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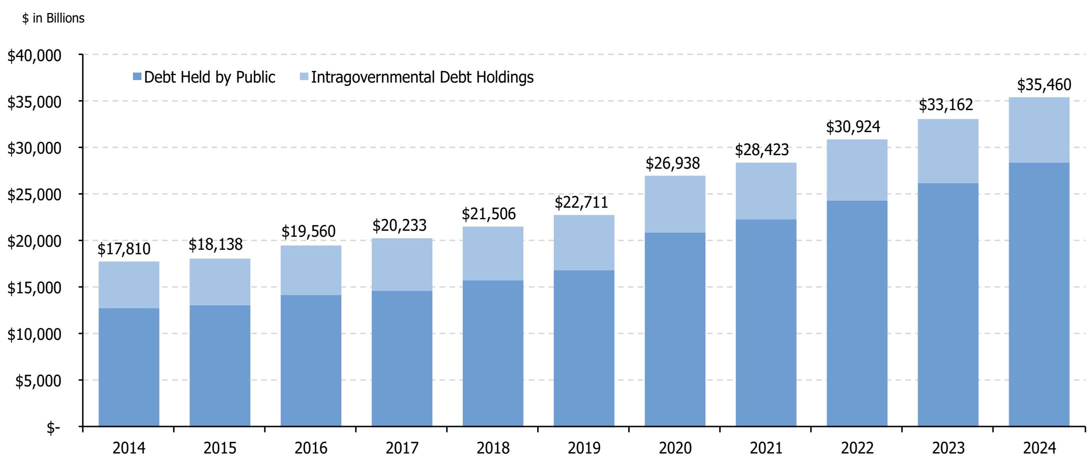
QUARTERLY PERSPECTIVE


# An Unsustainable Path Forward

**by Will Williams**
Chairman, President & CEO

Growing up as a young man, I always remember discussions with my grandmother in which we talked about the erratic nature of March's weather—"In like a lion and out like a lamb, or vice versa," she would remind me. Given the price swings throughout March and now into early April, maybe we should apply this old bromide to the financial markets. The uncertainty derived from U.S. Trade Policy, the downsizing activities of the Department of Governmental Efficiency (DOGE), and the unpredictability of White House executive orders have all contributed to a challenging planning environment. Most business leaders today want to stay under the radar and wait for the dust to settle. This is in stark contrast to the "Animal Spirits" description of the post-election optimism on Wall Street, driven by hopes for a more business-friendly regulatory environment supported by the Trump Administration.

**Chart 1: Total Federal Debt Outstanding** | (9/30/2014 through 9/30/2024)




Source: U.S. Treasury, Bureau of Fiscal Data; totals as of 9/30 fiscal YE

Regardless of your political affiliation, there is one undeniable truth: over the past 10 years, our nation's outstanding debt has doubled to $35.5 trillion (Chart 1). The House Budget Committee issued a Debt Tracking report at the end of the 2024 Fiscal Year in September that referenced a statistic of $268,548 of debt per U.S. Household. These figures are incomprehensible and hinder America's economic future, regrettably placing an undue burden on future generations.

**Chart 2**

| Fiscal Year-End 9/30 | Cumulative Debt ($ Trillions) | Cumulative Deficit % of GDP | Gross Interest Expense ($ Billions) | Avg. Interest Rate |
|---|---|---|---|---|
| **Obama** | | | | |
| **2010** | $13,562 | 90% | $414 | 3.05% |
| **2017** | $20,233 | 103% | $459 | 2.28% |
| **Trump** | | | | |
| **2018** | $21,506 | 104% | $523 | 2.49% |
| **2021** | $28,423 | 121% | $562 | 1.61% |
| **Biden*** | | | | |
| **2022** | $30,924 | 120% | $719 | 2.07% |
| **2024** | $35,460 | 121% | $1.130 | 3.32% |

*Biden statistics will run through 9/30/2025

Sources: Bureau of Economic Analysis; U.S. Treasury Department; The American Presidency Project

For politicians inside the Beltway, they could not get a line of sight on this growing economic issue as they focused most of their attention on the Gross and Net Interest Expense categories in the annual budget (Chart 2). Due to the prolonged decline in U.S. interest rates, the annual gross interest expense remained relatively stable despite growing deficits. When interest rates bottomed out in 2021 and began to increase substantially through 2024, the true impact of the growing deficit became far more apparent. The average interest rate paid on U.S. debt more than doubled during that 3-year window.

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# Uncertainty Breeds Volatility

**by Brian Christensen, CFA**
Senior Vice President & CIO

As I've written many times before, financial markets do not like uncertainty. And today, uncertainty is elevated on multiple fronts, leaving investors skittish. After reaching an all-time high on February 18, the S&P 500 has declined nearly 10% in the face of a laundry list of concerns. A 10% decline is not significant when we consider normal market action. However, the range of investor concerns is above average.

First on the list of concerns must be U.S. trade policy and the daily gyrations around tariffs. In February, consumer sentiment declined to levels not seen since August 2021, and businesses appear to be holding off on investment decisions until the final tariffs are in place. On a positive note, consumers appear to be positioned favorably, with recent debt-to-income ratios at 11.3%, well below peak levels of nearly 16% in 2007 – 2008. The lack of clarity around tariffs makes it difficult to gauge longer-term impacts. By the time you read this, the April 2 "Liberation Day" will have passed, and we should know the extent of the reciprocal tariffs on the 10-15 countries perceived to have the biggest trade barriers with the U.S.

To date, inflation fears tied to anticipated tariffs remain unsupported by recent Consumer Price Index (CPI) data. For the 12 months ending in February 2025, CPI declined to 2.8%, an improvement from the 3.2% measured in February 2024. Tariffs tend to have a one-time impact on prices rather than a persistent effect. At the recent Federal Open Market Committee press conference, Federal Reserve Chairman Jerome Powell once again referred to inflation as "transitory." This causes investor flashbacks to the COVID era, when the term "transitory" was first used by the Fed, and, as we all experienced, inflation proved to be very persistent. Quite frankly, even the Fed does not yet know what the impact of the tariffs will be on inflation. As such, financial markets that were predicting a 66% probability of two interest rate cuts in 2025 are now less certain about the Fed's intentions.

A "growth scare" among companies tied to the explosion of Artificial Intelligence (AI) has triggered a bear market in many areas of the technology sector, as investors begin questioning the high valuations of these stocks. The heavy concentration of technology stocks in the broad market is skewing negative performance, just as they did positively on the way up. When broad

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# Spring Clean Your Estate Plan

**by Mike Flaherty, CFP®**
Senior Relationship Manager

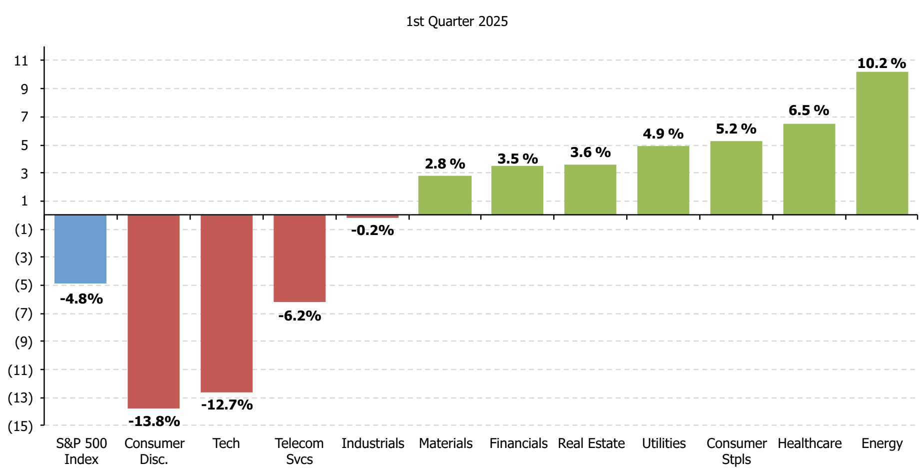
While estate planning might seem like a chore, it's essential to review it annually to ensure your legacy stays intact and to avoid unnecessary complications. Our Relationship Management team has created this short list to help you assess what may need to be refreshed.

1. **Review your will and trusts.**
   These documents should align with your current wishes and financial objectives. Review your listed executor or trustee and ensure your assets are set up to pass smoothly to your heirs. A well-crafted estate plan is the cornerstone of financial peace of mind.
2. **Reassess your business succession plan.**
   If you own a business, take the time to reassess your succession strategy. Make sure your leadership transition is seamless, and your business interests are fully integrated into your estate plan.
3. **Audit beneficiary designations.**
   Double-check the beneficiary designations on life insurance policies, retirement accounts, and other assets. These should align with your overall estate strategy. If you haven't reviewed them in a while, you may be surprised by what you find!
4. **Refine your power of attorney.**
   Ensure you've appointed capable, trusted individuals to act as your agent if needed for healthcare and financial decisions.
5. **Communicate with your "estate participants" and interested parties.**
   Have proactive, candid discussions with your executors, trustees, beneficiaries, and agents to ensure they fully understand your intentions and their responsibilities.

Your Relationship Manager is always available to answer questions, offer guidance, or facilitate family meetings to ensure your estate plan works as intended—without any unwelcome surprises.

market stock indices are dominated by a handful of expensive stocks, price swings can be massive. The AI arms race is accelerating. Companies unable to keep pace and advance when faster, cheaper technologies come to market will become irrelevant. Investors are now trying to sort the wheat from the chaff as evidenced by first-quarter results.

**Chart 1: S&P 500 Performance by Sector (%)**




Source: Morningstar as of 03/31/2025. Performance reflects the total return for each sector (Price return + dividends).

Chart 1 highlights S&P 500 sector performance in the first quarter of 2025. Seven of the eleven market sectors showed gains during the period. The biggest declines were felt in the Consumer Discretionary, Information Technology, and Telecom Services sectors, which are all dominated by technology-focused companies.

Finally, we are starting to see economists raise concerns about a possible recession in the next 12 months. Goldman Sachs raised its probability to 35% from a previous 20%, economist Ed Yardeni increased his forecast to 45% from 35%, Moody's Analytics raised its odds to 40% from a prior 15%, and JP Morgan sits at a 40% probability from a prior 30%. Increases in consumer and business uncertainty are the primary drivers behind the changing forecasts. At present, reported economic data has shown no signs of a meaningful slowdown.

Market swings are a normal part of the investment process. Big David often used the term "Sleep Quotient," which we want at a high level for our clients. Our investment philosophy, grounded in patience, discipline, and sound risk management, is designed to minimize portfolio volatility and maximize Sleep Quotient.

## Retirement Impact for Public Sector Employees:

### Social Security Fairness Act (January 2025)

Public sector workers, including teachers, firefighters, police officers, and government employees, who previously faced reduced Social Security benefits due to non-covered pensions, will now be eligible for full payments. Key details of the Social Security Fairness Act include:

- **Removal of the Windfall Elimination Provision (WEP):** Ensures that individuals who have earning from both public and private sector work receive full Social Security benefits.
- **Repeal of the Government Pension Offset (GPO):** Allows individuals to claim full spousal or survivor benefits without reductions.
- **Retroactive Payments (effective January 2024):** Affected beneficiaries will see an increase in their monthly benefits.
- **Implementation Timeline:** Adjustments and retroactive payments may take time as the Social Security Administration (SSA) processes and implements these changes.
- **More Information:** For up-to-date details, including FAQs, visit the SSA website: *https://www.ssa.gov/benefits/retirement/social-security-fairness-act.html*

If you have a history of public sector employment and would like to discuss how this Act may impact your retirement planning, please reach out to your Relationship Manager via email or by calling (309) 685-0033.

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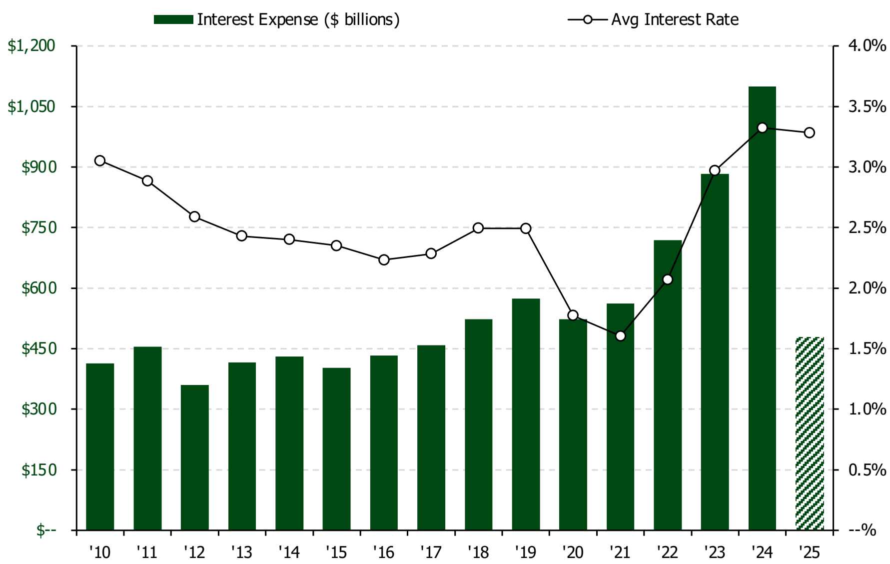
Fast forward to the 2025 fiscal year (Oct 1 – Sept 30), when the net interest expense component will approach nearly a trillion dollars for the first time in history (Chart 3), surpassing line items such as defense expenditures and high-priority entitlements like Medicare and Medicaid (Chart 4). This trend will likely persist for the foreseeable future, unless we can enhance revenues and/or exercise greater fiscal responsibility on government outlays. We may not like either of these outcomes, but the math is the math. When your outstanding debt is at 120% of your annual Gross Domestic Product, you are unlikely to embrace the practical solutions, but there are very few pain-free alternatives.

**Chart 3: Annual Gross Interest Expense - U.S. Annual Budget**




Source: U.S. Department of Treasury

## The Implications for Investment Strategy

Over the past four years, success or failure in the equity markets has tended to hinge on one factor: how much you owned of a select group of 7-10 large technology companies. If you were a fiduciary with an obligation to adhere to prudent expert standards, allocating more than a third of a portfolio with a concentrated bet on a small group of common stocks would be grounds for dismissal. Following the herd mentality not only defied logic but also violated every risk management tenant that we at DVI have upheld for nearly five decades.

Creating a sustainable path forward for our nation's deficit will require change, and with change there will be uncertainty. Financial markets hate uncertainty in the short-term but will ultimately reward investors if we address long-term issues in a meaningful and thoughtful way. As we have demonstrated in the past, DVI's emphasis on risk management and highly diversified investment portfolios has rewarded our patient investors with competitive rates of return while providing peace of mind. Once again, the merits of our proven strategies will be put to a real-world test.

**Chart 4: U.S. Government Budget ($ Billions)**

| | 2024 (Actual) | 2025 (Budget) |
|---|---|---|
| **Revenues** | | |
| Individual Income Taxes | $ 2,426 | $ 2,621 |
| Payroll Taxes | $ 1,709 | $ 1,759 |
| Corporate Income Taxes | $ 530 | $ 524 |
| Other | $ 253 | $ 259 |
| **Total** | **$ 4,918** | **$ 5,163** |
| **Outlays** | | |
| Mandatory | | |
| Social Security | $ 1,454 | $ 1,572 |
| Medicare | $ 910 | $ 942 |
| Medicaid | $ 759 | $ 812 |
| Other | $ 1,006 | $ 902 |
| Net Interest | **$ 881** | **$ 952** |
| Discretionary | | |
| Defense | $ 855 | $ 859 |
| Non-Defense | $ 960 | $ 989 |
| **Total** | **$ 6,825** | **$ 7,028** |
| **Deficit** | **$ (1,907)** | **$ (1,865)** |

Source: Congressional Budget Office (CBO)



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