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3RD QUARTER | 2025

COLONIAL TRUST *Quarterly*

Quarterly Performance

In The Spotlight With Katie

SC Estate Planning Update

PERFORMANCE FOR THE QUARTER

THE S&P 500 PROVIDED A SURPRISING 10.9% TOTAL RETURN FOR THE SECOND QUARTER, AFTER FALLING 11.2% IN THE FIRST SIX TRADING DAYS OF APRIL.

The broad market rose 24.5% from the April 8th lows through quarter-end, reaching new all-time highs in the process. The strong finish to the second quarter brought the S&P 500 into positive territory on a year-to-date basis.

The equity market strength during the quarter was in the technology sector, which returned 23.7% led by semiconductor stocks. This was evident in the performance of the tech-heavy Nasdaq, returning 18.0% for the quarter, compared to the Dow Jones Industrial Average, which returned 5.5%. Small cap equities, as measured by the Russell 2000 index, returned 8.5% for the quarter.

As was the case in the first quarter, international markets offered attractive returns. Developed markets, as measured by the MSCI EAFE index, returned 12.0%, while the MSCI Emerging Market index returned 12.2%. Finally, bonds provided positive returns for the quarter, with the Bloomberg Aggregate Bond index returning 1.2%, with the benchmark 10yr Treasury yield ending the quarter at 4.228%, rising 2 basis points for the quarter.

Total Returns	2nd Quarter	Year-to-Date
S&P 500	10.9%	6.2%
DJIA	5.5%	4.5%
Nasdaq Composite	18%	5.9%
Russell 2000	8.5%	-1.8%
MSCI EAFE	12%	19.9%
MSCI Emerging Markets	12.2%	15.5%
Bloomberg Agg Bond	1.2%	4%

Source: Bloomberg LP, total return

STOP THE WORLD – I WANT TO GET OFF

This is the title to the musical written by Leslie Bricusse and Anthony Newley in 1961. We heard this saying during Covid but felt it appropriate to describe the market volatility and ever-changing economic policy in the last ninety days.

Often our reflections in these newsletters rhyme from quarter to quarter, because the factors driving economic activity and capital markets can move at a glacial pace. This quarter was the opposite. We began the quarter with high tariffs on China, after delaying 25% tariffs on Mexico and Canada. Then on April 2nd, President Trump introduced extraordinarily high tariffs for friends and foes on Liberation Day, only to see those largely postponed a week later. As the trade talk machinations continued, Israel attacked Iranian nuclear sites as the quarter-end neared. The Israeli attack was followed by a US attack, which included stealth bombers and bunker-buster bombs to destroy underground nuclear facilities in Iran. Vladimir Lenin once said, “There are decades where nothing happens; and there are weeks when decades happen”. The second quarter would fall into the latter category.

The capital markets and underlying economic data were able to look past the trade negotiations and Middle East tensions and deliver respectable performance in the second quarter. The resilience of the US economy and corporate earnings in the face of heightened uncertainty was on full display.

Economic growth during the first quarter declined 0.5%, with a large increase in imports to front run the tariffs, resulting in negative economic activity. Excluding the sharp increase in imports, underlying economic data continues to point to growth, albeit slower than in 2024.

THE LABOR MARKET CONTINUES TO EXPAND, WITH 3-MONTH AVERAGE JOB GAINS OF 150K IN JUNE, DOWN FROM 209K IN DECEMBER.

The unemployment rate was 4.1% and has been in the 4.0-4.2% range for more than a year. Claims for unemployment insurance ticked higher in June, reaching 250k in the first week of June, but fell to 233k by quarter-end. The labor market has moderated from the robust pace of job growth and wage gains of 2024; however, this important factor for the US economy continues to expand.

The growth in personal income, consumer spending, and retail sales are outpacing inflation, with PCE and retail sales posting 4.5% and 3.3% annual growth rates in May. Like the labor situation, the pace of income and spending growth has moderated in the first half of 2025 compared to 2024.

A heathy labor market and rising incomes are positive for the services sector of the US economy. Surveys of the service economy have largely pointed to growth in the first half, with S&P US Services PMI in expansion territory for twenty-nine consecutive months. The Institute for Supply Management (ISM) Service PMI signaled expansion for ten consecutive months until May’s reading of 49.9, but rebounded to 50.8 in June.

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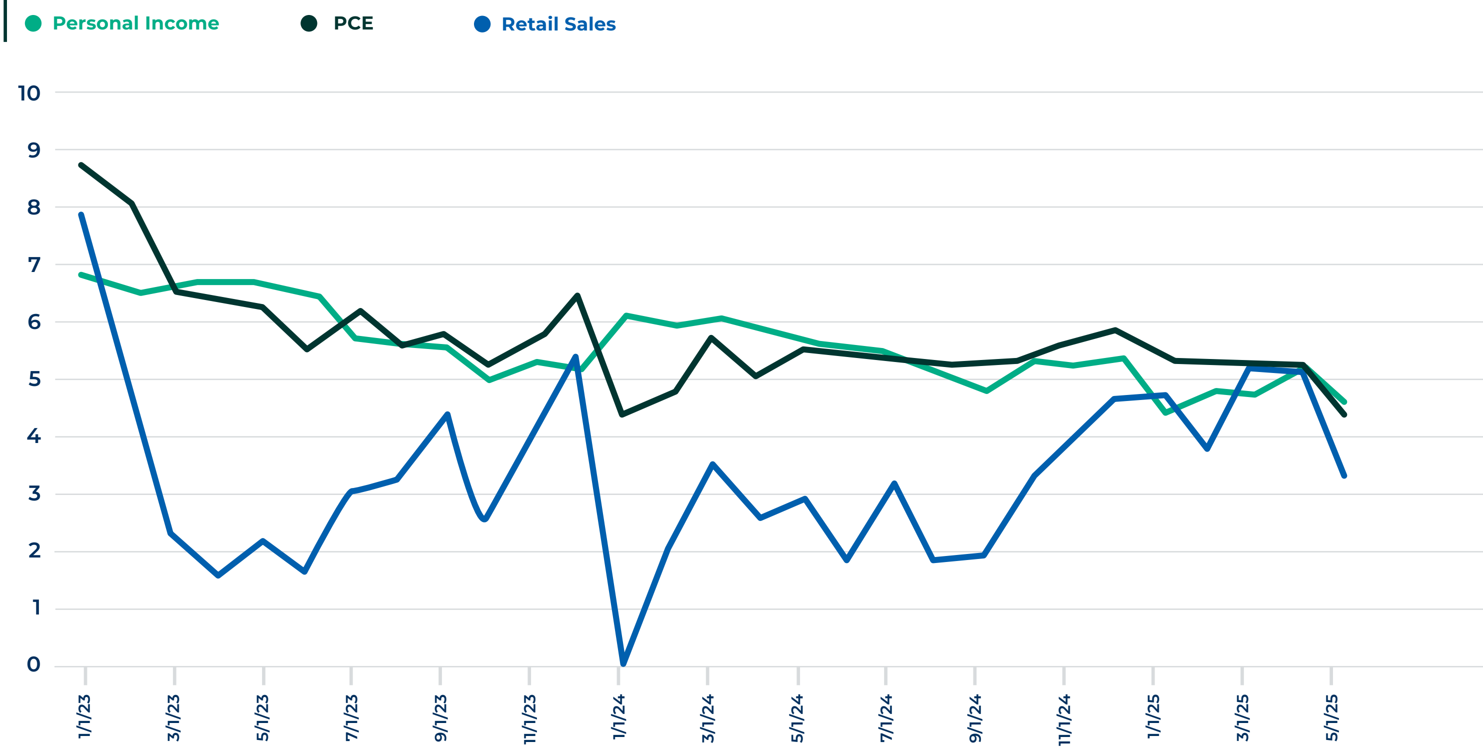
YEAR-OVER-YEAR CHANGE IN INCOME AND SPENDING



Source: Bloomberg, LP

THE MANUFACTURING SECTOR CONTINUES TO STRUGGLE IN 2025.

Orders for durable goods, excluding aircraft, have been roughly flat since last summer. The year-on-year increase in May was 2.3% on a nominal basis, compared to CPI of 2.4%. Capacity utilization was 77.4% for May, down from 78.0% in February. The ISM Survey of manufacturing purchasing managers has been in contraction territory for four consecutive months through June, after posting expansionary readings in January and February of 2025. The manufacturing sector has been bouncing along the bottom for three years, remaining somewhat flat. Any optimism that existed after the election has been squashed by the policy uncertainty arising from Trump's tariff turmoil.

THE "HARD ECONOMIC" DATA POINTS TO A GROWING ECONOMY.

This is evident in the Atlanta Fed GDP Nowcast, which shows second quarter GDP growth rebounding from -0.5% in 1Q25 to 1.6% in the second quarter. The survey or soft data has diverged from the hard data in 2025. The consumer grew increasingly pessimistic during 2025 as measured by the UM Consumer Sentiment Index and the Consumer Confidence Index. Both readings fell sharply from December through April, as tariff policy uncertainty reached fever pitch. The NFIB Small Business Optimism Index followed the same pattern, falling from 105.1 in December to 95.8 in April. Each of these readings turned higher in the May and June readings.

Consumer and business sentiment reached maximum negativity around Liberation Day. The equity market was pricing in a worst-case scenario, consumers were buying cars and electronics to front run the tariffs, and business leaders were paralyzed as policies seemed to change daily. The equity markets bottomed on April 8th, when Trump signaled the worst-case scenario was off the table. This also led to a turn in sentiment. While the Armageddon tariff scenario did not occur, Yale Budget lab estimates the average tariff rate is now 14.7%, compared to 2.5% in 2024. The impact of these tariffs will be felt by consumers and businesses in the second half of 2025.

THE RESILIENCE OF THE US CONSUMER AND ECONOMY, COUPLED WITH PROGRESS ON TARIFF NEGOTIATIONS, HAS MARKETS MORE OPTIMISTIC FOR THE SECOND HALF OF 2025.

Wall Street analysts expect second quarter GDP to rebound to 2.1% and continue to grow in the final two quarters of the year, with an estimated 1.5% growth for the year. Forecasters have also reduced their probability of recession, from over 50% in April to 37.5% currently based on a Bloomberg Survey.

This optimism now extends to the equity markets. The tariff turmoil did not impact first quarter earnings season, with S&P 500 earnings growth of 13% with 77% of companies beating Wall Street earnings estimates. This is above the three-year average of 74.7%. During the reporting season, some management teams tempered expectations for the remainder of 2025 due to tariff and economic uncertainty. Roughly half of the S&P 500 companies provide earnings guidance and nearly 15% of those reduced guidance.

This uncertainty bled into analysts' earnings estimates for the second quarter and full year, with FY25 EPS estimates falling from 11.4% in January to 6.9% in April. The nadir of negative earnings revisions occurred in mid-April, right before Microsoft's earnings report. Since that day, earnings revision breadth has improved. This is a measure of the proportion of analysts who have raised their earnings estimates minus the proportion of those who have lowered them. This reading was -25% in April, then -10% in June, and ended the quarter at -5%. This improvement is due to more analysts raising estimates, rather than fewer lowering estimates.

AS THE DUST SETTLED ON FIRST QUARTER EARNINGS REPORTING AND TARIFF UNCERTAINTY LESSENED, MANY OF THE THEMES THAT EXISTED IN THE BEGINNING OF THE YEAR REASSERTED THEMSELVES.

The most important of these were artificial intelligence and the accompanying build out of data centers, power, and computing capacity; however, we are entering a new phase of AI, where its applications are also driving earnings growth. The market is refocusing on a more growth-oriented regulatory environment, with the IPO and M&A market improving. Finally, the market expects the Fed to reduce interest rates by between 0.5% and 0.75% before year-end as inflation continues to moderate. This has Wall Street analysts calling for 9.4% earnings growth for 2025 according to Standard & Poor's.

WE ENTER THE SECOND HALF OF 2025 IN A SIMILAR STANCE TO HOW WE ENTERED THE YEAR.

Equity markets are expensive and there is cautious optimism about economic and earnings growth. Short-term interest rates are elevated, but we expect the Fed to begin to reduce rates in the next few months. Within the market, there are several areas offering attractive opportunities for growth and exciting new technologies impacting our economy. We expect the economy and earnings to improve as the year progresses.

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AS WE LOOK BACK ON THE SECOND QUARTER, WE ARE REMINDED THAT IN THE SHORT-TERM, MARKETS CAN REACT QUICKLY TO CHANGES IN EXPECTATIONS.

Markets began the year with a positive outlook and believed President Trump would use tariffs as a negotiating tactic. During late March and early April, the market changed this assumption and very quickly priced in the worst-case scenario from tariffs. One week after Liberation Day, President Trump signaled tariffs were a negotiating tactic, as was the belief only a few months prior. Then the market quickly priced in some tariffs, the scale of which would not derail economic and earnings growth. This realization quickly brought the market back to new highs and a 6.2% return year-to-date. Markets react quickly and often overshoot to the downside and then again to the upside when confronted with new information. Rarely are things as good as they seem when we have irrational exuberance nor as bad as they seem when faced with Liberation Day. In the long-term, equity markets are influenced by growth rates, profit margins, and interest rates – to name a few. And in the long-term, the US economy and US consumer are remarkably adaptable and resilient in the face of policy changes and uncertainty.

The US economy, businesses, and consumer proved this resilience once again in the second quarter. So, it is with tongue–in-cheek that we referenced the musical, "Stop the World – I Want to Get Off". This is not a strategy for living a productive life, nor is it a strategy for growing wealth in the capital markets. We wish our clients a happy summer and a healthy and prosperous second half of the year.

KATIE E. HAMPE

Client Service Representative

IN THE SPOTLIGHT

Katie became a valued member of the Colonial Trust team in November 2024, serving as a Client Service Representative in our Greenville office. Originally from Georgia, she made Greenville her home in 2023. Katie holds a Bachelor of Business Administration degree from the University of North Georgia. Outside of work, she loves exploring new destinations, discovering unique restaurants, and diving into a good book.

SOUTH CAROLINA ESTATE PLANNING UPDATE

The South Carolina legislature this spring passed a little-noticed provision to our laws that may make a great difference to your ability to make decisions for your estate plan.

The legislature extended the Rule Against Perpetuities to 360 years. That is a mouthful to basically say South Carolinians can now create trusts that last 10-12 generations, which are known as Dynasty Trusts. The United States Constitution is only 236 years old so it is really a mystery what this may look like that far down the road. 360 years is a long time.

Under the old law you could create a trust that at the maximum could maybe last only about 100 years. Colonial had situations where an individual with an extremely high net worth would come to know her great grandchildren and decide that in her opinion her great-great grandchildren were probably going to be unfit to inherit large wealth. We have had those conversations with our clients. That circumstance is not exactly what the new law is designed to address.

What the change really allows for is the ability to place concentrated, highly appreciating assets into a trust that will not have to be taxed at the estate level for many generations, and more importantly, the assets will not have to be divided and distributed among widely dispersed family members that may not even know one another.

LEAVING A FAMILY BUSINESS INTO A TRUST THAT MAY BE ABLE TO SURVIVE FOR HUNDREDS OF YEARS PROVIDES AN OPTION THAT SOUTH CAROLINIANS HAVE NEVER HAD.

We all know the last names of families… the ones that used to own businesses and investment empires… then the businesses were divided or sold. Now planning and forethought can be given to keeping the family enterprise whole, rather than planning around its ultimate breakup.

Amending your current estate plan to: “this Trust shall terminate and pay out to the remainders 360 years from the date of my death” is not an appropriate plan. Deep thought should be given to both the intention of the plan and also the ramifications. We have yet to meet a client whose goal was to create a progeny of idle rich solely living off trust distributions. A Dynasty Trust should be created when the size is sufficient to justify the generations of governance it will require. Careful thought should be given for what reasons distributions should be made. If you believe your estate warrants such a structure, please discuss the option with your attorney.

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