

Digest

NEWS AND PERSPECTIVE FOR GROWING
AND PRESERVING YOUR WEALTH

BAIRD

Winter 2025



Taking a Closer Look at 2025

Thoughtfully Planning for
the Year Ahead

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A NEW MARKET AND POLICY ENVIRONMENT / Pg 4

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Planning Beyond the Tax Cuts and Jobs Act

The uncertainty around the TCJA's future is a good reminder to keep your options open.

THERE'S AN ADAGE we are fond of saying: There's no such thing as a permanent tax law. The Tax Cuts and Jobs Act is a good example, as certain provisions surrounding tax and wealth transfer are scheduled to expire this December. While the expectation is that the provisions will be extended, the matter of when new legislation could pass – or what priorities a narrowly divided House can agree to – remains unclear.

That's why we plan for contingencies – not only what we think will happen, but also what might happen, and how those possibilities could impact you.

You'll find examples of that approach in this issue. On page 4, our macroeconomic experts at Strategas discuss possible market moves in our 2025 outlook video, while on page 6, our Wealth Planning team previews a range of opportunities that might emerge this year. By remaining focused on what's possible, we can help you maximize your financial flexibility and pivot as market and economic conditions change.

That's also why having a close relationship with your Baird Financial Advisor team is as important as ever, whether it's modeling different scenarios or just making sense of the talk coming out of Washington. Whatever the rest of 2025 has in store, know that Baird is looking out for you, no matter what.



Mike Schroeder

Chairman
Private Wealth Management



Erik Dahlberg

President
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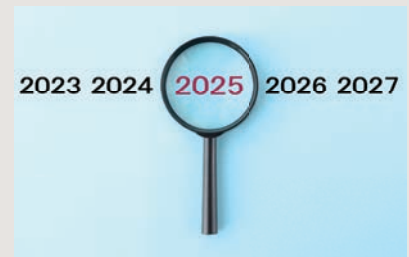
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Four trends our macroeconomists are watching in the months to come.

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What qualities make a good trustee, and who is best to safeguard your legacy?

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From kindergarten through college, how can you best instill financial responsibility in your children?



Four Economic Trends To Watch For in 2025

Strategas, a Baird Company, weighs in on what could move the market in 2025.

AT STRATEGAS, we strive to help our clients uncover long-term opportunities by identifying key themes playing out in the markets and the economy. This practice allows us an opportunity to break from the daily grind of government statistics and put forth our take on the major drivers of stock prices in the years ahead. Given the tumult and unpredictability of the last five years, we believe this exercise in long-term thinking is more useful than ever.

Here, we offer four themes we think have the potential to deliverer superior returns in the coming years.



ARTIFICIAL INTELLIGENCE.

The growth of ChatGPT has proved to be a catalyst for companies to aggressively experiment with artificial intelligence as a means to enhance productivity and, ultimately, bottom-line profitability. Investment options within this

theme range from traditional Technology firms to those that show promise in harnessing AI as a productivity booster (such as in the Automotive and Healthcare sectors). We would also look to invest in organizations that create and provide software applications capable of intelligent learning, coding, data analytics, linguistics and neuroscience, as well as those that utilize AI in search of more efficient and effective methods to provide value. ►

FOUR ECONOMIC TRENDS TO WATCH FOR IN 2025

Continued from page 1



INDUSTRIAL POWER

RENAISSANCE. Artificial intelligence requirements,

a push for electric vehicles, the proliferation of cryptocurrency mining and the ever-increasing need for new manufacturing and data centers have created a surge in the demand for power, putting additional strain on already aging utility infrastructure. As an example, global electricity consumption from data centers is set to more than double from 2022 to 2026. We believe positioning for this “surge” in power demand requires investing in all-encompassing, power-related securities – particularly those either directly involved in creating sources of power or whose businesses are a secondary beneficiary from the add-on impacts of increased power generation. Nuclear projects, while costly and time-consuming, will

likely continue to be seen as an important energy solution as well.



DEGLOBALIZATION.

Supply chain disruptions from both the COVID-19 pandemic and Russia’s invasion of Ukraine have resulted in companies taking a closer look at near-shoring or onshoring their operations. Executives and policymakers have witnessed the importance of self-reliance when it comes to critical supplies (from energy to food to semiconductors), and spending on security – both military and cybersecurity – is set to increase. We believe investing opportunities lie in Energy and Materials companies that benefit from established operations, cybersecurity firms that are buoyed by government and corporate spending, the traditional Aerospace & Defense sector, and businesses that are reliant on

About Strategas

Strategas, a Baird Company, is a top-ranked independent research firm that provides market and macroeconomic insights and commentary. This article is an example of the perspectives our advisors have access to and are accounting for as part of your plan.

STRATEGAS A BAIRD COMPANY

Source on last page

domestic revenues or input goods produced domestically.



CASH IS KING. We believe the single biggest change to the financial markets

in 2022 was the transition from quantitative easing (i.e., the Federal Reserve buying bonds to suppress interest rates) to quantitative tightening (i.e., the Fed shrinking their balance sheet). With the expectation that this change will lead to higher interest rates throughout the economy – and particularly with the distinct possibility of a second wave of inflation – we believe investments in organizations that demonstrate an ability to create revenue and cash flow, manage cash and return income to shareholders are prudent. In a world of higher and more variable interest rates, companies not dependent on the kindness of strangers should outperform.

Spending on technology infrastructure is booming – and more power is required.



— Total dollar amount of construction work completed on privately owned buildings in Computer / Electronic / Electrical industries

Source: census.gov





Choosing the Right Trustee for Your Legacy

PERHAPS THE MOST IMPORTANT decision when creating a trust is who will administer it after you're gone. Your trustee will need to tend to your family's interests, safeguard their privacy and distribute your assets as you intended. When deciding who should take on this responsibility, be sure to consider the following:

THE KEY RESPONSIBILITIES OF A TRUSTEE

- ▶ **Financial Management:** Overseeing investment decisions that weigh short- and long-term goals
- ▶ **Legal Duties:** Adhering to trust provisions, staying updated on trust law and protecting assets
- ▶ **Tax Obligations:** Filing taxes for the trust and minimizing tax liabilities
- ▶ **Administrative Responsibilities:** Maintaining records and documenting decisions and distributions

“One of the highest considerations in estate planning is to understand what individuals can do themselves – and when instead to rely on professionals.”

Evan Durst, JD, CTFA
Senior Trust Strategist, Baird Trust

CHOOSING THE RIGHT TRUSTEE

When selecting a trustee, look for those who display the following qualities:

- ▶ **Availability and Commitment:** Record-keeping and communication can require time and effort.
- ▶ **Financial Acumen:** An understanding of investments, taxes and trust law is essential.
- ▶ **Sound Judgment:** A trustee needs to protect confidential information and make prudent decisions.
- ▶ **Longevity:** A trustee may need to represent your interests for many years.
- ▶ **Transparency:** A trustee should be well-organized and a proactive communicator.
- ▶ **Experience:** Prior experience in managing trusts can be invaluable.

WHEN TO CONSIDER A CORPORATE TRUSTEE

Maybe you don't want to burden an existing relationship with these responsibilities. A corporate trustee like Baird Trust can provide the objective decision-making, uninterrupted service and professional expertise to prioritize your family's interests. Your Baird Financial Advisor team can provide guidance in making this important decision.





A Closer Focus: The Market and Policy Environment in 2025

Strategas shares their firm’s outlook for 2025: what could go right, key risks and expectations for a new administration.

MARKET AND ECONOMIC

GROWTH There are a few key reasons to have a positive outlook for the year ahead: corporate profit estimates are looking strong through midyear, the market is reacting nicely to the new administration’s pro-growth policy initiatives like deregulation, and extraordinary liquidity measures could be a shot in the arm as the U.S. government reaches the debt ceiling. The U.S. economy also grew at a healthy 3% rate for the last three

quarters of 2024 – but if history is any indication, this is a challenging rate to maintain. While we do expect the economy to continue expanding, it’s possible that it will do so at a slower clip in 2025.

INFLATION After high rates of inflation in recent years, one could hope that the worst is behind us. Market expectations for future rate cuts continue to drop; as we expect to only see two more rate cuts in the year ahead, and likely not before June. However,

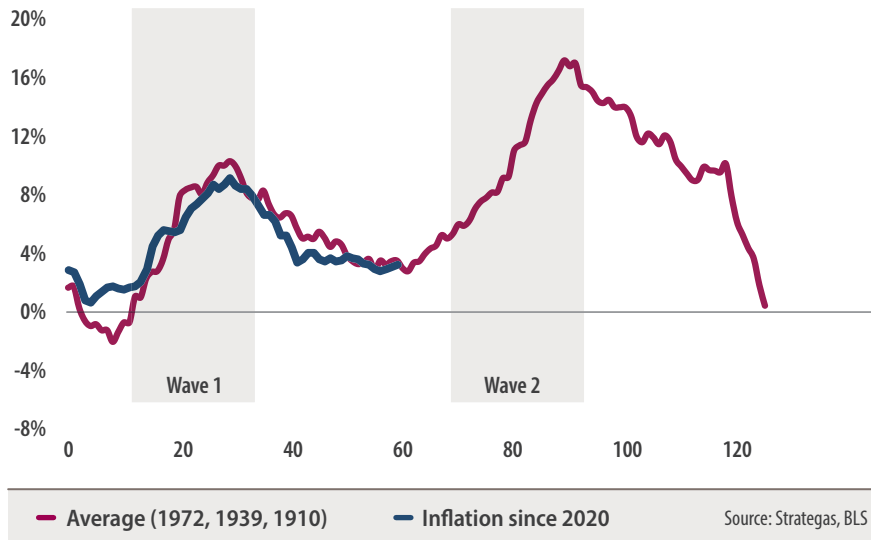


Nicholas Bohnsack
President & COO
Strategas, A Baird
Company

history shows that developed economies generally see inflation play out in two waves. The U.S. experienced inflation as high as 9% just a few years ago – and while it has fallen back down to the 3% level, it’s unclear whether that will stay steady. With this in mind, it is possible that inflation will reaccelerate toward the end of 2025 and into 2026. If it does, the Fed could begin to raise rates yet again, which is something to remain mindful of. ►

Planning Calendar

Inflation has historically come in waves.



CORPORATE PROFITS At this point, corporate profits (and profit margins by extension) are expected to provide a helpful boost for the market. Currently, consensus expects double digit earnings growth in 2025 – and at Strategas, we predict a relatively healthy 8.5–9%. However, if slower economic growth (and therefore lower investor and consumer sentiment) leads to slower sales, firms could struggle with delivering on profit margin expectations – and this could be taken as a negative sign by the market.

POLICY PROPOSALS With a new administration in Washington, proposed tariff and immigration policies have taken the spotlight. On the trade side, we remain somewhat skeptical of the desire to increase tariffs through a universal trade measure. Instead, we would focus on China specifically in more retaliatory

terms, and then expect tariffs to be leveraged as a negotiating tool with other trade partners. Historically, when tariffs are raised and left in place for long periods of time, goods can broadly become more expensive. This impact could also be seen as a result of Trump's immigration policy, as it's been shown that deporting large shares of the labor force could foster similar results – and if done rapidly, could be destabilizing to the economy. If this upward pressure on inflation occurs, the Fed could be called back into the game to raise rates toward the end of 2025 and into 2026.

To hear Strategas' economic outlook firsthand, watch our 2025 Market and Policy Outlook video.



January 1 – March 31

If you missed your initial enrollment period, this is the general enrollment time frame for Medicare.

January 31 – April 30

Baird mails clients all 2024 tax documents.

Visit bairdwealth.com/taxmailing for specific mailing dates.



April 1

Deadline for those who turned 73 during 2024 to take their required minimum distribution from their retirement plans. Also the deadline to take a 2024 RMD from an employer plan for those who retired in 2024 and were at least age 73. Future distributions must be taken by December 31 of the year for which they apply.

April 15

Individual tax returns for 2024 are due. You may also request an automatic six-month extension to file, but any tax owed is still due by this date.

First-quarter 2025 estimated tax payments, plus contributions to IRAs, Roth IRAs and Health Savings Accounts for 2024, are also due.

2025: The Year of Intentionality

Strategic Actions for a Long-Standing Wealth Plan

2022 2023 2024 2025 2026 2027



FROM ELECTING a new president to the ongoing discussion about the future of our tax code, 2024 was a year that left Americans on the edge of their seats. And while the beginning of 2025 may not have brought all the answers yet, it has provided clear opportunities on how you can be intentional with your personal wealth plan for what's to come.

But before we discuss where you can best focus your wealth planning efforts this year, let's assess what's new in 2025:

SUPER CATCH-UP CONTRIBUTIONS

For those with employer-sponsored retirement plans, regular catch-up contributions for workers aged 50 and older have long been an opportunity to super charge retirement savings. Beginning this year, employees aged 60-63 can also annually contribute an additional \$3,750 to their 401(k) plan.

FINALIZATION OF INHERITED IRA DISTRIBUTION RULES

After years of back-and-forth, the IRS will now enforce that the majority of beneficiaries who inherited a retirement account in 2020 or later must:

1. Take minimum distributions from that account this year (and in years following)
2. Empty that account within 10 years of the owner's death

Like many rules, there are quite a few exceptions to this – so if you're the beneficiary of an IRA, contact your Baird Financial Advisor to determine exactly how these rules will impact you.

THE SOCIAL SECURITY FAIRNESS ACT

In early January, the Social Security Fairness Act was signed into law, eliminating Social Security provisions that previously reduced benefits for beneficiaries with certain pensions. With this act in place, many retirees will see larger benefits this coming year. The Social Security Administration has yet to announce how they will implement this law, but your advisor will keep you updated as more information becomes available.

TAX ADJUSTMENTS FOR INFLATION has slowed a bit, but its impact on our tax system remains. This year, the income and capital gain tax brackets have shifted up, which means more income can be taxed at lower rates – but the adjustments don't stop there. The most notable increases include the standard deduction, qualified retirement plan contribution limits, charitable contribution limits, annual gifting exclusion and the lifetime gift and estate tax exclusion. Your Baird Financial Advisor has access to the latest tools to evaluate your most recent tax return to ensure your plan is optimized against these changes. ►

ALL EYES ON WASHINGTON

If you're wondering about the status of the Tax Cuts & Jobs Act's scheduled 2026 sunset, you're not alone. Significant changes to our income and estate tax systems could be on the horizon, but any new legislation will likely involve a lengthy process with multiple proposals and revisions. Proposed bills can change up until they're passed, so it's important not to make preemptive decisions. Plus, it's unlikely changes will take effect this year, so you and your advisor will hopefully have plenty of time to plan accordingly.

SETTING YOURSELF UP FOR SUCCESS IN 2025

In the world of wealth management, there will always be unknowns – but in any year, it's important to focus on what you can control. By thoughtfully planning with your Baird Financial Advisor, you can leverage key developments in 2025 to intentionally maximize your opportunities in the new year.

Start by doing a quick check-in on your wealth plan and its risk exposure by evaluating your:

- ▶ Emergency fund and liquidity situation
- ▶ Insurance coverage
- ▶ Estate plan

Then, evaluate your long-term goals by:

- ▶ Ensuring you're maximizing retirement savings
- ▶ Checking in on education savings goals
- ▶ Evaluating your tax exposure

In the world of wealth management, there will always be unknowns – but in any year, it's important to focus on what you can control.

No one can be certain of what 2025 will bring, but what we do know is that by...

- ▶ Only trying to control what is within your influence
- ▶ Basing financial decisions on facts rather than emotions
- ▶ Being intentional on where you focus your time and energy

...you can set yourself up for success. And when the media gets loud, or the markets get volatile, lean on your Baird Financial Advisor for a steady hand.



To hear firsthand from planning experts Tim Steffen and Heather Osborn, watch our 2025 Planning Outlook video.



From Allowances to Income: Teaching Kids Fiscal Fitness

Tips for educating your children on financial responsibility throughout various stages of their youth.

THE SINGLE DIGIT YEARS

Use these early years to create a foundation that helps your kids understand the concept of trade-offs when it comes to money. When your kids receive cash for an allowance or from special occasions, discuss what choices they have, like spending, saving or giving to charity. Then, practice what you preach and discuss your own financial decisions with them, like why you donated \$20 to the humane society or put \$20 in the bank.

And if your kids aren't quite appreciating the importance of saving, don't fret. At a young age, the risks are low – so allow them to learn from their mistakes if they run out of cash when they want to buy that new shiny toy.



THE TEENAGE YEARS

As your kids begin to enter the workforce with summer and part-time jobs, you can explain why (and which) taxes are withheld – and how some of that money could return as a tax refund. Along with this, you can expand your conversation about saving. A great guideline to abide by is putting away 10% of every check into savings – and if your kids want to go to college, that's a great incentive to save.

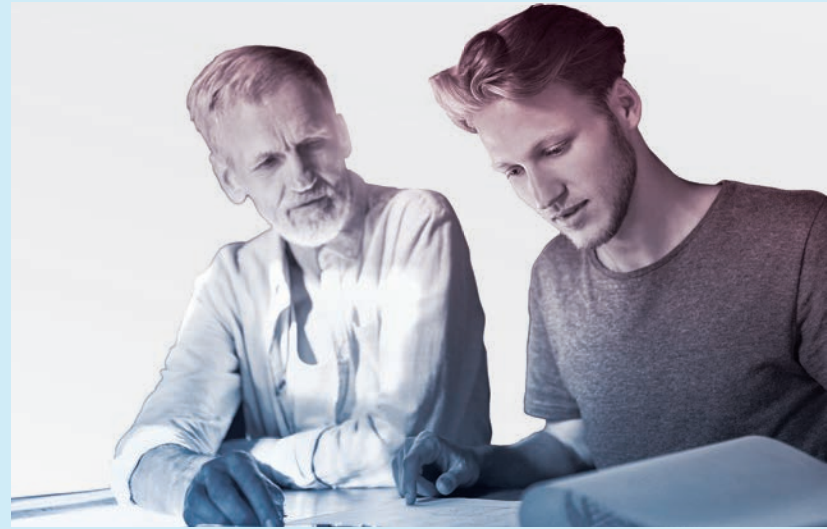
Finally, now is as good a time as any to introduce your kids to investing – and your Baird Financial Advisor team can serve as a resource to explain the best investment vehicles for your child's specific situation. ►



THE EARLY ADULTHOOD YEARS

For many young people, college is the first time they will make larger financial decisions on their own – so having a budget is essential. Consider teaching your child how to establish, track and stick to their very own budget before helping them open a credit card. Once they do so, they can start to build credit for future expenses like apartments and loans.

It's also vital to explain to your student how their education is being paid for. Ensure they understand the implications of student debt, and how different choices like living on campus can change the overall cost of their education.



“Parents should emphasize spending less than you earn. When my daughter couldn't afford the cowgirl boots she was eyeing, despite working hard at her job, we reviewed her finances and I explained that small expenses like fancy coffee drinks can add up over time. Now, she is mindful of her spending so she can have fun and save for what she wants.”

Jessica Bell, JD, CPWA®, Senior Estate Planner



THE WORKING YEARS

Even when your kids have flown the nest, you can still play a role in guiding them down the right path. When your adult children have their first full-time job, you can help review their employer benefits with them, discussing choices like HSAs, health insurance and 401(k)s. As you do so, remind them of the value that comes with saving for retirement early, and how this can pay dividends in the future.


And as your kids are likely taking out their first auto loan or saving for a down payment on a home, take a moment to explain the importance of credit cards and staying on top of their debt.

No matter what stage of life your child is in, there is always opportunity to showcase the importance of financial responsibility. It will help them build a solid financial foundation, and help you sleep better at night.

As you teach them these positive habits, don't hesitate to bring your Baird Financial Advisor team in for a little extra support along the way.



Strategas has been recognized in Extel's (formerly Institutional Investor) 2024 All-America Research Team survey and remains, for the 8th consecutive year, Extel's highest ranked provider of exclusively macro research, preceded only by providers of both macro and bottom-up research.

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