CARSON

MIDYEAR MARKET **OUTLOOK '25**

UNCHARTED WATERS

WHEN IT COMES TO POLICY (and, by extension, the economy and markets), we find ourselves in uncharted waters on an unsettled sea. Despite heightened volatility that saw both extreme declines and advances for stocks in the first half of the year, as well as big moves in US Treasury yields and the dollar, both stocks and bonds have held up OK, and if you add international stocks, the picture actually looks pretty good. But that relative point-to-point stability conceals powerful crosscurrents beneath the surface.

To a large extent, that's because the president of the United States has chosen to wield the power of his office to try to reshape the US economy, and, by extension, the global economy. The closest modern analog may be Franklin Roosevelt's presidency, granted with very different goals. And for better or worse, the president has advanced his agenda with an energy and an indifference to restraints that has left markets and even many businesses disoriented.

In our Outlook 2025: Animal Spirits, we argued that prudent supply-side fiscal policy and deregulation—in short, a pro-business policy environment—could keep the economic momentum of the last 2½ years going. But, we cautioned, "We are not making a call that animal spirits will be unleashed in 2025, or even that they must be. Rather, we see an opportunity that might need to materialize for the economy and markets to meet their full potential and navigate the challenges to come." We did see economic and market sentiment turn decidedly optimistic post-election, but that optimism has since almost entirely disappeared due to uncertainty around tariffs and their consequences for inflation, interest rates, and simply ease of doing business. Our near-term verdict is that the markets and economy are not meeting their full potential, but we're still muddling through just fine for now.

Normally, we believe market participants tend to place far too much emphasis on the role of policy. It's not that policy doesn't matter; it's that macroeconomic forces usually matter a lot more. In the end, capitalist forces outside of policy—the small decisions that consumers, businesses, and entrepreneurs make every day—may still matter more this cycle. But there's less clarity about that than usual, and that makes the outlook harder to forecast.

Fortunately, principles of navigation hold true even in uncharted waters. Trying to get forecasts right is only part of a sound approach to investing. Building a portfolio that can hold up in a lot of different environments is important, too. And what matters most, our anchor in a storm, is effective financial planning, which includes being prepared for the ups and downs that are just a regular part of markets. We touch on all of this in our Midyear Outlook 2025: Uncharted Waters as we try to navigate markets amid heightened policy uncertainty.

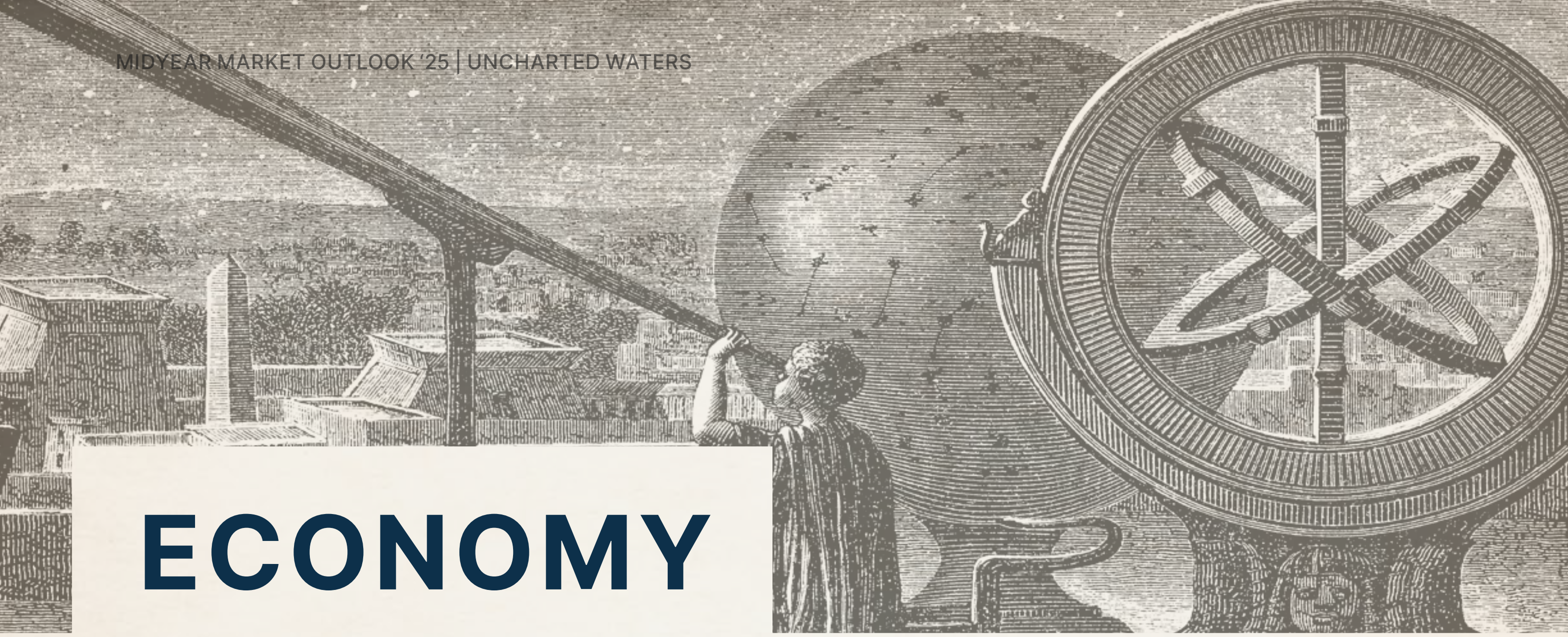
'25 FORECAST

RETURNS Stocks **12-15%** Bonds **4-7%**

- Moderation on tariffs and deficit-financed tax relief may support stock gains despite continued uncertainty.
- High starting yields are a cushion for bonds but the rate environment is less clear with the Fed on hold.

AT A GLANCE

		Strategic View	Policy	Economic	Technicals	Valuations	Tactical View	
EQUITIES		Overweight					Overweight	We are more cautious but remain overweight equities on corporate adaptability, technological innovation, potential moderation on tariffs, benefits from deregulation, and fiscal support
EQUITIES	U.S. Equities	Neutral					Neutral	The relative attractiveness of the US has balanced out versus international, but US still a tech leader
EQUITIES	International Equities	Neutral					Neutral	Valuations relatively attractive and fiscal stimulus in Europe opens the door for potential outperformance
EQUITIES	Emerging Markets	Underweight					Underweight	Policy risk, especially in China, remains a major issue; tarrifs may hit emerging markets harder
U.S. EQUITIES	Large Cap	Overweight					Overweight	Solid companies up top with greater resilience in an uncertain environment but some valuations stretched
U.S. EQUITIES	Mid & Small Cap	Underweight					Underweight	Policy environment and higher for longer rates make cyclical sensitivity unattractive
U.S. EQUITIES	Growth	Neutral					Neutral	Rich valuations a headwind but fundamentals are solid; home of many higher momentum stocks
U.S. EQUITIES	Value	Neutral					Neutral	Some traditional value sectors may benefit from deregulation
U.S. EQUITIES	Defensives	Overweight					Overweight	Low volatility stocks could be an added source of diversification
U.S. EQUITIES	Cyclicals	Neutral					Neutral	Could be a challenging environment without relief on rates
FIXED INCOME		Underweight					Underweight	We still prefer stocks and rates likely to be higher for longer
FIXED INCOME	Treasuries	Overweight					Overweight	Moderate gains can continue given yields; still the best diversifier if there is an economic downturn
FIXED INCOME	Investment Grade Corporate	Underweight					Underweight	Credit background weakening and spreads are tight but balance sheets still strong
FIXED INCOME	High Yield	Underweight					Underweight	Spreads are tight leading to a preference for equities
DIVERSIFIERS	Cash	Underweight					Neutral	Rates still attractive, especially with the Fed on hold
DIVERSIFIERS	Diversifiers	Overweight					Overweight	Modest exposure to gold as a hedge still merited; managed futures can add diversification



ECONOMY

While the economy has moved into "later" cycle, just by virtue of being past the unemployment rate low, later cycle can last a long time and does not in itself put you on the path to recession. Right now, we are not seeing any hard data that points to a path to a recession, and with deficit-financed fiscal stimulus on the way from the "Big Beautiful Bill," the economy will have a meaningful cushion against a downturn.

Despite being in uncharted waters, our base case remains that the economy avoids a recession, but the potential for a policy mistake is still there and there may be some vulnerability to potential economic shocks. But we think the economy will grow at a pace that can support continued corporate profit growth, and that's ultimately what markets care about. As a result, we continue to overweight equities, although our tactical overweight is smaller than it was at the start of the year.

WHAT IS A RECESSION "CALL" ANYWAY?

Recession calls have increased since the Liberation Day tariff extravaganza. **According to Bloomberg, the median forecaster now sees a 40% chance of a recession in the next 12 months (as of June), up from 20% in January.**

40% odds, while much higher than normal (about 15% for any given year), are not far from a coin toss, and for those of us focused on markets, it's not too helpful—it's akin to saying "we don't know." What we do know is that the odds of a recession are higher now than they were at the start of the year. Why does that matter for markets? Markets are forward looking and don't just track where the economy is currently. But at the end of the day, the stock market will be driven by profit growth, and profits come from the economy, which is why it would be useful to know whether the economy is close to, or in, a recession. These signals are important because if that 40% stays constant (it may not), it implies you have almost a 90% chance of recession in the next four years.

In the US, a recession is called by a recession dating committee at the National Bureau of Economic Research (NBER). And they don't use gross domestic product (GDP), or even gross domestic income (GDI), for that matter. NBER considers six other economic indicators, including employment, income, sales, and production. Right now, none of these indicators points to a recession. In fact, half of these metrics are running at an annualized pace (over the recent three months) that is faster than what we saw in 2023-24 and 2018-19 |**Chart 1**|.

The NBER committee has no fixed rule about what measures contribute information to their process or how these datapoints are weighted. They note that in recent decades, two measures they've put more weight on are real personal income less transfers and nonfarm payroll employment.

At the same time, this data can be revised quite significantly (including payrolls), and it is not exactly timely (especially real wholesale and retail sales). So, it takes a while for NBER to "date" a recession. Think of them more as economic historians who won't make a call until they are very confident they have it right, and not real-time analysts. You don't want to wait for the NBER recession call, because that can happen well after the fact, and sometimes even after a recession is over.

» 2020 February-April recession: NBER called the start in June 2020 and the end in July 2021.

» 2007 December-2009 June recession: NBER called the start in December 2008 and the end in April 2010.

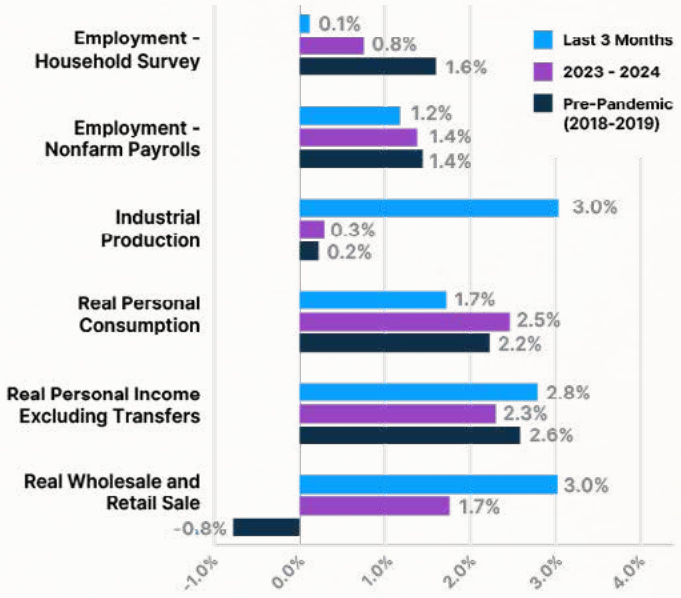
Waiting for GDP data or NBER calls isn't helpful within the context of investing. A recession, and a bear market, may be well underway by the time NBER decides to tell us a recession started. And a bull market may have begun well before they call the end of a recession.

MORE TIMELY ECONOMIC DATA IS AVAILABLE, AND THAT HELPS

The good news is that we typically get more timely data without having to wait for GDP data or NBER calls to gauge whether the economy is close to or in a recession, or even recovering, for that matter. This includes data like initial unemployment claims, the unemployment rate, survey data, housing starts and permits, factory activity, and new orders.

|Chart 1|

Key Economic Indicators Don't Point to Recession
Annualized Rate of Change



Data for Employment is through May 2025. Data for Industrial Production, Real Personal Consumption and Real Personal Income Ex Transfers are through April 2025. Data for Real Wholesale and Retail Sales is through March 2025.

A recession is a broad-based decline in economic activity, and so you want to use a wide swath of data to capture the aggregate economy.

This is the approach we use with our Carson proprietary leading economic index (LEI). We have created a leading economic index for the US and 28 other countries across the world (we used to have one for Russia, but not anymore).

» Each one is custom built to capture the dynamics of those economies, and we roll them up to form an aggregate measure for different regions (for example, developed or emerging markets) and the world overall.

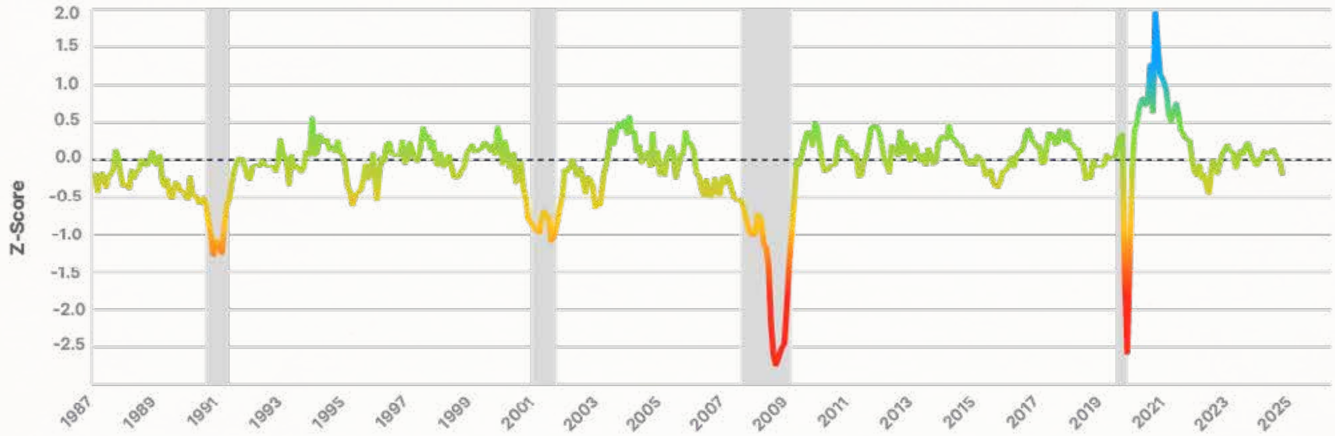
» Our LEIs include both soft data (like consumer and business sentiment) and hard data (though the US version doesn't include any of the six NBER indicators).

» Our LEIs even include market data. Stock prices can be a useful part of the mix, as they potentially carry information about the

|Chart 2|

So Far Not Seeing the Kind of Economic Deterioration Typical of a Recession

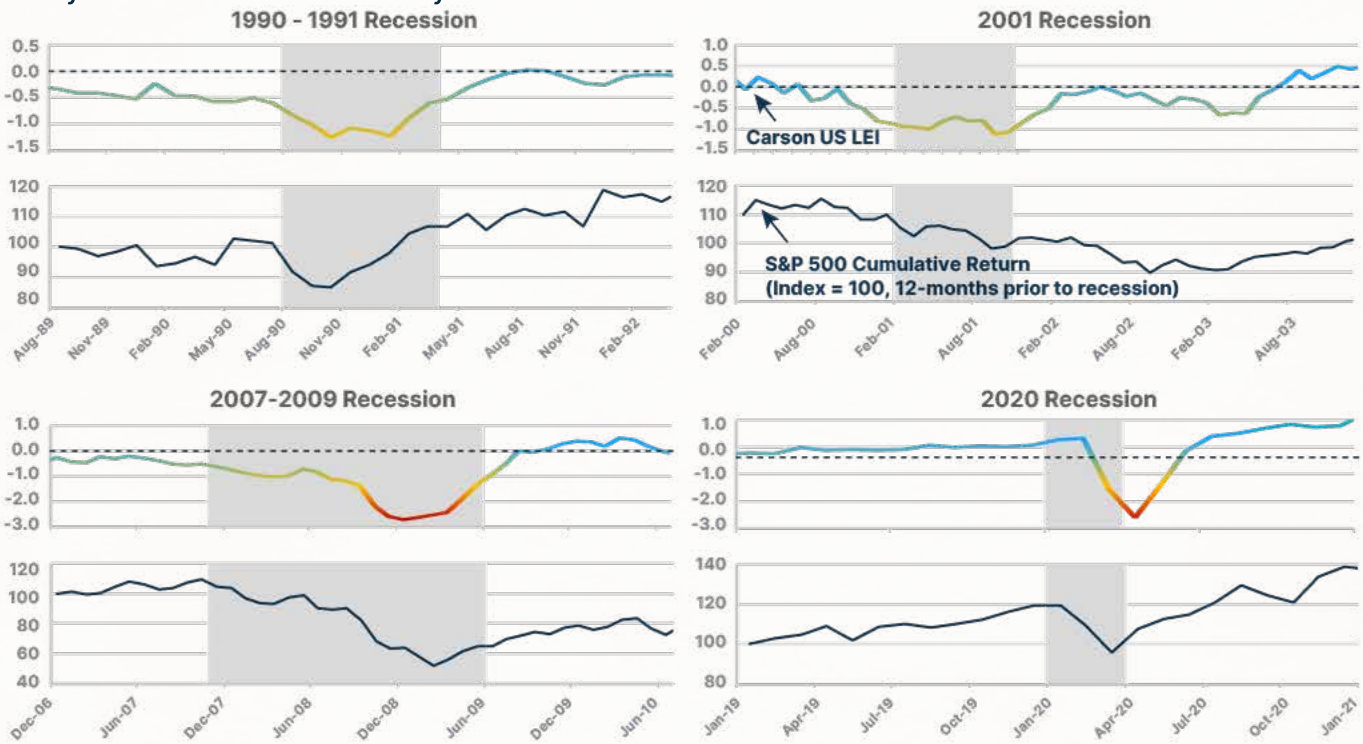
Carson Proprietary Leading Economic Index - USA



Source: Carson Investment Research 5/31/2025 Shaded areas indicate U.S. recessions

|Chart 3|

Timely Economic Data Can Potentially Warn About Economic Slowdowns and Associated Bear Markets



Source: Carson Investment Research 5/31/2025 Shaded areas indicate U.S. recessions

economy before economic data reflects what's happening (though market data typically forms less than 5% of our index). Historically, market peaks have preceded US recessions by an average of about eight months.

Our LEI is an important piece of the puzzle as we form our Carson House Views, since it encapsulates a lot of significant macroeconomic information. We do want to stress that it is only one input into our asset allocation, portfolio construction, and risk management decisions. Our process also has other pillars such as monetary and fiscal policy, technical factors, and valuations.

Our proprietary leading economic index for the US has not pointed to a recession at any point over the last three years (though the risk was on the higher side in late 2022). This was in sharp contrast to all the recession calls you saw in 2022 and 2023, including signals from other popular leading economic indexes.

Right now, our US LEI is telling us that the economy is growing close to trend. In fact, it's been saying that for a few months now, though there's been a slight slowdown recently. But we've yet to see a broad and deep deterioration of economic activity. This is not to say it will stay that way, but it's as good a gauge as any with respect to capturing what's happening in the broad economy.

As shown in the chart on the previous page of LEI going back to 1986, you can see how the big declines coincide with recessions (gray shaded areas) |**Chart 2**|. The LEI actually started plunging ahead of the three recessions prior to COVID (1990, 2001, and 2007), though keep in mind that the dates for those recessions weren't known until well after the fact.

Here's a closer look at the last four recessions, along with the cumulative gains for the S&P 500 starting 12 months ahead of the official start of the recession |**Chart 3**|. In each case, except for the COVID recession, the Carson LEI was running well below trend ahead of the official recession, indicating economic growth was slowing quite rapidly.

Prior to the 1990-91 recession, our LEI had deteriorated well below trend. The S&P 500 did not experience a bear market back then, but the index was flat for about a year and half, eventually surging higher as the economy recovered (the LEI had also bottomed out around then).

On the other hand, the 2001 recession officially lasted only nine months (February-October 2001), but the slowdown lasted way longer than that (along with the bear market). We all know what happened in 2008. One interesting thing about 2001 and 2008 was that the recession, the drawdown, and eventual recovery was a long, drawn-out process, essentially occurring in four stages:

» **Stage 1:** Markets sense a recession and a drawdown starts.

» **Stage 2:** As things get progressively worse, policymakers step in and markets stage a rally.

» **Stage 3:** The data starts to get really bad and markets pull back in a bigger way, and we get even more policy support.

» **Stage 4:** Policy support starts acting with a lag (housing typically being the first out of the gate) and markets recover before the broad economy does.

The COVID recession was completely different, with unprecedented monetary and fiscal stimulus thrown at the economy (and markets) as soon as everyone sensed a steep downturn. That's another reason why we don't use our LEI as a silver bullet indicator and instead complement it with our fiscal and monetary policy outlook, which can be key, as we saw during COVID. Market sentiment is also useful, as it can tell us how markets are assessing policy support.

Coming to the current situation, we're already getting some policy support in the form of a pullback from extreme tariffs (with potentially more to come). Of course, the tariffs created the problem in the first place. We may well be in "Stage 2" of the process we outlined above, but that is not to say we ever get to Stage 3. The "bull case" is that the administration largely withdraws tariffs. But the longer tariffs stay on, the greater the damage to the economy even if they're eventually removed. This is likely to be more drawn out rather than an immediate shock. If inflation picks up, even policy support from the Fed may not be forthcoming. That would only prolong the damage.

There's a lot of uncertainty right now, but the onus is clearly on the data to tell us that the widely anticipated broad economic slowdown (or recession) is happening. So far, there's no sign of that, but it's early days yet.

POLICY

MARKETS CALL THE PRESIDENT'S BLUFF, AND WIN (FOR NOW)

In our ***2025 Outlook**** , we highlighted the threat of tariffs and risk of elevated interest rates if the Federal Reserve doesn't cut rates. On the other side, tax cuts and deregulation offered up significant opportunities. Unfortunately, both the threats have manifested even as we wait on the opportunities, and that has increased uncertainty.

We saw massive tariffs being imposed on Liberation Day, significantly higher than any reasonable estimate, which mostly used the 2018 trade policy as a guideline. Of course, most of the Liberation Day "reciprocal tariffs" were paused within a week, and the administration started looking for bilateral trade deals. Even the excess China tariffs of 145% were pulled back to base levels of 30% within a month (also a 90-day reprieve). The whiplash theme continued as a 50% "reciprocal tariff" on European Union goods was announced in late May, only to be paused almost immediately on promise of negotiations.

Unsurprisingly, it wasn't policy debate or economic modeling that undid the extreme tariffs—it was markets. The extreme volatility in stocks and bonds throughout April delivered a clear and forceful message to the White House: "These tariffs will be disastrous for the economy." And the message was received.

At the same time, average tariff rates, even after the China pause, are at the highest level since 1934, rising from 2.4% at the start of the year to 17.8% (according to the Budget Lab at Yale University). This also excludes the 50% "reciprocal tariff" on imports from the European Union that was announced in late May and almost immediately paused—there's a theme here.

We also got a surprise ruling at the end of May from the US Court of International Trade, which struck down all the tariffs imposed under IEEPA (International Emergency Economic Powers Act), including the fentanyl tariffs on China, Canada, and Mexico, and all the Liberation Day "reciprocal" tariffs. The court unanimously ruled that the emergencies used to justify these tariffs were not valid. Of course, the administration has already appealed, and ultimately it's going to come down to the Supreme Court. So it's anyone's guess whether this ruling is reversed or not. If the ruling is not reversed and the president can't use IEEPA to justify tariffs, average tariff rates would fall back below 10%.

Irrespective of how things move forward, the court ruling is a reminder that the bedrock American

*https://resources.carsongroup.com/hubfs/CarsonGroup_Outlook25_Whitepaper.pdf principle of checks and balances still exists. As we all learned in our civics classes growing up, the legislative branch makes the laws; the judicial branch interprets the laws; and the executive branch dutifully executes the laws, although the laws themselves sometimes give the executive branch considerable leeway in deciding how to do this.

The president can also use other authorities to impose tariffs, including national security and unfair trade-related measures. The Trump administration is already using national security-based tariff authority to implement sectoral tariffs (including copper, consumer electronics, chips, pharmaceuticals, timber, critical minerals, and steel), but these require a more drawn-out process and take time to be implemented.

Ultimately, the tariff mess—and ongoing uncertainty it causes—is only going to be prolonged. The final destination may still be significantly higher tariffs, with the average effective tariff rate ranging from 15-20% versus 2-3% last year, but getting there is going to take longer, with even more changes in direction and reversals. The Court of International Trade ruling does reduce the tail risk of tariffs going from 10% to 50% over the course of a day (and then possibly reversing again). It also reduces the administration's ability to negotiate deals with America's trading partners. Negotiating trade deals is an arduous process anyway, but now other countries may decide to slow-walk them even further.

The federal government is already seeing a jump in revenue from tariffs, albeit not to the extent that was predicted by the administration (suggesting businesses are finding workarounds). Forecasts could be thrown off further by any court decision to halt tariff collection (and even reverse it, by sending out refunds). Tariffs are effectively a tax on businesses and consumers, and like all taxes, tariffs pull money away from the private sector to fill the federal government's coffers. The size of the tariffs does make it a fairly significant tax increase. The Tax Foundation estimates tariffs collection can boost federal revenue by $150-$200 billion over each of the next three years, and about $1.5 trillion over the next decade. This immediately raises the question of who will bear the cost.

Import price data suggests that foreign exporters are not paying the tariffs. If they were, import prices would be falling, and that's not happened so far. That means US businesses either eat the cost via a hit to their profit margins, or US consumers get hit via inflation as companies pass through tariff costs to end customers. It's likely to be a combination of both as we move forward. In any case, the tariffs, like any tax increase, are a direct headwind to profits or a more indirect one if real income growth decelerates amid high inflation and consumption pulls back.

TARIFFS ALSO PUT THE FED ON PAUSE

The Fed hasn't moved policy rates from the 4.25-4.50% range this year, and right now, it looks like they're probably going to keep them there through the end of the year. At the same time, the Fed has noted that the risks of higher unemployment and higher inflation have risen, which raises a very consequential question: If unemployment rises and inflation also rises, which side of the Fed's mandate would it prioritize, maximum employment or low and stable inflation?

If push comes to shove, it looks like they'll prioritize inflation. For one thing, Fed Chair Jerome Powell has repeatedly noted that "without price stability, you cannot achieve long periods of labor market stability." It effectively means that if they're forced to choose between taming inflation and avoiding higher unemployment, they're going to do what it takes to tame inflation first.

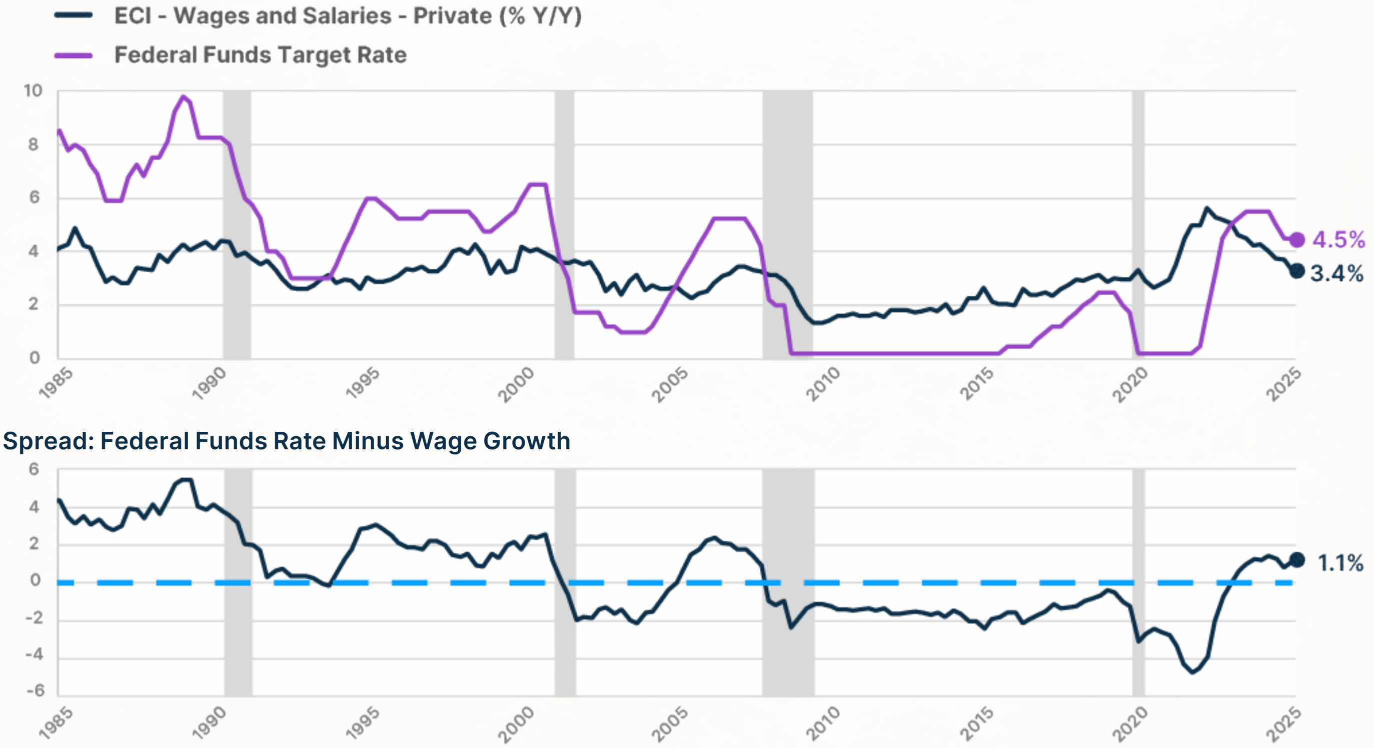
Moreover, Fed members believe that policy is currently in a good place, which gives them a lot of flexibility to act down the road depending on how the data comes in. But by their own admission, policy right now is "sufficiently restrictive."

Keep in mind that pausing on rate cuts does not just leave us with a benign status quo—policy is implicitly getting tighter because wage growth is easing. Historically, the fed funds rate rising well above the pace of wages has constricted the economy, and ultimately these situations ended in a recession. In other words, if the Fed stands pat while wage growth slows, the effect on the economy is as if monetary policy is actually getting tighter |Chart 4|.

In short, policy is tight right now and it's going to remain tight until the Fed sees more data. Powell also mentioned that eventually they may decide between their two mandates by focusing on the one that is further away from their goal.

|Chart 4|

Monetary Policy Is Tightening Despite the Fed Pause, as Wage Growth Is Easing



Source: Carson Investment Research, FRED 05/31/2025. Shaded areas indicate U.S. recession.

So, let's play this out. Core inflation—as measured by the Fed's preferred metric, personal consumption expenditures (PCE) inflation—is currently at 2.5% year over year (as of April). That is already elevated relative to the Fed's target of 2%. But tariff front-running and higher import costs are likely to at least partially feed into consumer prices. This is going to eventually show up in official inflation data, albeit with a lag. We're likely to see a pickup in goods inflation over the next several months, including vehicles, appliances, apparel, and consumer electronics, pushing core PCE up to 3-4% by year end. Even if it may be temporary (or "transitory"), that's a whole 1-2 percentage points above the Fed's goal.

Now consider the employment side. Powell noted that the labor market is at or close to full employment right now, with the unemployment rate of 4.2% near a historical low. The Fed's base case (going by their "dot plot" projections) is for the employment rate to hit 4.5% by year end. Unless the unemployment rate suddenly surges to 4.8-5%, it's hard to see the Fed prioritizing the employment side of their mandate, especially if core inflation is running above 3%.

The long and short of this: Expect the Fed to stay on pause for longer. And if they do cut, that's not going to be good news, because it'll mean the labor market has broken (and the Fed's likely going to be stepping in too late). The whole tariff situation, and ensuing uncertainty, simply increases the risk of tight monetary policy and elevated interest rates becoming a larger and larger drag on the economy.

TAX POLICY — EXPECT THE DEFICIT TO REMAIN LARGE, VERY LARGE

As we wrote above, tax policy was supposed to be the big opportunity in 2025, but amid the tariff policy whiplash and market volatility, suddenly it looks like tax cuts may not all be upside.

On May 16, 2025, Moody's finally joined their counterparts at S&P and Fitch in downgrading US debt to one notch below their top rating, from Aaa to Aa1. By itself, the downgrade is not really meaningful. US debt is considered "risk free," and that's not going to change (like it didn't after S&P's downgrade in 2011 and Fitch's downgrade in 2023). The important thing here is that US sovereign debt is issued by a country that can print money—so the US government cannot default on it, literally speaking. US Treasuries are also not a "credit" product. However, it's the context around the debt downgrade, and especially the US fiscal situation, that raises important questions.

It's not a coincidence that this downgrade came while Congress is debating a massive, deficit-financed tax bill. There's still a big question about how large the tax bill will be. It does matter in aggregate for equity markets as well because, all else equal, deficit-financed spending will boost profits—as it did in 2016-19, 2020-21, and even 2023-24.

The tax bill is going to be large, no question. Even at a baseline level, it needs to be. If Congress doesn't pass a bill by the end of the year (the goal is by the end of the summer), tax rates for households will revert back to pre-2017 levels. There's no way Republicans in Congress will allow that to happen, especially going into a midterm year. But renewing all the tax cuts will cost about $4 trillion over the next decade. In other words, that's the cost of just maintaining the status quo. To provide an additional boost to the economy (and profits), the bill likely has to be larger, perhaps closer to $5 trillion. Also, keep in mind that the tax bill will also have to neutralize tariffs, which are essentially a tax increase.

The current version of the tax bill looks like it's going in this direction. The Committee for a Responsible Federal Budget (CRFB) estimates that the bill will add about $3 trillion to deficits over the next decade, and about $5 trillion if the tax cuts are made permanent (which is very likely as Republicans push the next "tax cliff" off to 2028, another election year). Also, the spending in the bill will be front-loaded to provide immediate stimulus, while the "savings" will be backloaded. After 2027, various tax cuts will "expire"—but that's a gimmick used to reduce the official cost of the bill, and one-time spending boosts will fade. The bill is expected to add another $450 billion to the deficit in 2026 and $600 billion in 2027, or $1 trillion more over the next two years. That's a potential boost for aggregate corporate profits.

The "primary deficit" (the deficit excluding interest costs) is estimated to surge by almost 1.8% of GDP by 2027, the first year in which the policies would be fully in effect. The primary balance, whether in surplus or deficit, is a helpful way to understand what's happening now, since that tells you how much the Federal government intends to spend on net and compare that to history, factoring out different interest rate costs.

The primary balance typically falls into deficit amid recessions, which shouldn't be a surprise since two things happen during recessions:

» **Tax revenue falls** as incomes plunge amid rising unemployment.

» Automatic stabilizers like **unemployment benefits surge**, in addition to direct stimulus.

Historically, we've also seen the primary balance move into surplus as economic expansions get underway. As you can see below |Chart 5|, the primary balance moved into surplus prior to every single recession prior to 2020. The anomaly, if you can call it that, started in 2016. The economic expansion was already running along for about seven years and the primary balance shifted even more into deficit across 2017-19, mostly on the back of the 2017 tax cuts.

You can see how the primary balance plunged to a near 25% deficit (as a percent of GDP) amid COVID, but recovered to about 1% of GDP by mid-2022. But then you had the bipartisan Infrastructure Act, CHIPS, and IRA, and the primary balance shifted back into a near 2.5% deficit—well below what we've typically seen amid expansions. This was a big reason why we passed on calling for a recession in 2023-24 and went maximum overweight equities, in contrast to a large swath of the investment industry that was predicting a recession.

The primary deficit will likely hit 4% of GDP by 2027, which would already be unprecedented outside recessions and wartime. That's before interest costs, which matter too. Interest costs are quite large now, running about 4% of GDP. This is why the overall federal budget deficit is currently clocking in around 6-6.5% of GDP. That's larger than even during historical recessions prior to 2008. With the tax bill, the budget deficit would be expected to rise to about 8-8.5% of GDP. Even during the 2008 Great Financial Crisis, the deficit hit about 9.5% of GDP. This time, such enormous deficits are in the pipeline during an economic expansion. We are in uncharted waters.

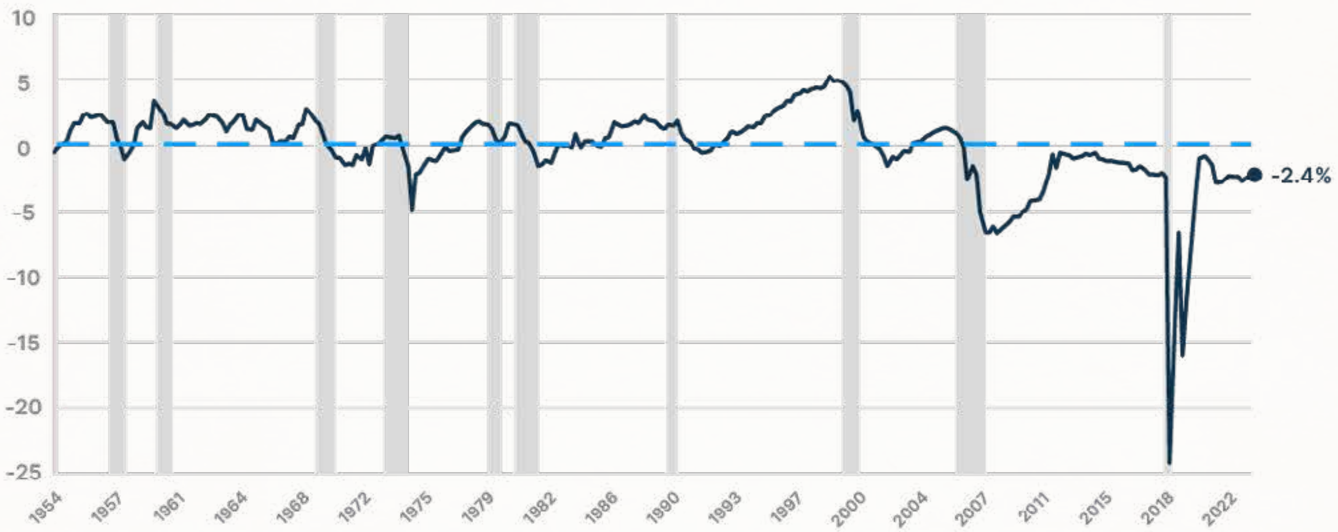
It's highly unlikely the US economy hits a recession if the federal government is running such enormous deficits. Plus, business investment in AI will probably continue apace over the next year. So, we're looking at a potentially strong environment for profit growth. Of course, it's a whole other question who benefits from this, but ultimately it will flow through to corporate profits.

|Chart 5|

US Fiscal Policy Has Been Counter-Cyclical in The Past, but Not Now

US Federal Government

Primary Balance as Percent of GDP



Source: Carson Investment Research, FRED 05/31/2025
Shaded areas indicate U.S. recession.

EQUITIES

We came into 2025 expecting the S&P 500 to gain 12-15%, and at some point during the year thought a double-digit correction was likely. As long-time readers know, we were one of the very few places that didn't forecast a recession and bear market in 2023, and then followed it up with expectations of more strong returns in 2024. After back-to-back 20% years for the S&P 500 in 2023 and 2024 and a strong economy, many long-time bears began to turn bullish earlier this year, something that worried us.

Yes, tariff drama caused much of the volatility we've seen this year, but we would also argue some well-deserved weakness was needed to flush out the weak hands and Johnny-come-lately bulls. The economy will likely hold up in the second half of this year, and we expect stocks to have a better second half as this bull market continues.

We remain overweight equities, but continue to expect to see the benefits from a diversified portfolio, with areas like developed international stocks (with an emphasis on Europe) seeing some benefits from changes in the global economy. We have raised our international allocation to a benchmark weight after being underweight the last several years. Most US investors might not know this, but most European stock markets are having banner years, up well over double digits. In fact, the tariff situation has also pushed the rest of the world to get its act together, with countries like Germany removing their fiscal handcuffs.

Worries are always there, with Washington policy or a potential Fed policy mistake right at the top of our list, but expectations got so low in April that with any better news, a reversal was likely. Remember, the stock market is forward-looking, and it doesn't care about what just happened, but what might happen in the future. With so much negativity and fear being priced in back in April, it was easier for even moderately good news to clear the lowered hurdle of what's not priced in. Even with the rebound, the fear hasn't been completely flushed out, but sensitivity to upside catalysts has probably normalized.

The lows for the year are likely in as well, and we continue to forecast the S&P 500 total return in 2025 will be between 12-15%, with leadership coming from US large caps and Europe.

ANOTHER NEAR BEAR MARKET

The story of the first half of 2025 was the volatility and weakness we saw in March and April, with the S&P 500 down nearly 19% from the February 19 peak until the lows on April 8. No, we didn't expect to see that much weakness this year, but we also didn't expect Liberation Day to be so aggressive

|Chart 6|

Another 19% Near Bear Market?

S&P 500 Near Bear Markets (1950 - Current)

			S&P 500 Future Returns			
Start of Correction	End of Near Bear Market	Size of Near Bear Market	1 Month	3 Months	6 Months	12 Months
9/21/1976	3/6/1978	(19.4%)	3.2%	15.0%	19.3%	12.8%
7/16/1990	10/11/1990	(19.9%)	6.1%	7.0%	28.8%	28.8%
7/17/1998	8/31/1998	(19.3%)	6.2%	21.6%	28.2%	37.9%
4/29/2011	10/3/2011	(19.4%)	10.8%	16.2%	28.6%	31.5%
9/20/2018	12/24/2018	(19.8%)	13.3%	19.3%	23.9%	37.1%
2/19/2025	4/8/2025*	(18.9%)	13.7%	?	?	?
		Average	8.9%	15.8%	25.8%	29.6%
		Median	8.5%	16.2%	28.2%	31.5%
		% Positive	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Carson Investment Research, FactSet 05/28/2025
*We don’t know if this correction is over, but we can hope

on tariffs and the 10% two-day market crash that followed said the market didn’t either.

We were on record at the start of 2025 that a well-deserved 12-15% correction could be in the cards at some point this year (likely the first half), especially given 2024 didn’t see a 10% correction. There were several signs: Stocks have historically been weak early in a post-election year, in the first quarter the past two decades, and early in the year after a 20% gain. Then throw in that the third year of a bull market tends to be choppy and frustrating. So, we will ask again, was this early weakness in 2025 a total surprise? We’d emphatically say “no, it wasn’t,” even independent of tariffs, and in many ways it was necessary and even healthy to shake out some of the weak hands.

The traditional definition of a bear market is when stocks are more than 20% off their peak, usually close to close. Even though 2025 narrowly missed this (down 18.9%), if you were invested this year, it likely felt like a bear market, as many large cap tech names were down 30% or more. Still, the odds of an outright bear market this year were always low, as we already had bear markets in 2020 and again in 2022, making another one in 2025 very unusual, as we’ve never seen three bear markets that close to each other.

In fact, history has multiple examples of previous near bear markets down 19%, and we think we just had another one, as we expect the lows for 2025 are in. If the lows are indeed in after this near bear, you can see that previous times saw extremely strong performance going out a year |**Chart 6**|.

THE LOWS FOR 2025 ARE LIKELY IN

Even if the lows for the year are in, we want to be clear that doesn’t mean the market will be off-to–the-races higher. There will always be volatility and the potential for drama out of Washington to trip things up, but we do see better times coming in the second half of 2025.

After the near 19% bear market, stocks soared 19% the following 27 trading days. Many called the rebound after the April lows a short covering rally or bear market rally, but the extreme strength off of those lows was consistent with previous major lows |**Chart 7**|. In fact, the other times that saw 27 trading days that strong? Coming off the 1974 lows, the 1982 lows, the 2009 lows, the 2020 lows, and April/May of this year. Those weren’t the worst times to be optimistic about the future. We like to say the beachball was far under the water,

|Chart 7|

Once Again, This Doesn't Happen in Bear Market Rallies

S&P 500 Performance After >19% in 27 Trading Days

		S&P 500 Future Returns			
Date	27-Day Return	1 Month	3 Months	6 Months	12 Months
11/11/74	20.7%	-10.0%	4.6%	21.9%	18.9%
9/15/82	19.8%	8.3%	10.5%	21.8%	21.6%
12/31/08	20.0%	-8.6%	-7.6%	-0.8%	23.5%
4/9/09	23.0%	6.2%	2.6%	24.4%	39.7%
4/27/20	20.0%	5.5%	12.5%	20.4%	45.5%
5/16/25	19.6%	?	?	?	?
	Average	0.3%	4.5%	17.5%	32.0%
	Median	5.5%	4.6%	21.8%	32.6%
	% Higher	60.0%	80.0%	80.0%	**100.0%**
All Years Since 1950					
Average		0.7%	2.2%	4.5%	9.2%
Median		1.0%	2.6%	4.9%	10.4%
% Positive		60.7%	66.0%	70.1%	73.8%

Source: Carson Investment Research, FactSet 05/16/2025 Using the first signal in a cluster.

and once it's let go it can go higher and faster than most think, which is what happened this time as well.

Sentiment plays a big role in our work, and in April we saw many negative sentiment readings in line with (or in some cases exceeding) previous major bear market lows. Consumer confidence, for example, was lower earlier this year than during a once in 100 year pandemic or the Great Financial Crisis. Not to be outdone, put/call ratios spiked, equity outflows soared, hedge funds were net short by historic measures, magazine covers were over-the-top bearish, many high-profile strategists cut their bullish outlooks, individual investor sentiment polls were showing the most bears in years, and big money managers had historically low equity exposure. As General Patton told us many years ago, if everyone is thinking alike, then somebody isn't thinking. With bearishness at the extreme, all it would take was some good news to mark the lows and start the big rally, which we saw after trade risks eased and first-quarter earnings came in much better than expected.

THIS IS STILL A YOUNG BULL MARKET

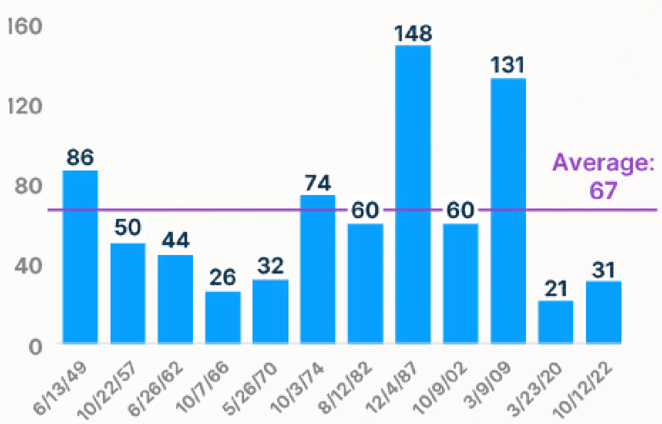
As we noted at the start of this year, this bull market was actually young, and six months into 2025 that hasn't changed.

At 31 months old, this current bull market is still less than half the average bull market length of 67

|Chart 8|

Bull Markets Last Longer Than You Think

Length of Bull Markets (Months) and When They Started

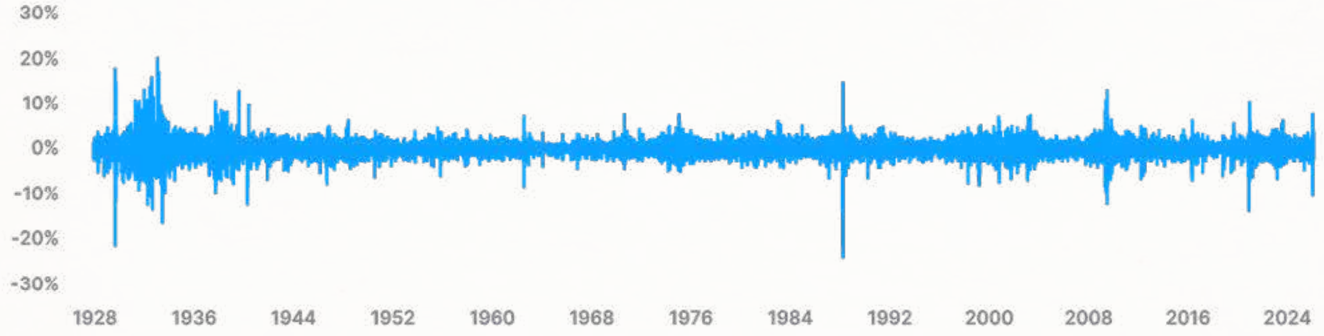


Source: Carson Investment Research, FactSet 05/28/2025

|Chart 9|

Historically, the Best and Worst Days Are Usually Close to Each Other

Two-Day Returns For The S&P 500 (1928 - Current)



Source: FactSet, Carson Group 05/28/2025

months. Going back 50 years (back to 1975), once a bull market gets into its third year, the shortest it has lasted was five years, with an average of nearly eight years |Chart 8|. Like a cruise ship that is very hard to turn once it gets moving, bull markets tend to carry their momentum forward, another reason this one could last much longer than many think.

THREE TIMELESS LESSONS

Well, apparently 2025 won't be the first year in history without any scary headlines or market volatility. If you go into each year expecting some rough patches, you'd really be doing yourself a favor, as you would be less likely to make a rash decision in the heat of the moment. The time to prepare for the storm isn't when it's happening, but before it arrives. Here are three timeless lessons we've noticed this year.

First, the worst days tend to happen near the best days |Chart 9|. We've seen so many investors over the years sell after some of the worst days, which inevitably means they will likely miss out on the best days. This year is a perfect example, as many sold after the early April crash, only to miss out on historic gains that came nearly immediately after.

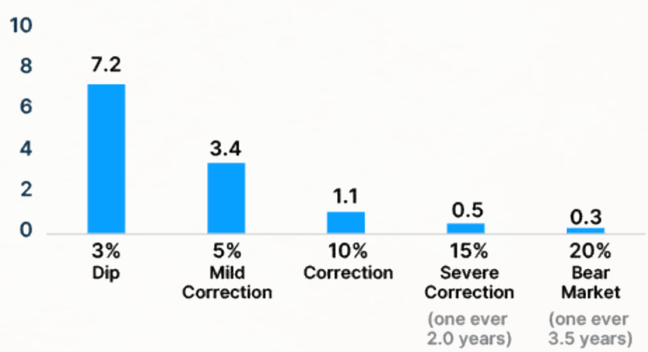
Second, we like to say volatility is the toll we pay to invest. When stocks are up 20% a year, like they were in 2023 and 2024, it is easy to forget this timeless lesson. But then we experience something like March and April, and we quickly remember. In order to benefit from longer-term gains, you have to stomach the short-term pain. Historically it is common to see a good deal of volatility during a year. In fact, a 10% correction happens once a year on average |Chart 10|.

Lastly, many have made investment decisions based on their politics, and this will nearly always backfire. Stocks have done well under Democrats and Republicans, and they've hit rough patches under each party as well |Chart 11|. Although this isn't easy to do, we preach to do all you can do separate your political beliefs from your investment philosophy.

|Chart 10|

Volatility Is the Toll We Pay To Invest

S&P 500 Various Declines Per Year (1928 - 2024)

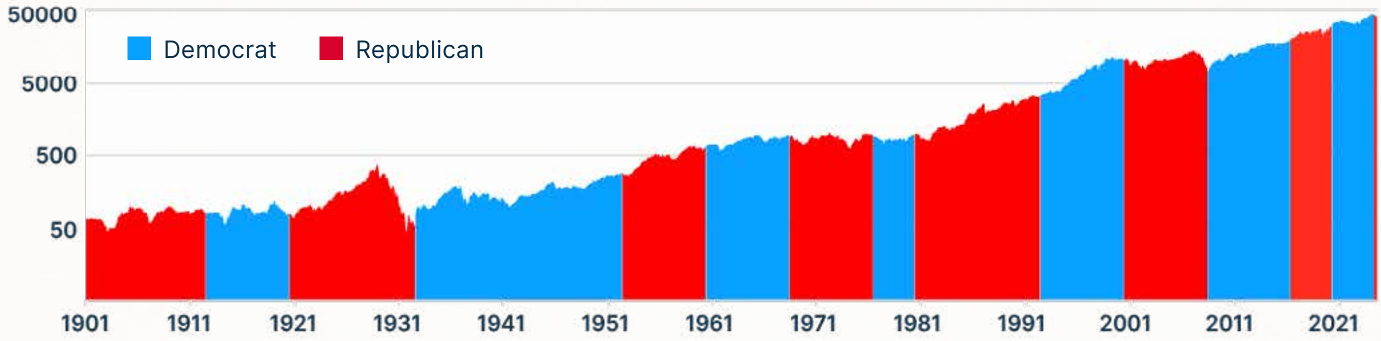


Source: Carson Investment Research, Ned Davis Research 05/28/2025

|Chart 11|

Stocks Tend To Go Up, Whoever Is in the White House

Dow Returns (Log Scale) Since Teddy Roosevelt Was In Office (1901 to Current)



Source: FactSet, Carson Investment Research 05/28/2025

EXPECTED EARNINGS X EXPECTED VALUATIONS = PRICE

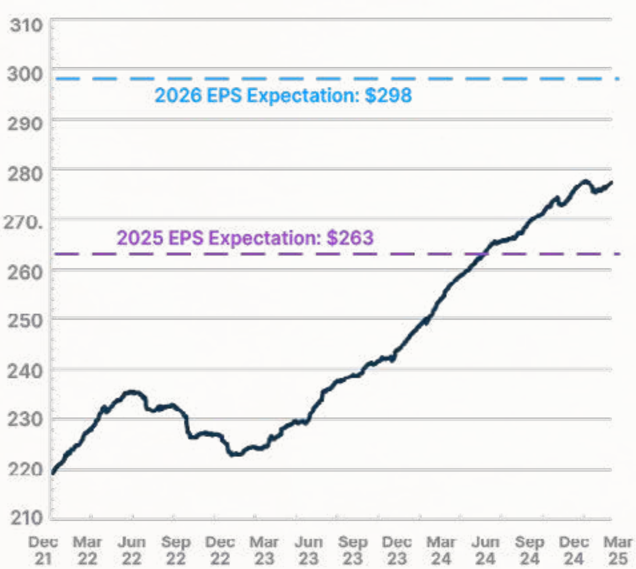
We enter the second half of the year optimistic, but it's useful to look at what stocks could do under different scenarios. When you are in uncharted waters, it's important to prepare for different outcomes even as you plot your primary course.

A standard way to forecast S&P 500 returns is to break the price into two key pieces: expected earnings per share (EPS) and the price-to-earnings ratio (P/E). Multiplying expected earnings (E) by the expected P/E (price divided by earnings) leaves you with P, the expected price. The goal of doing this is not so much to get a specific price target, but to see what it would take to get to different levels.

|Chart 12|

Forward Earnings Expectations Have Eased a Bit

S&P 500 Index - Next 12 Months Earnings Per Share



Source: Carson Investment Research, FactSet 05/31/2025

We'll use forward 12-month earnings, which at the end of 2025 will be the 2026 EPS estimate. Right now, the 2026 EPS level is at $298/share (about 3.5% below where it started the year, at $309/share) |**Chart 12**|.

The forward P/E ratio for the S&P 500 is currently between 20-21x. It was 22.4x at the end of 2024, well above the 41-year average of 15.5 |**Chart 13**|.

Keep in mind, the denominator for the P/E ratio is E, and the current 12-month forward EPS is a weighted average of 2025 EPS and 2026 EPS. The 2025 EPS estimate is currently at $263/share—about 3% below where it was at the end of 2024 (so we haven't seen a big pullback in 2025 EPS despite tariff uncertainty). And as we noted above, the 2026 EPS estimate is $298/share. Mechanically, as long as the 2026 EPS estimate remains above the 2025 estimate, we should see 12-month forward EPS continue to rise. That's true unless the EPS estimates are pulled much lower.

|Chart 13|

Valuations Still Hovering Above Historical Average

S&P 500 Forward (Next 12-Month) P/E Ratio

Source: Carson Investment Research, S&P 05/31/2025
Based on monthly data.

THE BULL CASE: LOW TARIFFS, BIG TAX BILL

The bull case is that Trump removes most tariffs or tariffs are somehow limited by the courts and Congress. It's hard to imagine that the tariffs will go back to where they were, but perhaps we're left with about 15% additional new tariffs on average—not at all trivial, but far from worst case. Ultimately, assuming we get clarity on all this, companies should be able to navigate the additional tariffs and maintain profit margins, especially larger companies with less fragile supply chains. There's no decoupling from China, no reshoring of manufacturing, no "External Revenue Service" replacing the IRS, no "Mar-a-Lago" accords (with US debt held by foreign companies restructured to much longer duration).

For the market, the best case looks like the 2026 EPS estimate remaining where it currently is, around $298/share. The P/E climbs a little over where it started the year, to near 22x, with investors not charging an additional premium for holding equities despite the uncertainty.

That scenario would bring the S&P 500 level to around 6,550 (298 x 22), which would result in a 10-12% price gain for the index over 2025. Add in dividends, and the total return for the S&P 500 may be close to 12-15%. That wouldn't be bad considering everything happening now.

THE BEAR CASE: TARIFF-DRIVEN RECESSION

This is the base case for deep pessimists given the progress we've already seen toward the bull case, and it's fairly straightforward. Tariffs on China end up close to 50-60%, with 25%+ tariffs on large trade partners like the EU and other sectoral tariffs. Compounding the pain, the Fed sits back and pauses on rate cuts as idiosyncratic goods inflation puts core PCE on track to hit 3.5-4% by the end of the year (it's at 2.5% now). Fiscal stimulus is limited (this seems very unlikely right now). As a result, the US goes into a recession over the next 6-12 months.

At the same time, it's not like all of this happens in a vacuum, with the Trump administration simply sticking to their guns on tariffs. As things start to get progressively worse, markets may start anticipating relief from the administration and/or the Fed. Maintaining the tariffs at massively high levels can lead to an adverse market reaction in addition to an actual collapse in goods imports, leading to shortages and several small- and medium-sized companies going out of business. And as we saw in April and May, we're likely to see more extreme tariffs dialed back if those scenarios start to play out.

Also, household and corporate balance sheets are in reasonable shape and not as leveraged as they were in 2007, so we should be able to avoid a financial crisis or 2008-style meltdown in markets and the economy.

|Chart 14|

S&P 500 Year-End Level Scenarios
S&P 500 Level 2025 Gain for S&P 500

	2026 EPS Scenario				
Forward PE	253 -15%	268 -10%	283 -5%	298 0%	313 5%
22	5573 -5%	5900 0%	6228 6%	6556 11%	6884 17%
21	5319 -10%	5632 -4%	5945 1%	6258 6% Bull Case	6571 12%
20	5066 -14%	5364 -9%	5662 -4%	5960 1%	6258 6%
19	4813 -18%	5096 -13%	5379 -9%	5662 -4%	5945 1%
18	4559 -22%	4828 -18%	5096 -13%	5364 -9%	5632 -4%
17	4306 -27%	4559 -22%	4813 -18%	5066 -14%	5319 -10%
16	4053 -31%	4291 -27% Bear Case	4530 -23%	4768 -19%	5006 -15%

Source: Carson Investment Research 05/31/2025

Turning to the numbers, we could see 2026 EPS downgraded by about 10% (from $298/share to $268/share) and the P/E ratio fall to about 16x (near the historical average). That would bring the S&P 500 level to about 4,300, which would be a 27% decline for the index in 2025 |**Chart 14**|. Like we said, this is the bear case amid a lot of uncertainty, so it makes sense that we would end up in a bear market.

LEANING BULLISH BUT EXPECTING VOLATILITY

It's hard to put precise odds on the bull and bear case, since it's entirely subjective and we really don't know how committed the Trump Administration is to breaking the current global trade regime and forging a completely new one. We do know that markets have already moved pretty decisively away from the downside scenario.

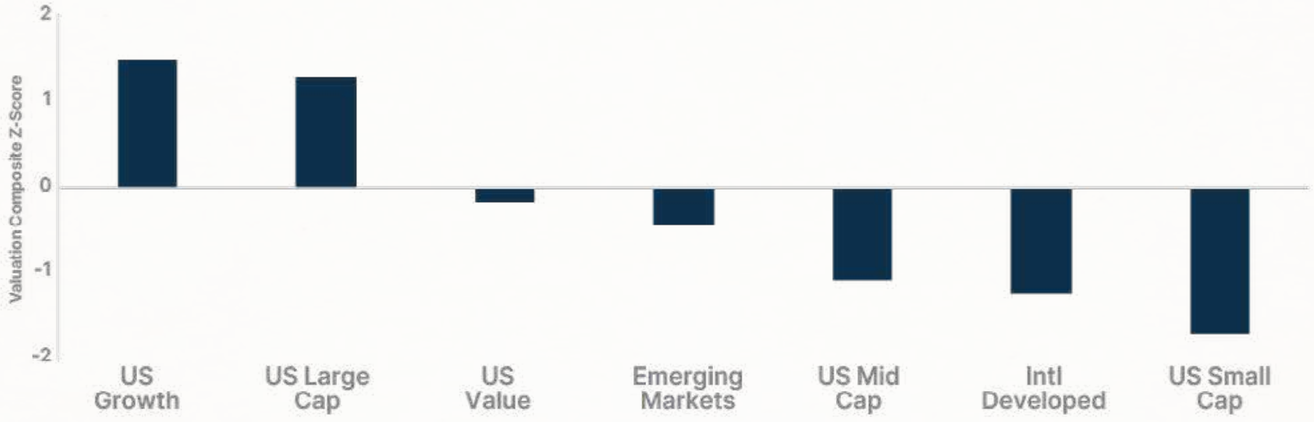
In reality, what we may get is a pinging back and forth between the bull and bear cases, with a bias toward the bull case as something closer to the final outcome. This could happen if the Trump administration becomes more emboldened or cautious with its pet tariff policies as things look respectively better or worse. Think of this as making incremental progress despite intermittently getting blown off course, where we avoid recession and corporate America shows its typical adaptability to changing circumstances. For stocks, that means gains continue with occasional bouts of volatility. Not smooth sailing, but we get there.

VALUATIONS

The story around market valuations has remained fairly consistent. Domestic large-cap stocks, large growth in particular, appear overvalued relative to their own history and the rest of the equity market.

|Chart 15|

Global Equity Relative Valuations
Valuation Composite



Source: Carson Investment Research, Morningstar Direct 04/30/2025. Relative Valuations utilize P/E, P/B, P/C, P/S ratios relative to parent index.

Emerging technologies such as artificial intelligence have led to higher growth expectations for these companies and higher valuations as a result. As we have mentioned before, this re-valuation of the market can take many years, if not decades, to fully adjust, so it should not be a primary input in short-term decision making. That being said, areas of the market that have been undervalued relative to their own history—such as certain parts of the international market and some domestic sectors—could be worth a fresh look in the back half of 2025, especially as we see performance leadership change |**Chart 15**|.

BONDS

In our Outlook 2025, we saw mild upside for the benchmark Bloomberg US Aggregate Bond Index ("Agg") versus short-maturity Treasury bills based on a better starting yield for the Agg and expectations of Fed rate cuts, which tend to lower the outlook for Treasury bills but raise the outlook for intermediate- and long-maturity bonds.

Bonds have generally held up fairly well in 2025, helped by high starting yields as 2024 closed. That both boosted the baseline expected return for the year and made it less likely that already high rates would climb meaningfully higher. This is the opposite of what we experienced in 2024, when the starting yield for the 10-year Treasury was near the bottom of its range, creating some risk of bond losses from rising rates. As of June 27, the Bloomberg US Aggregate Bond Index had returned 3.6%, compared to 2.1% for the Bloomberg 1-3 Month Treasury Bill Index.

Looking out over the rest of 2025, high starting yields still make bonds attractive as a core diversifier, but longer-term inflation uncertainty and a higher-for-longer Fed have made intermediate- and long-term bonds a little less attractive than they were at the start of the year. Below, we have comparative scenario analysis for the Agg and short maturity Treasuries under different changes in interest rates for the Agg and a fixed path for Treasury bills. Treasury bill rates depend heavily on what the Fed does, so for illustrative purposes, we've penciled in one rate cut in 2025 and two in the first half of 2026. This table looks a full year forward, and you can see that the Agg's performance relative to short-term Treasuries is very dependent on the rate environment |**Chart 16**|.

Thinking about scenarios, if we did see a recession, the Fed would likely sharply cut rates and inflationary pressure would probably

|Chart 16|

Intermediate-Maturity Bonds Outperform T-Bills Even With a Small Yield Decline

One Year Change in Yields (%)	-1.5	-1	-0.5	0	0.5	1	1.5
Projected Bloomberg US Aggregate Return	13.7	10.7	7.7	4.7	1.7	-1.3	-4.3
Projected 3-Month Treasury Return	3.8	4.0	4.3	4.5	4.8	5.0	5.3

Source: Carson Investment Research, FactSet 06/01/2025
Scenarios assume no change in spreads, a parallel change in yields, reinvestment at the current yield, and a one year holding period. Treasury bill returns assumes a cut in December and two in the first half of 2026. Indexes: Bloomberg US Short Treasury (1-3 months), Bloomberg US Aggregate Bond Index

|Chart 17|

The Best Stock Diversifier Depends on the Environment

Longer Maturity Bonds Are Often a Solid Candidate

Selected Index Performance During Major Stock Drawdowns

		S&P 500	Bloomberg US Aggregate	Bloomberg US Government: Intermediate	Bloomberg US Government: Long	Bloomberg US Treasury-Bills(1-3M)	Bloomberg Commodity Index	Bloomberg Gold
7/17/98	8/31/98	-19.2%	1.9%	2.1%	5.1%	0.6%	-9.7%	-6.3%
3/24/00	10/9/02	-47.4%	29.1%	28.7%	38.8%	10.5%	16.3%	12.4%
10/9/07	3/9/09	-55.3%	7.2%	13.2%	20.2%	2.7%	-38.1%	21.4%
4/29/11	10/3/11	-18.6%	5.4%	4.6%	28.6%	0.0%	-20.0%	6.3%
9/20/18	12/24/18	-19.4%	1.6%	2.0%	4.7%	0.6%	-7.4%	5.1%
2/19/20	3/23/20	-33.8%	-0.9%	3.5%	12.5%	0.3%	-18.9%	-2.5%
1/3/22	10/12/22	-24.5%	-14.4%	-8.4%	-28.0%	0.7%	16.5%	-7.5%
2/19/25	4/8/25	-18.7%	1.0%	2.1%	1.0%	0.6	-9.0%	1.4%
	Average	-29.6%	3.9%	6.0%	10.4%	2.0	-8.8%	3.8%
	Median	-21.9%	1.7%	2.8%	8.8%	0.6	-9.3%	3.3%

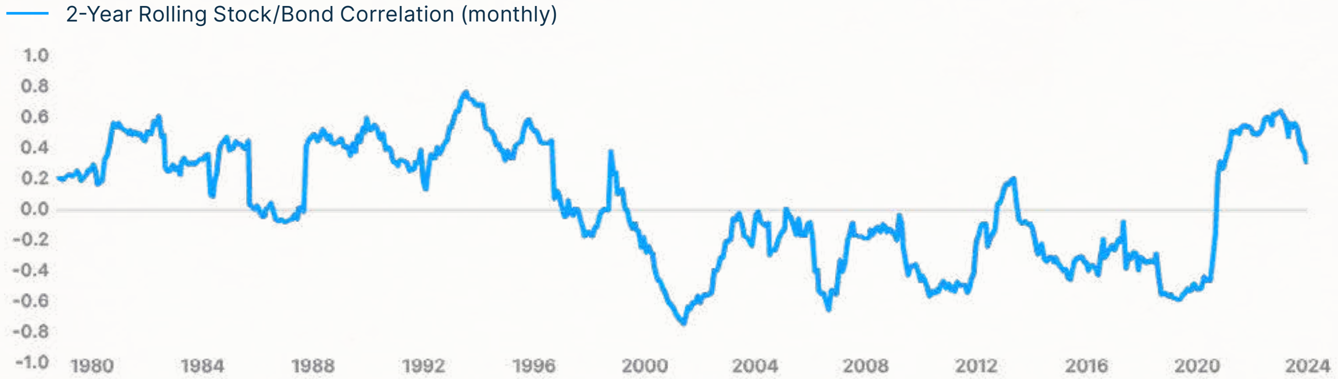
Source: Carson Investment Research, FactSet 06/15/2025
Green and salmon shading represents the best and worst diversifier for that particular stock drawdown. All indexes were effective diversifiers during the 2000-2002 so no box is shaded as "worst."

ease as demand falls, making core bonds still attractive as a diversifier, but that still depends on the particular economic environment. While bonds can be effective as a primary diversifier in many cases, they shouldn't be your sole diversifier. During some major drawdowns, gold or even broad commodities have been the best diversifier (although broad commodities tend to suffer in an economic slowdown due to the hit to demand). As we highlighted in our Outlook 2025, different diversifiers work at different times. That's especially important when you're in uncharted waters. We've added the recent near-bear market to our table of diversifier performance during major stock drawdowns going back to 1988. In this year's near bear market, intermediate Treasuries were the best diversifier, although gold also held up well and even long bonds did OK |**Chart 17**|.

One of the things we're watching out for is stock/bond correlations. Correlations are the tendency for two securities to move together. A correlation of 1 means they are completely in sync. -1 means they move opposite to one another. 0 means no correlation at all—they both march to the beat of their own drum. Correlations are important because

|Chart 18|

We May Be In a New Stock/Bond Correlation Regime



Source: Carson Investment Research, FactSet 06/15/2025
Stocks represented by the Russell 1000 Index; bonds represented by the Bloomberg US Government: Intermediate Index.

they play an important role in risk diversification. From a diversification perspective, the lower the correlation, the better.

We have now been in a multi-year period where stock/bond correlations have been higher than their historical average of 0.1. Above, we have a history of the rolling two-year correlation between stocks (Russell 1000) and bonds (intermediate Treasuries) |Chart 18|. We chose two years to avoid distortions from the depths of the bond rout in 2022. Note that we do see some of those lowest correlations during major crises, when bonds acted as an effective diversifier. Their effectiveness of late has not been as strong, and for reasons discussed below, we may continue to see this more frequently. Treasuries are still a favorite safe haven under many scenarios. But recent history reminds us that low correlations aren't a given.

AN OLD BOND RISK RETURNS

The yield on a 10-year Treasury can be broken into two components: Fed expectations and compensation for uncertainty, or the "term premium." If there was no term premium, it would mean investors are indifferent between holding a longer-term Treasury and holding a very short maturity Treasury and simply rolling it into a new one when it matures. Now, if you hold a longer date Treasury to maturity, you know the price you'll get (par), so in a way, the price fluctuations don't matter. But if you potentially have to sell before maturity or are actively managing a bond portfolio, those fluctuations can mean a lot. Investors usually demand a higher yield for that uncertainty.

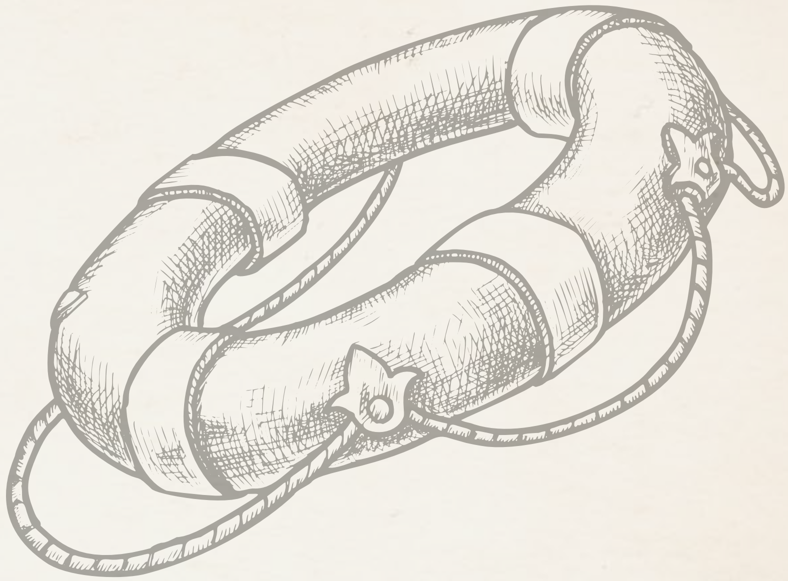
The term premium encompasses a lot of kinds of risk: inflation uncertainty (and volatility), uncertainty about the path of rates, changing patterns in supply and demand, sentiment. But collectively, it's that extra compensation for risk. There's no data that directly captures the term premium, since you need to know the future path of Fed policy, and that has to be modeled. There are a lot of versions of term premium models, but let's take a look at the term premium on a 10-year Treasury that the Fed shares.

|Chart 19|

Term Premium Pushing Yields Higher

Markets are demanding more compensation for holding longer bonds.

Source: Carson Investment Research, Federal Reserve 6/15/2025



The chart below captures a longer history of the term premium |Chart 19|. If you could zoom in, you would see the term premium dive after 2014, eventually hitting negative territory in 2016-20.

Negative term premia don't really make sense if you think about it for a moment. Why would anyone charge a negative premium for holding a long-term bond instead of a series of short-term ones? Here are a couple of reasons:

» Inflation was low and, crucially, there was very little inflation volatility.

» We had huge demand for Treasuries, well beyond supply (which would drive the term premium lower), including as a portfolio diversifier since the stock-bond correlation was negative.

The term premium surged after 2020, driven by a much larger supply of Treasuries (amid massive fiscal stimulus). However, it retreated in the second half of 2021 and stayed relatively low even in 2022, when we experienced the highest inflation in 40+ years. It was only in late 2023 that the term premium started to move aggressively higher once again, and in recent months (and weeks), it's moved even higher.

When the term premium moves higher, it could be because of one or both of two reasons (broadly speaking):

- More inflation volatility
- Excess supply of Treasuries (beyond what demand can/wants to meet)

Arguably, we have both now, and the term premium hit its highest level in more than a decade earlier this year, returning to a level more characteristic of the 2000s. There is still room for the term premium to expand, potentially putting some additional upward pressure on interest rates.

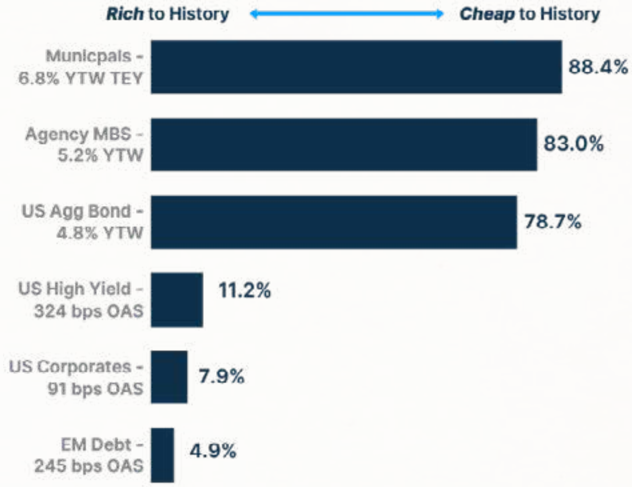
BOND VALUATIONS

We have observed higher levels of volatility not only in equities, but fixed income as well. Treasury yields have swung in a wide range since the fall of last year, and credit spreads have fluctuated alongside economic growth expectations. Despite these fluctuations, the value in fixed income is generally still found within high-quality parts of the market. In a fixed instrument like a bond, this risk-reward can be much clearer than within equities, where it may take years to play out. High-yield spreads have widened this year, and in particular in April, but never exceeded 450bps (4.5%) over that of comparable Treasuries, below the long-term average of more than 520bps. Relative to history, agency mortgages, the Agg (which includes Treasuries, agency mortgages, and investment-grade corporates), and municipal bonds trade at attractive levels. These areas also carry little to no credit risk. This combination of historical attractiveness and low credit risk makes them attractive components of a portfolio |**Chart 20**|.

|Chart 20|

Fixed Income Valuations

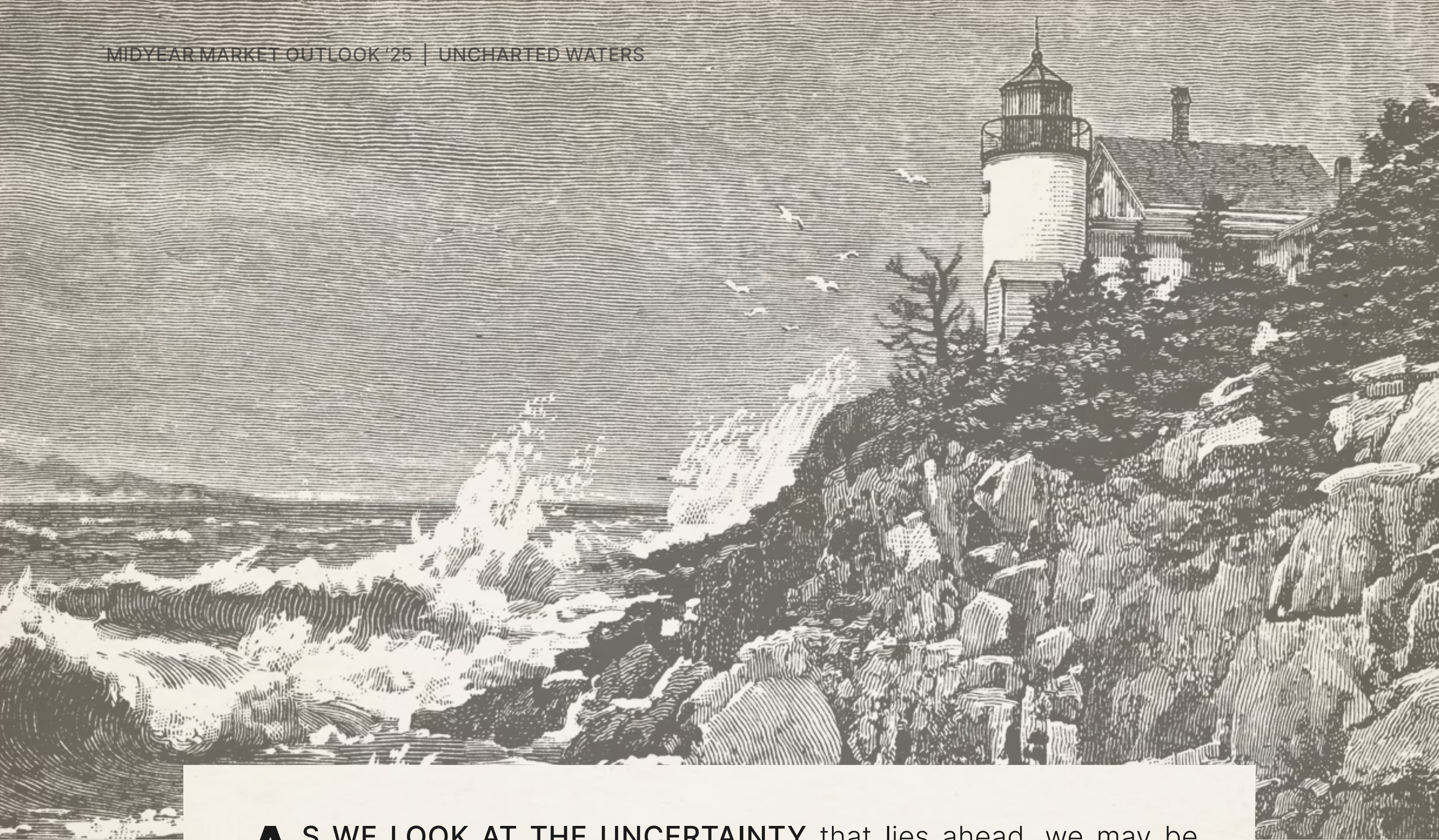
20-year Percentile Rank - YTW and OAS



Source: Carson Investment Research, FactSet 05/28/2025
YTW: Yield to Worst, OAS: Option Adjusted Spread, TEY: Tax Equivalent Yield

BOND POSITIONING

We remain tactically underweight bonds relative to our benchmark, due both to our equity overweight and our use of other diversifiers. Nevertheless, bonds still play an important role in a portfolio. We have tactically lowered the target rate sensitivity of our bond positioning by adding short maturity bonds and lowering, but not completely removing, our long Treasury position. The focus in our bond allocations is on high quality, and we're overweight Treasuries (including Treasury inflation-protected securities, or TIPS), preferring to take on equity-like risk in other parts of our allocations. Credit spreads had expanded during the market selloff earlier this year, but quickly contracted again during the market rebound and remain tight (expensive) relative to history.



AS WE LOOK AT THE UNCERTAINTY that lies ahead, we may be without high conviction, but we certainly are not without informed opinions. We still favor equities over bonds. We have moved meaningfully overweight US large caps compared to small and mid-caps. Bonds remain a core holding in our allocations, but we are looking for other ways to diversify portfolios as well, including some exposure to gold, but also select equity factor exposure and even international diversification.

But in uncertain times especially, we are as focused on trying to create well-diversified, robust portfolios as on our market calls.

Here's a way of looking at what that means. If you go to the ***SEC's investor education page on diversification****, you will find a large yellow callout box prominently featured in large type, the whole box highlighted a bright yellow as if to say, "Look at me." The title of that box is "The Magic of Diversification." Think about that. The SEC is comfortable enough with the principles of diversification and what it can accomplish that it uses what otherwise might be a forbidden word when talking about investing: magic. There are not many times in the investing world where using the word "magic" will pass compliance muster, but not only is it used, it is highlighted. Here's how it's described:

"By picking the right group of investments, you may be able to limit your losses and reduce the fluctuations of investment returns without sacrificing too much potential gain."

*https://www.sec.gov/about/reports-publications/investorpubsassetallocationhtm

A cautious statement, granted, but it also speaks to the feasibility of what good portfolio construction can accomplish through diversification.

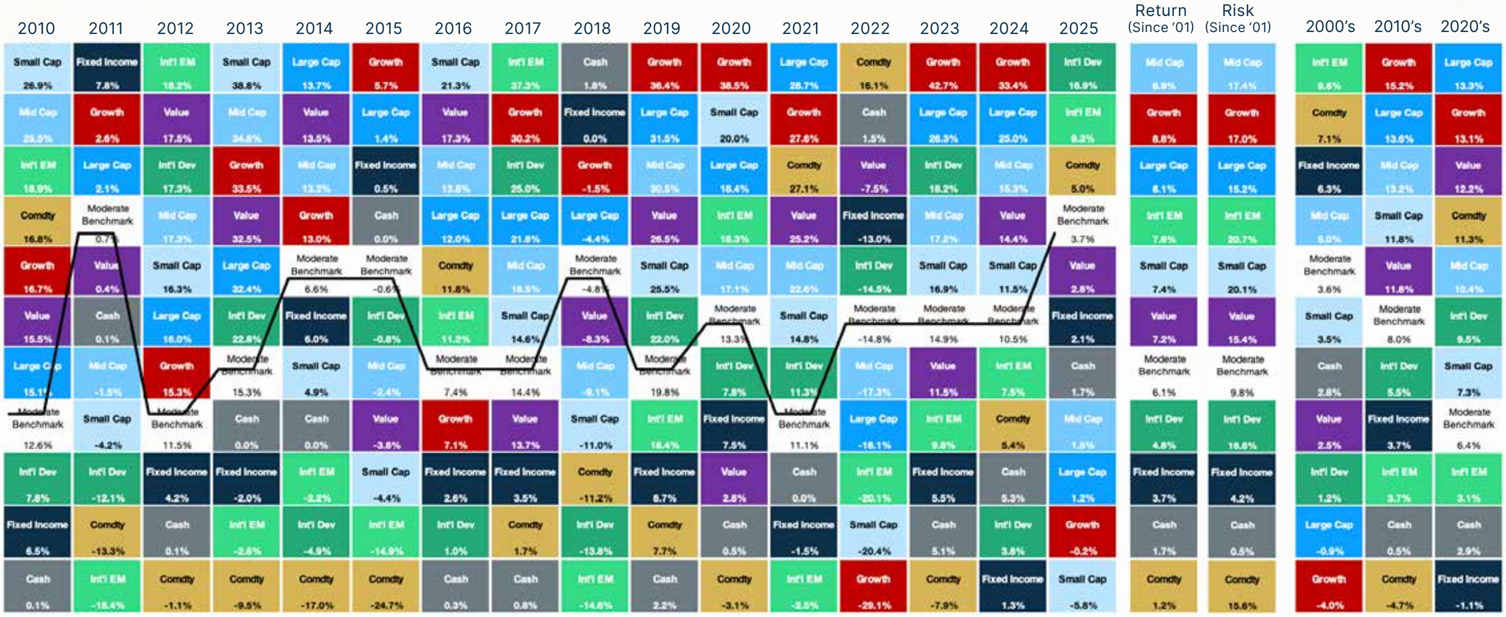
"Diversification is the only free lunch" is one of the oldest tenets in investing, and the evidence of that is clearly playing out this year. After two strong years of a growth-led market, market turbulence in 2025 (which started with DeepSeek) has led to a near inversion of the prior year's broad asset class leadership. International stocks have taken the crown so far this year in a big way, with a 17% outperformance spread versus as of the end of May. This comes at a time when investors are likely well overweight US Growth as a result of its outperformance—whether it be performance chasing or a lack of rebalancing. A well-balanced benchmark, which should be an investor's starting point, has fared particularly well this year and serves as an important reminder of the power of rebalancing and diversification, especially in times of uncertainty |Chart 21|.

We love sharing our returns quilt chart because there are so many important market lessons to be found in it. Among them, while it's true we are emphasizing uncertainty as we sit at midyear 2025 and we certainly think it merits attention, variation in returns is the norm.

|Chart 21|

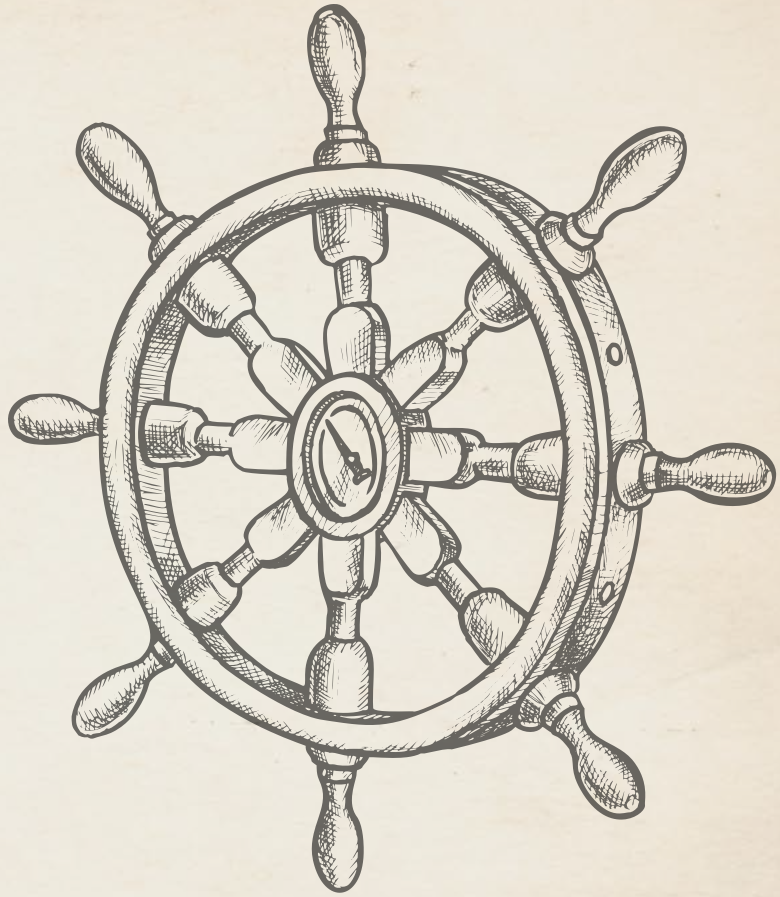
Carson Quilt Chart

Returns for Various Sectors (2010-2025)



Source: Carson Investment Research, Morningstar Direct as of 5/28/2025. Moderate benchmark consists of 14% S&P 500 TR, 8% Russell Mid Cap TR, 4% Russell 2000 TR, 8% Russell 1000 Value TR, 8% Russell 1000 Growth TR, 18% MSCI ACWI Ex-USA NR, 35% Bloomberg US Agg Bond TR, 5% Bloomberg US Treasury 1-3M TR

Here is our advice when navigating such uncharted waters:



» Make your investing choices, but realize you are in an environment that can change quickly.

» Don't get too caught up in sentiment. It rarely leads you to good decisions and often leads to bad ones.

» Pay attention to principles of good portfolio construction, especially diversification.

» But most importantly, find a mentor, confidant, or advisor with the right background to help you formulate a long-term investing plan, and stick to it during turbulent times.

Have a safe journey as we look ahead to the second half of the year.

Investors cannot invest directly in indexes. The performance of any index is not indicative of the performance of any investment and does not take into account the effects of inflation and the fees and expenses associated with investing.

Additional risks are associated with international investing, such as currency fluctuations, political and economic stability, and differences in accounting standards.

Due to volatility within the markets mentioned, opinions are subject to change without notice. Information is based on sources believed to be reliable; however, their accuracy or completeness cannot be guaranteed. Past performance does not guarantee future results.

The S&P 500 is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

A diversified portfolio does not ensure a profit or protect against loss in a declining market. This is not intended to provide specific legal, tax, or other professional advice. For a comprehensive review of your personal situation, always consult with a tax or legal advisor. The return and principal value of stocks fluctuate with changes in market conditions. Shares when sold may be worth more or less than their original cost. Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns. A diversified portfolio does not ensure a profit or protect against loss in a declining market. The Bloomberg U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds. The MSCI World ex-U.S. Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries -- excluding the United States. With 871 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

This piece contains statements related to our future business and financial performance and future events or developments involving Carson that may constitute forward-looking statements. These statements may be identified by words such as “expect,” “look forward to,” “anticipate” “intend,” “plan,” “believe,” “seek,” “estimate,” “will,” “project” or words of similar meaning. Such statements are based on the current expectations and certain assumptions of Carson Group’s management, of which many are beyond Carson Group’s control. These are subject to a number of risks, uncertainties and factors which if one or more of these risks or uncertainties materialize, or should underlying expectations not occur or assumptions prove incorrect, actual results, performance or achievements of Carson Group may (negatively or positively) vary materially from those described explicitly or implicitly in the relevant forward-looking statement. Carson Group or any affiliates Carson Group neither intends, nor assumes any obligation, to update or revise these forward-looking statements in light of developments which differ from those anticipated.

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