CLIFFORD SWAN
INVESTMENT COUNSELORS

THE INVESTMENT COUNSELOR
MARCH 2025

U.S. EXCEPTIONALISM AND WHAT IT MEANS FOR YOUR PORTFOLIO

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Chief Investment Officer

Over modern U.S. history, we've hardly gone a moment without hearing predictions of America's imminent downfall. In that sense, you might say that declinism is one of the great American past times.

During his 1960 Presidential campaign, John F. Kennedy painted a scary picture of a Russian enemy well on its way to world domination as the U.S. risked entering a "long, slow afternoon". That gave way to the 1970s when the crumbling U.S. dollar, generational revolt, and setbacks in world affairs stoked new predictions of America's collapse. Then came the 1980s when the world became enraptured with Japan—a country where government and business worked hand in glove and where moral depravities like crime seemed to hardly exist. How could the U.S. hope to compete with Japan's cars, computers, and single-minded commitment to greatness?

Yet the reality is that the United States has pulled ahead of the rest of the industrialized world. You'd in fact be hard-pressed to think of a point in history when the U.S. economy has diverged so dramatically from its peers. Today, American economic output per person is 40 percent higher than in Western Europe and 60 percent higher than in Japan, much bigger gaps than at the start of the 1990s.

The Forces Behind U.S. Exceptionalism

Far more than just a run of luck, our country's prosperity has been based on structural advantages that are enduring. A simple but overlooked one is our geography. While the internet has made the world feel smaller, borders still matter. We benefit from a remarkable margin of security from having friendly neighbors to the north and south (tariff threats notwithstanding). Meanwhile, America is flanked by two vast oceans, putting us a great distance from continents with long histories of conflict. While the U.S.'s strengths are varied, we should not take for granted that where we sit on the world map has afforded us the time and space to strengthen our institutions relatively free from outside threats.

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Another advantage is America's culture of innovation. Despite long enjoying the lead position among industrial nations, Americans do not rest on their laurels. The U.S. accounts for the lion's share of the world's venture investing as well as R&D spending, building upon an already imposing foundation of institutional knowledge. Important, too, is that we do not shy away from reinvention. American companies and jobs generally churn at higher rates than they do in the rest of the world. With new beginnings comes a redeployment of capital towards more productive uses. This has been a boon to our country given the technological leaps that have taken place in the last two centuries, enabling our successful journey from an agrarian to an industrial to a knowledge-led economy.

America's economic leadership is also underpinned by the strong support we give to businesses. Ideas go to market with relative ease. With 50 states competing for their capital, businesses can situate themselves according to their needs around labor, natural resources, transportation infrastructure, and their target

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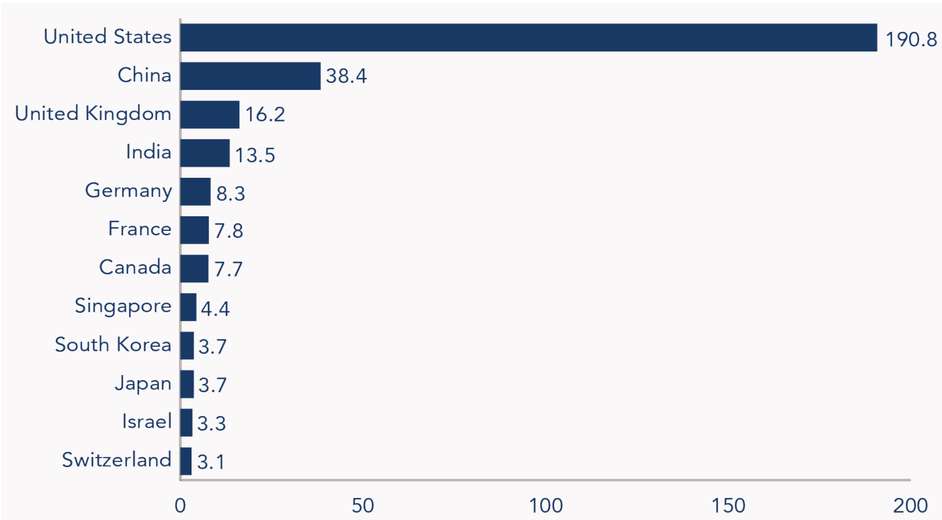
LEADING COUNTRIES FOR VENTURE CAPITAL

INVESTMENTS WORLDWIDE IN 2024, IN BILLION U.S. DOLLARS



Source: Statista

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customers. Once established, a company that hatches a great idea can bring it to the rest of the country in short order as the U.S. effectively operates as a single market, helped further by having access to the deepest capital markets in the world. While it's fair to lament how dominant the largest corporations have become, especially in the public arena (witness how concentrated the S&P 500 Index is at the top), bear in mind that they are often the training grounds for the next crop of founders. As a testament to the dynamism of the U.S. economy, the roster of leading companies tends to change significantly from decade to decade.

Demographics will be important to maintaining U.S. leadership. As countries age, they must contend with a shrinking labor pool and a downshift from investing in growth to spending on basic services. Though Americans are having fewer children, so is the rest of industrialized society. We're expected to at least maintain our share of the world's population at 4 percent through 2100. Meanwhile, China's share is expected to fall from 18 to 6 percent, and the European Union's from 6 to 3.5 percent. Under such a scenario, America's relative standing isn't assured. But it would surely be harder to prosper without a baseline of human capital.

Could U.S. Exceptionalism End?

History suggests that it's only a matter of time before we cede ground to the next superpower. The great nations that came before us followed unique paths but their declines were typically precipitated by rising public debts that became crippling. That's worrying as the U.S. is currently spending far more than we collect in tax revenues with the fiscal deficit projected to widen in the coming years. One mode of thinking is that deficits don't matter so long as the U.S. dollar remains in demand and the world is willing to fund our debt obligations. But the passing of the torch to the next great economic miracle—or our transformation into a more multi-polar world—could mark a turning point in the desirability of dollar-based assets.

Looking around the globe, China is a natural candidate to one day overtake the U.S. on its sheer size alone. As a centrally planned economy, its leadership can create outcomes through brute force. But even if China's annual economic production eventually surpasses ours, that alone does not confer superpower status. Looking to an abstract measure called inclusive wealth (referring to a nation's entire stock of intangible and physical capital whereas GDP only represents a snapshot of economic output), the United Nations's analysis suggests that the U.S. could remain leagues ahead of the pack. Further, there are questions on whether tomorrow's emerging powers would be able to truly project their size into meaningful leadership across cultural, political, and military domains, which is no easy feat.

> *"Given our economy's inherent strengths, there's reason to be optimistic about the future and to favor homegrown assets."*

That brings us to the state of U.S. democracy. We are operating in an era of extremely fractured politics. If America enters a period of isolationism, we risk driving allies and trade partners away from the U.S.-centric financial system. That should be a frightening thought for investors. But we should remind ourselves, too, that democracy is not always satisfying to watch and that political rancor

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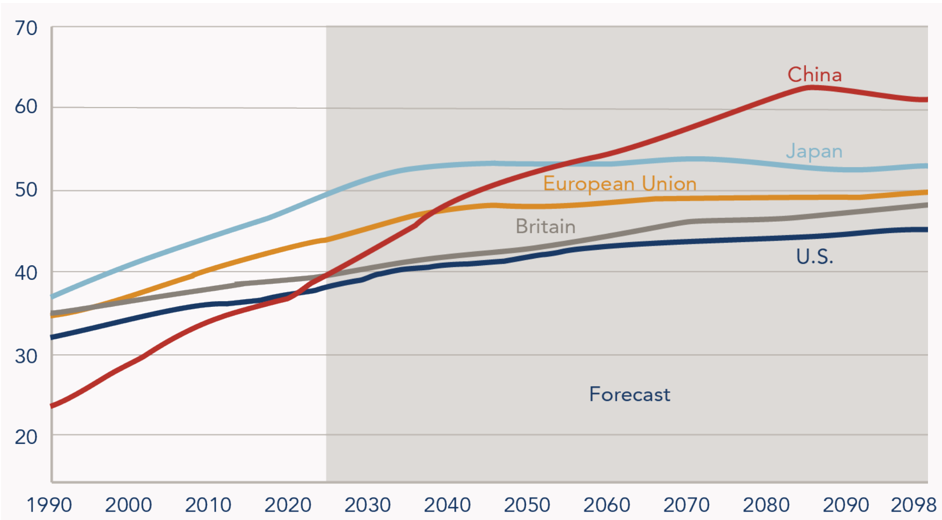
at least signals our willingness to take a magnifying glass to the things that need our attention. America's tradition around public discourse has itself been a force for self-preservation, including when we've faced existential threats like the 2008 banking crisis and the Covid pandemic.

What does this all mean for U.S. investors? Given our economy's inherent strengths, there's reason to be optimistic about the future and to favor home-grown assets. Still, we continue to recommend that clients diversify their portfolios abroad in acknowledgment of the unpredictable nature of market cycles and out of our team's success in identifying attractive foreign investments. Diversification into non-U.S. assets should also make sense to any student of history: past superpowers looked unstoppable until they eventually weren't, and the world is sure to change for generations to come in ways we cannot possibly predict today.

"...the world is sure to change for generations to come in ways we cannot possibly predict today."

AMERICA'S FAVORABLE POPULATION OUTLOOK

MEDIAN AGE OF POPULATION IN YEARS



Source: UN World Population Prospects, The Economist

INSURING YOUR HOME AGAINST THE UNEXPECTED

Jennifer I. Maqueda
Marketing & Communications Manager

The devastating Los Angeles wildfires at the start of the year serve as a sobering reminder of the role insurance plays in protecting against major financial loss. Without adequate coverage, you could be forced to draw from savings, retirement funds, or other investments to cover unexpected losses.

At Clifford Swan, while we are not insurance experts, we are well-versed in the fundamentals. This knowledge helps us manage financial risk for our clients. Together, we can think through your insurance needs. With that foundation, we will work with your provider or connect you with an insurance professional to review your policies, assess their alignment with your specific circumstances, and update your coverage if necessary.

What Is Property and Casualty Insurance?

Property and casualty (P&C) insurance policies are often bundled together to provide more comprehensive risk management. Property insurance safeguards against damage or loss caused by disasters, theft, vandalism, or accidents, while casualty insurance covers legal liability for injuries or damage to others.

Many types of insurance fall under the broad category of P&C insurance, including policies for cars, homes, rental properties, businesses, and valuable belongings. This article will focus on homeowners insurance.

What Does Homeowners Insurance Cover?

Homeowners insurance protects your home and its contents—including appliances, furniture, and

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other personal property—within policy limits. While coverage varies by policy, it usually includes damage from fire, smoke, windstorms, and hail. However, floods and earthquakes are typically excluded, so if you live in a high-risk area consider purchasing separate policies for these risks.

Your policy should ideally cover the full *replacement cost* of your home. This is the amount needed to rebuild or replace the home without factoring in depreciation. *Extended replacement cost* would cover pricing surges an area might experience in a disaster situation (*guaranteed replacement cost* is a similar offering). Some policies also help with temporary housing costs if you are displaced.

If you own a condo or townhouse, *condo insurance* covers the interior of your unit, while your homeowner association's policy covers the outside structure. Beyond purchasing adequate condo insurance, also review the association's coverage and consider additional protection to help fill any gaps.

With the rising popularity of Accessory Dwelling Units (ADUs), it's important to understand when

> *"With the rising popularity of Accessory Dwelling Units, it's important to understand when landlord insurance may be necessary."*

landlord insurance may be necessary. Standard homeowners insurance doesn't cover rental properties, and ADU coverage depends on usage, your insurance provider, and state and local laws.

- If your ADU is used for personal purposes—such as a guesthouse, home office, or housing family members—you may only need to adjust your homeowners policy.
- However, if you rent out a detached ADU long-term, landlord insurance is likely necessary. In addition to covering your property, it includes liability coverage and reimbursement for lost rental income if the unit becomes uninhabitable due to a covered event.

The Role of Umbrella Insurance

If you have significant wealth to protect, *umbrella insurance* adds an extra layer of financial security beyond your home, auto, or other property insurance policies. It helps safeguard your assets and future earnings in case you're found at fault in a lawsuit or claim.

Umbrella insurance acts as a secondary policy, stepping in once the limits of your primary policies are exhausted. It's designed for extreme situations where standard coverage falls short. For example, if a guest in your home suffers a serious injury from a fall down the stairs, your homeowners policy may not fully cover his or her medical expenses. An umbrella policy picks up where your homeowners policy left off, helping cover the remaining costs.

While not everyone needs umbrella insurance, it can offer valuable financial protection and peace of mind for those with significant assets or with a higher risk of liability. Homeowners in expensive zip codes should strongly consider it. Additionally, umbrella policies cover unexpected risks like claims of slander or libel stemming from social media activity.

Other factors that increase your liability risk include:

- Owning rental property
- Serving on a nonprofit board
- Hiring workers who are not licensed, bonded, and insured
- Frequently hosting gatherings at your home
- Participating in sports like boating, hunting or skiing where you could injure others
- Owning liability-prone property, such as pools, trampolines, ATVs, or motorcycles

Although the cost of umbrella insurance has risen in recent years due to increasing medical expenses, repair costs, and legal settlements exhausting primary policies, it remains a more cost-effective option than raising liability limits on individual policies. If an umbrella

> *"Regularly reviewing your homeowners policy is essential, especially during life transitions..."*

policy makes sense for you, aim to cover your net worth; there's no need to protect more than you own. An experienced insurance broker can help optimize your policies for efficient protection.

Evaluating Your Homeowners Policy

Regularly reviewing your homeowners policy is essential, especially during life transitions such as marriage, a new baby, inheritance, or the loss of a loved one. As your

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home's value increases—whether due to price appreciation or improvements—it's important to ensure your coverage keeps pace. Additionally, consider how changes in risks, like increased wildfire or flood threats, may alter your coverage needs.

When shopping for insurance, don't focus solely on cost. Pay close attention to policy exclusions and limits and understand how the policy will be implemented. Ensure the policy provides adequate coverage and adjust it as needed. Also, consider the financial strength, reputation, and customer service of the insurer, and obtain quotes from multiple companies for comparison.

Determining the Right Coverage

When determining how much coverage is needed, consider your own ability and willingness to self-fund certain expenses, and weigh the trade-off between premiums and deductibles.

To calculate the replacement cost of your home, start by considering the average cost per square foot to build in your area, factoring in material and construction quality, as well as unique features like a high-end kitchen. If specialized services, such as architects or interior designers, would be needed for repairs or rebuilding, verify if and how your policy covers these costs. Eligibility for coverage may depend on whether these services were originally used for the property.

If inflation or natural disasters have driven up building costs, your existing coverage may be insufficient. Instead of making periodic adjustments, you could inquire about adding an *inflation guard* to your policy, which automatically increases your coverage to keep up with rising costs.

If you own an older home, consider asking your insurer about *ordinance or law coverage*. This add-on helps pay to bring your damaged or destroyed home up to current codes, which could be costly without this protection.

"We recommend itemizing your possessions based on their replacement cost, as the price of repurchasing items tends to increase over time."

Beyond your home's structure, account for the value of your personal property by taking a home inventory. This detailed survey of all your belongings helps determine the appropriate coverage and make the claims process smoother. We recommend itemizing your possessions based on their replacement cost, as the price of repurchasing items tends to increase over time. Homeowners policies typically set personal property limits as a percentage of dwelling coverage, but these limits can be adjusted. Keep in mind that policies normally provide limited coverage for high-value items like jewelry or electronics, so discuss additional coverage options with your insurer.

Special Considerations for Californians

Like other parts of the country affected by rising natural disasters, Californians are finding it increasingly difficult to obtain adequate insurance due to the growing frequency and severity of wildfires. As insurers withdraw from high-risk areas, homeowners are forced to explore alternative options.

Over the past decade, many Californians with high-risk properties and lacking other options have been forced to turn to the FAIR Plan. Established in 1968, the California FAIR Plan Association provides basic fire insurance when private coverage is unavailable. Designed as a temporary safety net, it receives no public funding; instead, all property and casualty insurers in the state participate in this syndicated fire insurance pool.

Before the Eaton and Palisades Fires in January 2025, many traditional insurers had already canceled policies to limit risk. Additionally, at the end of 2024, insurers successfully lobbied California's insurance commissioner to allow increased reinsurance costs (insurance for insurance companies) to be passed on to policyholders and to use fire catastrophe models to set premiums—paving the way for substantial rate hikes.

January's wildfire destruction further worsened the insurance crisis. In February, the FAIR Plan announced a $1 billion assessment on insurers, half of which may be passed to policyholders, compounding the billion-dollar losses already faced by major insurers. While the full impact on individual policies remains uncertain, home insurance costs are expected to rise significantly.

We're Here to Help

Protecting your assets is a key part of financial security. Beyond your investments, having the right risk protection in place for your home is essential. We encourage you to review your property and casualty insurance regularly and prepare for rising costs using Clifford Swan as a resource.

MESSAGE FROM THE CEO

Peter J. Boyle, CFA
Chief Executive Officer

This year marks a milestone as Clifford Swan celebrates its 110th year. Established with the visionary idea of providing independent investment advice, we remain committed to our founders' timeless values—client-first focus, highly personalized service, attention to detail, and delivering financial success.

As we celebrate this anniversary, we reflect on key moments that shaped our firm and industry:

1915: A.M. Clifford founds his investment counselor business—the first of its kind.
1925: Clifford publishes *The Investment Counselor*, laying the foundation for industry standards.
1937: Clifford helps establish a professional association for investment counselors in Southern California.
1947: A national organization follows and survives to this day as the Investment Adviser Association.
1984: Philip V. Swan, a former Clifford employee, launches his own advisory firm.
2007: The two firms merge to become Clifford Swan Investment Counsel.
2015: Clifford Swan celebrates 100 years, a new location, and a return to independent ownership.
2025: Managing over $4 billion in assets, we continue to deliver financial peace of mind to individuals, families, private trustees, and nonprofit organizations.

While we take pride in our pioneering role in the industry, you don't get to celebrate over a century as a company by staying the same. As always, our focus is your financial success. If there's anything we can do to serve you better, call, email, or visit our offices anytime—I welcome the opportunity to connect with you.

New Website

We're excited to unveil our newly launched website. It highlights who we are, what we do, and how we can help. Every detail—from the site's structure and language to the images of our team and offices—reflects the care we have for our clients.

The website provides an in-depth look at how we meet our clients' unique financial needs, prioritizing a thorough understanding of your aspirations and needs before offering tailored solutions.

Community Support

As we mark a milestone year, we are sobered by the devastation caused by the Eaton and Palisades Fires, which have affected many, including our colleagues, retirees, and clients.

If you are looking to support the recovery effort, Pasadena Community Foundation is doing an incredible job stewarding donations. For our part, we are proud to have contributed to their Eaton Fire Relief and Recovery Fund. Together, we will rebuild and emerge stronger.

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