

An update of performance, trends, research, and topics for the long-term investor

Relevant rates of return a/o: **6/30/2025 vs. 12/31/2024**

Russell 1000® Growth Index: +6.1% +33.4%

*Stocks within this index include:
Amazon, Facebook, Google (Alphabet)
Home Depot, Visa

Russell 1000® Value Index: +6.0% +14.4%

*Stocks within this index include:
Berkshire Hathaway B, Exxon
Johnson & Johnson, JP Morgan

Bloomberg U.S. Agg Bond Index: +4.0% +1.3%

S&P 500 Index: +6.2% +25.0%

S&P 500 Equal Weighted Index: +4.8% +13.0%

Russell 2000® Value Index: -3.2% +8.1%

MSCI EAFE® Index: +19.9% +4.3%

*These companies represent a sample of the overall makeup of this index and are provided for informational purposes only. They do not represent a recommendation.



“Change is the law of life. And those who look only to the past or present are certain to miss the future.” – John F. Kennedy¹

Introduction

The pace of change this year has been relentless. Markets have swung wildly, headlines have shifted daily, and the world feels more unpredictable than ever. It’s almost as if we’re living in the Academy Award-winning film *Everything Everywhere All at Once*, only this isn’t a movie.

Fortunately, we have had a chance to discuss these volatile markets, look at your portfolio allocations during your annual review, and confirm we are all headed in the same direction.

As always, we’re closely monitoring the forces shaping the global economy and influencing policy like tariffs, rising debt, geopolitical tensions, and of course, the growing influence of AI. While some of these trends carry risks, others present real opportunities.

Looking ahead to the second half of 2025, we remain focused on what matters most: helping you navigate the uncertainty and ensuring your life plan stays on track. In a world that sometimes feels stranger than fiction, we’re committed to helping you stay grounded with clear direction and a steady path forward.

Buck Institute + Gorton Wealth Management

We recently had the privilege of partnering with the Buck Institute to host an event that offered a rare look inside one of the world’s leading centers for aging research. We are so fortunate to have this research facility here in Marin.

They opened up the facility and we hosted about 50 folks who were given a glimpse into their research. We listened to two of their

Celebrating Excellence:

2025 Forbes Best-In-State Wealth Management Teams

The Gorton Wealth Management Group is honored to be recognized by Forbes as one of the Best-In-State Wealth Management Teams of 2025. In addition, Michael Gorton has been recognized individually as a 2025 Forbes Best-In-State Wealth Advisor.

As a team, we pride ourselves on putting our clients first and helping them achieve their goals and dreams. A big thank you to our clients for their trust and confidence. We look forward to supporting them and future generations as we continue to build and grow our team to help serve our clients for decades to come.

2025 Forbes Best-In-State Wealth Management Teams: Awarded January 2025; Data compiled by SHOOK Research LLC based on the time period from 3/31/23 - 3/31/24 (Source: Forbes.com). The Forbes Best-In-State Wealth Management Teams rating algorithm is based on the previous year’s industry experience, interviews, compliance records, assets under management, revenue and other criteria by SHOOK Research, LLC. Investment performance is not a criterion. Self-completed survey was used for rating. This rating is not related to the quality of the investment advice and based solely on the disclosed criteria. 11,674 wealth management teams were considered for the rating; 5,331 (45.66% percent of candidates) were named 2025 Forbes Best-In-State Wealth Management Teams.

2025 Forbes Best-In-State Wealth Advisors: Awarded April 2025; Data compiled by SHOOK Research LLC based on the time period from 6/30/23 – 6/30/24 (Source: Forbes.com). The Forbes Best-In State Wealth Advisors rating algorithm is based on the previous year’s industry experience, interviews, compliance records, assets under management, revenue and other criteria by SHOOK Research, LLC. Investment performance is not a criterion. Self-completed survey was used for rating. This rating is not related to the quality of the investment advice and based solely on the disclosed criteria.

Investment and Insurance Products are:

- **Not Insured by the FDIC or Any Federal Government Agency**
- **Not a Deposit or Other Obligation of, or Guaranteed by, the Bank or Any Bank Affiliate**
- **Subject to Investment Risks, Including Possible Loss of the Principal Amount Invested**

top scientists discuss aging research, longevity science, and how AI can accelerate the discovery of biomarkers and interventions that can improve lifespan. This research helps identify and combat future health issues long before they manifest themselves, focusing on precursors that emerge in humans 40's, i.e. Alzheimer's, Cancers, and even treatments that may be administered that eliminate the need for hip and knee replacements.

In the labs, they start by using these age-defying techniques on worms, move to fruit flies, and then on to mice. They have been able to double the healthy lifespan of mice and are hopeful that similar research can allow humans to live healthily into their 90's, not just live through their 90's.

Here is the link to their website <https://www.buckinstitute.org/> to read more about what they do and a link to their monthly seminars <https://www.buckinstitute.org/events/>. You can even enroll in a clinical trial if you like.

Tariffs: A Tool and a Test of Power

We opened our annual newsletter with a focus on tariffs, sensing they would play a major role in the new administration's agenda. What we didn't expect was how they would be weaponized. They came fast, changed often, and left markets scrambling.

As we noted, tariffs can serve as leverage in trade talks. That's how they've been used so far. But the speed and scope of their application caught many off guard. We'll keep watching to see how the companies we invest in adapt.

A Brief History of Presidential Tariff Power:

- 1917: The Trading with the Enemy Act gave the president emergency trade powers.
- 1977: The International Emergency Economic Powers Act (IEEPA) expanded that authority.
- Today, the president can impose tariffs under several newer laws, for national security threats, to counter unfair trade practices, or during national emergencies involving foreign threats.

These powers are broad—but not unchecked. Courts require a clear guiding principle behind any use of the authority to impose tariffs delegated from Congress. Congress also plays a key role in oversight, ensuring tariffs align with national interests and the Constitution.

As global trade tensions rise, courts and Congress are stepping in. Lawmakers are now debating how to reshape the president's tariff powers.

The U.S. National Debt: A Clear Look

The U.S. government owes about \$37 trillion which works out to about \$108k per citizen. That's more than our country's Gross Domestic Product (GDP) which is the sum total of all goods and services produced within the country. It sounds like a lot, so let's break it down.

Think of the country as a household. A \$200,000 mortgage means different things depending on income. If the family earns \$50,000 a year, that's a heavy burden. If they earn \$500,000, it's far more manageable. The same goes for countries. The U.S. debt-to-GDP ratio can be likened to a household's debt-to-income ratio. In California, the average household's debt is 158% of their income.² The U.S. government's debt is 112% of GDP. That means the government carries less debt, relative to income, than the average Californian household.

What is the tipping point?

In 2006, investor Ken Fisher said 70% debt-to-GDP wasn't enough. He argued that more debt could help the economy grow. He focused on interest costs, inflation, and trust in U.S. institutions—not just the size of the debt.

The Congressional Budget Office says the debt will keep growing with a deficit of about 2.2% of GDP each year, but the news is not all bad. Most of the debt growth comes from Social Security and Medicare because as more people retire, the government spends more. That money helps people buy goods and services, which adds to GDP. If you remove Social Security, healthcare, and interest payments from the deficit, the rest of the budget deficit has shrunk and is expected to keep shrinking slowly.

This leaves the question of how much is too much? It looks like we can continue spending at our current rate for many more years, but it does make us more vulnerable, and we will probably only see the tipping point in the rear-view mirror.

How the U.S. Stacks Up Globally

Compared to other countries, the U.S. is about in the middle. Japan has far more debt and is still stable. China's debt has grown fast, mostly from private borrowing, while U.S. private debt has stayed steady. But remember, a major contributing factor to the USA's debt growth has been the large amount of money spent protecting the world in our role as hegemon. Other countries have not had to spend as much on defense over the last 50 years as we filled this role. These other countries may need to spend more as we pull back. Here's a selection of countries for comparison (debt as % of GDP):

| Country Debt Levels | Private Sector Debt (% of GDP) | Government (Public) Sector Debt (% of GDP) |
|---------------------|--------------------------------|--|
| Japan | 391.2 | 215.4 |
| Singapore | 337.1 | 171.1 |
| Canada | 311.4 | 96.4 |
| China | 286.1 | 86.6 |
| USA | 252.7 | 112.4 |
| UK | 229.4 | 101.3 |
| Germany | 202.3 | 62.4 |
| Saudi Arabia | 108.7 | 28.0 |
| Switzerland | 293.7 | 27.5 |

Source: Bank for International Settlements, data as of as of 9/30/2024³

Should we be worried?

Experts at Brookings⁴ say a debt crisis is unlikely anytime soon. The U.S. borrows in its own currency, has strong institutions, and a trusted central bank. U.S. Treasury bonds are still the world's safe haven. The U.S. economy is strong. Debt is high and seemingly under control, but we still need to be careful.

Key Topics that we are Paying Attention to for 2025

Risks/Headwinds

- Sovereign risk/shock to the world economy
 - Continued world destabilization/fracturing that we have discussed in past newsletters as the US pulls back from its dominant hegemonic role.
- China invading Taiwan
- Escalation of the war in Ukraine
- Middle East conflicts worsening
- Economic contraction of China, EU, UK spreading around the world if global demand drops
 - China's real estate crash has already seen prices drop 30% from their peak, erasing \$18tn in household wealth⁵
- Value of the US dollar has been dropping, making imports more expensive
- Slowing GDP growth with the risk of a recession

Tailwinds

- AI helping companies be more efficient
- Ample US and global liquidity
- Stronger corporate earnings
- Moderating interest rates and inflation
- Trade deals reached with some US trade partners, possible decrease in tariff-related uncertainty

Conclusion

The first half of 2025 has been full of change and markets have been volatile. Technology, especially AI, is reshaping how we live and work. Global politics are shifting. These changes bring both risk and opportunity.

We expect more debate, more legal challenges, and more uncertainty. But we'll stay focused on how these shifts affect the businesses we own and their ability to adapt and grow. The uncertainty around US debt and the value of the US dollar has started to create opportunities for overseas investment that we have not seen in the last 15 years. The risk to return balance is looking more favorable for adding a small amount of global diversification to portfolios.

Uncertainty is a part of life, but with the right plan, it doesn't have to be overwhelming. We are here to help you stay on track, adjust as needed, and keep your goals in focus. If you have not scheduled your annual review, or if you have any mid-year changes to your planning, please reach out. We will continue to watch the trends and share our insights with you. Thank you for your continued trust.

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Sources:

¹ Kennedy, John F. Quote retrieved 7/1/25 from www.goodreads.com

² Board of Governors of the Federal Reserve System. EFA: Household Debt. State-Level Debt-to-Income Ratio, 1999 – 2024. Retrieved 7/1/25 from https://www.federalreserve.gov/releases/z1/dataviz/household_debt/state/map/#year:2024

³ BIS Data Portal. Credit to the non-financial sector. Retrieved 7/1/25 from https://data.bis.org/topics/TOTAL_CREDIT

⁴ Edelberg, Wendy, Harris, Ben, & Sheiner, Louise. Brookings Research. Assessing the Risks and Costs of the Rising US Federal Debt. Published Feb 12, 2025. Retrieved 7/1/25 from <https://www.brookings.edu/articles/assessing-the-risks-and-costs-of-the-rising-us-federal-debt/>

⁵ Hodges, Paul. ICIS. China's property crash has already destroyed \$18tn of household wealth – where next? Published Feb 16, 2025. Retrieved 7/1/25 from <https://www.icis.com/chemicals-and-the-economy/2025/02/chinas-property-crash-has-already-destroyed-18tn-of-household-wealth-where-next/>

Description of Indexes:

An index is unmanaged and not available for direct investment.

S&P 500 Index - a market capitalization-weighted index, composed of 500 widely held common stocks, including reinvestment of dividends, that is generally considered representative of the US stock market.

Russell 1000 Growth Index - offers investors access to the large-cap growth segment of the US equity universe. The index is constructed to provide a comprehensive and unbiased barometer of the large-cap growth market. Based on ongoing empirical research of investment manager behavior, the methodology used to determine growth probability approximates the aggregate large-cap growth managers' opportunity set.

Russell 1000 Value Index - measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. These stocks are selected from the 1000 largest companies in the Russell 3000 Index.

MSCI EAFE Index - the MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US and Canada.

Russell 2000 Value Index - measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

Barclays U.S. Aggregate Bond Index - an index comprised of approximately 6000 publicly traded bonds, including U.S. Government, mortgage-backed, corporate, and yankee bonds with an approximate average maturity of 10 years.

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