

2Q25

The Financial Solutions Advisor

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Many of our client relationships begin with a simple introduction. If you know someone who would appreciate personalized guidance and a long-term financial strategy, we would be grateful for the introduction.

Contact us:

8700 W. Bryn Mawr Ave.
Suite 410-N
Chicago, Illinois 60631
773.714.1540 *Main*
773.714.1550 *Facsimile*
www.fsadvisorygroup.com

Economic & Market Perspectives

Economic Overview

- Q1 2025 saw significant disruption due to new U.S. tariffs:
- 25% tariffs on goods from Mexico and Canada
- 10% tariffs on Chinese imports and Canadian energy
- Tariffs were implemented March 4, prompting trade tensions and retaliation.
- Goldman Sachs cut 2025 U.S. GDP forecast to 1.3%, with recession odds rising to 45%.

Market Performance

- Markets declined sharply on tariff news:
- S&P 500: -4.6% in Q1
- Nasdaq: -10.4% in Q1
- Investor concerns centered on earnings, economic growth, and global trade.

Inflation and Monetary Policy

- Inflation remains elevated:
- PCE index rose 0.3% in February; 2.5% year-over-year.

- Fed held rates steady at 4.25%–4.5%
- Potential rate cuts expected later in the year if growth slows.

Global Perspective

- Retaliatory tariffs impacted global markets, especially Europe.
- STOXX 600 dropped 12% since April 2, with luxury and auto sectors hit hardest.

Outlook

- Economic uncertainty persists with risk of stagflation (low growth + high inflation).
- Fed's monetary decisions remain key to economic stability.

Recent Market Activity (Early April 2025)

- Tariff announcement on April 2 caused steep market drops:
- S&P 500: -4.8% on April 3
- Nasdaq: -6% same day
- Bond markets saw rising credit spreads amid slowdown fears.

2025 Returns

<i>S&P 500</i>	-4.27%
<i>NASDAQ 100</i>	-8.07%
<i>Russell Small Cap</i>	-9.48%
<i>Russell Mid Cap</i>	-3.40%
<i>MSCI EAFE</i>	6.86%
<i>MSCI World</i>	-1.79%
<i>Bloomberg US Agg. Bond</i>	2.78%
<i>Bloomberg Municipal Bond</i>	-0.22%

Why Stay Invested

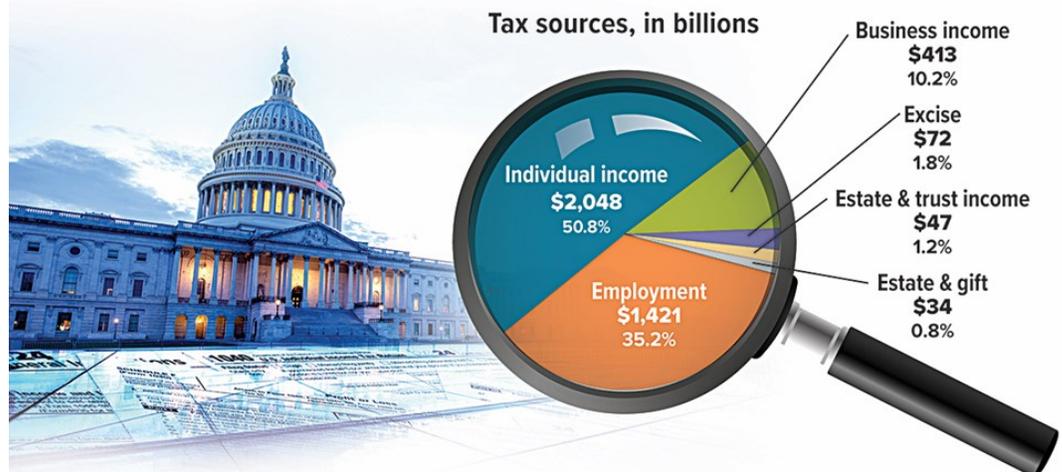
- **Recovery potential:** Markets often bounce back after volatility.
- **Market timing is difficult:** Missing best days can hurt long-term returns.
- **Diversification helps:** Balanced portfolios soften short-term shocks.
- **Long-term focus:** Stick to your financial plan despite short-term noise.

Funding the Federal Government

The IRS collected a little more than \$4 trillion in net taxes (after refunds) in fiscal year 2023. About half was individual income taxes, and around

35% was employment (payroll) taxes, including Social Security, Medicare, unemployment insurance, and railroad retirement. Business income

taxes made up just over 10% of the total, with relatively small contributions from excise, estate and trust income, and estate and gift taxes.



Source: Internal Revenue Service, April 2024

ETFs Are Closing the Gap with Mutual Funds



Investor demand for exchange-traded funds (ETFs) has increased rapidly over the last decade due to attractive features that set them apart from mutual funds. At the end of 2024, over \$10 trillion was invested in more than 3,600 ETFs. This was equivalent to 36% of the assets invested in mutual funds, up from 21% in 2019 and just 12% in 2014.¹

Fund meets stock

Like a mutual fund, an ETF is a portfolio of securities assembled by an investment company. Mutual fund shares are typically purchased from and sold back to the investment company and priced at the end of the trading day, with the price determined by the net asset value (NAV) of the underlying securities. By contrast, ETF shares can be traded throughout the day on stock exchanges, like individual stocks, and the price may be higher or lower than the NAV because of supply and demand. In volatile markets, ETF prices might quickly reflect changes in market sentiment, while NAVs — adjusted once a day — take longer to react, resulting in ETFs trading at a premium or a discount.

Indexes and diversification

Like mutual funds, ETFs may be *passively managed*, meaning they track an index of securities, or *actively managed*, guided by managers who assemble investments chosen to meet the fund's objectives. Whereas active management is common among mutual funds, most ETFs are passively managed, which helps reduce administrative fees.

Investors can choose from a wide variety of indexes, ranging from broad-based stock or bond indexes to specific market sectors or indexes that emphasize certain factors. This makes ETFs a helpful tool to gain exposure to various market segments, investing styles, or strategies, potentially at a lower cost. Diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

Tax efficiency

Investors who own mutual fund shares

actually own shares in the underlying investments, so when investments are sold within the fund, there may be capital gains taxes if the fund is held outside of a tax-advantaged account. By contrast, an investor who owns ETF shares does not own the underlying investments and generally will be liable for capital gains taxes only when selling the ETF shares.

Trading, expenses, and risks

ETFs typically have lower expense ratios than mutual funds — a large part of their appeal. However, you may pay a brokerage commission when you buy or sell shares, so your overall costs could be higher, especially if you trade frequently. Whereas mutual fund assets can usually be exchanged within a fund family at the end of the trading day at no cost, moving assets between ETFs re-

quires selling and buying assets separately, which may be subject to brokerage fees and market shifts between transactions.

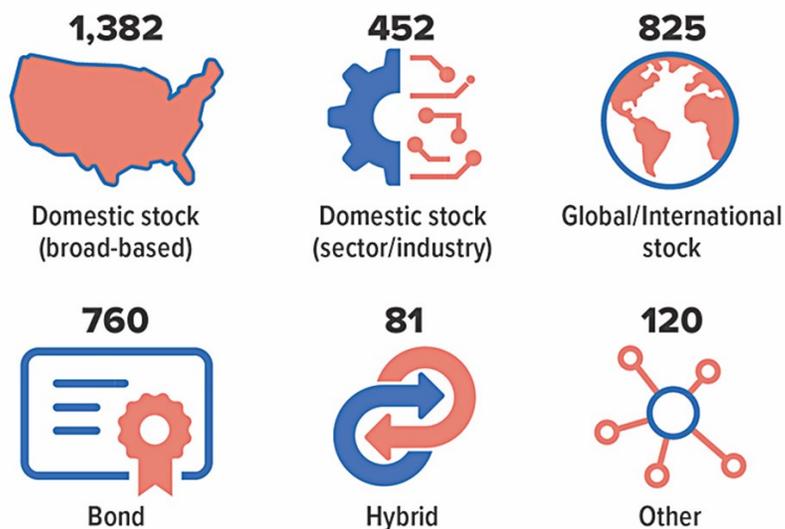
Mutual funds typically have minimum investment amounts, but you can generally invest any dollar amount after the initial purchase, buying partial shares as necessary. By contrast, you can purchase a single share of an ETF if you wish, but you can typically only purchase whole shares.

The trading flexibility of ETFs may add to their appeal, but it could lead some investors to trade more often than might be appropriate for their situations. The principal value of ETFs and mutual funds fluctuates with market conditions. Shares, when sold, may be worth more or less than their original cost. The performance of an unmanaged index is not indicative of the performance of any specific security. Individuals cannot invest directly in any index.

Exchange-traded funds and mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1) Investment Company Institute, 2025

Number of ETFs by type of underlying investment



Source: Investment Company Institute, 2025 (data for December 2024). Bond funds are subject to the same inflation, interest rate, and credit risks as their underlying bonds. As interest rates rise, bond prices typically fall, which can adversely affect a bond fund's performance. A portfolio invested only in companies in a particular industry or market sector may not be sufficiently diversified and could be subject to higher volatility and risk. Investing internationally carries additional risks, such as financial reporting differences, currency exchange risk, and economic and political risk unique to the specific country. This may result in greater share price volatility.

The Versatile Roth IRA



Used with care, the Roth IRA may help serve several objectives at once — like a multipurpose tool in your financial-planning toolbox.

Retirement

First and foremost, a Roth IRA is designed to provide tax-free income in retirement. If your modified adjusted gross income (MAGI) falls within certain limits, you can contribute up to \$7,000 (\$8,000 for those age 50 or older) in earned income to a Roth IRA in 2024 and 2025. Although Roth IRA contributions are not tax-deductible, qualified withdrawals are tax-free. A qualified withdrawal is one made after the account has been held for at least five years and the account owner reaches age 59½, becomes disabled, or dies. Nonqualified withdrawals of earnings are subject to ordinary income taxes and a 10% penalty, unless an exception applies.

Emergency savings

Because contributions to a Roth IRA are made on an after-tax basis, they can be withdrawn at any time — which means, in a crunch, you could withdraw just your Roth contributions (not the earnings) free of taxes and penalties. In addition, account holders may withdraw up to \$1,000 in earnings each year to cover emergency expenses.¹

Teachable moments

A Roth IRA can also be an ideal way to introduce a working teen to long-term investing. Minors can contribute to a Roth IRA as long as they have earned income and a parent or other adult opens a custodial account in their name. Alternatively, an adult can contribute to a Roth IRA within a custodial account on a child's behalf, as long as the total amount doesn't exceed the child's total wages for the year.

College and first home

Roth IRA earnings can be withdrawn penalty-free to provide funds for college and the purchase of a first home.

College. Roth IRA funds can help pay for certain undergraduate and graduate costs for yourself or a qualified family member. Ex-

penses include tuition, housing and food (if the student attends at least half time), fees, books, supplies, and required equipment not covered by other tax-free sources, such as scholarships or employer education benefits. An advantage of using a Roth IRA to help pay for college is that assets held in retirement accounts are excluded from the government's financial-aid formula. (A related point: up to \$35,000 in 529 plan assets that are not used to pay for college may be rolled over to a Roth IRA for the same beneficiary, provided certain rules are followed.)

First home purchase. Up to \$10,000 (lifetime limit) can be used for qualified expenses associated with a first-time home purchase. You are considered a first-time home buyer if you haven't owned or had interest in a home during the previous two years. Funds may be used for acquisition, construction, or reconstruction of a principal residence and must be used within 120 days of the distribution. If the account has been held for at least five years, the distribution will be income tax-free as well.

Estate planning

Roth IRAs are not subject to the age-based required minimum distribution rules that apply to non-Roth accounts during your lifetime. For this reason, if you don't need your Roth IRA funds, they can continue to accumulate. After your death, the tax-free income benefit continues to apply to your beneficiaries (however, the value of your Roth IRA will be assessed for federal and possibly state estate tax purposes).

Proceed with caution

Although it's generally best to avoid tapping money earmarked for retirement early, the Roth IRA can help serve multiple needs — if used wisely.

The tax implications of a 529 savings plan should be discussed with your legal and/or tax professional because they can vary from state to state. Also be aware that most states offer their own 529 plans, which may provide advantages and benefits exclusively for their residents and taxpayers. These other state benefits may include financial aid, scholarship funds, and protection from creditors. Before investing in a 529 savings plan, please consider the investment objectives, risks, charges, and expenses carefully. The official disclosure statements and applicable prospectuses, which contain this and other information about the investment options, underlying investments, and investment company, can be obtained by contacting your financial professional. You should read these materials carefully before investing.

1) Due to ordering rules, Roth IRA contributions will always be distributed before earnings.

2025 Income Limits for Roth Contributions

Filing status	Contribution limited if MAGI is:	No contribution allowed if MAGI is:
Single/Head of household	\$150,000 to \$164,999	\$165,000 or more
Married filing jointly	\$236,000 to \$245,999	\$246,000 or more
Married filing separately	\$0 to \$9,999	\$10,000 or more

Source: IRS



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Breaking down the Numbers: The Soaring U.S. National Debt



At Financial Solutions Advisory Group, we deliver personalized wealth management and financial planning, helping clients to navigate their pre-retirement years and retire with confidence, peace of mind, and financial security.

Please contact us if you would like to receive this publication by e-mail.

8700 W. Bryn Mawr Ave.
Suite 410-N
Chicago, Illinois 60631
773.714.1540 Main
773.714.1550 Facsimile
www.fsadvisorygroup.com

The U.S. national debt is the total amount of money owed by the federal government. As of January 2025, it stands at \$36.16 trillion.¹

The difference between deficit and debt

When the federal government spends more money than it collects in taxes in any given fiscal year (the government's fiscal year runs from October 1 to September 30), there is a deficit. The opposite of a deficit is a surplus.

To fund its operations when there is a deficit, the government borrows money by selling Treasury notes, bills, bonds, and other securities to investors, paying interest based on the interest rate environment at the time the security is issued. The interest owed to these investors adds to each year's spending deficit (if any) and further increases the national debt over time.

In the past 50 years, the U.S. has run a deficit 46 times. The last U.S. budget surplus was in 2001. In 2024, the deficit was \$1.83 trillion, the third-highest on record. The highest deficit was in 2020 during the pandemic, when it was \$3.13 trillion.²

Why is the national debt so high?

There are several reasons for the ballooning national debt. One reason is previous tax cuts and pandemic spending. Another major reason is the increasing cost of Social Security and Medicare, two popular programs that serve a growing demographic of older Americans and make up the two biggest slices of the federal budget

pic.³ Cutting spending on these programs is not politically popular, though in theory, future benefits could be trimmed. Military spending also consumes a significant portion of the federal budget.

A category of spending that can't be cut is the interest the federal government must pay to investors who have purchased Treasury securities, which is consuming an increasing share of the federal budget. This is sometimes referred to as "servicing the national debt." As of September 2024, \$1.13 trillion went toward maintaining the debt, which was 17% of total federal spending in fiscal year 2024.⁴

Comparing a country's total debt to its gross domestic product (GDP) is typically a better way to gauge a country's ability to pay down its debt than just looking at the raw debt number. For fiscal year 2024, the U.S. debt-to-GDP ratio was 124%. This was just under the record 126% in 2020.⁵ According to the nonpartisan Congressional Budget Office, based on current spending and revenue projections, the debt-to-GDP ratio is projected to reach 179% by 2054.⁶

Clearly, Congress has work ahead to better balance U.S. revenue and spending.

Projections are based on current conditions, subject to change, and may not come to pass.

1–5) fiscaldata.treasury.gov, 2025

6) Congressional Budget Office, 2025