The Smithfield Forecast

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A quarterly publication by Smithfield Trust Company on the latest wealth management trends. Our goal is to empower our valued friends and customers with essential information that directly impacts their financial well-being and enduring legacy.

A Message From Our President & CEO

Fireworks are definitely in order, not just to celebrate America's birthday but to recognize Congress did something for once. Regardless of political affiliation, most Americans view Congress as inept. It's inability to efficiently pass legislation and partisan gridlock was evidenced again by the Vice President needing to break a tie in the Senate and the narrow four vote approval in the House to pass the "Big Beautiful Bill." I suspect most Americans aren't pleased with everything in the 887 page bill that was signed into law on July 4th, but being a trust and estate attorney, together with my colleagues at Smithfield Trust Company, I am thrilled the estate, gift and generation-skipping transfer tax exemptions are permanent. Now strategic planning can take place for families without legislative uncertainty, especially those who will participate in the "Great Wealth Transfer." Given the trillions of dollars expected to transfer from baby boomers and older generations, it begs the question how permanent this tax legislation will be. Nonetheless, certainty is here for now and that is reason to celebrate.

—Betsy

Smithfield Trust Company
20 Stanwix Street, Sixth Floor
Pittsburgh, PA 15222

Phone: 412.261.0779
Fax: 412.261.3482
smithfieldtrustco.com

Economic Insights

By Michael Drury

First quarter real GDP growth was weak (-0.5%), on concern about Trump 2.0 policies on immigration and tariffs. In the second quarter, growth rebounded (2.9%, estimated by the Atlanta Fed's GDPNow) as economists', investors', and businesses' worst expectations were not met. The third quarter will be the rubber match, as the one big beautiful bill finalizes fiscal policy for years to come, tariffs are set on many major trade partners, immigration policy is adjusted to real world needs, and deregulation continues to free businesses from bureaucratic red tape.

The reason for caution among entrepreneurs and consumers so far in 2025 has been uncertainty, with the recent hostilities between Israel and Iran—leading to US intervention and imposition of a ceasefire—just the latest concern. However, the political reality of narrow margins in the House and Senate, and the advancing election calendar, are leading to resolutions on major policies—and setting the stage for greater certainty and liquidity later in 2025 and into 2026. We are comforted that the US economy sustained 1.2% growth over the first half of 2025, and continue to believe that the healthy wealth cushion enjoyed by most households and businesses will sustain growth at above potential in coming quarters—though with inflation still well above 2%.

Recessions are a correction of excesses—and caution over the past two quarters has reduced many of the excesses of recent years. The dismantling of the Green economy has eliminated government investment in selected industrial winners. Tighter border security lowered growth that was due to more bodies, but not per capita output—or average real household income. A weakening from the boom in travel has trimmed spending on services and cooled service inflation. Capital spending on artificial intelligence continues, but that still holds the promise of much higher productivity—and returns. It will take a slowdown beginning elsewhere to rein in that expectation. Bottom line, some risks have already been reduced by the recent slowdown.

Many point to new risks from new policies—but those are being adjusted as negative impacts arise. The prohibitive tariffs on China were slashed to merely painful—but with loopholes for electronics. Immigration raids on agriculture and construction sites have been discussed—with new rules on targeted work visas likely in coming months. The garnishing of wages to collect delinquent student loans was rolled back for social security recipients. The deepest cuts in medical care included in the budget were sidelined by the Senate's Parliamentarian. The new Administration is adjusting its America First policies to maximize their impact, while limiting the direct cost to the US economy. We doubt they will allow any of their new laws and regulations to be the cause of a deeper economic slump with critical elections coming in 2026.

The greatest risk is from rising debt levels as the budget will extend the Trump tax cuts and add a modest amount of new stimulus. Including an expected $200 billion a year in revenues from tariffs (which cannot be counted by the Congressional Budget Office, because they are levied by an executive order, rather than an act of Congress), the budget is expected to add over $2 trillion to the deficit in ten years. Much of that fresh stimulus is front loaded, as spending hikes and tax cuts are up front, and expected gains from higher tax collections on a stronger economy further out. Without smaller cut to health care, the debt would increase about $1 trillion more.

However, the federal debt was already expected to rise by more than $16 billion over those same ten years, with debt to GDP rising from 96% to 117% (now expected to be 123%). The base, GDP, will be 50% larger due to growth over the decade—accounting for most of the rise in debt. The financial markets have been aware of that risk for many years, and priced the risks accordingly. We do not see the latest $3 trillion as the straw that will break the camel's back.

Nor is the US alone in its debt accumulation. NATO is now committed to a 5% of GDP target—having been under 2% for years. That suggests defense spending will crowd out 30% of private productive GDP from their capital markets—as sovereigns always borrow first and at the lowest relative rates. That's great if you are in the defense industry—otherwise, not. China is also adding 2% of GDP stimulus in 2026. More liquidity suggests stronger growth in 2026 globally.

Unfortunately, a greater focus on defense also suggests higher consumer inflation. Defense spending generates income for businesses and their workers, but it does not produce consumable goods—so more income chases what's available, pushing up CPI type prices. Higher prices will limit lower income households' ability to buy—but less so in the US, where wealth and concentrated spending among higher income households provides a cushion. Bottom line, global inflation will hurt the US least—just as we saw during Covid, despite uncomfortably high prices.

Bottom line, wealth is a form of economic insurance—and the US has far more than even other developed nations. The per capita income of the US's poorest state equals average income in Germany. American homeowners are paying down debt aggressively due to 3% thirty-year fixed rate mortgages. Strong balance sheets at US businesses means they are less likely to start dominos falling by laying off workers when times get tough. Similarly, wealthy US households are less likely to deprive their neighbor of a job by cutting spending. The biggest cuts in 2025 and 2026 will come on imports, as tariffs raise import prices most. Even the recent retreat from US investments, and the dollar, has hurt foreigners more, as the S&P500 rebounded to a new high in dollars—but is still down 10% from its high in Euros.

Early 2025 has been a difficult time for the US due to significant uncertainty—which froze most businesses as they awaited clarity. That clarity is coming—though the new rules will have a cost, especially on foreigners. As after the stall in early 2022, we expect US nominal growth will rebound—but inflation will as well as a rising deficit fuels liquidity. That may limit the improvement in real growth, but we still expect it will hover around potential near 2%.

Investment Commentary

Staying Committed Through Volatility

Conviction is a quiet force—it isn't loud, but it is steady. In life, we often rely on conviction to guide long-term goals: raising a family, building a career, or pursuing personal growth. Each requires belief in a future outcome, often amidst uncertainty. The same applies to investing. Staying committed through volatility is essential to compounding wealth. Markets don't rise in straight lines, just as progress in life isn't always linear. Yet, the rewards for those who endure with purpose and patience are meaningful.

In the world of investing, the importance of maintaining long-term conviction was underscored during the second quarter of 2025. From April through June, financial markets digested a complex mix of data and headlines. Inflation trends continued to temper, with core measures easing closer to the Federal Reserve's long-standing 2% target, while economic indicators such as job growth and manufacturing activity remained broadly steady.

However, markets were thrown into significant volatility early in the quarter—briefly rivaling levels of fear not seen since the COVID-19 pandemic—following the April 2nd "Liberation Day" tariff policy announcement from President Trump. The sudden escalation in geopolitical uncertainty rattled investor confidence, triggering sharp swings across equity, fixed income, and currency markets as participants scrambled to assess the potential global economic fallout. While initial fears of sweeping trade disruptions took hold, investors gradually began to separate political rhetoric from actual policy implementation. As clarity emerged, sentiment stabilized, leading to a sharp rebound in confidence and an 8-week rally that pushed domestic stocks to new all-time highs.

Through it all, long-term investors were rewarded for maintaining their discipline. The market's resilience amidst crosscurrents reflects the value of conviction...not blind optimism, but a thoughtful, reasoned belief in enduring trends: innovation, productivity, and the long arc of global growth. Just as in life, conviction means staying the course even when unsettling headlines test our resolve. In investing, this mindset is essential to achieving long-term financial goals, where patience and perspective matter more than reacting to short-term noise.

Tax & Estate Planning Insights

Tax Features of the One Big Beautiful Bill Act ("OBBBA")

The OBBBA was signed into law by President Trump on July 4, 2025. Here are a few of the tax highlights.

- The State and Local Tax (SALT) cap has temporarily been raised to $40,000 for taxpayers with less than $500,000 of income. The change is effective for tax years 2025-2029 and will increase by 1% each year.
- Beginning in 2026, the estate and lifetime gift tax exemption will be permanently increased to $15 million for single filers and $30 million for joint filers and will be inflation-indexed.
- Individual income tax brackets and higher standard deductions as established by the Tax Cuts and Jobs Act of 2017 will remain in place and will be inflation-indexed.
- A senior deduction of $6,000 has been instituted for individuals aged 65 and over for tax years 2025 through 2028. The deduction will phase out at higher MAGI levels and completely phase out at MAGI of $175,000 for single filers and $250,000 for joint filers.
- A permanent above-the-line charitable contribution will be implemented for tax years beginning in 2026 with limits of $1,000 for single filers and $2,000 for joint filers.
- A deduction for tip income up to $25,000 per year for those working in customarily tipped occupations is available to qualified employees for tax years 2025 through 2028 subject to certain income thresholds.
- Several green energy tax credits established under the Inflation Reduction Act have been repealed.
- The use of 529 savings accounts has been expanded to allow for additional K-12 expenses and student loan repayment of up to $10,000 plus other costs formerly not allowable.
- Business tax provisions include making permanent the restoration of 100% bonus depreciation for short-lived property and the Section 199A pass-through deduction with an increased phase-in limitation range.

Passage of the OBBBA into law will potentially impact individuals both positively and negatively depending on individual income level and various other factors. It is important to analyze your personal situation to determine how passage of the bill may impact you personally.

Cybersecurity Awareness

Security Awareness While Online Shopping

Online shopping offers incredible convenience and endless options, but it's important to be aware of the security risks that can come with it. You can shop safely online by keeping a few simple tips in mind.

Create Strong, Unique Passwords

For maximum protection, use unique passwords for each online account and resist the urge to reuse passwords. Strong, varied passwords act as your first line of defense against hacking attempts.

Use Secure Networks

While public Wi-Fi networks can be handy when you're out and about, they are also not secure and lack the encryption to secure your data.

Be Wary of Unfamiliar Links and Pop-Ups

Always be mindful of extra links and pop-up advertisements. Before engaging, take a moment to research the offer or website to avoid falling victim to scams.

Shop Exclusively on Reputable Sites

Verify website credibility before making a purchase. Look for "https" at the beginning of the web address; this indicates the site uses encryption to protect your information.

Choose Credit Cards

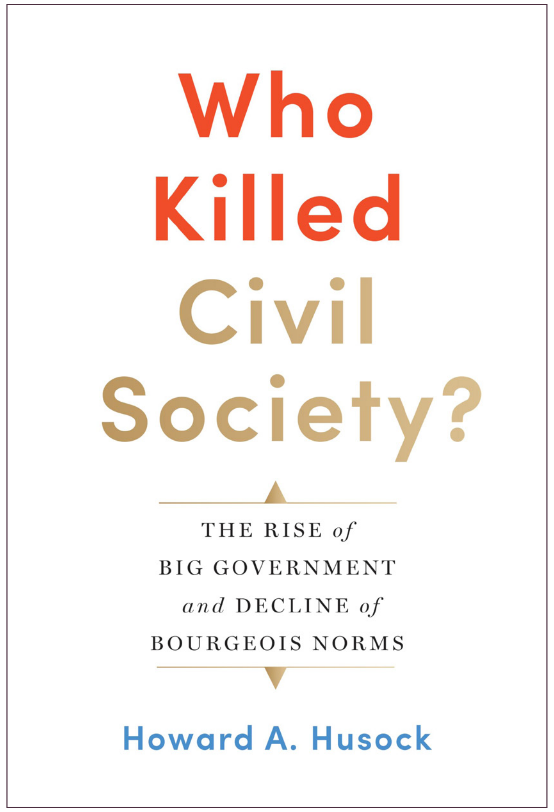
Credit cards generally provide superior fraud protection, ensuring you are better shielded from unauthorized transactions.

Share Only Essential Personal Details

Provide only the necessary details, and never disclose more than what is absolutely required.

By following these practical tips, you can enjoy the full benefits of online shopping while protecting your personal information and finances. Stay secure and happy shopping!

Book Reviews



Who Killed Civil Society?

by Howard A. Husock

★★★★☆

Review by: Henry Haller, III

In this book Husock traces the evolution of social work in this country from its origins as an effort by private individuals to help the poor all the way to the massive government programs that exist today. He does this by profiling a number of individuals who were entrepreneurial in this field.

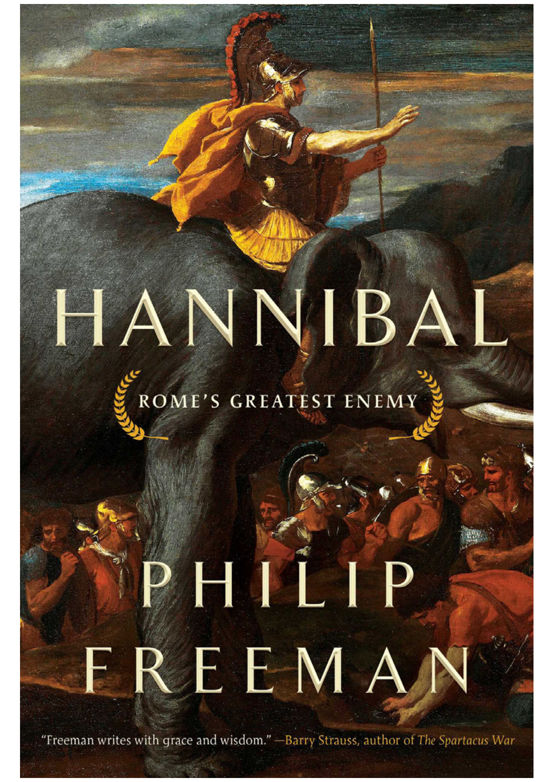
His first profile is of Charles Loring Brace who in 1853 founded the Children's Aid Society in New York. One of his projects was the Newsboys' Lodging House to assist the "newsboys, bootblacks, and other children of New York's streets." With each successive profile we see how government gradually comes into the picture. Finally he profiles Wilbur Cohen, who he calls the "consummate federal bureaucrat." In 1968 Cohen was Secretary of HEW in the Johnson administration, and his efforts laid the groundwork for the welfare state as it exists today.

There is a notable difference between civil society efforts to help the poor and government programs to do so. Husock calls it "formative versus reformative." In other words, private actors try to instill bourgeois virtues (hard work, honesty, marriage before children, etc.) in their clients. Government agencies try to cure the disfunctions that result when people do not exhibit these virtues. In fact, government social workers are discouraged from expressing judgment about the lifestyles of their clients.

Husock ends his book on a note of optimism that there will be more actions like those of the 19th Century crusaders by profiling Geoffrey Canada and his privately funded "Harlem Children's Zone." However, I find it hard to share that optimism.

Submit a Review!

To submit a review to future publications, email your review to **forecast@smithfieldtrustco.com** by the 15th of each March, June, September, and December. Reviews should be between 200-275 words and include a rating out of 5 stars.



Hannibal, by Philip Freeman

★★★★☆

Review by: Sam Adams

This is a biography of Hannibal Barca (247-184/183 BC), who led Carthaginian and allied forces against Rome in the Second Punic War (218-201 BC). Hannibal, or Hanniba'al, meant "he who enjoys the favors of Ba'al," referring to Ba'al Hammon, the chief god of Carthage, who is said to have required the firstborn child of each Carthaginian family in a fiery human sacrifice.

A quick and effortless read, the book begins with Carthage's founding as a Phoenician settlement on the north African coast and its defeat by Rome in the First Punic War. The focus then turns to Carthaginian efforts to conquer Spain and secure the region's silver mines. Carthaginian success in Iberia attracted Rome's attention and the Second Punic War followed.

The book continues with Hannibal's invasion of Italy and relates his crossing of the Rhone River and Alps with his elephants, all while evading Roman forces and hostile Celtic tribes. Upon entering Italy, Hannibal's brilliance, both at defeating Roman forces and making alliances with Celtic and Italic tribes willing to join him against Rome, is on full display, with a chapter devoted to each major battle.

Roman efforts and consternation with their defeats are well described, as is the strategy of the then-unsung Roman general Quintus Fabius Maximus, who opted for an attritional war against Hannibal instead of direct engagements. As an aside, 2,000 years later Alexander Hamilton would laud George Washington's strategy as "Fabian" in a nod to the cautious Roman.

Hannibal could defeat Roman armies, but, as the book relates, his army was an unsupported expeditionary force unable to capture Rome itself, especially given Roman perseverance and tenacity. With Rome taking the war to Spain and Africa, Hannibal's 15 years in Italy ended when he was recalled to Africa and defeated in the final battle of the war at Zama by Scipio.

The book ends with a "what if" chapter on how different our world would be if Hannibal had attacked and captured Rome after his victory at Cannae. For those interested in a succinct telling of how close Hannibal came to changing the course of history, I heartily recommend this book.

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