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Celebrating 37 Years 1988-2025

Hiking at Pinnacle and Crowders Mountain, Charlotte, NC
with my wife, Nancy, daughter, Samantha, and son-in-law, Kyle

Mid-Year Newsletter

"American Summertime"

June 15, 2025

Summertime unofficially kicks off with Memorial Day and hopefully you have plans to travel, vacation, entertain, and enjoy time with friends and family or just to spend time relaxing this summer. Many of you will visit one of the National Parks, attend a baseball game or soccer match, while others will head to the beach, travel internationally, hike, camp, bike, golf, pickleball, tennis, or swim during this special season. Be safe and aware while vacationing, recharge, and most importantly reflect on the many blessings, both big and small, that we are fortunate to have in our lives. Now to the current financial picture as we head to mid-year 2025.

Economy

The so-called 'Big Beautiful' **reconciliation bill** working its way through Congress is expected to pass by the end of summer and includes an extension of expiring tax cuts, enactment of further tax cuts, plus spending reductions by the Federal government over the next ten years [113]. Highlighted in the new tax cuts are no tax on tips, no tax on Social Security, tax deductible car loan interest, and no tax on overtime [113]. We expect the final bill will stimulate the U.S. economy, coupled with deregulation efforts by the Trump Administration, but caution is warranted as the anticipated growth unleashed by the legislation may be subdued if trade negotiations stall with the major U.S. trade partners [113][4]. The so-called bipartisan Committee for a Responsible Federal Budget (CRFB) is critical of the bill, specifically cuts to Medicaid and food programs while assessing it will increase the national debt over the next ten years by $3 trillion including interest on the debt [129]. However, the CRFB endorsed the Biden Administration's Inflation Reduction Act claiming the legislation would lower heath care and energy costs while raising revenue and reducing deficits [130]. Keep in mind, the U.S. has run roughly $1-2 trillion dollar deficits annually since the COVID Pandemic, which subsequently was added to the national debt [131]. A deficit occurs when government revenues (taxes) are less than expenditures; conversely, a surplus occurs when revenues exceed expenditures [131]. During the prior 50 years, the U.S. has run a surplus only four times with the last occurrence in 2001 [131]. Deficits add to the National Debt along with interest due on the debt [131]. The Federal Deficit averaged 6% of GDP in fiscal year 2023 and 2024 beating Present Reagan's largest deficit in 1983 at the heart of the Cold War where the deficit ran to 5.9% of GDP that history has criticized and fiscal year 2025 is headed for a deficit of 6.5% of GDP [24][25]. Reagan had the Cold War with the corresponding military buildup and an economy that had unemployment at 10% whereas in 2023 and 2024, the U.S. had sub 4% unemployment and roughly 2% growth which some describe as irresponsible under those conditions [24].

Although the Big Beautiful Bill is expected to reduce federal government spending during the next 10 years by the largest amount ever proposed, critics point out that with the size of the debt at present, it does not go nearly far enough toward balancing the budget [132]. Additionally, the new tax cuts on overtime pay and tips, along with the car loan interest deduction, further complicate the tax code, and are narrowly targeted to only some Americans as opposed to providing a tax incentive to the wider population which would be expected to be more stimulative for U.S. growth [132].

Although **inflation** expectations continue to rise due to proposed tariff concerns, the data suggest inflation continues to ease [113][105][100]. Many pundits as well as Fed Chief, Jerome Powell, continue to posit the idea that the tariffs imposed by the

Trump Administration are likely to re-ignite inflation as well as lead to slower growth [105]. However, inflation is caused by too much money supply, specifically as measured by the government's M2 measure of money supply, not tariffs [121]. The government's measure of M2 money supply is basically cash, checking and savings accounts, CDs, and money market deposits. Economist Milton Friedman advanced the M2 measure of money supply is an effective way to view how much money is circulating within the economy which can directly influence interest rates and inflation [105][24]. The M2 measure of money supply surged in 2022 with the government issuing direct tax rebates, unemployment benefits, and enlisting banks to issue PPP loans as well as other benefits during and after the COVID Pandemic which resulted in 40-year high inflation [121]. The M2 money supply has been relatively flat since the surge in 2022 and combined with overall tighter monetary policy by the Fed which included higher interest rates, has aided in shepherding the high level of inflation back closer to the Fed's stated target of 2% [105].

Agreeably, it is true that specific goods or assembly parts that are imported are likely to rise in price with higher tariffs, but that means less funds available for other consumer goods and services with a relatively stable M2 money supply [105]. Thus, other non-imported goods and domestic services prices will likely fall with less demand as consumers have less to spend on these goods [121][105]. Two other points; first, Americans have choices; if a foreign good imported goes up, then a domestic good, or foreign good with less tariff burden may be an alternative [57]. Second, as a country we import roughly 15% of everything we consume in goods and services as measured by the gross domestic product (GDP), so even if every good imported good goes up in price due to tariffs, it is not enough to make a meaningful nationwide inflationary push upward like we experienced in 2022 [121][123].

As trade deals are put into place, inflation expectations would be expected to align with the data [113][100][15]. Investor, Louis Navellier, stated on Maria Bartiromo's 'Mornings with Maria' business show 6/11/2025, after hearing the government's May CPI inflation report which revealed less than expected inflation, "it is time for the Federal Reserve to cut interest rates and quit being spooked by the tariff inflation boogie man". However, the Fed has a tightrope with which to walk; easing monetary policy at too rapid a pace could reignite inflation, but by keeping interest rates higher for longer may impede economic activity [105][34]. Keep in mind the Fed has a dual mandate; keep the nation at full employment, which is generally considered by an unemployment rate less than 5%, and keep prices relatively stable, which is benchmarked by a 2% or less inflation rate [124][34]. Both objectives appear at or close to their target at present, but the worry is that unemployment will rise as interest rates remain high, consequently slowing U.S. growth [120][108][34]. The Consumer Price Index (CPI) and Producer Price Index (PPI) each were below consensus expectations for May and revealed a 2.4% increase in consumer prices, and a 2.5% increase in producer prices during the prior 12 months [126][127]. The trend for the last three months has been for lower inflation despite the 24/7 media pundits decreeing the threat of tariff inflation [127].

Consumer and business sentiment has deteriorated since the Trump Administration's 'Liberation Day' and subsequent barrage of **tariff** announcements [100][113][106][14][4]. However, U.S. growth has been resilient considering the prospect of less disposable income and a diminished climate for businesses due to the high trade barriers albeit at a much slower rate [113][105][112][106][108][1]. As constructive trade talks move forward and actual trade deals get executed, it is likely many will revise expectations for U.S. GDP growth in the second half of the year [15][113][110][4][57]. The government's May ISM Manufacturing report revealed that activity within this sector had declined for the third straight month as uncertainty over trade deals and the tariff landscape, specifically over supply chain delays, signaled caution [122][120][100][57]. Personal income and consumer spending have each risen more than 5% during the prior 12 months aided in part with the passage of the Social Security Fairness Act under the Biden Administration's elimination of the Windfall Elimination Provision which increased Social Security benefits for public sectors workers putting an end to what some had considered unfair to those who had worked both in the private and public sectors during their career [111].

As of the government's April's international trade report, exports rose by $8.3 billion, while imports fell by a massive $68.4 billion, the largest decline in trade deficit during a single month in modern U.S. history [105][114][106]. Many companies imported during the first quarter to get ahead of anticipated trade tariffs from the Trump Administration and thus had the effect of reducing gross domestic product (GDP) in the first quarter to a measly annualized rate of 0.2% [32][114]. The U.S. gross domestic production calculation, the chief measure of U.S. productivity and unofficial determinant of U.S. recession, is calculated by adding all consumer, business, and government spending, and investment, plus trade surplus or minus the trade deficit. In the first quarter of 2025, the trade deficit reduced our GDP, while it is expected that the Trump Administration's increased tariff rates during the 2nd quarter will increase our GDP as the trade deficit is expected to drop with less imports of foreign goods as trade negotiations continue to get worked out [114][105]. Canada and Mexico are the top two importers into the U.S., while China, once the top importer, has fallen into third place behind our two regional partners [114][1].

Tariffs are one of our nation's oldest forms of taxation and simply is a tax levied on goods (and assembly parts) imported into the United States from a foreign country [109][57]. Alexander Hamilton, our Nation's first Secretary of Treasury, initiated tariffs in the early days of new United States of America and worked to establish the first U.S. Central Bank [109]. Tariff's for more than 100 years thereafter accounted for 90% of U.S. revenues and aided domestic industries from competition by foreign competitors [105]. However, tariffs generally are passed on to domestic consumers through higher prices and tend to hit low-income buyers of necessities the hardest [109]. After World War II, to rebuild Europe and Japan after devastation to their respective industrial bases, the U.S. lowered tariffs below other foreign countries with the objective of reviving prosperity throughout Japan and Europe [109]. Poverty throughout the world fell exponentially from 1950 where 62% of the world lived in poverty according to the World Bank, to less than 10% by 2017, due at least in part, to U.S. tariff reduction which fueled the surge of global trade [109][11].

It has been 80 years since World War II ended and the economic revival of Europe and Japan have long since been accomplished [109]. Generally, the U.S. has lower tariff barriers for foreign goods than our trade partners impose on U.S. goods [109]. As an example, Germany imposes a tariff four times higher for American cars entering Germany than the U.S. imposes on German cars sold in the U.S.; consequently, the U.S. sells few autos in Germany while German cars are prevalent in the U.S. [109]. The Trump Administration, with the imposition of higher tariffs, is attempting to level the tariff playing field between U.S. trading partner countries with the additional objective of advancing American manufacturing in key targeted sectors deemed vital for national security [128][11]. The key industries include; pharmaceuticals, medical devices, autos, energy, space and aerospace, defense, biotechnology, critical minerals, steel, aluminum, food, as well as advanced technologies such as semiconductors, battery storage, quantum computing, cybersecurity, and artificial intelligence [129][57]. One last point, the U.S. dollar is the world's currency and as such every nation that participates in the global economy needs to hold U.S. dollars leading to the U.S. Dollar remaining relatively stronger compared to other foreign currencies [11]. The strong U.S. dollar has also contributed to U.S. companies being somewhat uncompetitive against foreign rivals due at least in part to the exchange rate, and why some would argue that this has been a major factor to the U.S. losing the global industrial dominance it once enjoyed [11].

The May unemployment report revealed the U.S. economy added 139k jobs and although it beat expectations, it lagged April's revised total of 147k new hires [122]. The Unemployment rate remained at 4.2% as of the government's May employment report [116][122]. The labor force has declined overall by 234k during the prior four months as of end of May; however, the number of native-born workers has increased while foreign born workers have declined [116]. This may be an indication that the Trump Administration's crack down on illegal immigrants is having an impact [116]. The unemployment rate has remained steady even though the nation has experienced a loss of 234k jobs due to the labor force also declining; the labor force encompasses those who are either working or actively looking for work [116]. Since January 2025, the number of U.S. government workers has declined by 59k, which is the largest drop since the 1990s, and due in part to the Department of Government Efficiency (DOGE) recommended workforce reductions [122][116]. Brian Wesbury, chief economist at First Trust, believes that in the long-term, reducing the size of government should create more jobs in the private sector and thus improve U.S. productivity [116].

The U.S. has been a net exporter of petroleum products for 38 consecutive months, with the implication that the U.S. continues to remain energy independent with oil and petroleum product production exceeding the amount utilized domestically [114]. The U.S. is not only the top oil producing country in the world, at almost 15 billion barrels per day, but the U.S. is also a top ten country with known oil reserves [117][119]. The U.S. is followed closely in oil production by Saudi Arabia and Russia, each with between 11.5-12.5 billion barrels of oil per day, followed by China, Canada, Iraq, Iran, UAE, Brazil and Kuwait each with between 3-5 billion barrels per day [117]. The Trump Administration has made energy capacity and production of all types a priority for U.S. national security; with robust exploring and drilling the U.S. would likely increase known oil reserves as new fields are discovered and subsequently come online [118][119].

U.S. demand for infrastructure is growing in the areas of digital, energy, transportation, waste, and water fueled by government spending as well as corporate and private funding [107]. As the use of artificial intelligence expands, the requirement for data centers in the U.S. is projected to increase exponentially as well as the connectivity demand for cell towers [107]. The rising U.S. demand for electricity will likely require additional power plants to expand the electric grid [107]. Oil and gas pipelines are likely to be constructed to keep up with the growing demand [107]. As I discussed in the January

Kick-Off Newsletter, small modular nuclear reactors may soon be deployed in certain areas to aid with power demand. Supply chains are rapidly changing, and the U.S. will need to build or improve existing roads, bridges, and ports to support the changing landscape [107]. Additionally, waste and water treatment plants are likely to expand with increased population growth plus domestic industrial and corporate expansion [107]. The structural shift toward AI is reshaping cloud provider capital expenditures for infrastructure, which is expected to be $392 billion in 2025 from the top 11 providers including Microsoft, Alphabet, Meta, and Amazon, and that amount more than doubles the prior two years [97].

Existing Home Sales continue to fight through the low inventory headwind as homeowners forgo selling when they have a low fixed income mortgage [103]. Buyers face a mortgage rate near 7% for a 30-year mortgage [91]. Existing home sales are down roughly 2% from a year ago and have been range bound in the 4-4.3 million annual rate of home sales in the U.S. since 2022 ([91]. Pre-Pandemic the rate of existing home sales in the U.S. had been more than 5 million annually; during the COVID Pandemic the rate of existing home sales were more than 6.5 million annually with historically low mortgage rates [91]. The median price of an existing home was $414k in April, up 1.8% from a year ago [91].

New home sales were up more than 10% in April and up 3.3% during the prior 12 months despite the headwind of financing a mortgage [103]. The median price of a new home was $407k in April, down 2% for the last 12 months [103]. New homes are selling at the fastest pace since 2022 and near pre-Pandemic levels with the supply of new homes up 270% since 2022 [103]. Interestingly, since 2022, the median square footage of a new home has decreased by 5% and coupled with the higher inventory of new homes at present, has decreased the median price per square foot [103].

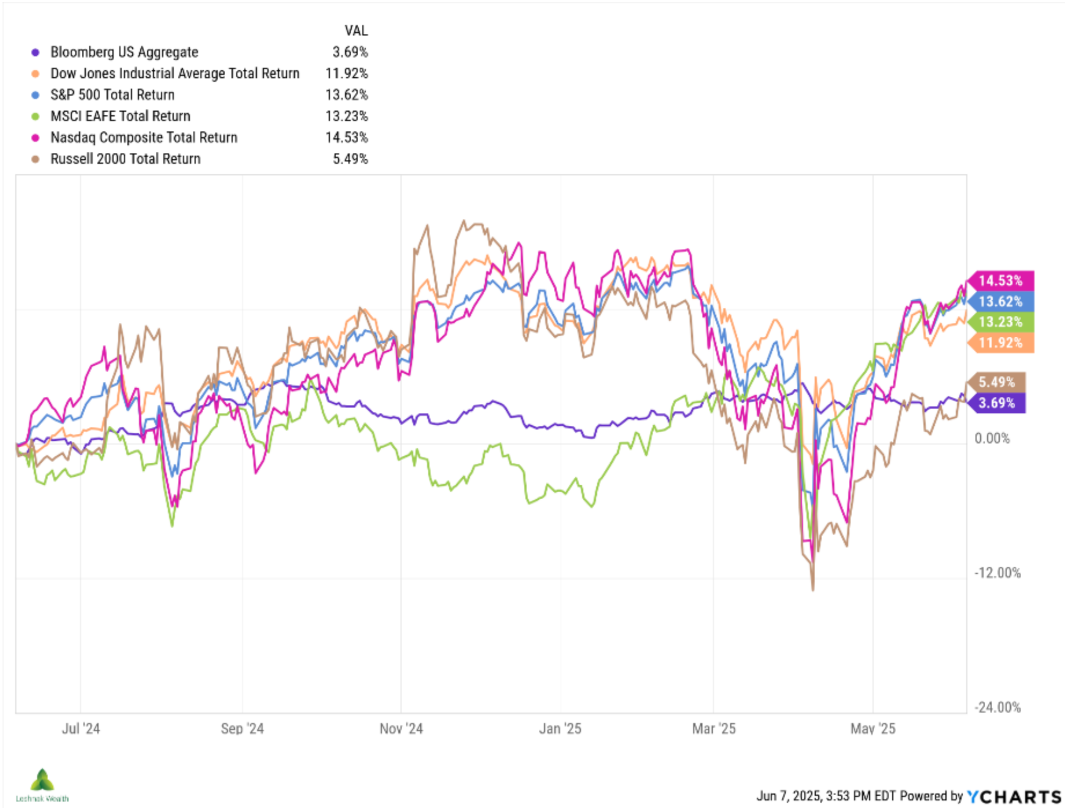
Markets

Equity markets place a premium or discount on a company's value based on the current and future expected earnings [104]. The volatility experienced in April reflected the difficulty experienced by market participants against a backdrop of seemingly weakening economic data, and potential tariffs against present and future corporate earnings and revenue [104][1]. However, the companies of S&P 500 Index continue to display strength even though both future earnings and revenue have been revised downward since January to 7.4% and 4.3% respectively for 2025 [104].

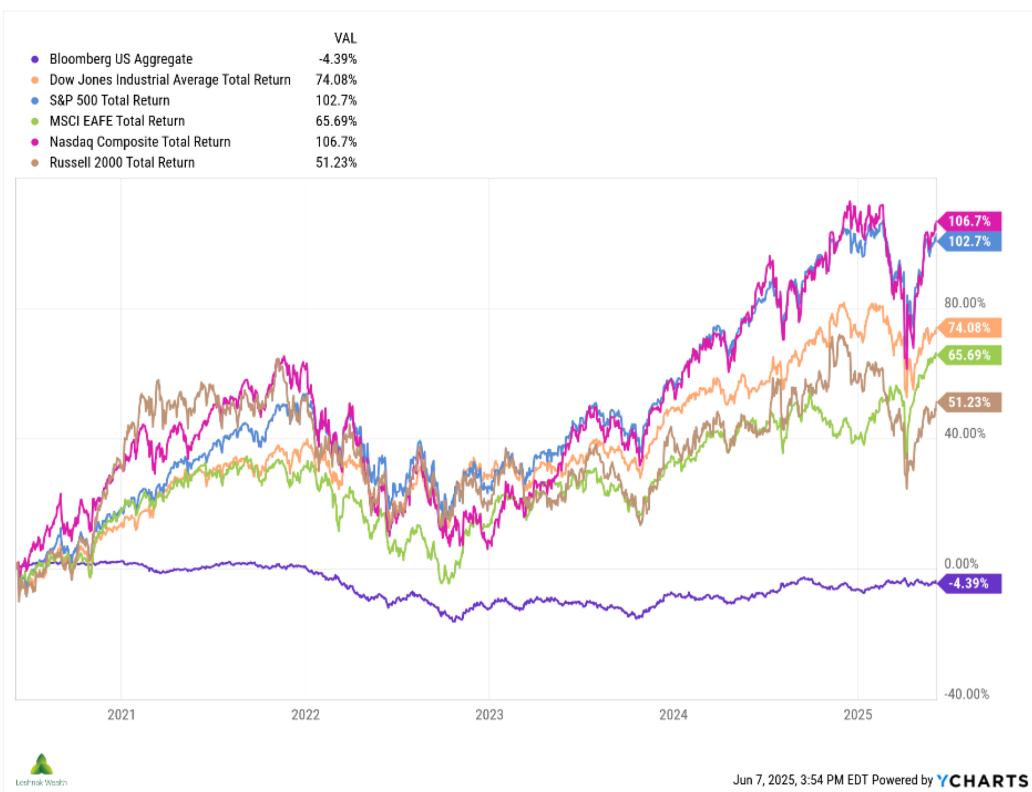
The legendary investor, Sir John Templeton, famously stated, when referring to the phrase "this time is different" as put forth by investor concerns over market turbulence, that "those are among the costliest words in investing" [95][37]. Jason Zweig, the author of 'Your Money and Your Brain' and a frequent columnist in the Wall Street Journal, has conducted extensive research in neuroeconomics to better understand financial decision making [96]. Neuroeconomics combines the fields of economics, psychology, and neuroscience, to better understand the emotions that may negatively affect investor decisions as well as the logic that is deployed for sound investment decisions [96]. Jason Zweig, in his column in the WSJ during the nearly 10% rapid market decline in early April of this year, stated that "this time isn't different and can be costly too" when referring to what a 401k investor should (and should not) do now [95]. Further, he explains that uncertainty in the market activates fear and stress in the brain triggering a survival instinct known as fight-or-flight; another words, I need to do something [95]. This impedes our ability to think logically when our emotions take over, especially with the 24/7 media beating the drum of turmoil [95][37]. Market direction is nearly impossible to predict in the short term as emotions take hold with positive and negative revelations, but over the long-term markets tend to be more logically based [95][1] . Warren Buffet, arguably the most successful investor of all time, once stated "In the short-run, the market is a voting machine, but in the long-run, the market is a weighing (adding) machine". If an investor makes an impulsive move during market turbulence, such as moving out of stocks, the investor is in essence saying they can predict what will happen, which as I have suggested is nearly impossible in the short term [95]. The late Byron Wien, managing partner of one of the U.S.'s largest hedge funds, Blackstone, famously stated "disasters have a way of not happening", especially when forecasted by the masses ahead of time [1][29].

The major markets have experienced turbulence during the prior 12 months as depicted in the first chart below. However, the stock indexes have managed to garner double-digit returns during this one-year period. The second chart illustrated below depicts the same major market averages but over a five-year period. When markets are turbulent investors often begin to look more closely at monthly statement totals, which is natural, but can impede 'seeing the forest through the trees' using the pre-renaissance idiom.

(Source: YCharts—1-year cumulative total return June 7, 2024- June 6, 2025)



(Source: YCharts—5-year cumulative total return June 7, 2020- June 6, 2025)



LW GamePlan

The LW Game Plan for investment management has the objective of foundational and generational wealth creation (115). We believe that the portfolios we manage for clients are the foundation, along with their home, and possibly real estate assets, and business interests, that not only support financial independence, but should be expected to cross generations.

The LW Portfolio Models are constructed globally with core equity positions in small, medium, and large cap equities, each straddled by momentum-based and value-based investment positions. We believe adding momentum-based investment positions, which utilize a form of technical analysis, allows the opportunity for current market trends to play out while also providing flexibility to potentially alter exposure when market trends retreat. We also believe adding value-based investment positions places us as the "turtle", in the proverbial tortoise verses the hare scenario, over the long-term with equities. Value-based investment generally involves buying securities whose shares appear underpriced by a form of fundamental analysis. Additionally, we believe that by combining value and momentum strategies across diverse markets and asset classes may result in significantly higher risk-adjusted rates of returns based on academic research conducted [(50)(51)]. Lastly, we prescribe dividend yield from all our equity investment positions so that no matter what markets are doing day to day, we have dividends continuously coming into the portfolio. During the past 97 years, reinvested dividends accounted for 37% of the total return for S&P 500 companies [(125)]. Further, the increase in dividend payouts of the S&P 500 companies have increased at roughly 5% per year since 1979, easily beating the roughly 3% rate of inflation during this period [(125)].

Our fixed income blueprint for the portfolio consists of allocations to core domestic and foreign bonds while also providing a flexible and strategic component affording exposure to inflation protected, emerging market, asset-backed, and high yield bonds. Overall, we evaluate investment positions in seven asset classes including domestic equities, foreign developed stocks, foreign emerging market equities, domestic bonds, foreign bonds, cash equivalents, and alternative assets such as real estate, infrastructure, natural resources, and commodities for inclusion within our overall asset allocation. How much of each asset class, if any, we hold in these asset classes is based on your unique risk tolerance, financial resources, personal goals and objectives.

Our LW Large Cap Dividend Stock Portfolio takes positions in companies that provide increasing and consistent dividends for shareholders; further, we examine companies for fundamental strength and competitive advantage within their respective industry sector. This portfolio of individual stocks is invested within the eleven Dow sectors of the market; technology, financial, health care, consumer staples, consumer discretionary, industrial, energy, utilities, communication, materials, and real estate.

"If you want to be wrong, then follow the masses." —Socrates

Our Leshnak Wealth Portfolio Models are not immune to declines in global markets as we do not have a crystal ball nor do any of the market analysts and forecasters. Our belief is that our LW Portfolio Model construction is diversified for potential resilience in any environment and may put us in a position to take advantage of market mispricing during such market gyrations. We do not modify overall asset class allocation due to market corrections unless a fundamental change in the underlying outlook for the domestic or global economy has significantly diminished or brightened verses our expectations. As the ancient Buddhist proverb states "If we are facing in the right direction, all we have to do is keep on walking". Pullbacks can be expected to last relatively shorter periods on average compared to the bull markets they take reprieve from, as the greed present turns to fear and shakes out those investors who are not fundamentally based on their convictions. We strive to be offensively positioned while remaining defensively minded with our portfolio construction and periodic adjustments. Simply put, we adopt an investment strategy, embrace it with confidence, and endure the inevitable ups and downs in the markets.

"We are confident that your portfolios are positioned to best achieve your long-term goals and that your wealth plan remains on track." –Bob Leshnak

As your financial fiduciary, the Leshnak Wealth team cares deeply about your financial well-being and will monitor for rebalancing opportunities that may add value to your portfolio, or to be defensive as conditions might warrant. We know that as your advisor, the trust you bestow upon us is built and maintained on three pillars; doing what we say we will do, assisting with planning for and achieving your financial independence, and providing unbiased advice with your best interest at the forefront. As always, please call with questions or if you wish to discuss your specific portfolio or wealth plan in greater detail.

–Bob Leshnak, June 15, 2025

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