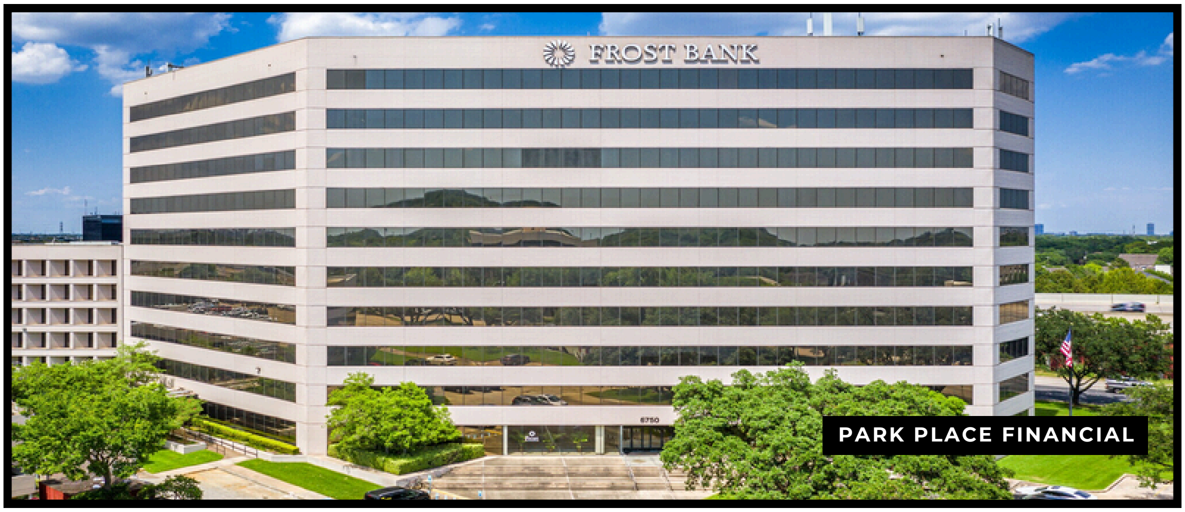
ISSUE #04

2025 Third Quarter Newsletter

PARK PLACE FINANCIAL

01 Auguset 2025



Key Takeaways from the Second Quarter

Markets Rebounded Strongly After a Rocky Start

- The second quarter began with a steep sell-off triggered by new tariff announcements, but markets staged an impressive recovery. The S&P 500 rose 6% year-to-date through quarter-end, reaching record highs. Cooler-than-expected inflation data and a resilient labor market helped restore investor confidence. However, underlying risks—including ongoing tariff uncertainty, fiscal concerns, and geopolitical tensions in regions like Iran, Ukraine, and Gaza—remain unresolved.

Bonds and International Stocks Provided Strong Support

- The bond market extended its recovery, with the Bloomberg U.S. Aggregate Bond Index returning 4% year-to-date. Intermediate-term U.S. Treasuries offered particularly attractive yields, benefiting from expectations of slower economic growth and potential future rate cuts. Meanwhile, developed international equities outperformed U.S. markets, returning 19% year-to-date. Though that lead narrowed late in the quarter, global diversification provided valuable returns.

Concentration Risks Highlight Importance of Diversification

- While value stocks initially led in early 2025, momentum shifted back to a handful of large-cap growth stocks that drove much of the S&P 500's rebound. This market concentration underscored the need for diversification, as did the mixed performance across asset classes. In a volatile environment, diversified portfolios helped manage risk and positioned investors to capture opportunities across a broader set of sectors and regions.

In this newsletter you can expect:

CBO ANALYSIS HIGHLIGHTS LONG-TERM FISCAL CONCERNS

The Congressional Budget Office (CBO) recently released its analysis of a newly proposed bill, projecting it would add $2.5 trillion to the federal deficit over the next decade. If these projections hold, the U.S. deficit would rise from 6.3% of GDP to 7.5% by 2034, signaling a meaningful increase in the government's borrowing needs.

What's Driving the Increase?

The biggest driver is a set of proposed tax changes, including:

- Extending the 2017 tax cuts
- Eliminating federal taxes on tips and overtime pay
- Raising the cap on state and local tax (SALT) deductions

Together, these changes are expected to reduce federal tax revenue by $4 trillion over the next 10 years. The bill does include $1.5 trillion in spending reductions, but it's important to understand what that really means. These aren't actual year-over-year spending cuts—instead, they're reductions in planned spending increases. For example, if the government planned to increase spending from $1,000 to $1,500, and instead raises it to $1,300, that's still an increase—just a smaller one than originally intended. In addition, the bill would raise the debt ceiling, allowing the government to borrow more to fund spending that has already been approved.

What's the CBO Assuming?

The CBO makes these projections based on current law, without assuming any changes in economic growth from things like tax reform or deregulation. Their baseline estimate assumes GDP growth of just 1.8% per year over the next decade—a relatively modest pace. One proposed offset is a new set of tariffs, which the CBO estimates could reduce the deficit by $2.8 trillion. But even with those tariffs, total debt is still expected to grow.

Why This Matters to Investors

This growing debt has real implications—especially for the bond market. If U.S. debt increases faster than the economy grows, investors may demand higher interest rates to compensate for the added risk. That could lead to rising borrowing costs for the government, which in turn could make the debt problem even worse through higher interest payments. However, if tax cuts and regulatory reforms boost economic growth, then the rising GDP could help ease some of these concerns—making U.S. Treasuries more attractive again and reducing pressure on interest rates.

It's also worth noting that the bill does not address non-discretionary spending, such as Medicare, Social Security, and interest on the debt—which together make up the majority of federal spending and are the most difficult to reform. Without tackling these areas, it's difficult to chart a truly sustainable fiscal path forward.

What You Can Do: Focus on Diversification

With so much fiscal uncertainty and the potential for higher, longer-lasting interest rates, it's more important than ever to have a diversified fixed income portfolio. Diversifying across different maturities, issuers, and sectors can help manage volatility, protect purchasing power, and uncover new investment opportunities—even as interest rate dynamics shift.
As always, we're here to help you navigate these changes with a strategy that aligns with your long-term goals.

We want this newsletter to be valuable to you. If there's a specific topic you'd like us to cover or learn more about, please don't hesitate to reach out. Email me at rzhao@parkplacefinancial.co and let us know what you're interested in—we'd love to hear your feedback and tailor future updates to what matters most to you.

THE HEALTHY YIELD

When it comes to building wealth, financial planners often focus on strategies like Roth IRAs and annuities. But one of the smartest, most impactful investments you can make this year might be in your own health. Physical inactivity is the fourth leading cause of death worldwide, contributing to 9% of all deaths. Fortunately, just five minutes of cardio per day—like a brisk walk or quick home workout—can offer real health benefits. Equally important is strength training, especially for adults over 65. Age-related muscle and mobility loss can lead to serious health issues, but regular weight training has been shown to:

- Improve muscle mass, bone density, balance, and mobility
- Reduce fatigue and fall risk
- Lower all-cause mortality by 9%–22%
- Prolong life, even in individuals with advanced cancers
- Combat sarcopenia (muscle loss with aging)

Beyond health, the economic impact is clear: Physically active adults 50+ spend $1,437 less annually on healthcare, yet 28% of this group remains inactive. Notably, 4 out of 5 costly chronic conditions in this population can be prevented or managed with physical activity.

A No-Cost Investment: Cutting Sugar

Now picture this: during a financial planning review, your advisor suggests a high-return, zero-cost investment—reducing added sugar. You can't avoid sugar entirely—fruits, veggies, and dairy all contain natural sugars. But added sugars, found in soft drinks and processed foods, are unnecessary and harmful in excess.

The American Heart Association recommends limiting added sugar to:

- Men: 36 grams (150 calories) per day
- Women: 24 grams (100 calories) per day

To put that in perspective, a single 12 oz Dr. Pepper contains 39 grams—already over the daily limit.
Excess added sugar is linked to: Chronic inflammation, High blood pressure, and Fatty liver disease

These in turn raise the risk of heart attacks and strokes.

In Summary: The solution doesn't require a total diet overhaul. Simply cutting back on sugary drinks and processed snacks can make a big difference. Being active and reducing added sugar are powerful, low-cost investments in your health, independence, and financial well-being. It's not just about building muscle or cutting calories—it's about building a longer, stronger, more resilient life.

NOW AVAILABLE: SPOT BITCOIN & ETHEREUM ETFS THROUGH OUR PLATFORM

The world of digital assets continues to grow—and now, for the first time, you can gain direct exposure to Bitcoin and Ethereum through regulated, publicly traded investment products on our platform. Kestra Financial has approved the availability of 15 spot digital currency Exchange Traded Products (ETPs), including spot Bitcoin and Ethereum ETFs, for qualified clients. These innovative investment vehicles provide a way to access the performance of Bitcoin and Ethereum without needing to directly buy, store, or manage cryptocurrency yourself.

What Is a Spot Bitcoin or Ethereum ETF?

A spot ETF is an exchange-traded fund that holds actual Bitcoin or Ethereum as the underlying asset—not futures contracts. This means the value of the ETF is based on the real-time market price of the cryptocurrency it holds, offering a more direct form of exposure.

Key features include:

- Traded on major U.S. exchanges like the NYSE and Nasdaq
- Backed 1:1 by Bitcoin or Ethereum held in cold storage by institutional custodians
- No need for a digital wallet or crypto exchange account
- Regulated structure under the SEC

Who Might Consider This?

- Spot digital currency ETFs may be worth considering for investors who:
- Are seeking long-term growth or diversification
- Want exposure to cryptocurrency within a regulated investment account
- Prefer not to deal with the technical side of owning crypto directly

As with any investment, these ETFs carry risk—especially due to the volatility of the underlying crypto markets. It's important to know that:

- ETFs only trade during normal market hours, while crypto markets run 24/7
- These ETFs may carry management fees and premium/discount risk
- Cryptocurrency investments can experience large and rapid price swings

Kestra has set guidelines for how much of a portfolio can be allocated to spot digital currency ETFs based on an investor's risk profile. Allocations range from 1% to 5%, depending on your account type and risk tolerance.

If you're interested in learning more about Bitcoin or Ethereum ETFs and whether they belong in your portfolio, please don't hesitate to reach out. We're happy to walk you through the options, risks, and benefits in more detail. As always, our goal is to help you make well-informed, balanced investment decisions.

Thank you for reading!

PARK PLACE FINANCIAL	713-667-4884
www.parkplacefinancial.co	6750 W Loop South Ste. 825 Bellaire, TX 77401