Market Commentary
The Pelican Bay Group

Morgan Stanley

3Q2025

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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

Market Perspective, Stablecoins, Energy and Living Longer

Jennifer Hartmann, CIMA®

As we head into the Fall we offer some market perspectives and ideas we like. On August 15th 2025, the S&P stands to open at 6480 and the 10-year treasury is yielding 4.29%. Morgan Stanley has a base case S&P 500 target for mid-2026 of 6,500 and a bull case of 7,200; with a 10- year treasury yield target of 3.45%. You can find the full report here.

Here is an incredible fact: so far in 2025, the S&P at 6480 is up an astounding +1645 points from where the S&P 500 closed at the intraday low on April 7, 2025 at 4835. You can read that sentence again for impact. (Source: Bloomberg)
As you can see from the numbers above, interest rates are expected to come down and the stock market appears fully valued given those targets.

For portfolios we believe this means volatility is likely to continue and a pause or consolidation would not be a surprise. Clients know we often discuss diversification and rebalancing as investments approach expected valuations or become an oversized portion of a total portfolio. No sense making money only to give it all back, the cornerstone of building and preserving wealth.

What else is going on that we are guiding clients around? The answer is three things: tariffs, taxes and interest rates. The major shock and awe of initial tariff announcements is behind us, and tariff policies continue to evolve. There are Federal Reserve meetings schedule in September, October and December of 2025. The expectation is for lower interest rates, which may create opportunity for company consolidation, cheaper access to capital and market opportunity. The One Big Beautiful Bill Act, signed into law on July 4th, includes sweeping tax legislation with notable benefits for some in the highest tax brackets. We have been discussing these items and more with clients. The potential impact is not always direct and is important to consider for each client individually. See link below for a deep dive into the OBBBA.

Given the moving factors of tariffs, taxes, interest rates and more, we continue to believe that active management and active asset allocation can be one of the best approaches. There are times in the market cycle to be active and times to be passive. This is a time to be active. Paring back areas where the opportunity has either shifted or run its course and averaging into companies that continue to execute and raise expectations.

As we head into 4Q 2025, here are some of the more interesting big themes we like for growth and/or diversification.

Stablecoin – this one is fun. The beneficiaries are potentially far reaching and should take some time to play out. A stablecoin is a type of digital currency that is pegged to a value, in this case, the US dollar. Stablecoins could help facilitate transactions between everyday payment systems as well as into and out of other cryptocurrencies. The Genius Act was passed by Congress into law on July 18th – this began to put some form and structure around digital assets. It creates standards for stablecoin issuers, including reserve requirements, liquidity and money laundering obligations. As instantly clearing transactions could disrupt the credit card model, thinking through the potential beneficiaries of stablecoins is interesting. Payment processors that stand in between consumers and transactions. US companies that do business overseas seeking to clear funds in less time. Blockchain technology providers and even issuers of stablecoins that might look to buy US treasuries as collateral, all might offer interesting opportunity.

Energy Infrastructure – Building data centers for hyper-scaled supercomputing was all anyone was talking about a year ago. Everything from the cooling systems, steel girders and vending machine companies as potential beneficiaries of this trend. We like the theme that nuclear energy provides, but it is a mixed bag and will take time. It will surprise no one that the fastest plans to roll out more nuclear power are in China, while nuclear power is banned in Australia. Building out nuclear power will take a longtime and will be lumpy, but we believe there are opportunities. When you take a step back from this hot trend and think about how the energy going to travel and be supplied, it comes back to outdated energy infrastructure platforms that need to be revamped and brought into this century. Power stations, towers, grids, pipelines, physical infrastructure begging to be updated and equipped with AI technology. This is the kind of big sustainable growth theme we like. Of course we continue to like the theme of AI. Most clients will likely find this reflected somewhere in their portfolios.

Longevity – plain and simple, people are living longer. According to data from the United Nations, average life expectancy in the US was 79 in 2023. This is forecasted to rise to 83 in 2050 – without factoring in any AI benefits applied to healthcare. What if together science and AI could predict how your body would react to medicines, treatments or supplements or recovery from surgery? This could only accelerate the trend of longevity. What kinds of things does an aging population need? Senior housing, wearable monitoring technology, consumer goods. Older spenders tend to be women and be very loyal to brands they like. An aging population needs medical technology, devices and ways that loved ones can stay connected.

As a team, there are many ideas and themes that we like, these are just a few. Clients know, we love what we do and get up everyday to give the very best possible advice we can. From financial plans to proactive ideas and smart tax decisions - we put every bit of effort into helping clients meet their goals. We appreciate the trust you place in us and are available to discuss anything you read here and more as we head into the Fall.

Sources:
https://www.morganstanley.com/insights/articles/stablecoins-change-how-money-moves
https://www.morganstanley.com/insights/articles/aging-population-investment-opportunities
https://www.morganstanley.com/insights/articles/budget-reconciliation-bill-trump-tax-bill-2025-investing

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Where Do We Go From Here?
Russell Smith, CFA®, CAIA®

Another quarter is nearly behind us (over 90% of the S&P 500 has already reported 2Q25 earnings) and I think we can all breathe a collective sigh of relief. Sure, there were several painful disappointments but overall, the quarter turned out to be better than expected and I think a big contributor to the recent market rally.

A few highlights courtesy of FactSet can be seen below

- 81% of companies have reported positive EPS surprises and 81% issued positive revenue surprises. Both above historic averages
- Reported earnings growth marks the third straight quarter of double-digit growth
- An 87% decline in companies citing "recession" on earnings calls points to a more constructive outlook from corporate executives.
- Nine of the eleven sectors reported earnings growth year-over-year
- Revenue growth is on track to be the highest since 3Q 2022
- The number of companies issuing negative guidance is well below long term averages.

Source: FactSet Earnings Insight 8/8/25

Before moving on from the earnings discussion it is worth noting the outlook for S&P 500 remains quite strong. The consensus earnings growth forecast for this year and next year is 10.3% and 13.3% respectively. The result of this optimism is an equally impressive forward 12-month consensus price target on the S&P 500 of almost 7,150 which is about 13% above current levels.

The question going forward is what drives the market higher from here. With earnings now in the rearview mirror and the summer doldrums firmly in control of investor psyche, what is the next catalyst? The likely candidate is the potential for lower interest rates.

Tariff related inflation has yet to materialize which removes a key pillar of support needed to justify higher rates. Confusion surrounding recent weaker than expected hiring trends isn't helping the case for higher rates either. Let's not forget the constant demand for lower rates coming from the White House urging Powell to cut as soon as and as much as possible. Finally, mortgage rates have begun to come down having dropped each of the last three weeks.

The result is a market which is now pricing in several cuts before year end. According to the CME FedWatch tool, there is now a 94% change of a cut being priced in at the September meeting and a 62% chance of a second cut in October.

So, robust earnings growth, a supportive rate outlook and as a retired colleague used to remark a "sometimes they just want to buy em'" attitude indicating investor sentiment remains bullish. Taken together, it appears the markets path of least resistance remains higher as we close out the summer and head into the fall.

Timeless Investment Guidelines

Brandon Bolock, CFP®

This past May, Warren Buffett held his annual shareholder meeting—a mix of timeless wisdom, dry humor, all through the lens of his calm, cool and collected demeanor. And while I did not have the luxury of attending, the live stream was available on television.

Buffett has a unique way of taking a topic that intimidates many, investing, and making it feel simple and approachable. And while we, as advisors, may be numb to some of his cliché adages he has preached through his eighty years of investing in markets, we all have those clients that view him as the ultimate investment titan. Even though we're deep in the day-to-day of markets and can forget the larger perspective, I always find it helpful to take a step back and reflect on some of Buffett's long-standing principles that we can apply to our practices, especially with the uncertainty and noise we're facing today in markets.

One thing that really stood out to me this year was his take on real estate vs. stocks as an investment vehicle. To be clear, he wasn't dismissing professionally-managed real estate investments like REITs. But he did draw a line between owning a stock portfolio and personally owning, managing, and operating property. Many clients are drawn to real estate as an investment because it is tangible—and its illiquidity can give the illusion of lower volatility because the asset doesn't mark to market like publicly traded stocks. We've all sat with our clients who have felt that their primary residence or vacation home has only increased in value over time, seemingly in an upwards linear fashion. But Buffett pointed out the other side of that coin: the complexity of real estate deals, the time commitment, and the involvement of multiple parties that is sometimes easy to forget.

Even though property values have grown, especially here in Florida, we can't ignore the rising carrying costs: taxes, maintenance, insurance (which seems to go up every year with no end in sight), and the cost of materials and labor. And if you or your clients are managing the property yourself, you have to factor in the value of your time too. I have found myself consistently reminding clients this, when they express concern that the stock market is a more challenging investment vehicle.

Ending on a feel good note, Warren Buffett's message to young investors was simple: choose your circle wisely and pursue work you truly enjoy. Buffett emphasized the importance of surrounding oneself with the right people, personally and professionally. "Who you associate with is just enormously important," he said. "You are going to have your life progress in the general direction of the people that you work with, that you admire, that become your friends…a happy person lives longer."

As always, Buffett's insights are a great reminder of the fundamentals of a successful investor, and how staying calm, thoughtful, and patient can serve us and our clients well.

Below link: July 18, 2001, Warren Buffett's lecture at the Terry College of Business at the University of Georgia. While this was before my time in the business, it's a masterclass in simplicity, patience and maintaining a long-term perspective…a must see.

Warren Buffett, Chairman, Berkshire Hathaway Investment Group | Terry Leadership Speaker Series

Free Application for Federal Student Aid

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

With many colleges' fall semesters beginning in the next few weeks, families of college-age children will soon shift from celebration to thinking about how they'll be funding the next academic year. A key piece of that puzzle for many families is financial aid. While we aren't filling out the forms or making decisions for them, we can serve as guides as they navigate a confusing process filled with acronyms and help them make informed decisions on managing assets to fund education.

The Free Application for Federal Student Aid (FAFSA) is used both by the federal government as well as state governments and most colleges and universities to help determine eligibility. The form and calculations have changed a bit in recent years with the passing of the FAFSA Simplification Act, which I'll get into shortly, but one of the most important things to do and to remind your clients about is to complete the form as early as possible.

The federal deadline to submit the FAFSA for the 2024-25 academic year is June 30, 2025 but state and school deadlines may be much earlier than that. Funding is not unlimited so it's advisable to file as soon as possible, which is generally October 1st of the year prior (so, e.g., October 1, 2025 for the 2026-27 calendar year). The Saving for College website has a helpful article on the filing deadlines that can be found here.

Many of the changes brought about by the FAFSA Simplification Act have been beneficial for families trying to submit the application. For instance, the number of questions on the form has been drastically reduces from 108 to a maximum of 36, and the online platform has been upgraded so that students' and parents' tax return information can be imported using the IRS Data Retrieval Tool. More details on the changes can be found here.

While the logistical changes are nice, more impactful are the substantive changes to how the financial aid calculations are made. The areas where these impacts can be most clearly seen are in the updated cost of attendance (COA) calculation and the Student Aid Index (SAI), which has replaced the Expected Family Contribution (EFC). To determine a student's financial need, the SAI is subtracted from the COA.

The COA formula itself has not changed drastically but some terminology changed (e.g., "room and board" became "food and housing") and transportation between campus, residences and a student's place of work may now be included.

The SAI is an eligibility index that helps schools determine how much financial support a student may need based on students' and their parents' assets and income. It is not a dollar amount of aid the student will receive or what the student's family is expected to provide. The SAI differs from the previously used EFC in several meaningful ways. It is now a simpler calculation allowing for fewer exclusions, such as the Small Business Exclusion, which allowed them to exclude the net worth of a small business with less than 100 employees. More impactful for many families is the removal of number of children in college from the equation. In the past, if you had two children in college at the same time, you were able to effectively divide the parental income figure in half for financial aid calculation purpose. That's no longer an option.

There was, however, a positive change for many of our clients who are paying, or helping to pay, for their grandchildren's educations. Prior to the FAFSA Simplification Act, grandparents could inadvertently negatively impact their grandchildren's financial aid eligibility by using 529 funds. While a grandparent-owned 529 plan did not, and continues to not, have to be reported as an asset when completing the FAFSA, under the old rules any distributions from a grandparent-owned 529 plan was reported as untaxed student income, 50% of which counted as available funds for college. Starting with the 2024-25 school year, grandparent-owned 529 distributions are no longer reported so will not impact the grandchild's financial aid eligibility so we do not need to counsel clients to wait until the latter years of college to use these funds for FAFSA calculation purposes. That being said, grandparent-owned 529 plans are still considered on the College Scholarship Service (CSS) Profile, which is used by many schools to help determine how much student aid to award so be sure to check what information the student's school considers. More information on the impact of grandparent-owned 529 plans and the recent changes can be found here.

Congratulations to everyone who has students starting college this year and keep this information in mind as you think about how you're paying for college.

Protecting Yourself from Cyber Scams

Easy Ways to Protect Yourself

- Anyone claiming to be from any bank follow these steps:
    - Request their name and bank employee ID, then hang up.
    - Call your bank at their phone number sourced from the main website to confirm.
- Anytime someone uses the words related to "bitcoin", "crypto", or "inside job" please hang up.
- If you receive any calls that seem odd or raises alarms, please give us a call.
- It is important to never give any information over the phone or by email. Scammers are everywhere and they are getting smarter and smarter. Please be careful.

Advance Fee Scams
In these scams, cybercriminals request an upfront processing fee in exchange for some lottery prize, a loan, or other fake monetary lure. Once a fee is paid the prize or offering is never delivered.

Grandparents Scams
In these scams, a fraudster communicates via email or text, pretending to be a grandchild or authority figure such as a police officer, lawyer or doctor and expressing an urgent need for money to help resolve a critical matter concerning the grandchild.

Peer-to-Peer Scams
In these scams, one receives a fake offer of a vacation home rental or other goods and services in exchange for a mobile app payment - once payment is received the perpetrator disappears without delivering on the goods.

Romance Scams
In these scams, a scammer fakes interest via an online dating platform, then after developing an online relationship, they request a wire transfer or gift card to pay for an urgent medical emergency, legal fees or travel expenses.

Tech Support Scams
These typically involve receiving an email, text message or phone call reporting a fake issue with your computer or cell phone and offering to resolve it in exchange for payment or luring one to click on a link resulting in malware.

In our increasingly digital world, it's crucial to prioritize cybersecurity and take proactive steps to protect your sensitive financial information. Feel free to share this with a friend or family member who may be interested. Our team is here to help you navigate the complexities of cybersecurity and provide guidance to safeguard your financial data. If you have any questions or need assistance, please do not hesitate to reach out.

PROVIDING A BIT OF CLARITY IN ALL OF THE UNCERTAINTY

Marcy Bonnet, CRPC®

It's hard to believe we are well into the third quarter of 2025 already. With the start of a new year came a new administration in the U.S. and many of us found ourselves trying to get a grasp on new policies and regulations being implemented and new legislation being passed. An opinion repeated often this year has been the lack of clarity around what would be put in place and acted on. The lack of clarity creates uncertainty. Markets generally don't take kindly to uncertainty and typically volatility ensues. Hello April 2025.

As all of this can be very unsettling for clients, there are a few steps clients can take to temper some of the uneasiness that may be present and even help navigate the path ahead a bit more smoothly.

It is our practice to work with each of our clients to create a customized financial plan. A common narrative across our team has been the advice to not panic and to stick to one's plan. Trying to weather the markets and plan for unforeseen detours along the way can be overwhelming. A client's financial plan serves as a roadmap to assist them in identifying the appropriate steps to take to be successful in realizing their financial goals. This includes the level risk, or least amount of risk, they may need to take. Today is a great time to review your plan with your financial advisor and identify any modifications or adjustments you may want to consider implementing to reduce your overall risk. A simple exercise to remove some of that uncertainty knowing that you are on the right track, especially if the road ahead doesn't appear to be a smooth one for the time being.

When was the last time you reviewed the beneficiaries listed on various accounts and/or policies you may have in place? Time has a way of getting away from us and life events happen (marriages, births, deaths, retirement, etc.). No time like the present to review and update, where needed, one's personal estate documents. These types of documents can include but aren't limited to trust agreements, a will, Power of Attorney, Medical Directive-Power of Attorney and beneficiaries listed on various accounts and policies. This information can become outdated quickly and is often forgotten about or overlooked until such time it is needed to be acted on.

Tomorrow will be here before we know it but tomorrow isn't promised for any of us either. If tomorrow does or doesn't come, a little planning either way can go a long way in providing yourself some clarity and confidence.

DON'T BE AFRAID OF ALL-TIME HIGHS

Sam McCormick

Many investors worry that a market at record highs means that a pullback or steep sell off is inevitably looming around the corner. History tells a different story.

For starters, all-time highs in the S&P 500 are normal. On average, they've happened 20 times a year since 1990. All-time highs are a part of a healthy and growing market.

From a pure return standpoint, lump sum investing at all-time highs has shown to be an optimal strategy for long term investors. Historically, forwards returns from all-time highs have been consistent with the market's long run average over various time periods, including the 1, 3, and 5 year time frames. Strong company fundamentals, price momentum, and positive sentiment can keep markets moving upward.

Even with the data in our favor, it's normal to feel uneasy putting cash to work at all-time highs. Bear markets have and will continue to cause dry spells – periods of time where we won't see new highs on the S&P 500 for years. The fear is going 'all in' before the drop. Often, investors feel more pain from losses than the pleasure they receive from gains…So how can investors reduce the psychological element and invest successfully with more comfort? One strategy is to dollar cost average into the market – reduce volatility, increase downside risk management, and mitigate 'bad timing' risk. Another way is to have a diversified and well-balanced portfolio of stocks, bonds, and alternatives.

New highs aren't a reason to stay on the sidelines. The most important step is to get invested in a way that lets you stay the course.

Meet our Team - The Pelican Bay Group At Morgan Stanley

Lisa Stewart is a Portfolio Associate with our Orlando team and has over 40 years of experience in the industry. She started her career with a small money manager then joined Prudential Securities in 1998 as an Operations Manager. She then worked at Wells Fargo before leaving in 2020 to join Morgan Stanley, where she is dedicated to servicing all our client's needs.

Lisa graduated from the University of Florida with a BSBA degree in Finance. She has completed her General Securities Representative (Series 7) and the Uniformed State Law (Series 66) exams, along with obtaining her Principal License (Series 9 and Series 10).

Lisa is native Floridian born and raised in West Palm Beach and is married to Scott Stewart. She has lived in the Windermere area for the last 27 years where she and Scott raised their two children, Jason and Jeffrey. They have also been blessed with four beautiful granddaughters.

In her free time, she enjoys spending time with her four granddaughters: Everly, Kinley, Kyndall and Lacey. They love to play dress up, put on makeup and swim.

Yvonne Good is a Portfolio Associate with Morgan Stanley Wealth Management in Carlsbad, CA. She began her career in 1990 with EF Hutton in San Jose, CA. Yvonne remained a stalwart in the organization for 34 years as various mergers took place. With three decades of experience in the financial services industry, Yvonne is an integral part of the client service experience. Her responsibilities include the administrative, operational, and account maintenance needs for clients, all while delivering a high level of professionalism and care on a daily basis. She has completed her General Securities Representative (Series 7) and the Uniformed State Law (Series 65) exams

Yvonne works closely with the team to ensure that client requests are met with efficiency, knowledge, and extreme attention to detail. She brings a strong work ethic to everything she does and utilizes the firm's modern wealth digital platform to deliver cutting edge service. Yvonne works closely with clients and their families to build long-lasting relationships for generations to come.

Outside of the office, Yvonne enjoys spending time with her two successful adult children, watching her grandson play football, and hiking the trails of Southern California.

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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Senior Institutional Consultant
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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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Small- and mid-capitalization companies may lack the financial resources, product diversification and competitive strengths of larger companies. In addition, the securities of small- and mid-capitalization companies may not trade as readily as, and be subject to higher volatility than, those of larger, more established companies.

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

The companies identified within are shown for illustrative purposes only and should not be deemed a recommendation to purchase or sell the companies mentioned.

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Technical analysis is the study of past price and volume trends of a security in an attempt to predict the security's future price and volume trends. Its limitations include but are not limited to: the lack of fundamental analysis of a security's financial condition, lack of analysis of macro-economic trend forecasts, the bias of the technician's view and that possibility that past participants were not entirely rational in their past purchases or sales of the security being analyzed. Investors using technical analysis should consider these limitations prior to making an investment decision.

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.

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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