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# CLA Outlook

Creating Opportunity in Today's Environment

June 11, 2025

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## Economy

While CLA does not currently foresee a recession, an incremental slowdown is likely as high interest rates start impacting activity and sentiment.

## Policy

Congress is working toward passing legislation to extend the Tax Cuts and Jobs Act to avoid certain provisions expiring later this year.

## Key Takeaways

## Industry

CLA sees more industry differentiation given elevated interest rates and an aging demographic leading to more business transitions.

## Markets

Diversified portfolios can navigate elevated volatility and valuations – after taxes and expenses.



# Revisiting CLA Outlook Views from the Beginning of 2025

|                   | Consensus View  |
|-------------------|---|
| Economy           | Interest rates likely to come down aggressively with 4-5 rate cuts priced in for 2025.                                    |
|                   | Inflation would spike due to tariffs.   |
|                   | Recession likely due to tariffs, higher interest rates and DOGE.  |
| Markets - Public  | Equities to have another banner year with fixed income recovering as interest rates decrease.                             |
| Markets - Private | High interest rates to challenge private market activity, especially in real estate, and keep investors on the sidelines. |



# Revisiting CLA Outlook Views from the Beginning of 2025

|                   | CLA's View  |
|-------------------|---|
| Economy           | We believed interest rates would stay "higher for longer" given resilient economic growth.      |
|                   | Inflation to stay subdued with labor wage gains contained.                                      |
|                   | Economic growth to remain resilient.  |
| Markets - Public  | Equity returns to be muted while bond returns to stabilize.                                     |
| Markets - Private | Investors to take advantage of select opportunities in multi-family and industrial real estate. |



# Markets Are Pricing in Two Potential Outcomes

## The Bull Case (stocks up, bonds up)

- The U.S. economy, labor markets, and consumer spending are resilient while inflation remains subdued.
- Flows into U.S. equity markets continue their momentum as profit margins continue to expand.
- Fixed income yields starting to look attractive ahead of potential Fed rate cuts.

## The Bear Case (stocks down, bonds up)

- The economy enters a recession.
- The Federal Reserve keeps rates elevated.
- Congress is unable to curb government spending, and the deficit debt spiral accelerates.
- Artificial intelligence companies overpromise and underdeliver in the short term – causing an equity correction.

A diversified portfolio across stocks, bonds, alternatives, and cash helps with market volatility while proactive tax and estate strategies help with long-term planning.



# The Bull Case:

Economic conditions remain solid despite slowdown in Q1 GDP and high interest rates.

## Economic activity



GDP

1Q25 GDP was -0.2% (annualized), but the decline was driven by a surge in imports due to pending tariffs. Otherwise, the economy remains resilient.

## Consumer strength



Income/spending



Consumer finances

Consumer spending and balance sheets remain strong.

## Business conditions



Earnings growth



Profit margins



ISM purchasing managers index®



Small business confidence

Large cap stocks have generated strong earnings growth. Contrarily, there's growing uncertainty among small business owners, which has caused them to scale back sales expectations.

## Labor



Unemployment rate



Wage gains



Job opening's

Labor markets remain strong overall.

## Fed policy



Interest rates



Inflation



Fed's balance sheet

Monetary policy remains restrictive.

Inflation is approaching the Fed's 2% target.

Quantitative tightening continues as Fed reduces its balance sheet.

## Fiscal policy



Spending



Taxes



Regulatory environment

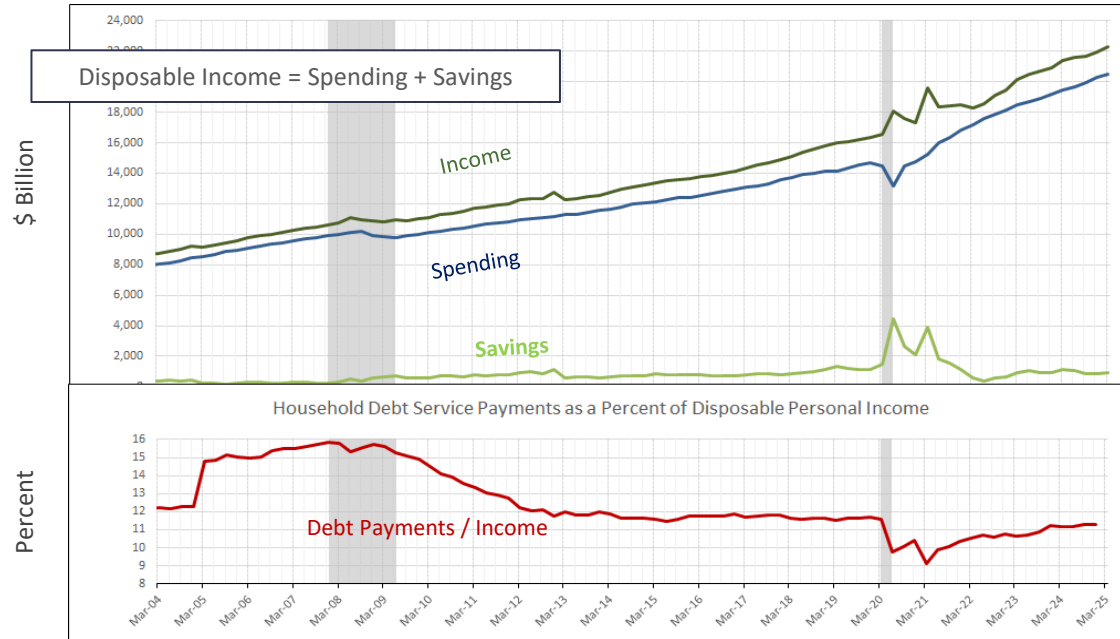
Deficit spending continues unabated.

Tariffs have caused widespread uncertainty.

Regulatory environment is being rolled back.



# The Bull Case: Consumer Finances Remain Strong



Grey areas denote recessions.

Data is based upon availability as of 5/29/2025.

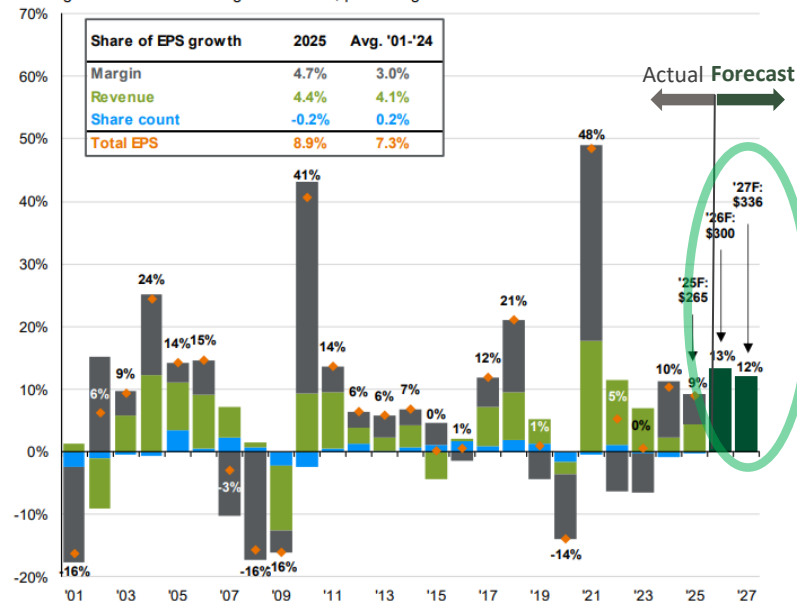
Source: U.S. Bureau of Economic Analysis, Federal Reserve Bank of St. Louis, Board of Governors of the Federal Reserve System, FactSet, JP Morgan Asset Management, CLA Wealth Advisors



# The Bull Case: Corporate Profits Remain Healthy

## S&P 500 year-over-year pro forma EPS growth

Annual growth broken into changes in revenue, profit margin and share count



Grey areas denote recessions.

Data is based upon availability as of 5/30/2025.

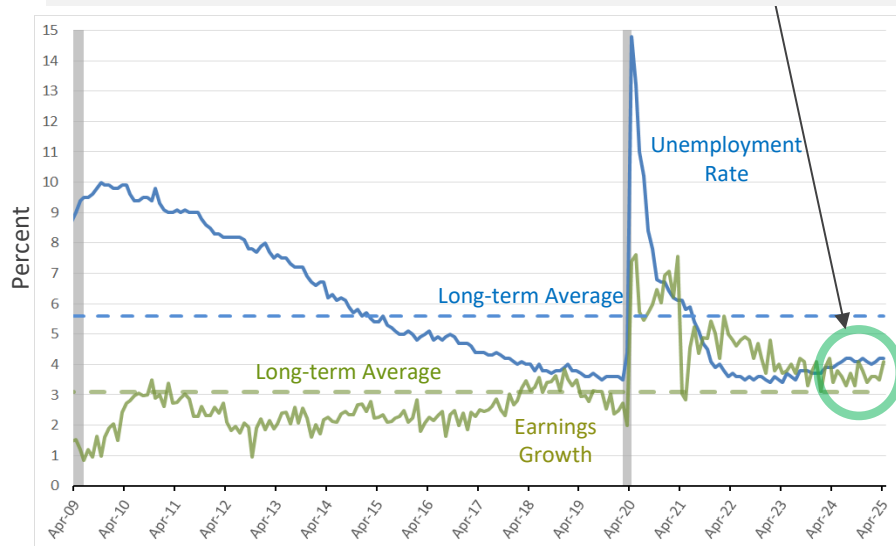
Source: Compustat, FactSet, Standard and Poor's, J.P. Morgan Asset Management



# The Bull Case: Labor Markets Remain Robust

Unemployment rate remains low.

Weekly earnings growth is near its long-term average.

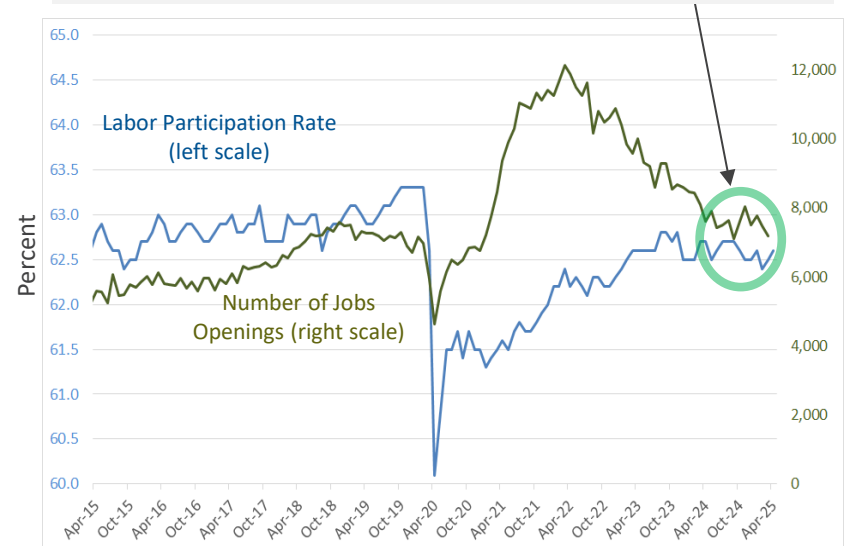


Grey areas denote recessions.

Source: U.S. Department of Labor, U.S. Bureau of Labor Statistics, Atlanta Federal Reserve, CLA Wealth Advisors

Data is based upon availability as of 5/2/2025

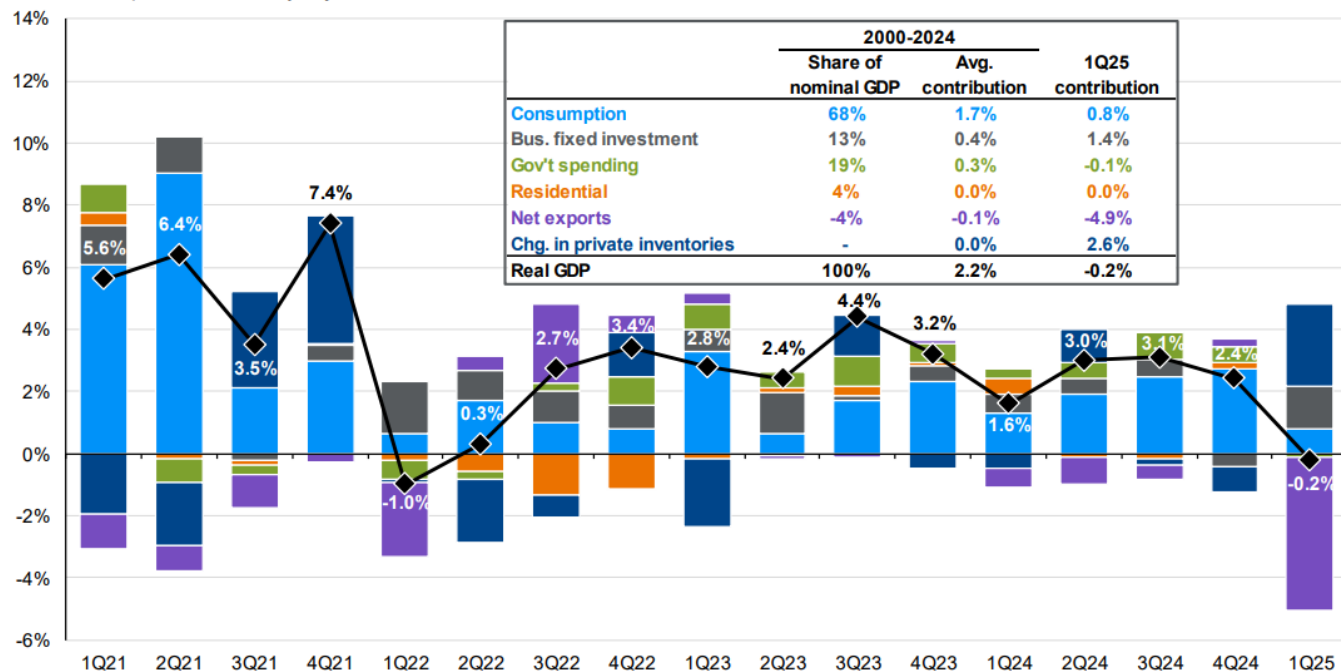
The number of job openings has fallen sharply from its record high but remains elevated. The labor participation rate remains near its recent high.



# The Bear Case: GDP Slowdown from Tariffs and Spending Cuts

## Contributors to real GDP growth

Quarter-over-quarter, seasonally adjusted annualized rate

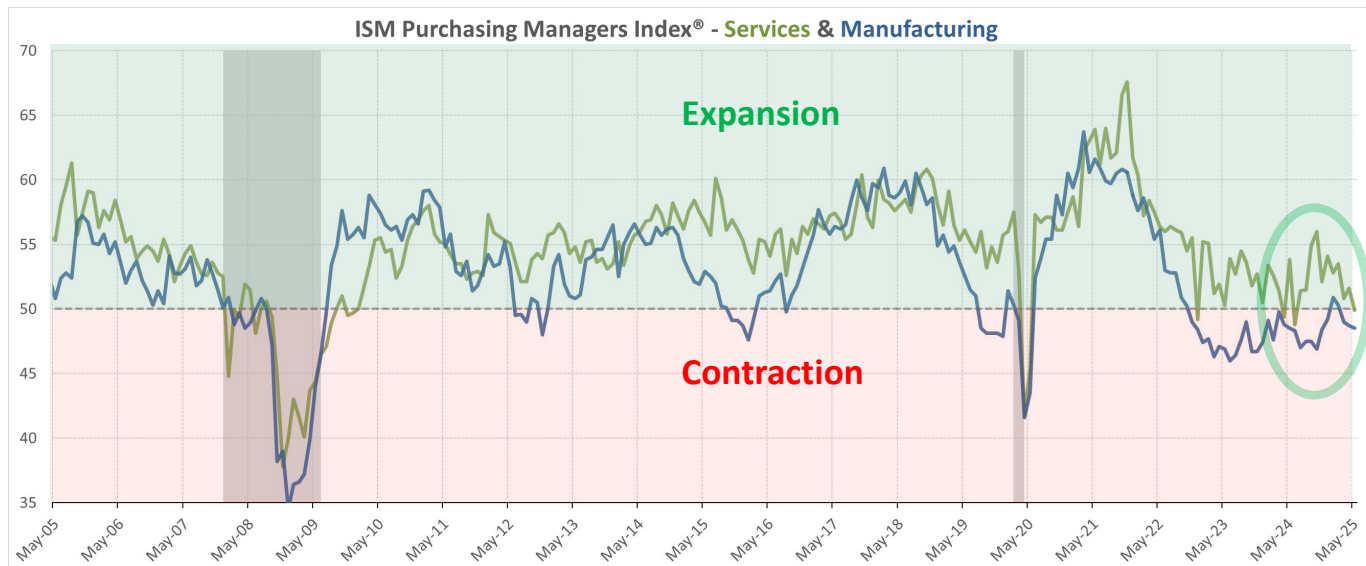


Source: BEA, FactSet, Standard and Poor's, J.P. Morgan Asset Management  
Data is based upon availability as of 5/29/2025



# Slowdown in GDP Impacting Services and Manufacturing

Service sector expansion is slowing, while 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.

Source: Institute for Supply Management, CLA Wealth Advisors  
Data is based upon availability as of 06/04/2025

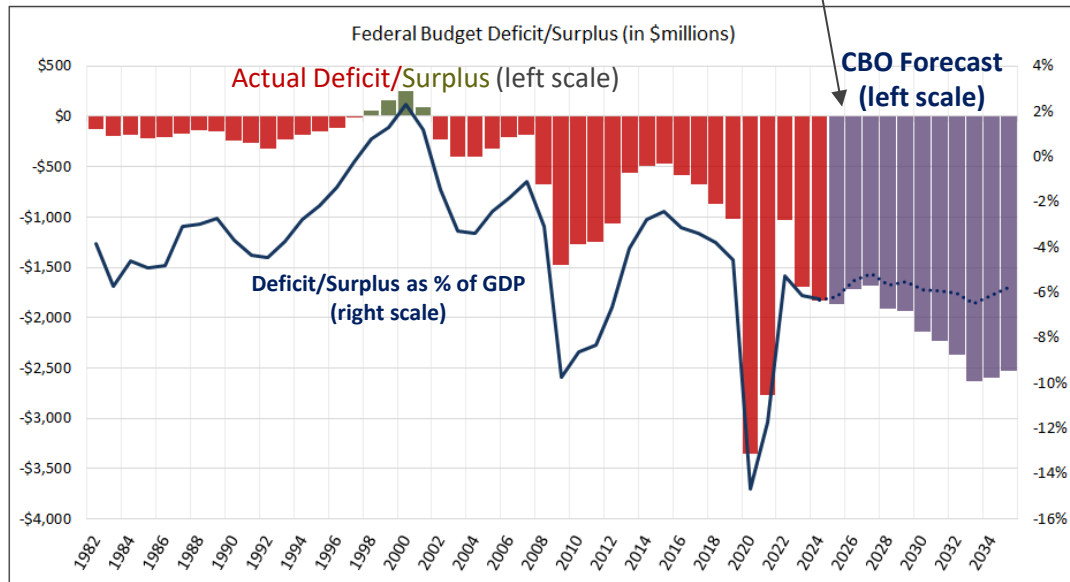
**Services** include real estate, utilities; construction; education; information; transportation and warehousing; health care and social assistance; public administration; finance and insurance; management of companies and support services; professional, scientific and technical services, agriculture, forestry, fishing and hunting; and arts, entertainment and recreation; and other services.

**Manufacturing** includes mineral products; petroleum and coal; transportation equipment; computer and electronic products; printing and related activities; plastics and rubber products; primary metals; machinery; food, beverage and tobacco products; wood products; apparel, leather and allied products; furniture and related products; paper products; chemical products; fabricated metal products; and electrical equipment, appliances and components.



# The Bear Case: The Deficit Is Projected To Grow Further

The “crowding out” effect occurs when the private sector is “priced out of the market,” making it unable to fund future growth.

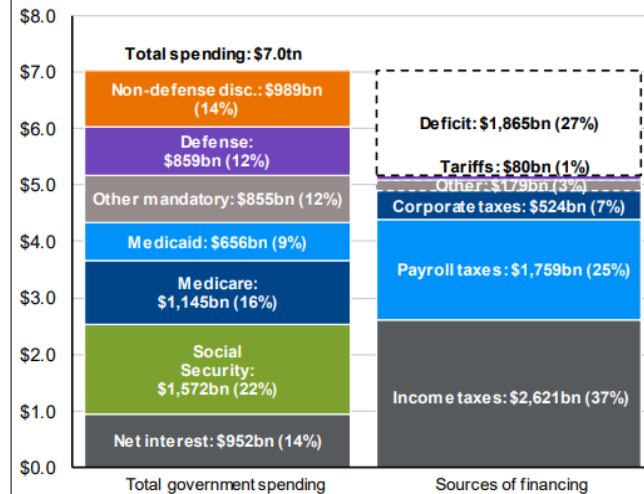


Source: Congressional Budget Office - The Budget and Economic Outlook: 2024-2035, U.S. Office of Management and Budget, Federal Reserve Bank of St. Louis, CLA Wealth Advisors

Data is based upon availability as of 4/14/2025

## The 2025 federal budget

USD trillions



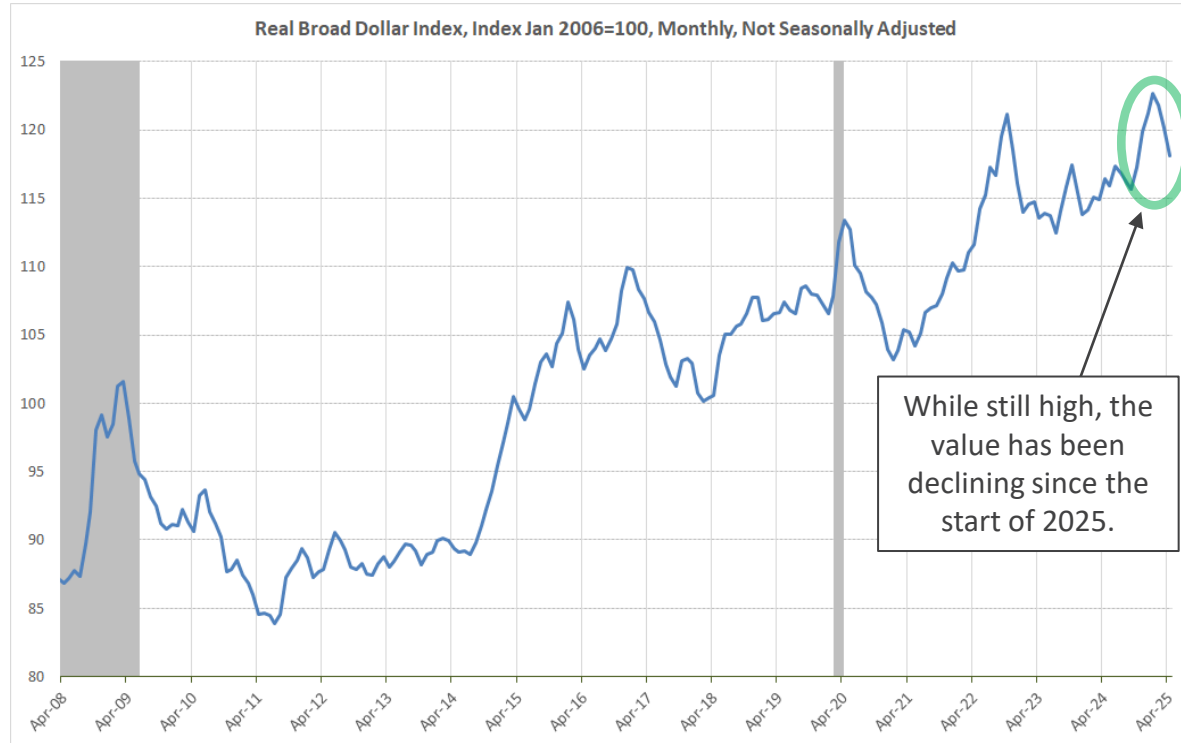
## CBO's Baseline economic assumptions

|                          | 2025 | '26-'27 | '28-'29 | '30-'35 |
|--------------------------|------|---------|---------|---------|
| Real GDP growth          | 2.2% | 1.8%    | 1.8%    | 1.8%    |
| 10-year Treasury         | 4.1% | 3.9%    | 3.9%    | 3.8%    |
| Headline inflation (CPI) | 2.3% | 2.4%    | 2.3%    | 2.2%    |
| Unemployment             | 4.2% | 4.4%    | 4.4%    | 4.4%    |



# Could we see the deficit impact the U.S. Dollar?

U.S. dollar (USD) is off its highs but remains strong.



The exchange rate of any two currencies is influenced by some combination of the:

1. Inflation differential between the two currencies.
2. Interest rate differential between the two countries.
3. Trade surplus/deficit of each country.
4. Overall level of public debt of each country.
5. Level of economic growth of each country.

The USD is considered a “safe haven” currency, which means it tends to increase in value during times of international turmoil and economic slowdowns.



# Understanding the Magnitude of Our Trillion-Dollar Debt Spiral

- The U.S. national debt of \$36 trillion adds another \$1 trillion every 180 days from spending and rising interest payments on this debt.
- Putting a \$1 trillion in perspective:
  - A million seconds ago was 12 days ago
  - A billion seconds ago was 1993
  - A trillion seconds ago was 30,000 B.C.
- The fear Congress will be unable to cut spending and reduce the budget deficit is behind the recent Moody's downgrade of U.S. debt and U.S. bond yields soaring from 3.99% to 4.45% in just two months.



# Rosy Optimism That AI-Led Growth Can Help the U.S. Outgrow Its Debt

## 10 Years of AI Excitement ...

### THE WALL STREET JOURNAL.

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<http://www.wsj.com/articles/when-machines-think-and-feel-1458311760>

LIFE | IDEAS | THE SATURDAY ESSAY

## Machines That Will Think and Feel

Artificial intelligence is still in its infancy—and that should scare us



What will artificial intelligence accomplish and when? ILLUSTRATION: EDDIE GUY

By DAVID GELERNTER

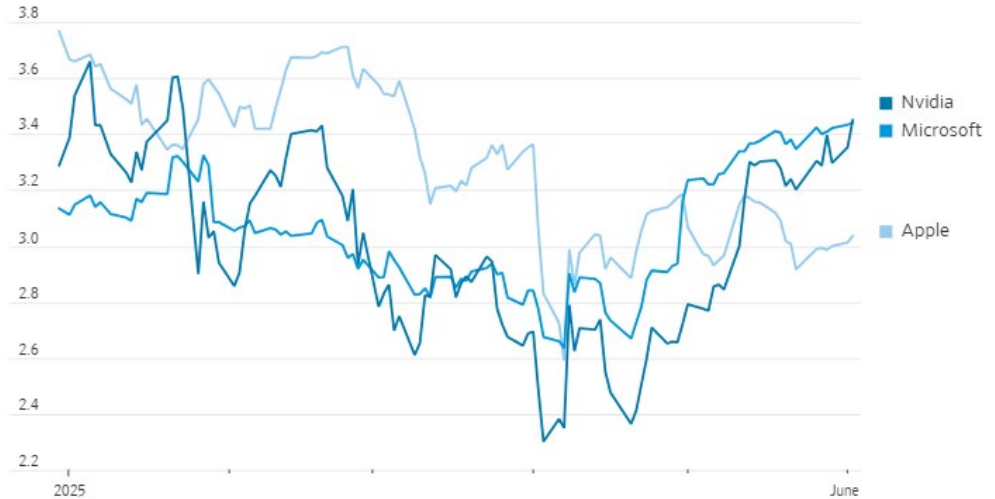
March 18, 2016 10:36 a.m. ET

Source: Wall Street Journal

## ... Are Causing Investors To Chase the Same AI Trade.

### Largest U.S. Companies By Market Cap

\$4.0 trillion



Source: FactSet; Dow Jones Market Data

Source: New York Times



# Choose your equity exposure carefully:

Tech Concentration is Higher in the Nasdaq vs. S&P 500

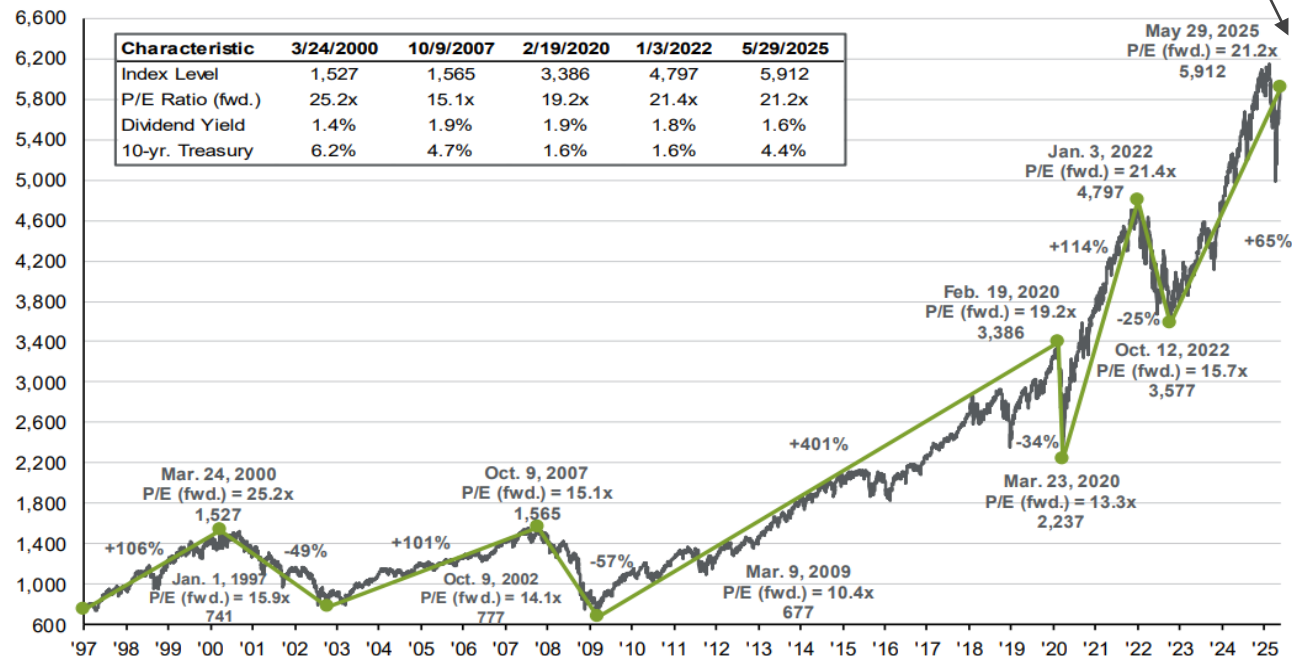
| Market Cap Contribution of the Magnificent 7 |         |            |
|--|---------|------------|
|  | S&P 500 | Nasdaq 100 |
| Microsoft                                    | 6%      | 9%         |
| Nvidia                                       | 6%      | 9%         |
| Apple  | 5%      | 8%         |
| Amazon.com                                   | 4%      | 6%         |
| Alphabet                                     | 7%      | 11%        |
| Meta Platforms                               | 3%      | 5%         |
| Tesla  | 2%      | 2%         |
|  | 34%     | 50%        |

Source: CliftonLarsonAllen Wealth Advisors, Morningstar



# High Quality Stocks Still Supported by Rising Profit Margins

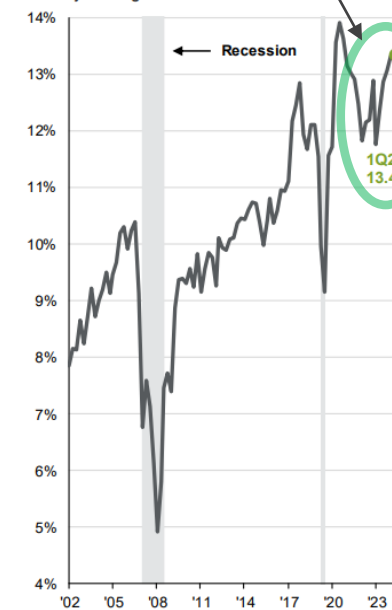
## S&P 500 Price Index



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 5/30/2025

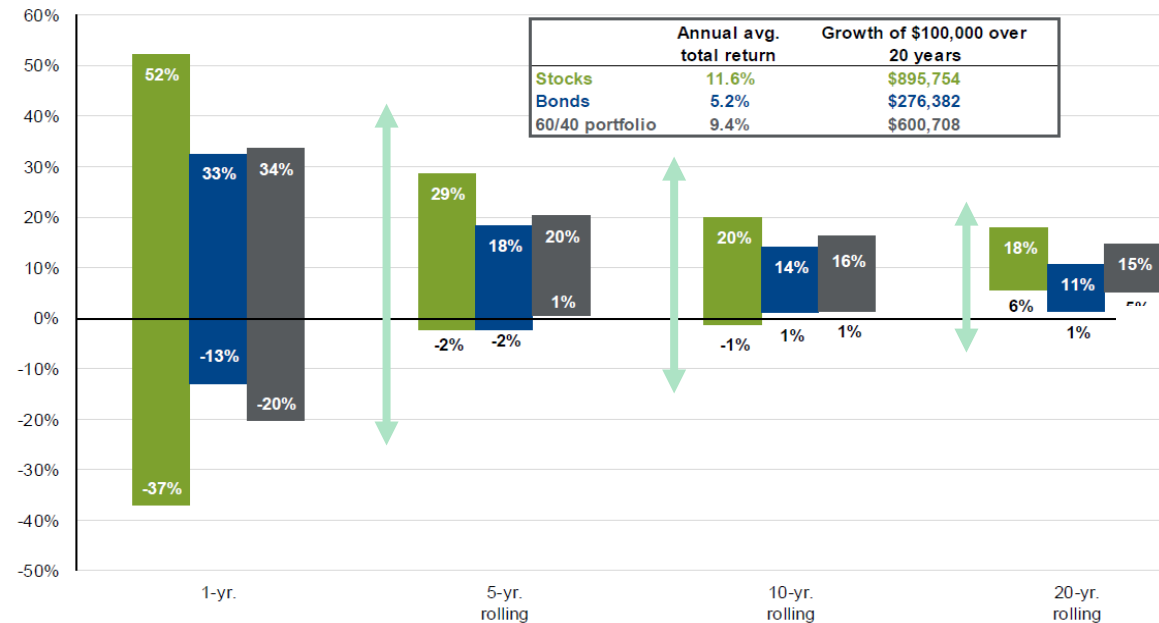


# A Balanced Portfolio Helps You Weather Volatility

By aligning your risk/return goals, you can increase your chances of long-term success.

## Range of stock, bond and blended total returns

Annual total returns, 1950–2024



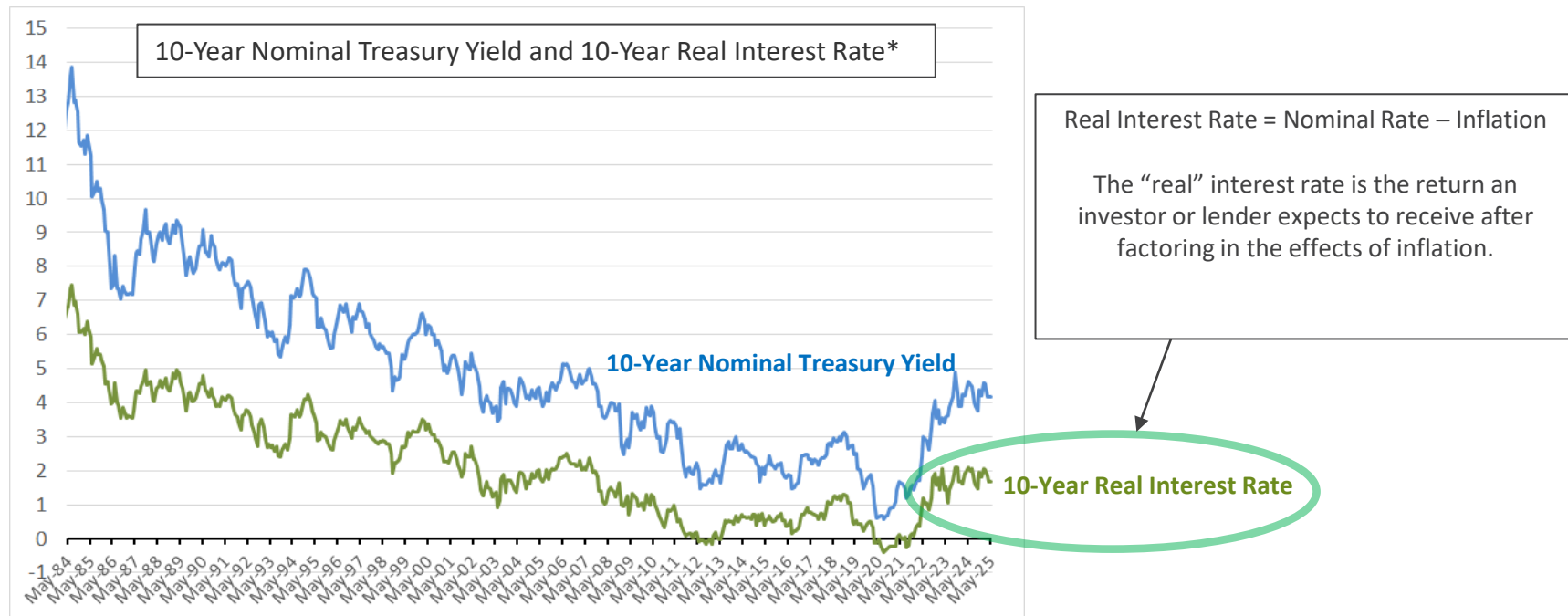
Diversified portfolios  
can navigate  
elevated volatility.

Source: Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management.  
Data is based upon availability as of 5/1/2024



# Bonds Now Look Attractive:

The “10-year real interest rate” is at its most attractive level in nearly 20 years.



Source: Federal Reserve Bank of Cleveland, Federal Reserve Bank of St. Louis, CLA Wealth Advisors.

Data is based upon availability as of 5/15/2025

\* “The Federal Reserve Bank of Cleveland estimates the expected rate of inflation over the next 30 years along with the inflation risk premium, the real risk premium, and the real interest rate. Their estimates are calculated with a model that uses Treasury yields, inflation data, inflation swaps, and survey-based measures of inflation expectations.”





# CLA Outlook - Tax Policy & Estate Impacts



# Legislative Process



# What's Next In the Reconciliation Process?

In late May, the House Rules Committee marked up and advanced the final version of the tax bill. The House passed the bill May 22; it now heads to the Senate.

*Once the House passed the bill ...*

## Senate Markup and Vote

Senate committees will markup bill and pass their version (June).



## Differences Reconciled

Differences between House and Senate versions must be reconciled (June/July).



## Vote - Final Bill

Vote on final reconciliation bill, once differences reconciled – (likely late July/early August).



## Tax rates

Lower brackets permanent

## Personal exemptions

Permanently repealed

## Estate and gift exemption

Permanently increased and indexed for inflation

## Standard Deduction

Permanently extended and temporarily enhanced (2025-2028)

## Child Tax Credit

\$2,000 permanent and temporary increase (2025-2028)

## AMT

Higher exemption and phaseout thresholds permanent



## Key Individual TCJA Extenders



## Excess Business Loss Limitation

Permanently extends limitation, modifies treatment of disallowed EBL

## ABLE Accounts

Permanently allows additional contributions, extension of Saver's Credit

## Student Loan Discharge

Permanently extends exclusion for loans discharged due to death/disability

## Moving Expenses

Deduction permanently eliminated and reimbursements remain taxable

## Wagering Losses

Losses deductible up to winnings and all gambling expenses subject to this limitation

## Bike Reimbursement Exclusion

No exclusion for reimbursements for qualified bicycle commuting



## Other TCJA Extenders



## Qualified Residence Interest

Limited to first \$750,000 of debt

## Miscellaneous Itemized Deductions

Permanently suspended

## Pease Limitation

Repealed, new limitation (capped at rate for 37% bracket; additional limits for SALT deductions)

## Casualty Losses

10% floor waived for qualified disasters, extended incident period

## SALT Limit and PTET Taxes

SALT cap raised and PTET deductions limited unless qualified trade or business

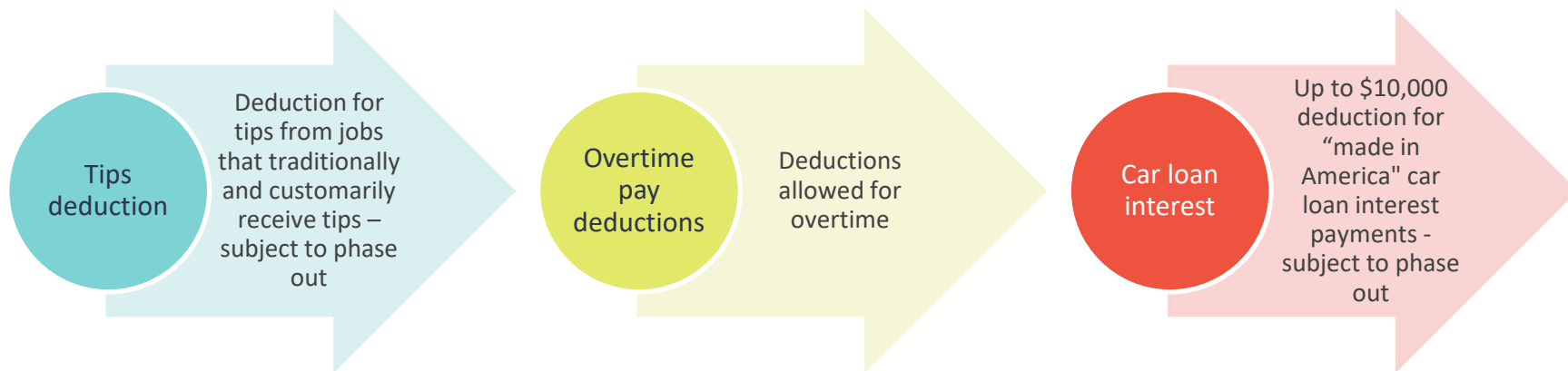


## Other TCJA Extenders: Itemized Deductions



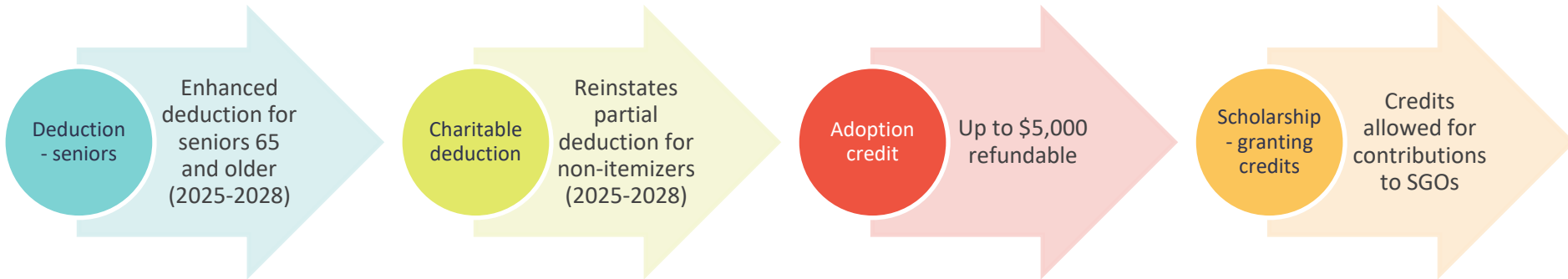
# New Provisions: Above the Line Deductions

*For the tax years 2025 to 2028 ...*



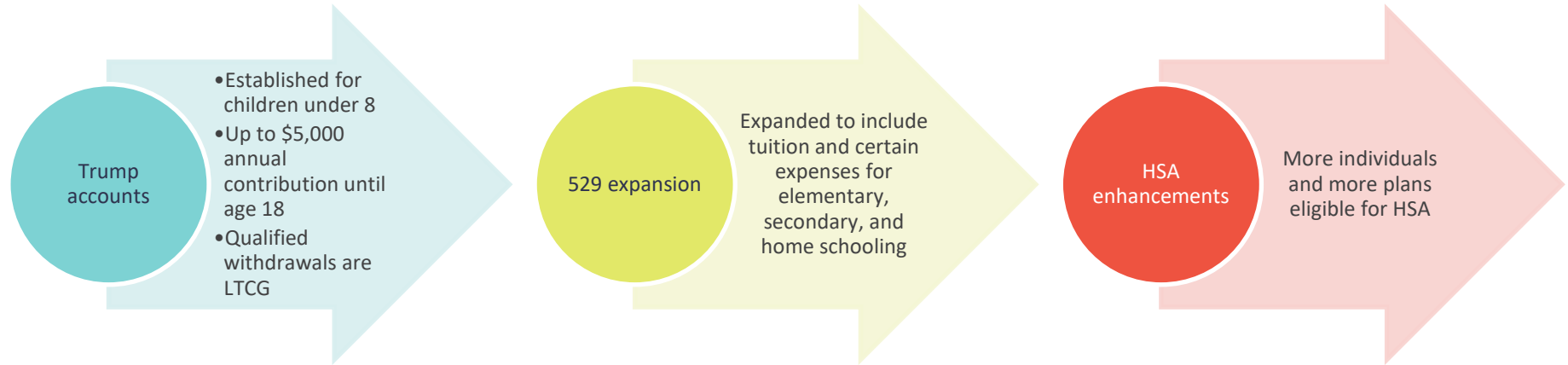
# New Provisions: Deductions and Credits

*For the tax years 2025 to 2028 ...*



# Other New Provisions

*For the tax years 2025 to 2028 ...*



# Polling *Question*

I'd like CLA to call me about:

- Tax efficient investment strategies
- Financial planning
- Owner transition strategies
- Wealth transfer: estate and gift planning
- Insurance and risk management
- Other planning items
- Nothing at this time



## Economy

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Diversified portfolios can navigate elevated volatility and valuations – after taxes and expenses.



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



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