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Quarterly Insight

MARKET UPDATE

FROM THE DESK OF CIO CHARLES RINEHART, CFA, CAIA

2025 FIRST QUARTER

The theme of our last newsletter was uncertainty and the difficulty of making predictions for 2025. A new administration in Washington, a potential inflection point for the Federal Reserve, and lofty expectations for AI growth created an environment with more questions than answers. Our only prediction was a modest one: expect surprises. And so far, 2025 has been nothing if not surprising.

The biggest surprise, by far, has been the sweeping changes in U.S. trade policy enacted by the Trump administration. The first quarter brought a steady stream of incremental tariff announcements from the White House. What began with a narrow focus on Mexico, Canada, and China quickly expanded. On April 2, the administration made its boldest move yet—the so-called "Liberation Day" announcement introduced a near-global 10% tariff, with additional "reciprocal" country-specific rates pushing total tariffs above 50% in some cases. Chinese retaliation followed swiftly, which in turn led to even higher U.S. tariffs on China.

And then, surprise! On April 9—just a week after "Liberation Day"—the reciprocal tariffs were suddenly postponed. Markets reacted with one of the most unrestrained and jubilant single-day rallies we've seen in our lifetimes.

To be fair, the use of tariffs to reshape America's global trade posture should not be unexpected to anyone who followed President Trump's campaign. He was a frequent and consistent advocate. What has surprised most observers is the scope, scale, and suddenness of their on-again, off-again implementation.

For decades, the United States' weighted-average tariff rate has remained in the low single digits. Even during Trump's first term, despite well-publicized tariff use, the average rate rose only modestly—still below 5%. The previous historical peak came with the infamous 1930 Smoot-Hawley Act, which pushed the average rate to 20%. Early estimates following the April 2 announcement suggest the U.S. could surpass that level, with rates potentially settling in the mid-to-high twenties—if the reciprocal tariffs are actually implemented. Even if not, the 10% baseline tariff represents a meaningful departure from decades of policy.

The economic impact of such a dramatic policy shift is difficult to quantify with precision. As expected, forecasts vary widely. Most Wall Street economists anticipate that full implementation of the reciprocal tariffs would raise U.S. inflation by a few percentage points in the near to intermediate term and reduce real GDP growth by a similar amount. While predictions are hard—and things can change quickly right now—a recession is not off the table if trade tensions escalate.

Overall, markets did not respond well in the first quarter. After a strong start to the year, the S&P 500 experienced a 10% peak-to-trough decline, ultimately ending the quarter down 4.27%. Bond yields fell as investors sought safety in fixed income, with the Bloomberg Aggregate Bond Index gaining 2.78% through March.

Beneath the surface, we witnessed a dramatic reversal in market leadership. After two years of intense focus on the promise of AI, stretched valuations finally caught up with growth stocks. The so-called "Magnificent 7" declined an average of 16% during the

FEATURING

» MARKET UPDATE
pages 1 & 2

» SHOULD WE PAY OFF THE MORTGAGE BEFORE OR IN RETIREMENT?
pages 2 & 3

» JIC NEWS
page 4

TOTAL RETURNS

	2025
S&P 500	-4.3%
Dow Jones Industrial Average	-0.9%
NASDAQ	-10.3%
Russell 2000	-9.5%
MSCI EAFE (International)	6.9%
Bloomberg U.S. Aggregate Bond Index	2.8%

» WEALTH MANAGEMENT

» FAMILY OFFICE SERVICES

» TRUST COMPANY

» ASSET MANAGEMENT

quarter—far worse than the average S&P 500 stock, which fell just 0.6%.

This market volatility has been policy-driven, and what comes next largely depends on the ongoing decisions of policymakers. While there is broad consensus—even across party lines—that America's trade relationships can be improved, there is little agreement on the right path forward. We can all hope for a future resolution that reduces global trade barriers for the benefit of all, but the road ahead remains uncertain.

The inevitability of unexpected market shocks is precisely why we've built our investment discipline the way we have. We seek quality businesses with reasonable valuations in both good times and bad. We underwrite our investments with difficult times in mind—even when it seems unnecessary—because we want to ensure the companies we own are built to endure the valleys of the economic cycle and thrive on the other side. We insist on diversification and customize allocations for every client to meet their needs so that when the unexpected happens, there's no pressure to run for the exits. As we've already seen in April—market timing is a dangerous proposition.

As time passes, the effects of these current and potential future trade shifts will move from market sentiment to business fundamentals. As of the end of March, Wall Street analysts were projecting nearly 11% earnings growth for the S&P 500 in 2025—though that now appears optimistic. As results come in, our team remains laser-focused on ensuring the businesses we invest in have the competitive positioning, management, and balance sheets to weather any storm.

American enterprise has endured wars, pandemics, and financial crises. We're confident it will endure this, too. Along the way, we expect opportunities to emerge. We built our investment discipline to give us the flexibility to act on those opportunities when they arise.

So for now, we continue to expect surprises. We'll try not to let the highs feel too high, or the lows feel too low. And we promise—as always—to stick with the discipline of high-quality investing throughout the cycle. As the late NFL coach Chuck Noll wisely said: "Leaving the game plan is a sign of panic, and panic is not in our game plan."

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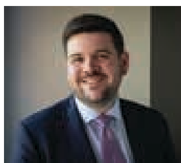


Chief Investment Officer, Charles Rinehart, CFA, CAIA, leads our dedicated team of research analysts and portfolio managers as they manage our investment strategies to deliver financial peace of mind to our clients.

SHOULD WE PAY OFF THE MORTGAGE?

SHOULD WE PAY OFF THE MORTGAGE BEFORE OR IN RETIREMENT?

A home is much more than just another line-item on the family balance sheet. Countless family memories, years of sweat equity and personalized renovations often make this "house" a home and a sanctuary. For many people nearing retirement or in retirement, it is quite common for them to still have a mortgage on their primary residence. Most often, the home was purchased several years ago, the mortgage rate is relatively low (compared to today's rates), and the family has ample cash flow to service the loan until maturity. But for many clients, the idea of a paid-off home seems to drive a particularly strong sense of peace, well beyond not having that automatic payment pulled every month. The knowledge that no matter what happens with the investment portfolio or the economy, no one can take away the "roof over their head" holds a particularly strong sense of meaning and security, which should not be discounted by any means.

But if a family can earn more in their investment portfolio than the funds needed to pay off the home, should they? And what about the risk of illiquidity when funds to payoff the mortgage are "trapped" in the house? In short, how much would this feeling of satisfaction and peace of a paid-off home, actually cost? And is it worth it?

RUNNING THE NUMBERS: HOW MUCH WOULD THE "FEELING" COST?

From a financial standpoint, paying off a mortgage is, at its core, an arbitrage strategy as if the homeowner does NOT pay off the mortgage, the investment gains on the un-spent balance could outpace the payments one is making each month. So, much of the result depends on assumptions for investment growth over

SHOULD WE PAY OFF THE MORTGAGE?

time and the rate of the mortgage. This also ignores variable rate mortgages, which makes it almost impossible to analyze given one would also have to correctly estimate future interest rates. At our disposal are tools to help analyze this and make an informed decision. And the data needed to evaluate this decision include the following:

Factors to Consider:

- Terms of loan (interest rate, term (in years), fixed or variable, number of payments remaining)
- Available liquidity and other assets
- Investment portfolio / market assumptions for liquid funds
- Taxes (assume deductibility of mortgage interest isn't available due to standard deduction, assume some capital gains taxes to generate proceeds to pay off mortgage)
- Save or spend the payments if paid off?

Case Study:

A good example is almost always more illustrative than facts, figures, and bullet points. So, let's consider the following example. A recently retired couple with $3.5 million in liquid assets, of which $1,000,000 is in a taxable joint account, have always had a goal of not having a mortgage in retirement. But how much would that cost them?

Here's their situation:

- Clients are recently retired and can service the loan from savings and other income
- Original Mortgage: $560,000 from 1/1/2005
- 30-year fixed rate mortgage at 5.5% (they never refinanced when they should have!)
- 10 years remaining on mortgage with balance of $272,307
- Estimated long term, investment returns is 8.0% annually
- Liquidating investments to payoff mortgage would cost them an extra $15,000 in capital gains taxes

Factoring all this data, we can calculate how much it would "cost" by comparing the three scenarios.

1. Continue to service the loan for 10 years until it's paid off.
2. Pay off the remaining mortgage using after-tax funds in the joint account and SPEND the funds they would have spent on the mortgage payments over the next 10 years on increasing their lifestyle, charity, or enjoyment.
3. Pay off the mortgage using after-tax funds in the joint account and SAVE the funds they would have spent on the mortgage payments and invest them back into the joint account.

The result? At the end of 10 years, paying off the mortgage and spending the payments would cost them only about $21,600 MORE than the mortgage payoff. So, they would be only $21,600 "poorer" (but would have enjoyed the spending) over 10 years, and they would have peace of mind knowing their house was paid off.

If they were very diligent, they could pay off the mortgage and then save (and invest) the payments they would have made. This would result in their joint account growing to almost $2,000,000, which is about $530,000 higher than it would have been had they not paid off the mortgage.

Putting this in context: If the goal is the "feeling" of paying of the mortgage and the net worth does not decline too much, is it worth the satisfaction of paying off the home? This is where the conversation and the true wealth planning begins.

FINAL NOTE AND RECOMMENDATION

As with any complicated analysis, details matter and assumptions can skew the answer either way. So, it is critically important to work with a team to ensure accurate calculations and the wisdom of prudent assumptions. To that end, below is a brief summary of the advantages and disadvantages of paying off a mortgage early. As a planning note, we highly recommend clients who do pay off their home early soon after securing a home equity line of credit. This provides emergency liquidity and partially offsets the disadvantage of the loss in liquidity. While it may cost an annual fee to maintain (assuming the credit line is not used), there is peace of mind in having this liquidity "insurance."

Advantages:

- Peace of mind knowing the home is "paid off"
- Absence of interest payments
- Possibility for minimal loss in net worth
- Less concern with "market crashes" on investment portfolio
- Simplified process on future sale of the home

Disadvantages:

1. No Peace of mind with the "paid off" home
2. Loss of liquidity on funds used to pay down mortgage
3. Loss in net worth could be larger with very strong investment portfolio returns
4. Potential capital gains tax headwind if securities to sell to generate proceeds for payoff are very low basis

Paying off a home might not be the optimal financial decision, and there are many variables involved in analyzing the data. By using reasonable assumptions and a well-thought-out plan, the numeric disadvantages, when put in proper context, could be far outweighed by the advantages of peace of mind and contentment.

Disclaimer: The case study is provided solely to illustrate Johnson Investment Counsel's approach in providing financial planning and portfolio management services and implementing successful solutions for its clients. This case study is not indicative of future successful solutions for prospective clients. Market conditions and individual clients' situations may differ substantially from the case illustrated herein. Any expectations presented should not be taken as a guarantee or other assurance as to future results. Our opinions are a reflection of our best judgment at the time this presentation was created, and we disclaim any obligation to update or alter forward-looking statements as a result of new information, future events or otherwise. The material contained herein is based upon proprietary information and is provided purely for reference and as such is confidential and intended solely for those to whom it was provided by Johnson Investment Counsel. Johnson Investment Counsel does not provide tax, legal or accounting advice. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for, tax, legal or accounting advice. You should consult your own tax, legal and accounting advisors before engaging in any transaction.

PROMOTIONS

We are pleased to announce that these individuals have been promoted to new positions:

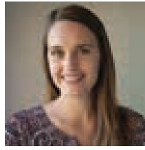
> **Emilia Connor-Brady, CAIA**
> Portfolio Manager

> **Ryan Martin, CFA**
> Senior Portfolio Manager

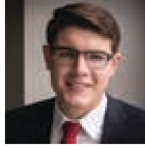
> **Brandon Plumb, CFA, CFP®**
> Portfolio Manager

> **Jacqui Wright**
> Senior Corporate Finance Associate

> **Brandon Zureick, CFA**
> Senior Managing Director


Connor-Brady

Martin


Plumb

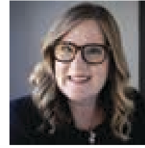
Wright

Zureick

NEW DESIGNATION

Johnson Investment Counsel is committed to continuing education to provide personal development for our employees and better service to our clients. Congratulations to Portfolio Manager Assistant Jacob M. Farwick, CFA, on earning his Chartered Financial Analyst® designation. Congratulations to Regulatory Officer Sarah M. Horrigan, IACCP®, on earning her Investment Adviser Certified Compliance Professional (IACCP®) designation.

Farwick


Horrigan

NEW ADDITIONS TO THE TEAM

We are pleased to announce that these individuals have joined our team over the last several months:

> **Charlie Donovan | Cincinnati**
> Director of Intermediaries & Client Service

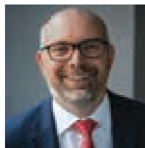
> **Matthew Duplain | Columbus**
> Portfolio Manager Assistant

> **Kevin Hern | Cincinnati**
> Operations Trading Associate

> **Emily Jarman | Cincinnati**
> IT Support Specialist

Donovan

Duplain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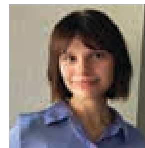
Jarman

UPCOMING WEBINARS

Are you a current or former Procter & Gamble employee? This webinar, led by Michael Stanis, CFA, CFP®, MBA, a former P&G employee, is designed to help owners of the P&G Profit Sharing Trust (PST) understand how the proceeds may be distributed and invested, and how taxes are impacted. Johnson Investment Counsel has helped hundreds of P&G employees navigate PST distribution options. We want to share what we know so that you can make the best decisions for your family.

RETIRING FROM P&G?

EXPLORE YOUR PST DISTRIBUTION OPTIONS

MICHAEL G. STANIS, CFA, CFP®, MBA

- May 12th, 11am-12pm (EDT)
- May 28th, 3-4pm (EDT)
- June 19th, 12-1pm (EDT)

SCAN TO REGISTER

JOHNSON
INVESTMENT COUNSEL

ABOUT US

Johnson Investment Counsel is one of the nation's largest independent wealth management firms, managing more than $20 billion in assets for clients in 50 states. Johnson Investment Counsel is an employee-owned firm, offering a full range of fee-only, integrated wealth management services, including: investment portfolios, education and retirement planning, cash management, estate planning, trust services, charitable giving, mutual funds, 401(k) plans, IRAs, and more. Johnson Investment Counsel has built strong, long-term relationships with individuals, families, charitable organizations, foundations, and corporations through four integrated divisions.

- WEALTH MANAGEMENT
- FAMILY OFFICE SERVICES
- TRUST COMPANY
- ASSET MANAGEMENT

LOCATIONS

CINCINNATI - KENWOOD
CINCINNATI - WEST
CLEVELAND - AKRON
COLUMBUS
DAYTON
METRO DETROIT

If you are a client of Johnson Investment Counsel, you should receive account statements on at least a quarterly basis directly from the qualified custodian that holds and maintains your assets. You are urged to carefully review all custodial statements for accuracy. If you are not receiving custodial statements, please contact our Chief Compliance Officer, Scott Bischoff at (513) 661-3100 .

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