

# BESPOKE BRIEFING



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Bespoke Private Wealth Group  
of Wells Fargo Advisors

## **The 2025 Economic Landscape: What's Real, What's Noise, and What Matters to You?**

As we move through the first quarter of 2025, the economic and market landscape remains complex, shaped by the policies of a new administration, signals from the Federal Reserve, and shifting capital market dynamics. For ultra-high-net-worth families, the challenge is not just understanding what's happening, but discerning what truly matters and what actions may be most prudent for preserving and growing wealth.

*At Bespoke Private Wealth Group of Wells Fargo Advisors, we believe successful wealth stewardship is built on clarity, discipline, and adaptability. The goal is not to predict every short-term market fluctuation, but to recognize the trends that will shape long-term outcomes. This edition of *Bespoke Briefings* focuses on the most pressing macroeconomic developments, capital market conditions, and key portfolio considerations to help you make informed decisions that align with your goals.*

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### **A New Administration and Policy Shifts: Separating Signal from Noise**

The transition to a new administration has introduced a fresh set of economic policies, many of which have direct implications for investors. Among the most notable developments:

- **Trade Policy Overhaul:** New tariffs, including a 25% levy on imports from Canada and Mexico and a 10% tariff on Chinese goods, could drive up prices and provoke retaliatory measures. While these policies may benefit domestic manufacturers, they could also contribute to inflation and impact global supply chains.
- **Tax Policy Adjustments:** Early discussions suggest potential tax code revisions, including adjustments to capital gains tax rates and estate tax exemptions. While legislative outcomes remain uncertain, families should be proactive in evaluating estate planning and wealth transfer strategies.
- **Regulatory and Energy Policy Shifts:** Proposed regulatory changes in technology, finance, and energy sectors could create winners and losers in the public and private markets.

### **Why This Matters to You:**

For wealth stewards, economic policy is not just about markets - it influences the long-term investment environment, estate planning strategies, and business decision-making. The key is to remain adaptable, ensuring that family wealth is positioned to navigate changing tax laws, economic policies, and global risks.

### **Potential Actions to Consider:**

- Review existing estate plans to ensure alignment with potential tax law changes.
- Assess business exposure to trade policy shifts and explore risk mitigation strategies.
- Evaluate opportunities in domestic investments that may benefit from policy-driven tailwinds.

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## **The Federal Reserve, Inflation, and Interest Rates: What Comes Next?**

In its most recent meeting, the Federal Reserve maintained the federal funds rate at **4.25% to 4.5%** signaling a more cautious approach than some had expected. Despite political pressure to cut rates, the Fed remains vigilant against inflation, balancing the risks of economic overheating with the need to support long-term growth.

- **Inflation Trajectory:** Inflation remains somewhat elevated, driven by wage growth, persistent housing costs, and supply chain adjustments. While it has moderated from post-pandemic peaks, inflation remains above the Fed's long-term target of 2%.
- **The Yield Curve:** The yield curve remains relatively flat, reflecting economic uncertainty. Historically, an inverted yield curve has been a warning sign for slowing economic growth, making bond positioning especially important.

## Why This Matters to You:

For investors, Fed policy influences borrowing costs, bond yields, and asset valuations. The current environment presents challenges and opportunities for both fixed income and equity investors.

## Potential Actions to Consider:

- **Fixed-Income Positioning:** Consider balancing short-term and long-term bond exposure to capture yield opportunities while managing duration risk.
  - **Credit Market Vigilance:** With consumer leverage rising and corporate debt levels high, credit selection is critical.
  - **Alternative Investments:** Private debt and secondary private equity strategies may continue to offer compelling returns in a high-rate environment.
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## Equity Market Valuations and Portfolio Positioning

The S&P 500 has delivered strong returns over the past three years, averaging **approximately 15% annually**, well above historical norms of **9-10%**. However, much of this outperformance has been driven by a narrow group of companies - the so-called "**Magnificent Seven**" - which now represent a historically high percentage of total market capitalization.

- **Valuations are Elevated:** The forward price-to-earnings (P/E) ratio for the S&P 500 is currently **22x**, compared to a long-term average of **16x**.
- **Small Caps Remain Under Pressure:** While large-cap stocks have surged, small-cap stocks have underperformed, now trading at a 30% discount to large caps based on forward earning multiples.

## Why This Matters to You:

Investors should be mindful of valuation risks, particularly when concentrated in a handful of stocks. While small caps trade at a discount, valuation alone is not a reason to invest - other fundamental catalysts must be present.

## Potential Actions to Consider:

- Evaluate exposure to mega-cap technology stocks to ensure diversification.
  - Consider selectively increasing exposure to high-quality small caps with strong balance sheets.
  - Maintain a disciplined valuation framework to avoid overpaying for growth.
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## Fixed Income and Alternative Investments: What the Credit Markets Are Telling Us

With the yield curve flat and credit markets signaling potential stress, the fixed-income environment remains challenging.

- **Consumer and Corporate Debt Levels:** Rising consumer debts levels and high corporate leverage could increase credit risks in lower-rated fixed-income securities.
- **Private Debt and Secondary Private Equity:** As banks remain cautious on lending, private credit markets have expanded. Private debt continues to offer potentially attractive risk-adjusted returns, and the secondary private equity market has been particularly strong, providing liquidity for investors seeking alternatives to traditional equity markets.

### Why This Matters to You:

Fixed income should provide both yield and stability, while alternatives can enhance portfolio diversification. Understanding where risk and opportunity exist in credit markets is essential.

### Potential Actions to Consider:

- **Prioritize Quality in Fixed Income:** Focus on investment-grade bonds and U.S. Treasuries rather than speculative credit.
- **Explore Private Debt:** Given its recent success, private credit remains potentially attractive, but careful manager selection is critical.
- **Review Liquidity in Alternative Investments:** Ensure that private market investments align with your liquidity needs.

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## Bringing It All Together: Goals, Plan, Portfolio

At *Bespoke Private Wealth*, our role is not to predict the short-term movements of markets, but to provide a structured and disciplined approach to managing wealth. This is why our process - **Goals, Plan, Portfolio** - remains the foundation of everything we do.

- **Goals:** Your aspirations for your wealth should drive all investment and financial planning decisions. What you want to accomplish for your family, business, and legacy comes first.
- **Plan:** Economic conditions, tax policies, and market trends all change, but a well-structured plan remains adaptable, helping you navigate uncertainty.
- **Portfolio:** Investments should serve the plan, not the other way around. A well-

constructed, disciplined portfolio aligns with your long-term objectives while incorporating timely insights and risk management strategies.

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## **Important Communication**

As part of ongoing efforts by regulators to ensure all communications with clients are subject to proper oversight, Rob and Sean will now use a new phone number for texting. While we understand this change may be a minor inconvenience, we wholeheartedly support the industry's commitment to safeguarding client data and maintaining the industry's highest standards of integrity and loyalty. Effective immediately, please use the new phone numbers below when texting Rob and Sean. We will continue to send reminders to help everyone adjust to this new process, and we appreciate your understanding as we work together to ensure the best possible service.

**Rob Reich, Managing Director-Investments: 571-506-3851**

**Sean Fitzpatrick, Senior Financial Advisor: 571-548-4057**

Please note: the initial text to Rob and Sean will prompt a return text to you requesting your approval to receive texts from them by replying "yes".

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Thank you for the opportunity to serve you and your family. Your continued trust and loyalty are what drive our efforts, and we remain committed to helping you pursue the financial security and legacy you envision.

As always, we welcome discussions on any of the topics covered here and look forward to continuing to help you navigate the evolving investment landscape.

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Warm regards,

Robert Reich, CEPA

Managing Director-Investments

Bespoke Private Wealth Group of Wells Fargo Advisors

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# LET'S CONNECT



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**S&P 500 Index:** The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.

**Russell 1000® Growth Index:** The Russell 1000® Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

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