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INVESTMENT COUNSELORS

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FORMULATING INFREQUENTLY ASKED QUESTIONS

Kevin J. Cavanaugh
Principal, Investment Counselor

In early April, with the onset of a major shift in U.S. trade policy, global financial market volatility increased materially. The U.S. Treasury and currency markets saw unusual trading activity, which spilled into the stock market. In the ensuing days, a stream of reports and articles began questioning the credibility of the U.S. dollar (USD) and the safe-haven status of U.S. Treasury debt. A few clients reached out after reading predictions about an existential crisis for the USD. One asked, "We are not traveling to Europe this year. Do I need to worry about the dollar?"

Over the years, our clients have rarely raised questions about the USD. Even so, discussions within our investment team frequently center on the prospects for the dollar and how to protect client purchasing power if the USD were to weaken significantly. We expect that the USD will become a more central point of conversation in future client meetings.

So far, the evidence suggests that the unusual trading activity of early April, including the spike in interest rates and a lower USD price, was at least partially caused by the unwinding of large speculative currency bets placed with leverage. Since then, long-term interest rates have fallen, and the dollar has recovered somewhat against most currencies.

To frame the USD's recent moves, it's worth noting that market participants often look to the DXY Index, which represents the value of the USD relative to a weighted basket of six foreign currencies. Interestingly, the DXY does not include the currency of our significant trading partner, China. As the chart below illustrates, the U.S. dollar has shown no decisive long-term trend over nearly 60 years. Since the Great Financial Crisis (2008–09), the dollar has generally appreciated. Based just on its trading history, the recent pullback looks like a correction.

"...the stable currency regime of the last 75 years may be nearing a breaking point."

60-YEAR HISTORY OF THE DOLLAR'S VALUE

U.S. DOLLAR INDEX (DXY)

Source: TradingView, Data are as of April 30, 2025.

So why all the noise?

One explanation comes from Swiss investment manager Felix Zulauf, who warned post-Covid that currency volatility would increase meaningfully—and that a few major currencies could even fail. Zulauf observed that as central banks increasingly intervene in their own bond markets, the cost of capital (yields) is being distorted. Historically, sovereign stress showed

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up through bond yields; today, it increasingly shows up in currency prices. His broader point: in an era of financial repression, currency markets may now be the best signal of stress and future dislocation. If so, the USD's recent softness, even if not extreme, has drawn outsized attention for good reason.

A second, broader concern is that the stable currency regime of the last 75 years may be nearing a breaking point. Under this regime, the USD has served as the undisputed global reserve currency. But massive global demand for USD assets—while reflecting trust—has also introduced real distortions. These include persistent U.S. trade deficits, elevated foreign ownership of U.S. assets, and a feedback loop in which global savings chase USD exposure because of its dominance in trade, commodities, and financial markets.

"Over 50% of all global trade is executed in USD; 90% of foreign exchange (FX) trades have the USD on one side; and U.S. equities represent 65% of total global market cap. "

To illustrate: over 50% of all global trade is executed in USD; 90% of foreign exchange (FX) trades have the USD on one side; and U.S. equities represent 65% of total global market cap. These statistics underscore the dollar's centrality, but also raise questions about sustainability, especially given that the U.S. economy makes up only ~4% of the global population and 25% of GDP.

The Trump Administration has begun questioning the costs of this dollar-centric system. Treasury Secretary Scott Bessent argues that the "exorbitant privilege" of reserve currency status has created competitive disadvantages for the U.S., including an overvalued dollar and hollowed-out manufacturing base. The administration's proposed remedies (new tariffs and strategic decoupling) suggest that a deliberate rebalancing is underway. A weaker dollar, over the short to medium term, may serve that agenda.

Many observers worry that this shift may trigger inflation, dampen global growth, or even spark a loss of confidence in U.S. assets. While we see these as valid risks, they could be construed as part of a difficult but potentially constructive realignment rather than the early stages of a currency crisis.

International actors are watching closely. The BRICS+ nations (including the original five: Brazil, Russia, India, China, and South Africa) have been especially vocal in challenging USD dominance, and there are rumors of a new quasi-fiat currency—potentially backed by commodities like gold. Central banks in China and Russia have resumed gold accumulation, which may support such ambitions. While we are skeptical of a near-term rival emerging to the USD, these efforts reflect global interest in alternatives.

Relatedly, gold has reached new highs in USD terms, rising over $1,000 per ounce in the past year. Some interpret this as desperation for safe-haven assets. We see it more as a rational hedge against financial imbalances, just as increased interest in cryptocurrencies likely reflects similar instincts.

Looking ahead, more turbulence is possible as U.S. policymakers attempt to renegotiate terms of global trade and capital flows. That turbulence may include periods of USD weakness—but that does not necessarily imply crisis. Indeed, there have been extended periods of dollar depreciation in the past, and those environments often created attractive entry points for investors: valuations abroad tend to improve, U.S. exports become more competitive, and capital allocators can benefit from diversification.

Ultimately, we believe the U.S. economy remains well-positioned, with a broad and innovative corporate base, deep capital markets, and a rule-of-law system that remains the envy of the world. Even if the dollar weakens modestly, those foundational strengths endure. Yes, the U.S. remains exceptional!

"Even if the dollar weakens modestly, those foundational strengths endure."

So what are the right questions for investors to ask? In our view, they include:

How might global capital flows shift if the USD becomes less dominant over time?

This is a tough one. Over time, we could see alternative safe-haven assets emerge to attract stable capital. What we do know is that

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current global imbalances appear significant. When capital moves away from popular USD-denominated assets, inflows into smaller or overlooked asset classes could generate solid returns.

Which asset classes (or geographies) stand to benefit in a weaker dollar environment?
In previous periods of USD devaluation (1968-1981 and 2000-2011), capital tended to flow from large to small companies, from financial assets to real assets, and from U.S. stocks to international equities. We expect history to repeat, or at least rhyme, again this time.

How can we build portfolios that are resilient to regime change in global finance, yet nimble enough to seize opportunity?
We favor maintaining high levels of liquidity through short-maturity, high-quality fixed income assets, such as U.S. Treasuries. If shifts in USD flows drive up the cost of capital in the U.S., we anticipate extending portfolio durations (maturities) and increasing exposure to credit risk. We also expect to reallocate (tax efficiently) away from popular, overvalued USD equities toward international markets and less crowded, undervalued areas of the U.S. stock market.

These aren't frequently asked questions, but they may be the most important ones for long-term capital stewards.

FROM DIPLOMA TO DOLLARS: RULES FOR FINANCIAL SUCCESS AFTER COLLEGE

Lloyd K. Wong, CFA
Principal, Investment Counselor

Congratulations, you did it! Graduation is a major milestone, and with your diploma in hand a new chapter begins. What's next? Whether you're starting a job or exploring your next steps, one thing is certain: this is the perfect moment to take control of your financial future.

"The habits you form now will shape your long-term financial success."

The habits you form now will shape your long-term financial success. Just like staying physically fit takes consistent effort, building wealth starts with good financial practices.

Here are four simple but effective principles to help you get started:

- Start Saving Early
- Be Disciplined
- Be Diversified
- Stay Patient

These habits may seem small now, but they'll lay a strong foundation, setting you up for future financial freedom. Let's take a closer look at what each one means, and how to make them part of your post-grad routine.

Start Saving Early

"Compound interest is the eighth wonder of the world. He who understands it, earns it ... he who doesn't ... pays it."

Often attributed to Albert Einstein, though unverified, this popular quote underscores the power of compound interest. This concept is critical in finance. Compound interest occurs when interest is earned (or charged) on both the original principal and accumulated interest, leading to exponential growth over time. This mechanism grows wealth for long-term investors and burdens borrowers with increasing debt.

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The main benefit of starting to save early is that it gives investments more time to grow and compound. The longer the time period, the better the potential returns.

Additionally, starting early and

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consistently investing relatively small amounts over a long period of time can take advantage of dollar-cost averaging, helping smooth out market ups and downs, as opposed to waiting to invest a larger lump sum later in life.

The chart below demonstrates better return outcomes for those who start saving earlier than for those who start later. The blue line represents an investor beginning at age 25 and the orange line an investor who waited 10 years until age 35 to begin investing. The result is the blue-line investor ending with a portfolio over double that of the orange! As the dashed green line shows, even if life circumstances (e.g., mortgage, childcare, tuition) limit your ability to continue saving, you can get ahead by starting early.

Be Disciplined

Exercise discipline by creating a budget—and sticking to it. A good rule of thumb is to implement a 50/30/20 budget that allocates 50% to needs, 30% to wants, and 20% to savings.

Distinguishing between needs and wants can be nuanced. Sticking to a budget takes restraint and, at times, sacrificing instant

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gratification. The Marshmallow Test, developed in a 1970 study on delayed gratification by psychologist Walter Mischel, is a classic example. In the study, children were offered the choice between one small, immediate reward or two small rewards if they waited 15 minutes. Researchers found that the children who were able to wait longer for the two rewards tended to have better life outcomes, as measured by SAT scores, educational attainment, and other life measures.

Being able to exercise self-control can be beneficial to living a healthy financial life. A modicum of near-term discipline will help establish long-term financial flexibility.

While initiating savings within a budget is an admirable goal, it may be equally important to prioritize paying down debt (e.g., student loans, credit card balances) and establishing an emergency reserve covering 3 to 6 months' worth of essential expenses.

Be Diversified

Don't put all your eggs in one basket. Diversification of investment assets can be helpful over the long term by reducing the risk in your portfolio. Individual asset classes move up and down in different amounts at different times, sometimes in the same direction and sometimes not.

At a very basic level, you can allocate your investments among stocks, bonds, or cash. Your preliminary goal is to maintain the purchasing power of your assets. Leaving everything in cash likely won't achieve this. You will need a mix of investments in equities (stocks) and fixed income (bonds) to keep up with inflation.

You can invest in individual securities or a "basket" of securities via a mutual fund or ETF. Stocks and equity mutual funds represent ownership in publicly held companies. Their anticipated growth primarily comes from both price appreciation and dividends. While stocks generally provide the highest

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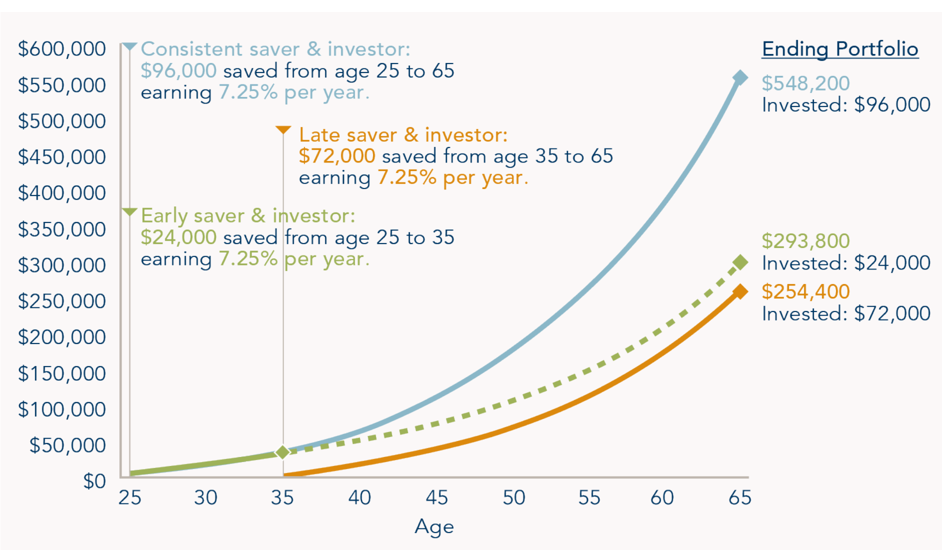
START EARLY

ACCOUNT GROWTH OF $200 INVESTED/SAVED MONTHLY



Source: J.P. Morgan Asset Management, Long-Term Capital Market Assumptions. For illustrative purposes only.

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long-term returns among these asset classes, they also come with a higher degree of short-term up and down movement (volatility) due to a wide range of potential outcomes.

Bonds represent loans to publicly held companies or governments, and as a bondholder, you receive steady interest income during the holding period. While investing in

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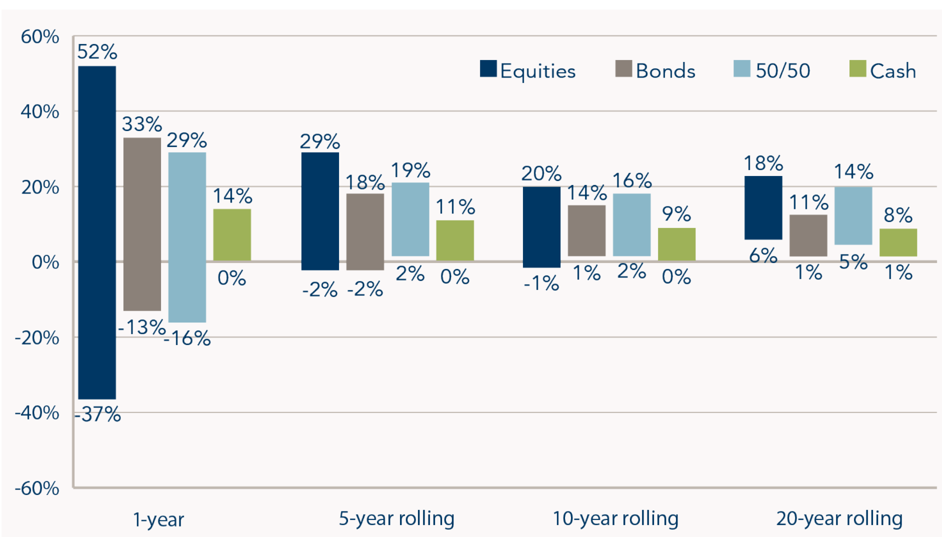
bonds or bond mutual funds may not result in as high a long-term return as stocks, the range of outcomes is narrower, and the income tends to be more stable.

Diversifying across asset classes helps balance these differences over time. The chart below compares the ranges of returns of four separate portfolios over different time periods: 100% equities, 100% bonds, 50% equities/50% bonds, and 100% cash. As you can see, diversification lessens the volatility (shorter light blue bars vs. longer navy bars). Additionally, the ranges of outcomes compress over time (e.g., 1-year vs. 20-year) showing that, if you start early, the benefits of diversification can really have an opportunity to play out.

Over time, market fluctuations will cause your asset classes to drift from their original allocation targets. Taking a disciplined approach to rebalancing back to your original allocation may be in order. More importantly, life changes (marriage, family, retirement, death, etc.) should prompt revisiting your asset allocation. We believe that it is essential to craft a mix of investments that reflects your unique financial situation—and to update the makeup of your investment portfolio as your individual circumstances dictate.

BE DIVERSIFIED

RANGE OF STOCK, BOND, AND BLENDED ANNUAL TOTAL RETURNS, 1950 – 2024



Source: Bloomberg, FactSet, Federal Reserve, Morningstar, Strategas/Ibbotson, J.P. Morgan Asset Management. Returns shown are based on calendar year returns from 1950 to 2024. Stocks represent the S&P500 Total Return Index and Bonds represent Strategas/Ibbotson for periods prior to 1976 and the Bloomberg Aggregate thereafter. Cash represents the U.S. 90 Day Treasury Bill Total Return. For illustrative purposes only.

Stay Patient

Add to your savings and investments when and if you are able. Adopt the mindset of leaving them invested for the long term. If sav-

"...be patient when reviewing short-term outcomes."

ing and investing are already part of your budget, be patient when reviewing short-term outcomes. Remind yourself that you are in it for the long haul.

Don't panic at the slightest downturn nor try to time the market. Just missing a few of the best days can significantly sideline your long-term return.

Remember the sage advice of renowned investor Warren Buffett and "be fearful when others are greedy, and greedy when others are fearful." This will often mean being contrarian to what others are doing and not blindly following the herd mentality.

There are real benefits to staying patient with your savings and investments over time. The Rule of 72 is a simple way to estimate how long it will take for the value of your investments to double. Simply divide 72 by the annual rate of return. For example, with a 6% annual rate of return, it would take approximately 12 years to double your investment (72 ÷ 6 = 12).

Following these simple tips will help you lay a solid foundation for a secure financial future.

MESSAGE FROM THE CEO

Peter J. Boyle, CFA
Chief Executive Officer

Late last year, we announced several new team members. Since then, we've been fortunate to welcome even more.

Just as we invest with a long lens for our clients, we apply the same discipline to our internal planning. The hiring over the past year reflects a strategic plan developed by our leadership team to support growth, enhance our wealth planning services, and prepare for future retirements.

Investment Counselors

Two new counselors joined us at the beginning of April: Leslie Manual as an Investment Counselor and Kristen LaSasso as an Associate Investment Counselor (a new role at the firm). Both hold the Certified Financial Planner™ designation and bring several years of experience in financial planning.

Client Service Team

After 33 remarkable years, Sharon Bachert is retiring. We wish her a relaxing retirement with her husband, John, and many happy memories with their daughters and grandchildren.

Sharon joined the firm in 1992 as a Client Service Specialist and has led the client service team since 2018. She has built countless meaningful client relationships and helped foster a supportive culture across the firm.

Succeeding Sharon, Billy Yeh joined us at the beginning of May as our new Client Service Manager. He has worked closely with Sharon during the transition before her May 30th retirement. Billy brings extensive experience in managing client service teams that support both clients and investment counselors.

We're also pleased to welcome Ing Zhang and Ray Flores as Client Service Specialists. In addition, Janelle Vidal, who joined us last year, has been promoted to Client Service Specialist. Working alongside our investment counselors, the client service team continues to provide the personalized, attentive service our clients value and deserve.

Operations

With Janelle's promotion, Jacqueline Fernandez joined us in March as our new receptionist. We're also excited to welcome Andy Heung, who came on board in April, as our Accounting Manager. Andy brings a wealth of experience in accounting and tax and is already working closely with our Chief Operating Officer on day-to-day accounting and financial activities.

Please join us in welcoming all our new colleagues. As always, our focus remains on your financial success. If there's anything we can do to serve you better, don't hesitate to call, email, or stop by.

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