Market Commentary

The Pelican Bay Group

Morgan Stanley

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Portfolio Management Team

The Pelican Bay Group assists high net worth individuals and institutional clients in meeting their financial objectives by offering customized portfolio management strategies. The Pelican Bay Group, a team of Morgan Stanley Financial Advisors, has four experienced portfolio managers covering an array of disciplines and offering a variety of strategies designed to optimize risk to help meet their clients' investment objectives. These investment styles are offered as fully discretionary strategies with a comprehensive fee based on the asset value being managed. The team currently manages $4.4 billion in client assets as of December 31, 2024

As we move through the first quarter of 2025, every day is something new. There are so many things to talk about and think about, all of which make the business of providing financial advice interesting and fun. We all have opinions about the current state of affairs and surely you have your own. Opinions are fine, but clarity is better and in times like these experience counts. So crystal ball and magic wand in hand… here we go.

<u>First</u>, what appears clear to us is that the Federal Reserve is taking a pause in lowering interest rates. This has been clearly telegraphed through Fed speakers in the news and is supported in inflation data. The Federal reserve has an inflation target of 2%, and recent data (Consumer Price Index, Purchasing Price Index, other measures) indicates inflation levels are higher than the Federal Reserve's 2% inflation target.

Markets have had to readjust expectations for Fed rate cuts from potentially six rate cuts in 2025 to perhaps one rate cut. In our opinion, rates higher for longer, means the cost of capital remains at current levels and is likely to keep downward pressure on sky high equity valuations. In 2023 the S&P 500 was +24% and in 2024 the S&P 500 was +23% (Source: Bloomberg). While we are positive on the outlook for stocks in 2025, it could prove tough to catch those levels.

Rates higher for longer also means that fixed income and high yield savings returns are higher than we experienced during the low interest rate years. This benefits clients seeking cash flow. Inflation can take a bite out of that absolute return, but the cash flow is there.

<u>Second</u>, what appears clear to us is a pivot in the outlook for the artificial intelligence boom and the Mag Seven. The shift is on. The claims reported by Deepseek, that they could build and train AI models cheaper and faster than US based companies, may not have been as bold as initially reported. However, in our opinion, the Deepseek news was a wake-up call that the wolves are the door in terms of US dominance in artificial intelligence.

The thought of a Chinese company accelerating innovation and the promise of lower investment costs offered a pivot point. Think about how we have been moving from building AI (semi-conductor chips as initial beneficiary) to rolling out uses of AI in applications and software. Raise your hand if you have used the search function in any popular browser and seen the results. This is AI at work in software applications and offers the next wave.

What does this mean for portfolios and how do we think about this in terms of our investment recommendations?

Well, the Magnificent Seven have been trailing the rest of the markets so far this year. We have also seen shifts in leadership from the Mag Seven names towards financials, energy, industrials and materials. Clients know that these large cap blue chip sectors have been long term focus areas for us.

We have been encouraging diversification for clients that may have piled up exposure to Mag Seven names. We continue to like the themes of cyber security, robotics, block chain technology. We like clean energy suppliers with exposure to growing data centers.

Third, what appears clear to us is policy uncertain. We are certain about uncertainty.

Which policies will dominate and when will we see the impact - remain the big debates. Are tariffs meant to relieve trade imbalances? Provide additional revenue for the US and drive US manufacturing? Or are tariffs a bargaining chip to establish leverage points with various countries? We vote the latter. Tariff results can be unpredictable and have short- and long-term impacts. It is not clear where we wind up.

But it's not just tariffs. Policy changes on immigration, taxes, deregulation and government departments are all rolling out in an everything, everywhere, all at once, kind of format. Let's not forget the fiscal deficit that is not going away and is out there somewhere in the land of future problems.

Morgan Stanley's [Monthly Perspectives]piece offers data and charts for those inclined to click further.

In times like these, active advice is important and that is what we are here for. We are constructive on markets, and we are paying careful attention to the world around us. We appreciate the opportunity to work hard for our clients with a steady hand and thoughtful forward-thinking approach our clients have come to expect.

Jennifer D. Hartmann, CIMA®
Managing Director
Financial Advisor

Global Positioning & Stock Market Wealth

Jeffrey Praino, CFP®, CPWA®, CDFA®

Nearly five years ago on February 19, 2020, the US stock market hit a stock market high which is now referred to as a pre COVID peak. Having the benefits of hindsight, we now know that this historic pandemic created dispersions within the global equity markets along with political, economic, professional, and societal changes. Some global markets were able to recover quicker than others whereas some are grinding forward at a slower rate. The chart below from Bloomberg & Morgan Stanley Wealth Management Global Investment Office compares the US domestic S&P 500 Index (.SPX) to the iShares MSCI ACWI ex USA (ACWX.NV). Over the course of 5 years, the US market has appreciated 83% (blue line) compared to 16% for the rest of the world (white line).

The US stock market has flourished compared to international counterparts through strong innovation and a market dominated by 7 large technology stocks. At this time, the US is home to 8 individual companies which each maintain market capitalization exceeding $1 Trillion. Outside of the US, Taiwan Semi ADR is the only company to have reached this historic milestone. In addition, low interest rates, robust economy, strong workforce has led to dollars entering the US stock market. This flow of capital has led to a strong US Dollar with the US markets (.SPX) outperforming international (ACWX.NV) markets 8 out of the last 10 years.

Today, the US has over 50% of the total stock market wealth[i] or approximately $62 trillion dollars. The chart below and data from companiesmarketcap.com illustrates the market cap or value of the stock market by country. As can be seen, The US stock market at $62 trillion is nearly 8 times that of the next closest competitor in China at $7 trillion.[ii]

	Countries ranked by Market Cap		
	Country	Market Cap (Trillion $)	
1	United States	$	62.64
2	China	$	7.10
3	Japan	$	5.17
4	India	$	4.09
5	United Kingdom	$	3.67
6	Canada	$	3.00
7	France	$	2.97
8	Saudi Arabia	$	2.72
9	Germany	$	2.50
10	Switzerland	$	2.42
		$	96.28
	Source: https://companiesmarketcap.com		

So, the question becomes does the US continue to grow stock market wealth by leveraging its strong economy, earnings growth, relatively low inflation or does the rest of the world start to catch up? After all, the international markets as measured by the prices that we pay for earnings (P/E Ratios) streams are lower. The US has embarked on a new administration with an agenda of reshoring manufacturing back to the US, using tariffs as a weapon to extract stronger trade terms, and to increase oil production by 3 million barrels of oil per day. Inevitably, at this time, there are many unknows that add risk to investing overseas. However, there are three fundamental ways that we work with clients to diversify and have access to international markets.

An indirect way of investing overseas is through the diverse revenue streams of multinational companies. The S&P 500 has a geographic mixture of 58% of sales generated in the US and 42% generated outside of the US.[iii] It remains to be seen how the administrations trade policies, US protectionism, and reshoring efforts will impact global sales. A direct way of investing in international markets is through international stocks, individual countries, and exchange traded funds in various markets. Lastly, global strategies incorporate investments in both the US and international markets and the managers can shift assets between the markets based on outlook for US and international growth and earnings.

While there are a lot of factors to consider with international investments, it's also important to have a balanced view and to put home bias aside. Will global markets in 2025 settle down or will global markets markets settle up? Following the election, we saw that most foreign markets declined by 5-8% on thoughts of a strong dollar, reshoring, and policies favoring US commerce.[iv] At the time of this article, the first month and a half is seeing international markets in (Brazil, Germany, Spain, Italy, Mexico, France, UK, Austria, and the Emerging Markets) ahead of the US indices during a period of a new administration and start of tariffs. Clearly a month and a half of outperformance doesn't make a trend. However, when expectations are low in countries, and there are signs of incremental improvement or positive earnings surprises may lead to an increasing outlook. International investing can lead to challenges but with challenges can lead to prosperous outcomes. We'll be following yesterday's winners and tomorrow's potential winners as in a dynamic global economy.

Should you have any questions about your international exposure please contact your financial advisor. We would be happy to be of assistance.

Should You Pay Off Your Mortgage Early?

Sam McCormick

Paying off your mortgage early is an often-debated personal finance topic. People on both sides of the argument can be absolute in their answer, despite it being a rather nuanced question.

I strongly feel that in most cases it never makes sense to pay off a low-rate mortgage early. However, I understand that this decision frequently comes down to comfort-level rather than the optimal financial choice. I also acknowledge that comfort can be priceless at times. While the answer to this question is personal and requires a review of your financial plan, assets, expenses, savings, and investment goals – below are key points to consider.

Cash flow vs Cash on hand

Cash flow: Eliminating a mortgage can free up monthly cash flow. Without a mortgage, you eliminate one of your biggest fixed expenses, which can help stabilize your budget. This can be particularly beneficial if you're in retirement or on fixed income.

Cash on hand: Paying off your mortgage likely requires a large lump-sum payment. This can reduce your investable assets significantly. With a large amount of capital tied up in your home, you lessen your liquidity and portfolio flexibility.

Opportunity cost

Accelerating your mortgage payments could mean missing out on long term market gains. The money used to pay off a mortgage could instead go to your 401(k), IRA, and/or a taxable investment account geared for growth. Your investments have the potential to achieve a higher return than your mortgage rate over the long run. Measuring your opportunity cost depends on a handful of factors, such as your mortgage rate, the current interest rate environment, risk tolerance, investment strategy, and more.

Mortgage Interest Deduction

Depending on one's circumstance, carrying a mortgage may offer certain tax benefits. Always consult with a tax professional when determining tax related matters.

Psychological factors

Financial decisions often have emotional components. Many people feel a strong sense of security in having no mortgage debt. While some investors would never accept lower potential returns for eliminating debt, others will happily live with that tradeoff.

There usually isn't a right or wrong answer. It all depends on your circumstance and your relationship with debt, liquidity, and risk. Ultimately, the decision should fit with your broader personal and financial goals.

Who is on Your Team?

Shelley Ford

The Philadelphia Eagles appeared in the playoffs 31 times, won 16 division titles and appeared in 5 championship game.. winning the big game.

I, personally, was rooting for the Kansas City Chiefs, after having spent a few days prior to the championship game in New Orleans, and seeing all the amazing hype, it was truly a difficult game to watch.

Whether you were a KC or an Eagles fan, it made us all come together for an amazing American tradition (awesome commercials included). While there are those that are betting on a stock market rise due to the NFC championship, (reference below), I am here to talk to you today about a quote by Nick Sirianni, the head coach of the Philadelphia Eagles, "You can't be great without the greatness of others". This is the concept of true teamwork.

Teamwork, it's an idea that we all know and read about constantly but how is teamwork acting in your personal life? How often do you plan 6 months for your next vacation, but forget to think about your estate plan? How often do you wonder if your current lifestyle is in line with your future goals? Do you have people helping you with your largest decisions, guiding you in your next step in life?

While it may sound like a shameless pitch, it's really not. Our clients rely on us as financial advisors not just to give them sound financial advice, but to truly be a part of their "family team". We help them in the overarching financial decisions of their lives through comprehensive financial planning. But what does this really mean?

This means that we have clients that review a financial plan annually, to those that call us when they are buying a new car. It means that we have folks that want to just "check in" to see if they are on track, to those that get married (because they were getting married anyway) to save money in taxes on a corporate cash balance plan. It means that when your relative passes away, we are either on the sidelines thinking good thoughts for you or personally there at the service. We want to be as active or passive as you prefer, but always know that we are here to be your guides in all things financially related.

Always know that our "greatness" stems from our opportunity to be a part of your team!

Why the stock market bulls are rooting for the Eagles in the Super Bowl | Morningstar

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How College Prepares you for Life's Big Decisions

Brandon Bolock

I often reflect on my collegiate experience as a student-athlete at the University of Chicago and the experiences that helped shape me as an Advisor at the firm. In a specialized field, like a Doctor or Engineer, there is a set path to embark on that journey – juxtapose that to an Advisor, and we certainly come from all backgrounds and walks of life. As Advisors, to declare a college major would be a blend of Psychology, Finance, Business…and you can argue that the list goes on. For me, learning to navigate the nuances of a being a Financial Advisor resides in *what* I learned in my college days, as well as *how* I learned it.

The University of Chicago prides itself on every student required to take the same Core Curriculum, which takes up about one-third of your college courses over the four-year period. These courses consisted of Humanities, Civilization Studies, Art, Social Sciences, Biological Sciences, and Math. For almost 100 years, every student that graduated from the University of Chicago was required to take these courses, regardless of their declared major.

To me, as a declared Economics major, I thought this was crazy! To add to this, all Freshmen in their first week of school were required to take a swimming and fitness exam, as well. All University of Chicago students had to be able to swim four widths of the pool totaling 100 yards using any stroke with no time limit. Those who did not pass the swim test were required to take a swimming class, while those who fell short on the fitness tests were required to take between one and three quarters of physical education classes depending on their performance.

Can you imagine? I'm proud to say I did pass, but unfortunately, they did away with the swim and fitness exam shortly after my time there.

In 1930, University President Robert Hutchins arrived with the goal of boosting the academic profile of the University and turned to his strong beliefs in an academic system rooted in the liberal arts. This broad-based Core Curriculum was unconventional at the time, but President Hutchins argued that the modern specialist is "cut off from every field but his own," and that a liberal arts college experience could provide a basic shared intellectual experience.

In his eyes, the ability to learn to think critically and provide thought-provoking analysis was the key training necessary for success post-college. He believed in a great restructuring of the undergraduate education based on a course of study consisting of important books and the arts of reading, writing, thinking and speaking, together with mathematics. As an example, we were required to concurrently read classics such as Adam Smith's *A Wealth of Nations* as well as Karl Marx's *Das Kapital* in one of the Core Social Sciences courses.

As students, we were required to read these books in increments, and convene in our small classes bi-weekly, also known as discussion-based seminars: one professor, a board room style table, and 15 or so students. Our grade for the course was derived on commentary and participation in the discussion, and two written pieces throughout the course: a midterm and a final exam.

Simply put, a multiple-choice exam was out of the question!

Coming into school as a left-brained, logical individual, this was quite a challenge. I thrived in an environment with logic: do X, end up with Y, there's your answer. Math was my strong suit. To be placed in an environment where there was no "correct" answer killed me! It forced me to explore complex ideas and processes and engage in oral and written argument and dialogue…you had to provide a thesis and engage with textual evidence to support your thesis, all while taking on contrarian viewpoints from classmates and professors.

In the defense process, you were interrogated with open-ended questions with the goal of identifying flaws in your thoughts. This process, commonly known as the Socratic Method, helped challenge our own individual thoughts and identify fallacies in our initial assumptions.

At the end of the day, the University's goal was to teach us how to think critically and how to approach problems from multiple perspectives using the texts as provocative generators of discussion. In a world of strong opinions, I'm proud to say the University has remained committed to their tradition of championing free inquiry and speech.

Fast forward ten years later, and I think about these skills and how I've incorporated them into my own life through personal and professional endeavors. Many of us already do this daily, but I challenge you to use this Socratic Method in your own environment:

1. **Ask Clarifying Questions:** Ask questions that go deep on a topic. Answers to these questions often lead to more questions, creating a cycle of inquiry and clarity amongst you and your client. Find out what makes them tick.
2. **Challenge Assumptions:** The questions are designed to probe and stimulate critical thinking, helping us uncover client's beliefs, assumptions, or biases. Here, we put on our Psychologist hat.
3. **Seek Evidence:** Provide the client evidence in their thought process, or provide evidence to support your recommendation to the client. This helps separate opinion from fact. Here, we put on our Finance/Investment hat.
4. **Consider Viewpoints and Perspectives:** Before moving forward with a big decision, considering looking at the situation from different angles and perspectives to help reinforce or challenge your decision.

5. **Explore Implications/Consequences:** Review the potential outcomes of your recommendation to your client.
6. **Reflective Questions:** Does this recommendation align with your practice and your client's beliefs?
7. **Analytical Questions:** Examine the relationship between the various recommendations you may have to your client. Summarize the key points from your discussion and reflect on what was learned.

Unlike in a debate, where the goal is to win an argument, the Socratic Method aims for a constructive dialogue where both parties work together to reach a more precise understanding by encouraging critical thinking and challenging assumptions, which lead to more informed decision making.

The Pelican Bay Group At Morgan Stanley

Our team of financial professionals is national in scope with Financial Advisors stationed in strategic locations across the country. As part of Morgan Stanley, one of the world's most respected financial services firms, we offer access to extensive resources that can prove instrumental in helping you meet even your most complex financial challenges. Our team members include:

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For index, indicator and survey definitions referenced in this report please visit the following: https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions

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Source: Barron's (May 2024) Barron's Top 250 Private Wealth Management Teams ranking awarded in 2024. This ranking was determined based on an evaluation process conducted by Barron's for the period from Jan 2023-Dec 2023. Neither Morgan Stanley Smith Barney LLC nor its Financial Advisors or Private Wealth Advisors paid a fee to Barron's to obtain or use the ranking. This ranking is based on an algorithm that includes client retention, industry experience, review of compliance records, firm nominations, and quantitative criteria, including assets under management and revenue generated for their firms. Investment performance is not a criterion. Rankings are based on the assessment of Barron's and this ranking may not be representative of any one client's experience. This ranking is not indicative of the Financial Advisor's future performance. Morgan Stanley Smith Barney LLC is not affiliated with Barron's. Barron's is a registered trademark of Dow Jones & Company, L.P. All rights reserved.

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[i] Comparing Market Cap to CDP Across the Globe. Source Bloomberg, Morgan Stanley Wealth Management Global Investment Office.
[ii] Companiesmarketcap.com
[iii] Stock Market vs. the Economy: S&P 500 Breakdown vs. US GDP. Source Bloomberg, Morgan Stanley Wealth Management Global Investment Office.
[iv] Capital Market Indices. Source Bloomberg, Morgan Stanley Wealth Management Global Investment Office. November 11, 2024