JOHNSON INVESTMENT COUNSEL

Quarterly *Insight*

2025
SECOND QUARTER

Featuring

Market *Update*

FROM THE DESK OF CIO CHARLES RINEHART, CFA, CAIA

Summer has arrived, and the first half of 2025 is officially in the books. For anyone just tuning in, market results might seem fairly ordinary: the S&P 500 is up 6.2%, positioning us for a slightly above-average year, and bonds are performing in line with expectations, with the Barclays Aggregate Bond Index up 4.0%. But anyone following closely knows this year has been anything but normal.

When we last wrote, the S&P 500 was in the midst of a significant bear market downturn. Concerns around waning optimism for AI-related spending, combined with the Trump administration's pledge of new global tariffs, had markets retreating from the lofty valuations seen at the start of the year. These fears peaked after April 2nd, "Liberation Day," when the administration announced reciprocal tariffs proportional to the U.S. trade deficit with each trading partner.

Economists and analysts anticipated tariffs, given President Trump's frequent declarations of "tariff" as "the most beautiful word in the dictionary." However, the magnitude caught everyone by surprise. The proposed rates surpassed even those of the infamous Smoot-Hawley Tariff Act of 1930, widely seen as a factor in deepening the Great Depression. Markets reacted sharply, with selling pressure accelerating dramatically in early April, causing the S&P 500 to drop more than 10% over just four trading sessions.

Just one week later, on April 9th, the administration announced a 90-day pause on reciprocal tariffs to allow time for negotiations. Markets rejoiced—within hours, the S&P 500 surged over 9%, and the Nasdaq Composite soared 12%. Things change fast around here.

Tariff concerns had begun influencing analyst forecasts for 2025, but a solid first-quarter earnings season helped steady investor sentiment. While consumer and investor sentiment surveys remained cautious, economic data, particularly around the labor market and inflation, continued to impress positively through the quarter. Investors gradually shifted their attention back to the promising outlook for artificial intelligence, fueling a strong recovery for technology and growth stocks, which had suffered the most in the first quarter.

Then came another unexpected jolt in June. Israel launched attacks targeting Iran's nuclear program, sending oil prices sharply higher, raising concerns about potential pressures on businesses, consumers, and inflation. Geopolitical tensions escalated further as the United States joined the conflict, targeting nuclear sites directly. Markets nervously awaited Iran's response, fearing a closure of the strategic Strait of Hormuz, through which roughly 20% of global petroleum liquids pass. When Iran's reaction left room for de-escalation, energy markets breathed another sigh of relief. Despite a 31% intra-quarter spike, oil prices fell by 9% over the full quarter. Again, things change fast around here.

As if geopolitical tension and trade disruptions weren't enough, Congress spent much of the quarter negotiating a significant tax bill via reconciliation. With the

Total *returns*

	2Q 2025	2025
S&P 500	10.9%	6.2%
DOW JONES INDUSTRIAL AVERAGE	5.5%	4.5%
NASDAQ	18.0%	5.9%
RUSSELL 2000	8.5%	-1.8%
MSCI EAFE (INTERNATIONAL)	11.8%	19.5%
BLOOMBERG U.S. AGGREGATE BOND INDEX	1.2%	4.0%

Our *divisions*

WEALTH MANAGEMENT

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TRUST COMPANY

ASSET MANAGEMENT

2017 Tax Cuts and Jobs Act (TCJA) set to expire at the end of 2025, Americans faced potentially significant tax increases. Meanwhile, ballooning budget deficits post-COVID had many investors and policymakers focused on fiscal responsibility. Ultimately, Congress passed the "One Big Beautiful Bill Act," which kept TCJA tax cuts in place but also ensured deficits will continue growing for the foreseeable future.

As mentioned above, after all this turbulence, we stand at +6% for the S&P 500 and +4% for the Barclays Aggregate Bond index—a slightly above-average return, despite the extraordinary events.

> Simply put, investors are currently receiving limited compensation for *taking on risk.*

As we emphasized at the close of the first quarter, maintaining your strategic plan through volatile times remains essential. Now, as markets swing back towards optimism, we advise caution once again. Current market pricing reflects very low perceived risk—P/E multiples are nearing highs, credit spreads have tightened significantly, and the VIX, a measure of market volatility, has returned to calm levels. Simply put, investors are currently receiving limited compensation for taking on risk. Meanwhile, the tariff issue remains unresolved, now delayed to August 1, leaving future impacts uncertain.

For now, markets seem content to climb the proverbial "wall of worry." Our advice remains consistent: stay focused on the long term, manage risks through diversification and quality securities, and avoid reacting too strongly to short-term market fluctuations. Remember, things really do change fast around here.

As always, thank you for your continued trust and confidence. Please feel free to reach out with any questions or concerns. Until next time, be well.

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***Chief Investment Officer, Charles Rinehart, CFA, CAIA,** leads our dedicated team of research analysts and portfolio managers as they manage our investment strategies to deliver financial peace of mind to our clients.*

JIC BLOG: BEYOND THE NUMBERS

The Comfort of *Conservative Investing*

THE COMFORT OF CONSERVATIVE INVESTING: BALANCING PEACE OF MIND WITH LONG-TERM GROWTH

For many approaching or in retirement, the portfolio becomes more than just a balance of stocks and bonds—it represents a cash flow lifeline and a potential legacy for future generations. So, it's perfectly understandable to minimize anxiety, opting for stable returns and lower volatility. But what if that peace of mind comes at a cost—The cost of long-term financial opportunity? How can we balance these competing priorities?

We often meet with clients who have done all the right things: save diligently, live below their means, and hold a portfolio designed to support their goals and sustain their lifestyle for decades. Yet, when we discuss asset allocation, particularly the equity portion, many feel an emotional pull toward conservatism. Their instinct tells them to reduce or eliminate stock exposure in favor of a higher allocation to bonds and cash equivalents. This instinct is not wrong—it's human. But it may not be optimal.

Much of this gut feeling is the result of a transition to retirement—an entirely new phase of life that requires an entirely new approach to investing. Done well, we must explore, then optimize, this tension between psychological comfort and financial growth. The most satisfying answer often lies in a well-researched and maintained balance of both.

THE CONSERVATIVE ALLOCATION CONUNDRUM

At its core, the issue is this: a significant portion of affluent investors allocate far more of their portfolios to bonds and cash than traditional models would recommend, especially for their age or time horizon. This often stems from fear—of market volatility, the potential for a long and expensive health event, outliving their assets, or simply of the unknown.

These feelings aren't irrational. In fact, they're rooted in lived experience. Many retirees have vivid memories of the dot-com crash of 2000, the 2008 financial crisis, and the sudden pandemic downturn in 2020. They've seen the market's downsides up close, and the scars run deep. When clients say, "I just don't want to lose money," they're not quoting an investing maxim—they're expressing a real fear and speaking from the heart. But while fear is a powerful motivator, it's not a great investment strategy. That's because avoiding market risk by overweighting fixed income can introduce another, quieter risk—erosion of purchasing power and foregone growth.

EQUITY VS. FIXED INCOME: A CENTURY OF RETURNS

The data paints a clear picture. Over the last 100 years, the average annual return for U.S. large-cap equities (as measured by the S&P 500) has been 10% per year. Meanwhile, long-term US government bonds (as measured by 10-year Treasury bonds) have averaged 5.8% and cash equivalents like Treasury bills (3-month U.S. Treasury bills) have returned closer to 3%. These are nominal returns, of course, before backing out around 3.3% annual inflation over that time.

But averages can mask volatility. That's where rolling return data offers deeper insight. (Rolling returns are a series of periods of the same length.) For instance, 1-year rolling US equity returns (using the S&P 500) have ranged from –41% to +60%, while 10-year rolling US equity returns have averaged 11.4%, with a much narrower range of –4% to +21%. By contrast, 10 Year U.S. Treasuries have been far more stable, with 10-year rolling returns ranging from 1% to about 15% and averaging 5.8% across most periods.

Perhaps most compelling: in 20-year rolling periods, U.S. equities have consistently posted positive returns—averaging 11.1%, with ranges between +5% and +18%. More than three-quarters of the time, 20-year U.S. equity returns exceeded 8% annually. 10 Year U.S. Treasuries, by comparison, remained in the modest but steady 2–12% range.

This reinforces the idea that while equities can be unpredictable in the short term, time has historically been the great equalizer, smoothing out volatility and favoring disciplined investors who can endure the inevitable volatility and stay the course.

ADVANTAGES OF A CONSERVATIVE PORTFOLIO

Let's be fair, there are legitimate advantages to a conservative allocation. The chief among them is predictability. Bonds and cash offer stable, more predictable returns. They don't swing wildly in value.

Then there's the subjective benefit of peace of mind. Some clients sleep better knowing they won't wake up to headlines about a market drop slicing 20% off their portfolio and the anxiety of seeing those red numbers across the TV and the portfolio reports. For many, this calm is worth the tradeoff, the comfort of stability is not just a preference, it's a priority.

Additionally, conservative allocations do need to be accounted for matching near-term and known liabilities, such as spending needs, planned gifts, or legacy assets intended to be preserved rather than grown. This can be accomplished with a laddered bond strategy to deliver reliable income with minimal surprises, especially if the cashflows tie closely to a detailed and accurate estimate of expected living expenses. With interest rates no longer at historic lows, fixed income is once again a reasonable contributor to a diversified plan.

THE TRADEOFFS: OPPORTUNITY COST AND PURCHASING POWER

Still, there's no escaping the opportunity cost. A portfolio overly concentrated in fixed income forfeits the compounding power of equities. This may not be immediately visible, but over 20 or 30 years, the risk is missing the view of the "forest" for the "trees" and can create a massive gap in terminal value. When accounting for inflation, a persistent reality in any economy and a heightened risk with historically high government debt levels, the real returns of bonds and cash often fail to keep up with the rising cost of living.

Consider a retiree drawing 4% annually from a portfolio invested largely in bonds yielding 4–5%. At first glance, this looks sustainable. But if inflation averages 3% (or more), the real return is only 1–2%, which barely keeps pace and does not grow the portfolio. Factor in taxes, unexpected expenses, or longer-than-expected longevity, and the cracks start to show.

Beyond personal lifestyle needs, an overly conservative portfolio can have lasting implications for the next generation and beyond. Lower long-term growth may significantly reduce the eventual size of the estate, meaning heirs could inherit substantially less. For families with meaningful legacy goals, this erosion of generational wealth can be one of the more sobering tradeoffs of an under-allocated equity position.

FINDING THE RIGHT BALANCE

Fortunately, this isn't an all-or-nothing choice, and this is where conversations and knowledge of personalities and family dynamics are critical. In fact, some of the most successful retirement strategies incorporate enough fixed income to fund near- and mid-term spending needs, typically 5–7 years' worth, but leave the remainder of the portfolio invested for long-term growth, assuming the volatility can be endured.

By matching the asset to its intended purpose, we aim to construct portfolios that are both emotionally and financially resilient. You don't need to "swing for the fences" with a 100% stock allocation to grow wealth. But you should also avoid hiding in the safety of cash and bonds, hoping inflation and longevity won't catch up with you.

Ultimately, the right allocation is the one a client can stick with in both good times and bad times. The biggest detriment to long-term portfolio performance usually isn't volatility itself, it's the behavioral tendency to sell low during market

(article continued)

Conservative *Investing*

downturns and buy high during euphoric rallies. A disciplined, well-matched allocation provides the emotional stability needed to avoid these costly mistakes and stay the course.

Perhaps most importantly, achieving this balance requires the guidance of a wealth advisor who can map out long-term cash flow projections. With proper modeling, clients can confidently align their spending today with their goals for tomorrow—maximizing quality of life now while still supporting legacy and philanthropic intentions. An informed plan brings clarity to complex decisions and allows clients to live with intention and peace of mind.

CONCLUSION: PLANNING FOR BOTH THE HEART AND THE HEAD

Investing is never purely rational. It's a deeply personal process influenced by our experiences, family history, fears, and hopes for the future. For some, a conservative portfolio provides the emotional security they need to enjoy retirement without anxiety. It's hard to argue the value.

However, it's important to recognize that emotional comfort often comes at a financial cost and it's our role to enumerate and articulate this dynamic. In working with families, we aim to strike a balance—crafting an allocation that honors both the head and the heart. The key is not to choose between growth and peace of mind but to design a plan that offers enough of both. That way, you're not just protecting your portfolio, you're protecting your future and your legacy.

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Upcoming *webinars*

Are you, a family member, or friend a current or former Procter & Gamble employee? This webinar is designed to help owners of the P&G Profit Sharing Trust (PST) understand how the proceeds may be distributed and invested, and how taxes are impacted.

SCAN TO REGISTER

Retirements

MOELLER

Johnson Investment Counsel congratulates Client Support Assistant Carolyn Moeller on her retirement. Carolyn became a part of the Johnson team in 2018.

Michael Stanis, Portfolio Manager and P&G Retirement Plans Director shared: "It was a pleasure having the opportunity to work with Carolyn. Carolyn developed great relationships with those she helped. Her work was very thorough, and one of her strengths was attention to detail. We will miss Carolyn and wish her well as she retires and spends more time with her children and family."

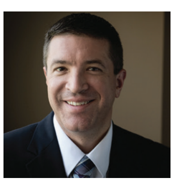
WERTZ

Johnson Investment Counsel congratulates Senior Portfolio Manager Jay Wertz, CAP®, CFP® on his retirement. Jay joined the Johnson team in 1998.

Bret Parrish, President of our Private Client Group shared: "I've had the privilege of working with Jay for the past nearly 25 years and seeing him consistently deliver peace of mind to our clients through their life's journey. He has been an example of wise counsel, exemplary service, and what it looks like to deeply care for clients. Congratulations to Jay for a wonderful career and we wish him the best in retirement."

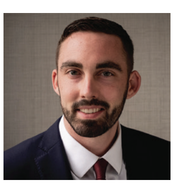
New *shareholders*

For more than 20 years, Johnson Investment Counsel has been 100% employee-owned. This independence allows our employees to focus on serving our clients without any pressure from external shareholders. We are pleased to announce and congratulate six new shareholders of the firm: Manager of Trust Services and Senior Trust Officer Josh Basinger, Client Portfolio Specialist Alex Bey, Senior Portfolio Manager David Christian, Senior Research Analyst Chris Godby, Director of Southeastern Michigan Market and Senior Portfolio Manager Joe Henderson, and Senior Portfolio Manager James Wineland.



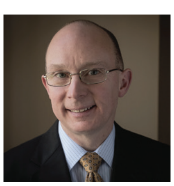
JOSHUA BASINGER ESQ., CTFA
Manager of Trust Services
Senior Trust Officer
Principal

ALEX BEY, CFA
Client Portfolio Specialist
Principal

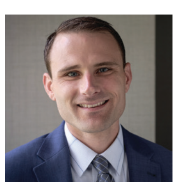


DAVID CHRISTIAN CFA, CFP®
Senior Portfolio Manager
Principal

CHRISTOPHER GODBY CFA
Senior Research Analyst
Principal



JOSEPH HENDERSON CLU®, CFP®
Director of Southeastern Michigan Market, Senior Portfolio Manager, Principal



JAMES WINELAND CFP®, CIMA®, AIF®
Senior Portfolio Manager
Principal

JOHNSON INVESTMENT COUNSEL

About *us*

Johnson Investment Counsel is one of the nation's largest independent wealth management firms, managing more than $21 billion in assets for clients in 50 states. Johnson Investment Counsel is an employee-owned firm, offering a full range of fee-only, integrated wealth management services, including: investment portfolios, education and retirement planning, cash management, estate planning, trust services, charitable giving, mutual funds, 401(k) plans, IRAs, and more. Johnson Investment Counsel has built strong, long-term relationships with individuals, families, charitable organizations, foundations, and corporations through four integrated divisions.

Our *divisions*

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FAMILY OFFICE SERVICES

TRUST COMPANY

ASSET MANAGEMENT

If you are a client of Johnson Investment Counsel, you should receive account statements on at least a quarterly basis directly from the qualified custodian that holds and maintains your assets. You are urged to carefully review all custodial statements for accuracy. If you are not receiving custodial statements, please contact our Chief Compliance Officer, Scott Bischoff at (513) 661-3100.

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New *designations*

We are committed to continuing education to provide personal development for our employees and better service to our clients. We are pleased to announce that this individual has earned a new designation. Congratulations to Nathan Nichols, CFA, who has earned the Chartered Financial Analyst® designation.

NICHOLS

New additions to *the team*

We are pleased to announce that these individuals have joined our team over the last several months:

- **KENTON CARRELL | CINCINNATI**
  Portfolio Manager Assistant
- **LAURIE DRAGGOO | CINCINNATI**
  Front Desk Associate
- **MARK HOLLICK | CINCINNATI**
  Director of Intermediaries & Client Service
- **TREY HORVATH | CINCINNATI**
  Portfolio Manager Assistant
- **ANA LUCIA HUFF | CINCINNATI**
  Portfolio Manager Assistant
- **JACOB KINGSLEY | CINCINNATI**
  HR Generalist
- **MICHAEL MATTIMORE | CLEVELAND**
  Portfolio Manager Assistant
- **CHRIS VASSILOPOULOS | CINCINNATI**
  Director of Institutional Business Development
- **BECKY VEID | CINCINNATI**
  Portfolio Manager Assistant
- **EVAN VOLLMER | CINCINNATI**
  Portfolio Manager Assistant

CARRELL

DRAGGOO

HOLLICK

HORVATH

HUFF

KINGSLEY

MATTIMORE

VASSILOPOILOS

VEID

VOLLMER