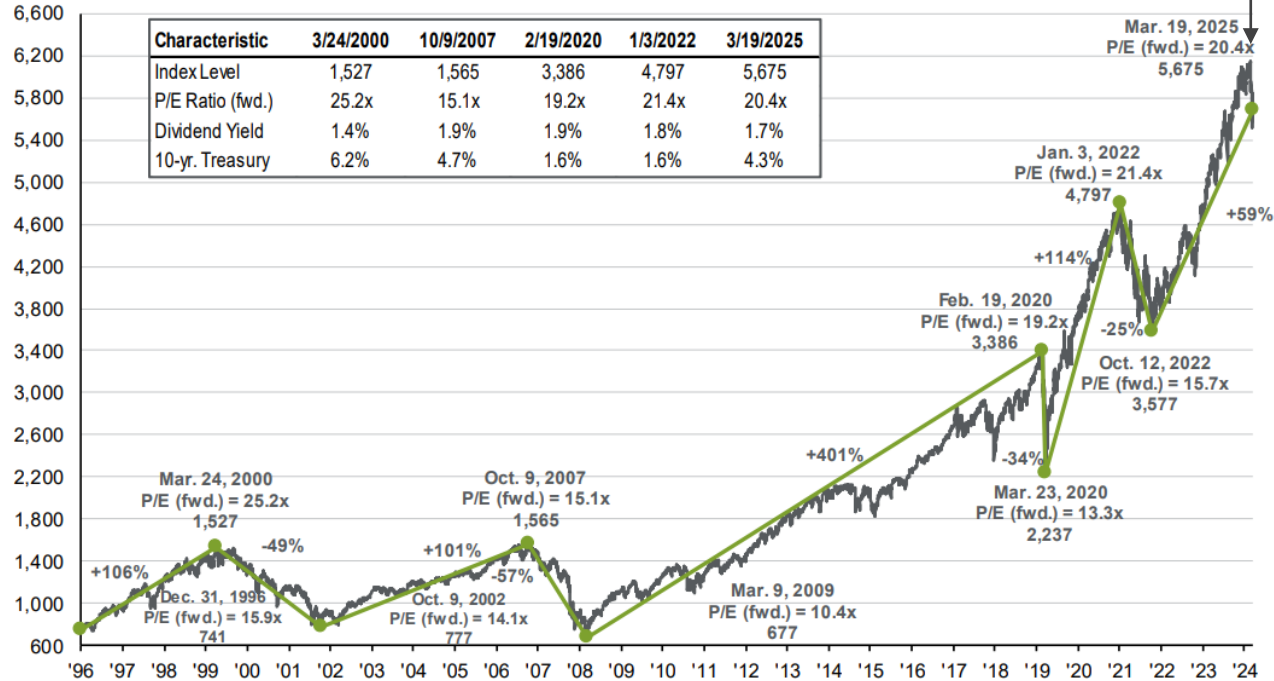


Market Outlook: Equities

Performance reflects strong economic backdrop and high profit margins.

S&P 500 Price Index

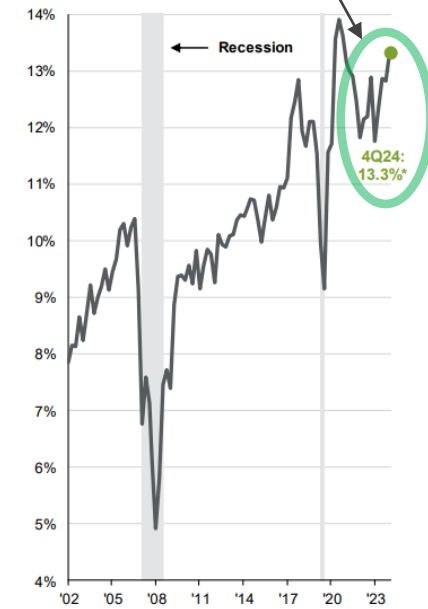
S&P 500 was up 59% from October 2022 to March 19, 2025



Profit margins hover near 13%

S&P 500 profit margins

Quarterly earnings/sales



Source: Compustat, FactSet, Federal Reserve, Refinitiv Data Stream, Standard and Poor's, J.P. Morgan Asset Management
Data is based upon availability as of 3/19/2025

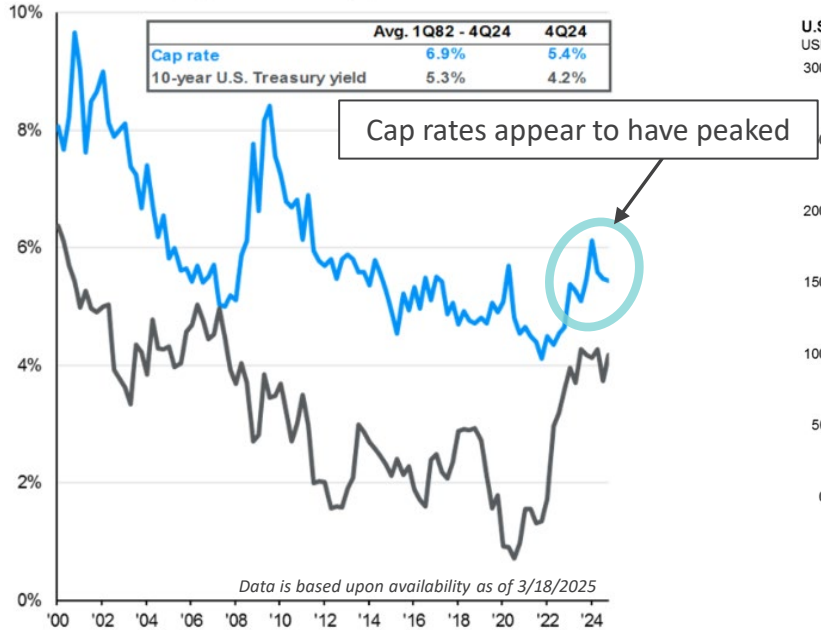


Market Outlook: Private Real Estate

Poised for rebound as uncertainty eases

U.S. real estate cap rates and interest rates

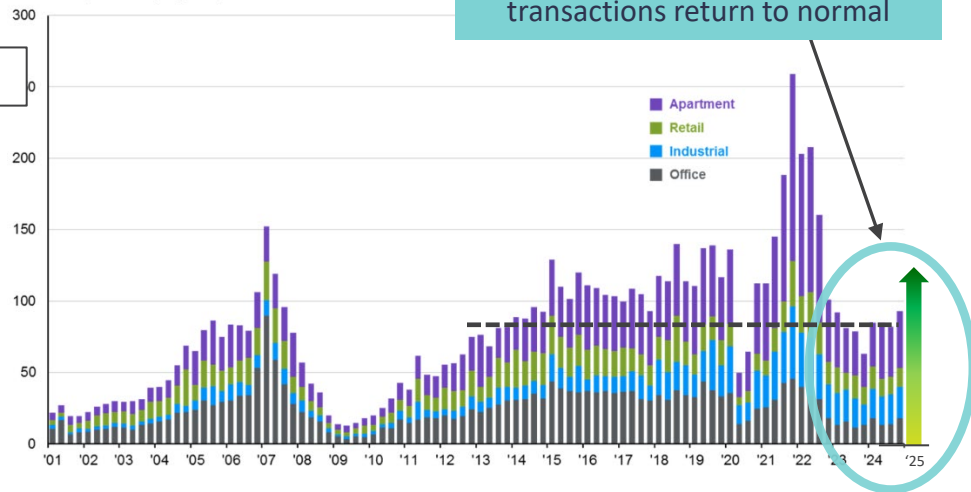
Transaction based, 10-year U.S. Treasury yield



Source: NCREIF, Refinitiv Datastream, J.P. Morgan Asset Management

U.S. real estate transaction volumes

USD billions, seasonally adjusted, 1Q01 – 4Q24



Source: RCA, J.P. Morgan Asset Management

Note that cap rates = net operating income/property market value

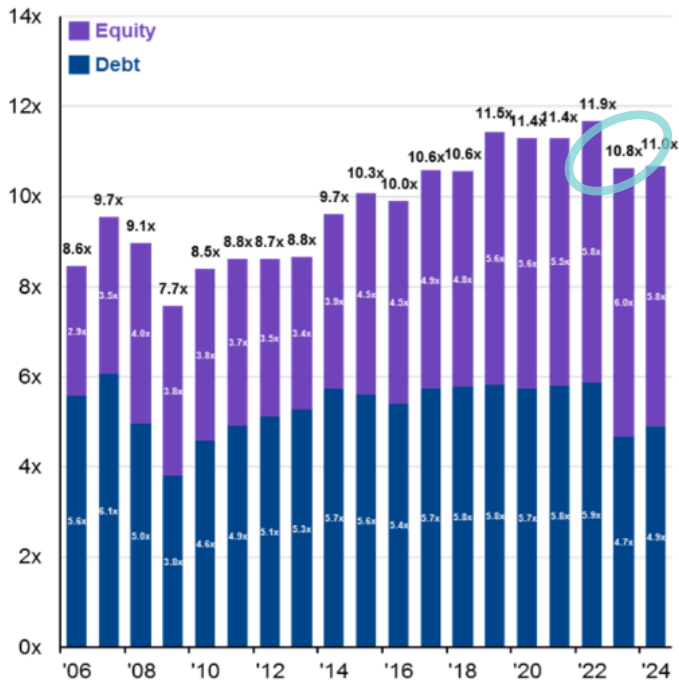


Market Outlook: Private Equity

Buyout and secondaries appear attractive as valuations stabilize

U.S. LBOs: purchase price multiples

Equity and debt over trailing EBITDA

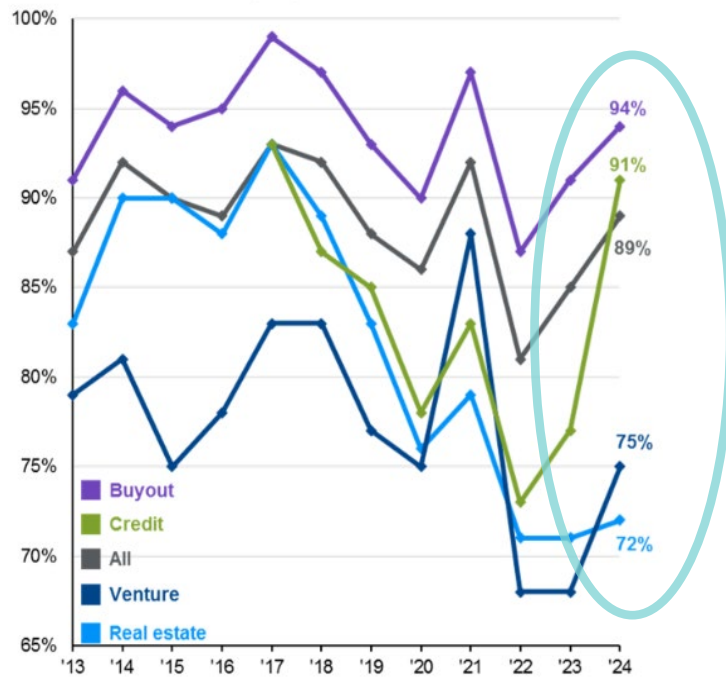


Source: Golub Capital, Pitchbook, LCD, JP Morgan Asset Management,

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Secondary pricing*

Percent of net asset value (NAV)



Source: Greenhill Jeffries, JP Morgan Asset Management

Data is based upon availability as of 3/18/2025



Final Takeaways

1. There are two kinds of people who lose money: Those who know *nothing* and those who know *everything*.”

— Henry Kaufman

2. “Stay *committed* to your decisions but stay *flexible* in your approach.”

— Tony Robbins

3. “The pessimist sees difficulty in every opportunity. *The optimist sees the opportunity in every difficulty*”

— Winston Churchill



Contact us to discuss
how we can *serve* you
and *help* you *achieve*
your goals.



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