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 March 31, 2025

As markets find their footing, you can feel the air come back into the room. After a month of everything happening everywhere all at once, we take a step back and digest the vastness of information and change we've received in a short period of time. Our country has not seen tariff levels this high in over 100 years. It's okay for this moment to feel both overwhelming and historic. Our team is here to help you navigate the market and the opportunity. To help you meet your financial goals with the risk you're comfortable taking.

One month into the historic tariff policy we'll start by highlighting where we are today, which we break down in three buckets.

The first is across the board tariffs. Placing a 10% tariff on all imported goods to the United States (US). The current administration needs to generate revenues. As it stands today, these feel likely to remain in place.

The second is sectoral tariffs, which are placed on individual industries or specific products. These are tariffs on things like lumber, aluminum, cars, etc. The goal is to address the trade imbalance. The administration is looking to produce more of these products in the United States, so they are making non-US goods in the space more expensive. The hope will be to drive US sales and US manufacturing. The administration can't change production overnight, so this will take time to unfold. Some sectoral tariffs are likely to stay in place, more could be coming, and some may be terminated. Unlikely this gets walked back all together, but our country has always had a level of sectoral tariffs so that is not a surprise.

The third tariff is reciprocal tariffs. This is where the administration is looking for leverage. A negotiation tactic, looking to change the conduct of a country's trade relationships with the US. The reciprocal tariffs were paused for 90-days, expiring July 9th. In that timeframe the administration is looking to make a deal with over 80 countries. Historically trade deals take time to finalize. It takes 18 months on average for the US to negotiate trade deals because they go through each line item of every good imported and determine the balance of tariffs, tax impacts, etc.[1] 90-days is of course a fraction of that time, so the goal is a big one.

So, what does this mean in the interim? On one hand, growth could suffer, and we could see an increase in inflation. There could be a supply reduction, higher inflation, higher prices, and lower income coming into the US all at once. At the same time, the average 30-year mortgage rate remains well above 5%.[2] Unemployment will be a huge focus as the world watches for stagflation, a scenario of high inflation, slow growth, and high unemployment.

The bond market has been showing its concern as well. When treasury yields increase that is a sign that individuals are looking to be paid more to take on the risk of owning the bond. While we find short term treasury bonds to be attractive, longer dated bonds come with the additional risks of inflation pressure and global pressures.

Our Global Investment Committee has shared they are watching the credit default swap market, which illustrates the odds the market puts on a US credit default. The US now has a similar risk of default as Spain and Italy… two countries that were facing serious banking crisis' in the past five years. Is this indicator driven by peak uncertainty? Or is it a warning signal for things to come? Time will tell and we are paying attention.[3]

Looking ahead the focus will be on the administration's communication and congressional effort to put forth its next major bill. Given the narrow majority in congress, the GOP is likely to put forward an "all encompassing" type bill that could include a variety of things. We expect tax legislation to be at the top of the list, with a focus on maintaining the tax rates passed in the Tax Cuts and Jobs Act of 2017. On the table will be SALT, which allows taxpayers to deduct certain state and local taxes.

We also expect a conversation and expansion of the US debt ceiling. As it stands today Congress has hit the debt ceiling meaning they cannot borrow without approving another increase to the debt limit. It's anticipated that the bill will look to increase borrowing capacity by $1-4 trillion.

While this may sound all well and good, congress is facing its own internal group debate. You have those focused on the deficit, others focused on Medicare, the SALT caucus and finally, those who defend the Tax Cuts and Jobs Act of 2017. It's a lot of people to make happy and it's unlikely the process will be pretty, but it will be a process and we're likely to see initial versions of the bill this summer.

More recently Secretary Bessent announced that trade deals are imminent and assured the US public that Chairman Powell and the Federal Reserve will maintain their independence. These messages have been positively received by the market but there is still a lot to unfold, especially as it pertains to China.

MS & Co still has a bullish view of the S&P 500, with their price target as of April 28th, 2025 below.

MS & Co. S&P 500 Price Target: Next 12 Months

LANDSCAPE	EARNINGS	PRICE/EARNINGS MULTIPLE	PRICE TARGET	UPSIDE/ DOWNSIDE
Bull Case	$329	22.5	7,400	33.9%
Base Case	$264	21.5	6,500	17.6%
Bear Case	$242	18.5	4,600	-16.7%
Current S&P 500 Price			5,525	

Note: Estimated next 12 months forward earnings are used to project a price target which takes into account MS & Co.'s base case earnings forecast of $264.
Source: FactSet, Morgan Stanley & Co. Research as of April 25, 2025

This does not mean we are all hands-on deck, shifting in 100% of our cash today to equity. But we are looking at market corrections as an opportunity to average in for clients where appropriate.

The number one question we've received since Liberation Day is, are we still on track? We have always considered full market cycles for clients, which includes bull markets and bear markets. Meetings with clients often include a financial plan review and reevaluation of investment roadmap given current market conditions. In almost every case, clients remain on track.

We continue to focus on a well-rounded portfolio and investment diversification that give clients the opportunity to manage risk on the downside and participate in the next cycle of growth that we believe is ahead of us. It's not our first time through a bear market, and it won't be our last. We're here with you every step of the way and will continue to send communications as markets evolve.

Emily Bender, CFA®
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The Federal Deficit

Heather D. Churchill, CFP®, CIMA®, CPWA®, RMA®, CRPS®, CLTC®, CEPA

By now, everyone has heard about DOGE (Department of Government Efficiency) initiative, spotlighting the push to slash federal spending and rethink how we manage taxpayer dollars. Where did the debt come from? Have we ever been deficit-free? And what would it take to dig ourselves out of this hole? Look at the income side of the equation! Today, I'm tackling those questions head-on, weaving in some historical context, tax insights, and a reality check on what "paying off the deficit" really means. Let's also draw a parallel to the personal finance decisions we see in our clients' lives—because the lessons there hit close to home.

The federal deficit—the gap between what the government spends and what it collects in revenue—has been a recurring theme in U.S. history, though it hasn't always been the norm. When the nation was founded in 1789, we started with debt, not a deficit per se, thanks to the Revolutionary War. By 1791, the young U.S. owed over $75 million (a hefty sum back then), financed through bonds championed by Alexander Hamilton. Deficits ebbed and flowed in the early years, often spiking during wars—like the War of 1812, when debt ballooned to $119 million.

But here's the golden nugget: we *did* once wipe out the national debt entirely. Under President Andrew Jackson in 1835, aggressive budget cuts and land sales paid off every dime, leaving us debt-free for the only time in history. It didn't last long—an economic depression hit soon after, and deficits returned. Since then, we've rarely run surpluses. The 20th century saw massive deficit spikes during the Civil War, World War I, the Great Depression, and World War II. Post-WWII, surpluses popped up briefly (1947-1948 under Truman and 1998-2001 under Clinton), but they've been the exception. Since 1970, we've run deficits every year except those four Clinton-era surpluses. Today, the deficit is a fixture, fueled by rising costs in Social Security, healthcare, and interest payments.

The federal income tax arrived in 1913 with the 16th Amendment, a game-changer for revenue collection. Before that, the government leaned on tariffs (these are not new) and excise taxes, which were erratic and insufficient for big spending needs. The income tax aimed to stabilize and boost revenue—and it did. In its first year, it brought in $28 million; by 1920, that jumped to over $1 billion. Did it reduce the deficit? Sometimes. During the 1920s, paired with post-WWI spending cuts, it helped generate surpluses. But it's not a silver bullet—deficits roared back during the Great Depression despite the tax, as spending outpaced revenue.

Fast forward to today: individual income and payroll taxes account for about 80% of federal revenue. Yet, even with record collections (e.g., $4.9 trillion in FY 2024), spending—like the $6.8 trillion in FY 2024—keeps deficits alive. The tax helps, but it's no match for structural spending growth.

As of now, the federal deficit for FY 2025 is projected at $1.9 trillion, with the national debt hovering around $35 trillion (per the Congressional Budget Office's latest outlook). To eliminate the deficit *and* pay off the debt over 10 years, we'd need to erase the annual deficit *plus* chip away at the principal. That's roughly $3.5 trillion per year in debt reduction ($35 trillion ÷ 10), on top of balancing the current budget. Current federal spending is about $7 trillion annually. To go debt-free in a decade, we'd need to cut spending by $5.4 trillion each year (assuming revenue stays at $5.2 trillion)—a 77% reduction! That's everything from Medicare to defense to infrastructure, slashed to the bone. Alternatively, we could hike taxes dramatically while cutting spending less, but even then, the math is brutal. The Congressional Budget Office estimates that reducing deficits by $4 trillion over 10 years (excluding interest savings) could lower debt to 30% of GDP in 25 years—a more modest goal—but we're still talking seismic shifts.

Let's pivot to an analogy our clients know well: financing a depreciating asset like a boat or RV. Say someone buys a $50,000 RV with a 20-year loan at 7% interest. They're not just paying $50,000—they're shelling out $95,000 over two decades, nearly double the sticker price, for something that's worth $20,000 (maybe) by year 10. Why? Instant gratification. They want the toy now, and they'll pay through the nose in interest to get it. The federal deficit mirrors this. We borrow heavily—$1.8 trillion in FY 2024 alone—to fund programs today, piling on interest costs that balloon the total tab. Net interest hit $950 billion last year, projected to triple to $1.2 trillion annually by 2032. Over 30 years, the CBO warns debt could hit 144% of GDP, with interest eating up more than Social Security spending by 2051. Like that RV buyer, we're saddling future taxpayers with a depreciating asset—except it's not a toy, it's a sprawling government machine. The U.S. Debt Clock (www.usdebtclock.org) ticks relentlessly, a real-time reminder of this burden—currently over $105,000 per citizen.

Contrast this with what we advise clients: live within your means, prioritize investments over consumption, and avoid high-interest debt traps. If taxpayers kept more of their money instead of funding deficits and interest, they'd spend and invest it—boosting businesses, jobs, and economic growth. Every dollar paid in interest is a dollar not strengthening the economy and possibly going overseas to build fabulous, modern infrastructure. Yet, unlike the RV buyer, we don't get to opt out. As advisors, we see the disconnect: individuals can choose fiscal discipline, but as taxpayers, we're locked into a system, where spending decisions compound over decades. Also, regardless of party, the lawmakers who voted for the spending are long out of office when it comes time pay off the note. No one is accountable for that except the American taxpayer.

The DOGE team has its work cut out for it. History shows deficits are stubborn, rooted in war, recession, and entitlement growth. The income tax gave us a revenue lifeline, but it's no cure for overspending. To go debt-free in 10 years? We'd need cuts so deep they'd redefine government itself—improbable without a tectonic political shift. Meanwhile, the debt clock keeps spinning, and interest costs loom larger. So, regardless of your approval or disapproval of DOGE, I think it's clear to see that something needs to be done.

Estate and Gift Tax Exemption

William K. Champness, CFP®, ChSNC®, CDFA®

With news about tariffs and trade wars and turbulent markets eating up much of the airwaves and front pages, there has not been a lot of time spent covering the status of the impending federal estate and gift tax exemption sunset.

We've been hearing about the sunset for years so I won't rehash all of the details but, in short, the estate and gift tax exemption will drop from $13.99 million per person ($27.98 million per married couple) down to approximately $7 million per person ($14 million per married couple) at the end of this year, unless Congress takes action. Whether that action happens and what Congress decides to do is still up in the air, which is not much help to us as advisors. So what can we do while we're waiting for Congress to do (or not do) something?

The first thing to do is to identify the clients that could be immediately impacted should the sunset take place. Obviously clients whose assets exceed the current threshold should be addressed to see whether there's anything to do in the interim but these higher net worth clients are more likely to have already been working on plans with their attorneys. The ones to pay particular attention to are the individuals with assets between $7 million and $13.99 million and couples with assets between $14 million and $27.98 million (https://www.wsj.com/personal-finance/taxes/the-moves-wealthy-families-are-making-to-skirt-estate-taxes-2f312331). These clients may have done some planning but could have been in more wait-and-see mode. They also may feel more conscious about, and be sensitive to, "overplanning" – ending up in a situation where they take advantage of the higher exemption amount but then feel constrained because they've limited their own liquidity and ability to meet other financial goals. It's a good time to sit down with clients in this group and show them a "what if" scenario in their financial plan to demonstrate what impact it would have if they made additional transfers this year.

You should also be thinking about clients who live in states that have their own death taxes. 12 states and Washington D.C. currently have estate taxes and six states currently impose inheritance taxes (Maryland has both estate and inheritance taxes). The threshold to trigger estate taxes is lower in all but one state (Connecticut) than it is at the federal level. Unlike the federal exemption that allows portability of the exemption between spouses, meaning the unused portion of the exemption amount can be passed from one spouse to the other, most states that levy an estate tax do not allow portability. The American College of Trust and Estate Counsel maintains a useful chart of death taxes (six states impose inheritance taxes rather than estate taxes) by state that can be accessed here. The Tax Foundation maintains a similar reference page that can be accessed here but it has yet to be updated with 2025 thresholds.

If clients have a gifting and estate plan in place already, now is a good time to remind them to check in with their attorneys to see whether their attorney suggests making any updates. If a client doesn't have a plan in place, he or she should be contacting an attorney immediately. It's only April but estate attorneys' calendars will be filling up as we get closer to the end of the year.

With those aspects taken care of, what else can we do? First, make sure that the client is acting on their estate plan. If they have plans to make annual gifts to their children, grandchildren, charities etc., make sure they're doing it. Second, stay alert. Not just for news about the sunset but also for opportunities to help clients use this year's volatile market to their advantage. Instead of waiting until the recipients' birthdays, holidays, the end of the year, etc., suggest that clients gift some shares when the market takes a dip. Had clients sold the shares, they could be feeling seller's remorse but, instead, they'd get to know that the bounce back in stock price helped a loved one, charity, etc. Have a conversation with your clients about this idea now so then, when another opportunity comes around, they've had time to consider the strategy and will be ready to take action because, as we've seen, the direction the market is going can change quickly and dramatically.

Please reach out to us if you have any questions or we can provide any additional information.

Behavioral Economics

Shelley Ford

Behavioral economics is a terrific field which merges the psychology of economics to understanding how individuals make economic decisions.[i] While we all understand that the markets fluctuate due to uncertainty (and there is plenty of that to go around these days) we often forget that the volatility index plays a key role in how we as retail investors think about timing of investments.

Did you know that more retail cash sat on the sidelines in 2023 and 2024 until November of 2024 than ever before?[ii] Why was this? This was because the American consumer became euphoric about the markets and this is about the same time that the "smart money" folks like Warren Buffet and other institutional investors started pulling back from the equity markets. Hence the idea that behavioral economics really does matter.

The Volatility Index is basically a "fear" index and highlights the markets expectations of 30-day volatility in the equity markets.[iii] The higher the index, the greater the fear. In 2023 and 2024, this index sat around 12 and in COVID as an example it got as high as 60. In the middle of April of 2025 this index did get as high as 52. This is the 21st time this has happened since 1990.

If you are a client that has cash on hand, it's important to remember the key phrase buy low, sell high. It's really difficult for the average investor to do this as things typically feel so bad when the index gets this high.

Here are a few key points to remember, when the VIX ends in a weekly return of above 40 (which it did this April), average total returns for the S&P 500 were 39% one year later and 60% two years later.[iv] Of course nothing is guaranteed, but having a financial advisor helping you to think through the opposite of how we are feeling is a good way to stay on track.

[1] behavioral economics - Google Search

[1] more retail cash for investments sat on the sidelines until November 2024 because consumers were euphoric - Google Search

[1] CBOE Volatility Index (VIX): What Does It Measure in Investing?

[1] Wall Street's Volatility Index (VIX) Has Done This 21 Times in the Last 35 Years -- and It Has a Perfect Track Record of Forecasting Future Stock Moves | The Motley Fool

LUMP SUM VS. DOLLAR-COST AVERAGING

Brandon Bolock, CFP®

With the recent uptick in volatility, it seems the opportunity has finally arrived to put some fresh dollars to work for investors. As advisors, we try to be disciplined and unemotional for clients and present an objective approach to markets - now, more than ever, with the volatility clients are seeking this trusted advice. Facts over feelings.

I'm sure you've been asked the question from clients, "When do we get in the market?" While there's no correct answer with certainty, there are some historical facts I find are very helpful to explain to clients.
With that being said, what are the historical odds that dollar-cost averaging into stocks over 12 months will beat a lump-sum investment? **32%.** What about over a 36 month period? **26%**
This looks at the S&P 500 since 1928, almost 100 years ago.

The verdict is in: when you have money to invest, the odds are in your favor if you invest it all at one time, up front.

The advantage to Dollar-Cost Averaging is often a solution to client's biggest fear: "What if I invest my money right before a bear market?" Dollar-Cost Averaging helps ease the emotional stress of short-term market volatility, and help clients focus on their long-term goals. The decision becomes less of an emotional one, and one where the automation of a dollar-cost averaging strategy helps the client temper their emotions. A fixed amount, on a specific cadence. Generally speaking, most investors are following this strategy with their 401k. Although Dollar-Cost Averaging is a great strategy, there's a compelling trade off here. Two-thirds of the time, the client would have been better off investing their lump sum immediately to take advantage of the growth potential. Of course, we know the rationale behind that is that markets tend to drift higher over time. The ability for clients to start compounding those dollars immediately makes sense. Especially in cash-flow driven investments vehicles, like our team's Covered Call portfolios, clients experience immediate cash flow and the short calls make the initial timing of the investment less important. There's no "missed" opportunity for them with cash flow on day one. One could argue, with the markets in a pullback (S&P 500 in its largest drawdown since 2022), now is the time to infuse some fresh cash. Let the rubber band snap back for our clients that have a longer investment horizon.
We all know our clients best, and this is not to say there is one superior method over the other. Each has different tradeoffs and we know our client's comfort level for the strategy they are potentially best suited for. Nonetheless, I hope this instills some confidence in everyone that is thinking about helping clients put money to work in risk assets and can use this as an opportunity to consolidate their cash with you. When I've educated clients on this statistic, they are typically surprised! Consider using it and see how it goes in your conversations. While we're not here to 'time the bottom', it certainly is closer today than it was a month ago.

Last tidbit, a little tongue in cheek, for those with CNBC on in the office. The last time they've aired their "Markets in Turmoil" special was in 2022. I haven't it seen it yet this year, and it may not arrive. Once you do see it, remember this: the average one-year return following is 40% and the probably of positive returns after that one year, historically, has been 100%. Again, facts over feelings!

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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Because of their narrow focus, sector investments tend to be more volatile than investments that diversify across many sectors and companies.

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Tax-loss harvesting. IRS rules stipulate that if a security is sold by an investor at a tax loss, the tax loss will not be currently usable if the investor has acquired (or has entered into a contract or option on) the same or substantially identical securities 30 days before or after the sale that generated the loss. This so-called "wash sale" rule is applied with respect to all of the investor's transactions across all accounts.

Any type of continuous or periodic investment plan does not assure a profit and does not protect against loss in declining markets. Since such a plan involves continuous investment in securities regardless of fluctuating price levels of such securities, the investor should consider his financial ability to continue his purchases through periods of low price levels.

The value of all types of securities, including index mutual funds and exchange-traded funds, may increase or decrease over varying periods.

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