

# Cornerstone Report

Special Report

July 29, 2025

By: Jerry E. Tuma, MS, CFP®



## Topics:

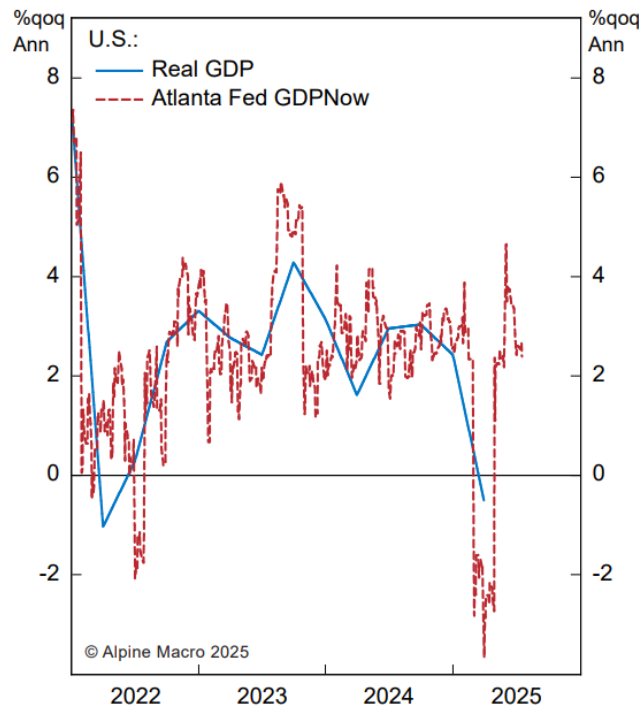
- Tariffs
- Stocks:  
Climbing a  
Wall of Worry
- Is the  
Government's  
Long-Term  
Debt  
Sustainable?

*We're Out To  
Change The  
Way America  
Thinks About  
Investing.*

## Tariff Tantrum or Soft Landing?

As we go to press, the first round of knock-off effects from President Trump's tariff war are starting to show up. So far, the U.S. economy and stock market have handled things very well with the S&P 500 and NASDAQ hitting new all-time highs.

Despite the fact that the Conference Board's *Leading Index of Economic Indicators* continues to fall, the U.S. economy is holding up and appears that we may have already hit a bottom in the first half of this year, as depicted by the Atlanta Fed *GDPNow*. Time will tell.



At this point it would appear that the imposition of tariffs in a variety of areas for the U.S. and world economies will likely not suppress economic activity as much as previously feared, but rather will likely result in increasing prices.

This means more inflation and perhaps lowered corporate profits, depending on the specific company and the situation.

It's obviously a very complicated topic with one-off deals in just about every situation. My guess is that it will take probably 6-9 months to really fully feel the effects of the tariffs and come to grips with the "new normal" world economy post-tariffs.

In the meantime, the Federal Reserve remains on hold and will likely stay there for several months, despite the war of words between President Trump pushing for Fed Chairman Jerome Powell's removal, Trump's push for interest rates to be reduced dramatically.

Remember that the Federal Reserve has a *dual* mandate. On the one hand, they are supposed to keep inflation low, on the other hand, they are supposed to maximize employment.

This dual mandate is difficult to pull off given that they are somewhat contradictory. When the economy is running hot and employment is maxed out, that tends to put upward pressure on prices and subsequently inflation, and vice-versa when the economy weakens.

President Trump and the Fed are currently in a standoff. Best educated guess at this point is that the Fed will probably lower interest rates but not as much and not until later this year.

Given that the "new tariff world" appears to be working its way out to be *more inflationary* and not contractionary toward the global economy, interest rates may not fall much at all, especially if the markets and economy continue weathering this pressure.

On the next page you see the latest graphic display from ITR economics, the Beaulieu brothers. Remember that, while no one is perfect, they continue to have the most impressive economic track record I've seen over the last 20 years.

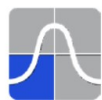
	Historical 12/12	Historical 12MMT/A	Current 12/12	2025	2026	2027	Highlights
US Industrial Production			0.5	1.4	1.5	1.3	The 12MMA will generally rise mildly through 2027, but do not expect this to be a blockbuster cycle.
US Nondefense Capital Goods New Orders			0.2	2.1	3.2	0.8	Companies have the capacity for more spending, though many are hesitant given uncertainty and high interest rates.
US Private Sector Employment			1.1	1.0	1.9	1.7	Employment will rise through at least 2027. Budding momentum in temporary employment is a positive sign.
US Total Retail Sales			3.2	3.5	4.8	3.0	Retail Sales will rise through at least 2027. The share of Retail Sales made online is increasing, coming in at 14% of the total.
US Wholesale Trade of Durable Goods			4.8	3.7	3.7	1.5	Tepid but persistent growth is likely. The 12MMT will rise by around 6% to 9% through 2027.
US Wholesale Trade of Nondurable Goods			0.4	-0.2	6.1	3.2	Performance will be lackluster in 2025, although pharmaceuticals may still fare well. 12MMT rise is expected in 2026 and 2027.

Note: Forecast color represents what Phase the market will be in at the end of the year.

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PHASE KEY



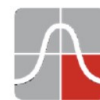
Phase A:  
Recovery



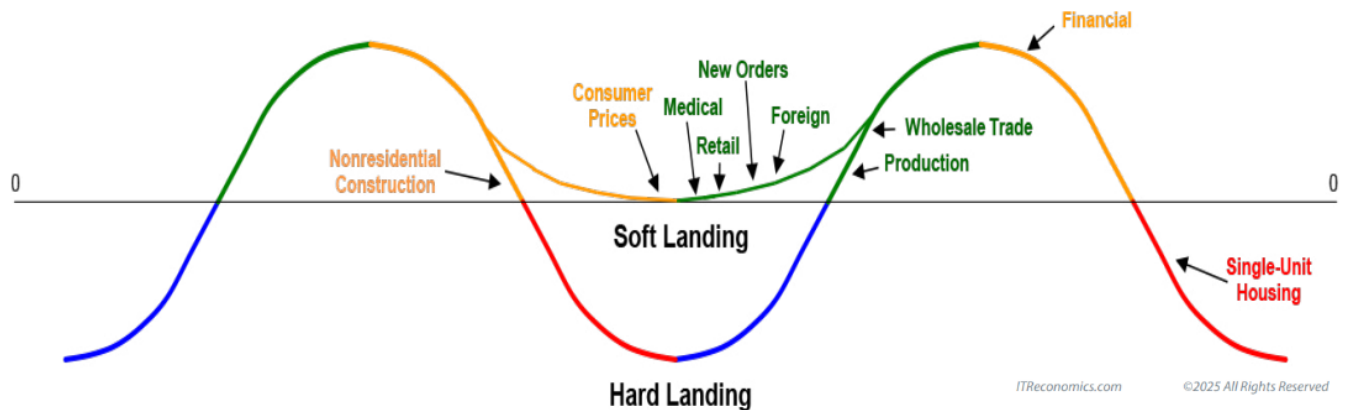
Phase B:  
Accelerating Growth



Phase C:  
Slowing Growth



Phase D:  
Recession



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They've modified this chart slightly since their last publication, as they should do, when the economy changes. As you can see from the chart, right now they believe that the housing market is the only part of the economy currently in recession, with nonresidential construction indecisive.

So far, the bulk of the economic sectors appear to have weathered the storm and appear to be experiencing a soft landing and not a recession. This is great news. Note in the table above the chart they see some weak spots in 2026-27 but thus far no evidence that recession will take place. If this works out to be accurate this will have **significant ramifications on every asset class**, stocks, bonds, real estate, gold, etc.

So, while history never repeats itself exactly, the current environment reminds me the most of 1994.

That year, Alan Greenspan and the Fed went on the warpath against inflation and raised interest rates seven times. This created a lot of turbulence for both stocks and bonds, but the economy came through unscathed, and then we experienced a massive stock market boom from 1995-2000.

There are currently a lot of similarities to that time period, obviously with some differences.

As most of you probably remember, that was before the advent of the internet. And despite the fact that most of the economic improvements (due to the new technology) didn't manifest **that** decade but afterwards, the economy went into a gigantic boom with stocks going up, up and away, based on a promising future.

Today we have the *AI revolution*. While it's really difficult to comprehend all that will likely change, it's clear that Artificial Intelligence will significantly change the way we do business in the world.

So, in spite of tariffs likely being inflationary plus slowing economic growth, the bulk of the rest of President Trump's policies are very pro-business which should encourage businesses and the market.

So, it looks like we *may* make it through the "danger" zone without recession (keep your fingers crossed ☺).

In the meantime, stocks are still historically very expensive and yet could go even higher (more on this in a moment). But for now, it looks as if we're experiencing a soft landing, not a recession, but we are still in a period of time where inflation is likely to be a bigger problem than anything we've seen since the 1970's.

And while most of President Trump's policies will help America grow, we still do not have any solutions for the accumulating Federal debt (now at \$37 trillion and counting, *source: usdebtclock.org*).

With the 76 million baby boomers retiring en masse, they will soon be a much bigger expense for Medicare in addition to the massive outflow to pay for Social Security. The government's long-term financial picture is very challenging to say the least. I still believe we will end up with a crisis at some point over the government's debt accumulation but not likely until sometime in the early 2030's.

ITR (the Beaulieu brothers) have been saying since at least 2008 that America would enter another great depression sometime in the 2030's, caused by the runaway freight train of government spending and debt accumulation. And while no one will know the exact timing that still looks on target to me. We'll discuss this in more detail in a moment.

So, the bottom line is, enjoy this burst of prosperity while it lasts and let's hope and pray that the Republicans do not lose the House and Senate next year but rather, we can have an unhindered period of economic growth through the end of President Trump's term.

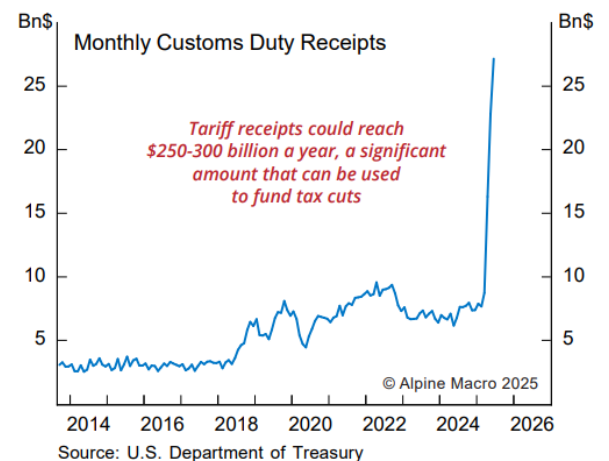
## Tariffs

While a big part of President Trump's agenda is to "level the playing field" versus other countries, tariff duties in the short-run will generate significant amounts to help reduce the U.S. budget deficits.

While it is highly speculative to guess just how much cash will be generated from the tariffs, it will be significant, but not near enough to turn around the federal debt. Remember tariff receipts coming in to the Treasury will be numbered in the billions, maybe \$300 hundred billion in the first year alone. Thus, this helps reduce our current budget deficit but remember that the long term accumulation of these deficits is approximately **\$37 trillion**.

Any additions to the U.S. Treasury to reduce budget deficits are welcome, but it is nowhere near enough to turn around the governments debt problem. Despite tariff income, the Congressional Budget Office is still projecting 7-8% of GDP for budget deficits in the foreseeable future, this is roughly *double* previous deficits as a percentage of the economy, an enormous shortfall especially when we're not in a recession.

So while I'm all in favor of squaring up the gross inequities of the current tariff situation, where many other countries have taken advantage of the U.S., plus we need the revenue, it doesn't fix the long-term debt problem.



## Stocks: Climbing a Wall of Worry

The U.S. stock market continues to push the upper boundary of market valuations in comparison to any historical period of time we've seen.

To the right you see the price-to-sales ratio which shows stocks to be extremely expensive with only the 2000 dot com era and then all the way back in the 50's and 60's showing such extreme valuations.

Other valuation charts show much more extreme valuations for various measures. Thus, you could hardly say that stocks are "cheap" (please see our previous newsletter last March on our website [www.cornerstonereport.com](http://www.cornerstonereport.com)).

By any historical comparison, price to book value, price to earnings, etc. stocks are on the extreme edge of overvaluation compared to anytime in U.S. history.

This begs the question, "are very expensive stock prices the *new normal*?"

In other words, if you judge how expensive the stock market is by previous history, you can only come to the conclusion that stocks are very expensive and/or significantly overvalued.

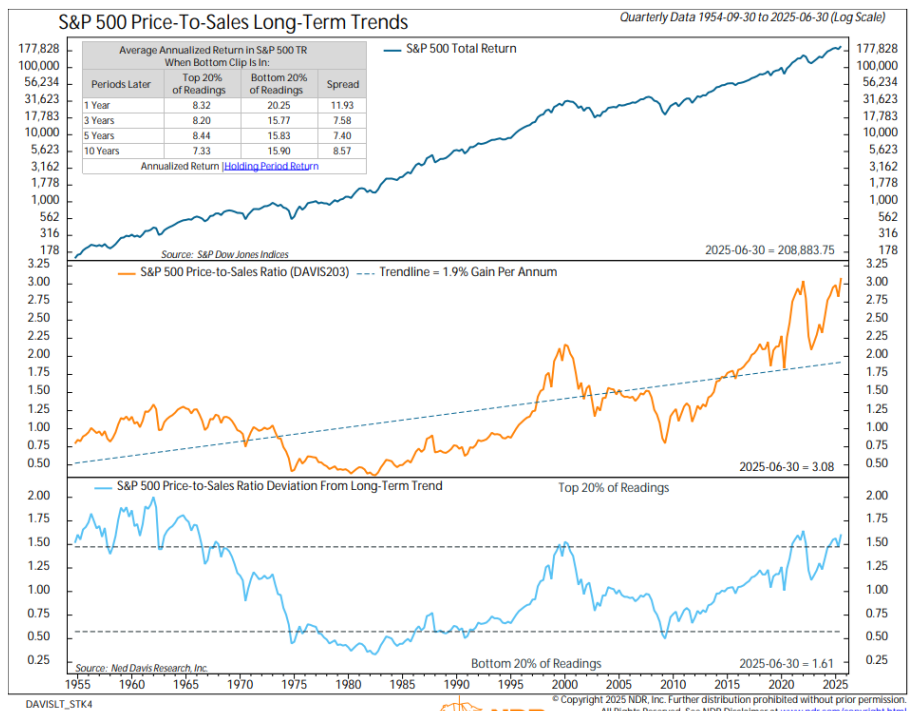
However, with all due respect to investment luminary Sir John Templeton's (he was knighted by the queen of England and revolutionized international investing) statement that, "*this time is different are the four most expensive words in the English language.*" This time could actually *be different!*

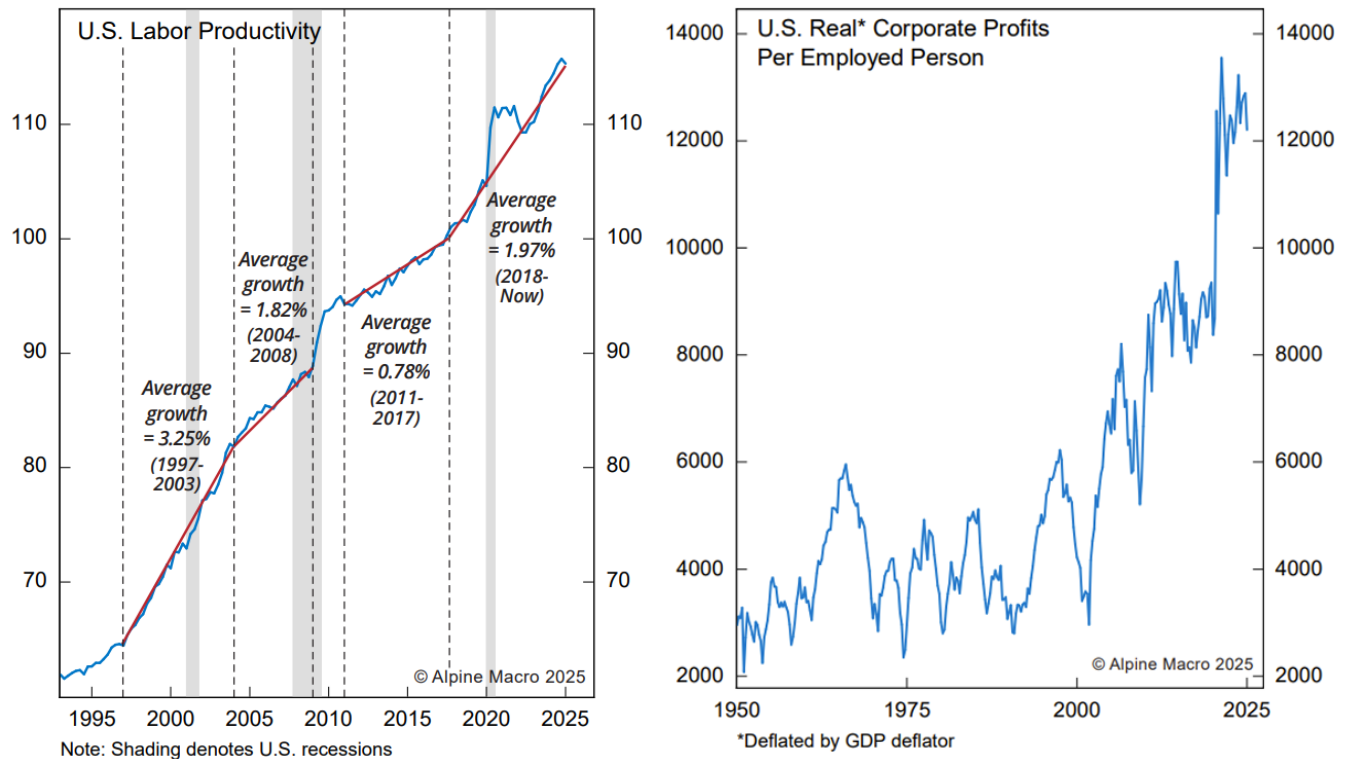
What Templeton was saying, was that making up *new* rules to justify how expensive stocks are is normally a catastrophic idea. This illustration played out exactly as Templeton forecast during the 2000-02 bear market, where the darlings of that stock market era, the dot com stocks, experienced massive wipeouts, frequently dropping 85-90% from the top, with scores of stocks previously valued in the 10's of millions going out of business entirely.

In addition, we've seen a number of other instances of *manias* such as the 1972-74 Nifty Fifty market, gold and oil in the 1970's, 2006-08 California and Florida real estate, and so on. There are many such instances where emotions carried various markets to extremes only to blow up later.

Yet there may also be a different case to be made here. If you compare the U.S. economy today versus, let's say, 1980 or as recently as the year 2000, the *makeup of the economy has changed significantly.*

The U.S. economy previously had more manufacturing, plus much more of our economy was highly cyclical, meaning downturns or recessions tended to crush corporate earnings to a much larger degree than what we've seen in recent years, especially since 2008.





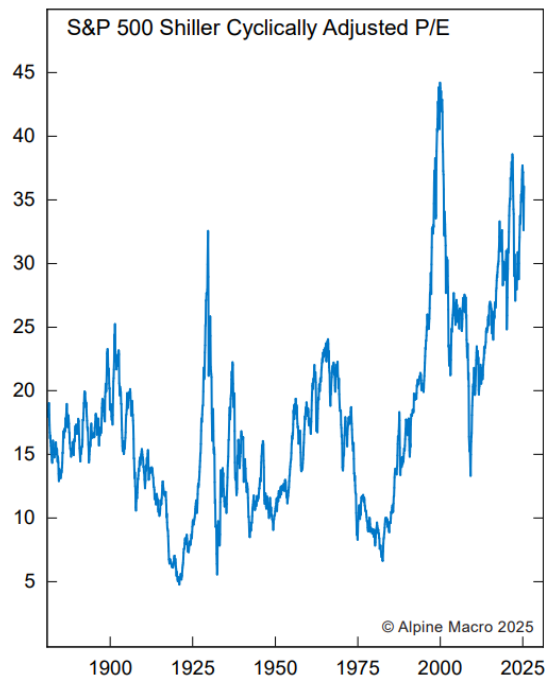
The two charts above show the stunning rise of both labor productivity and earnings per American worker over the last few decades. As you can see, U.S. inflation adjusted corporate profits (right chart) per person fluctuated up and down from 1950 until 2002 and then has been on a massive upswing since then. Just as recently as 2002 corporate profits per person was as low as \$3,000 and now is hitting about \$13,000 per person on its never-ending relentless climb.

Thus, one could easily make the case that this boom in productivity and earnings per worker justify higher stock prices than we've seen in the past. Technology has radically improved productivity over the past 30 years since the advent of the internet, plus much of our economy has morphed into service businesses as opposed to more cyclical parts of the economy (such as housing and manufacturing).

Perhaps stocks can actually justify much higher valuations due to changes in the makeup of the dynamics of the U.S. economy. I think this makes sense and to me does not smack of "new era" thinking. Although, ***I would not put it past the market to create another mania by the end of the decade.*** I just don't think we're there yet.

The economy is much more driven by service businesses and technology than any other time. Thus, at least for now, the market doesn't seem to be having the more radical fluctuations and bears as we've seen in the past.

So, looks to me that this decade will be marked by higher interest rates and higher inflation than we've seen since the 1970's. After we've become accustomed to falling interest rates and falling inflation, this changes investing dynamics quite significantly. We plan on continuing this discussion in subsequent newsletters. In other words, how do you invest in a stagflationary economy?



Another example of extreme valuations for stocks comes from the chart to the left. Robert Shiller, PhD and Nobel-prize-winning economist and best-selling author from Yale, has created his own version of the price/earnings ratio (P/E).

Shiller uses a 10 year average of earnings to smooth out some of the fluctuations but it gives you a very vivid picture that stocks are currently very expensive. However, remember that market valuations are not good timing indicators but rather good risk indicators.

So, if the historical norms continue, the market is very expensive and thus potentially dangerous.

However, if the morphing of our economy into more service and technology, plus the literal boom in profits per worker say anything, it is that we might be experiencing a *permanent* change in the way stock valuations work. So, in other words, stocks are very expensive on a historical basis, but given the improvement on technology and workers we may be about to establish a new higher norm for levels of valuations. Technolo-

gy has changed things significantly and could continue to change it in the future (horse and buggy).

The second chart on this page shows projected forward earnings for U.S. growth stocks. As you can see, while forward earnings are currently expensive, they are nowhere near as overvalued as we saw in 2000.

So, if the U.S. economy can “muddle through” without a recession in the short-run and the pro market changes that the administration will likely make continue we may be in for another bull market run similar to the late 1990’s.

The chart on the next page shows, just how much we’re spending as a percentage of the GDP on technology. The more effective and efficient technology becomes, the more profits companies are likely to generate, thus justifying higher stock prices.

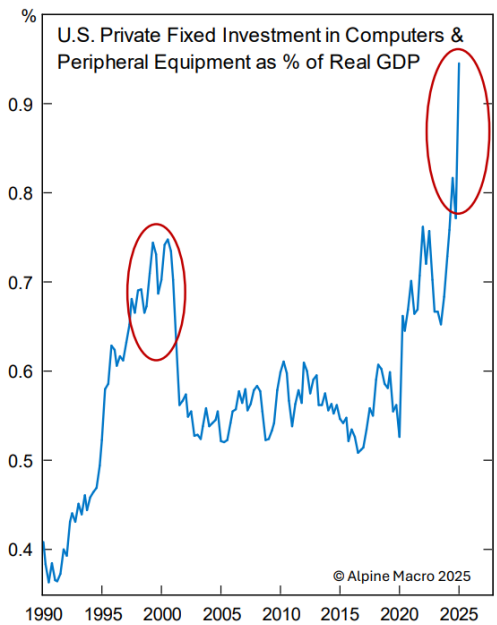


A good example comes from Nobel prize winning economist, and in my opinion the most important economist of the past 100 years, Milton Friedman. Prior to China’s massive economic overhaul and growth which started in the late 1970’s after Mao died and Deng Xiaoping took over, Deng Xiaoping said, “we can either export poverty or we can export prosperity.” Deng’s father had been a prosperous land owner prior to the communist revolution and after the horrific suffering of the Mao revolution, he had a different view of the future and he invited Milton Friedman to China to find out if it was possible to put free market economics into a communist controlled economy.

Friedman went throughout the country observing before he came up with prescriptions for the premier.

He observed a large group of workers building a road using shovels. He asked the supervisor, “why are you us-

ing shovels to build a road instead of equipment like bulldozers?” The supervisor responded, “our objective is to create jobs, we will create more jobs and hire more people to build the road using shovels.”



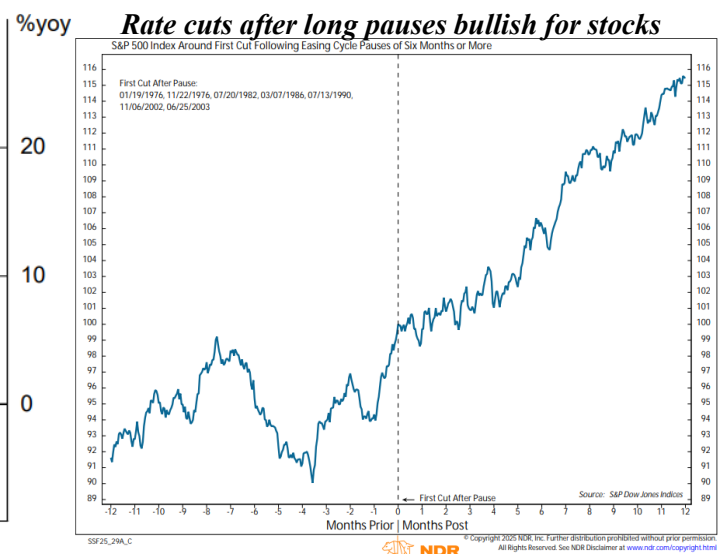
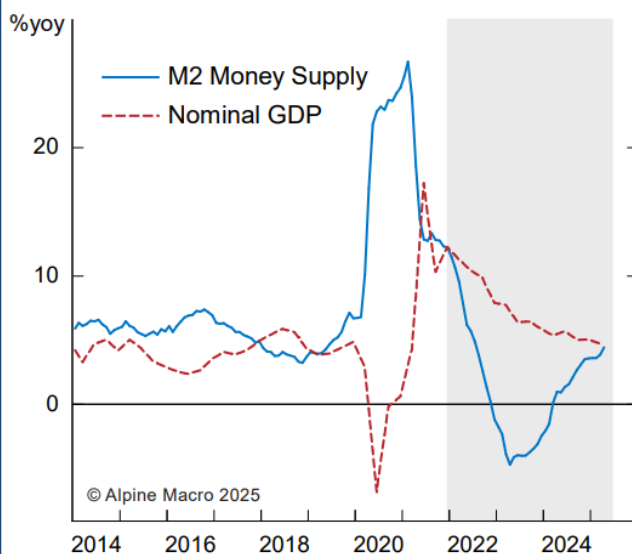
Friedman’s response was classic. “Then why not use teaspoons.” This just illustrates the pure stupidity of communist doctrine.

Eventually, a large number of Friedman’s proposed ideas were translated into actual changes in the Chinese economy and system. And starting around 2001 when China first joined the World Trade Union it has become an economic behemoth, and despite their current working off of their housing bubble issues they are now the #2 economy in the world.

The lesson here is that creating more efficiencies through technology not only changes the world we live in, it also changes much of our economy and the stock market.

So, while I cringe at “new era” thinking, it may well be that the enhancements in productivity which has resulted in the technology boom since the internet, may have created at least for now, a more stable growing economy and a stock market that actually justifies being much more expensive.

Without huge economic fluctuations, as in recessions, and with a much higher percentage of the economy in recession resistant businesses such as healthcare, technology and service industries, the U.S. stock market may have morphed into a newer more modern market, supported by higher earnings and productivity, thus we may not have a stock market mania at the present but it appears that at least for the time being the bull marches on.



Above you see the money supply, which serves as fuel for the economy and market. As you can see, the money supply boomed during Covid and then contracted significantly, putting both the market and the economy in danger. Now that the money supply is growing again we should be moving back into growth mode.

The chart to the right shows the market’s normal behavior after a prolonged period of keeping rates high. Certainly looks like a positive resolution here.

## Is the Government's Long-Term Debt Sustainable?

To the right you see the alarming accumulation of Federal debt for the U.S. government.

I've been harping on this issue for decades, that eventually this debt would affect us in a big way. I view this to be a ticking timebomb and there will ultimately be a day of reckoning.

As I mentioned earlier in the newsletter, the Beaulieu's ITR ([www.itreconomics.com](http://www.itreconomics.com)) has forecast since at least 2011 when I started following them that America would experience another great depression in the 2030's caused by the unsustainable growth of the national debt.

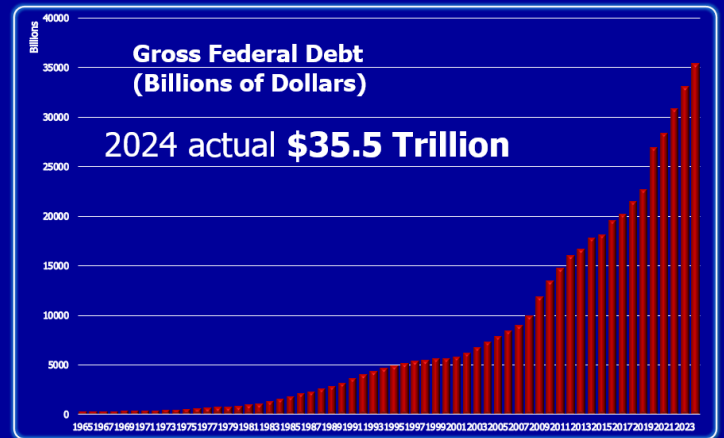
While President Trump's tariffs will certainly bring in some money and reduce the deficits in the short-run, tariff collections are likely to be valued in the billions, probably in the 100's of billions per year, but the national debt is valued at **trillions** and worse still is that one of the largest generations in the history of our country numbered around 76 million people, born between 1946-1964, are still relatively young and a drain on Social Security but not yet a big drain yet on Medicare. That likely happens next decade.

So, the vast majority of the Boomers are starting to tap in to Social Security or have already started. But, an analysis of spending for Medicare shows that the vast majority of Medicare spending (some 25%) occurs during the last nine months of a fatal illness.

So, while Baby Boomers are a drain on the government's finances as they retire and pay out Social Security benefits, the vast majority of the Boomers are not old enough to trigger what is likely to be the biggest expense to the government in American history. As the Boomers age, Medicare costs will absolutely skyrocket and have a deleterious effect on the national debt which is already like a runaway freight train.

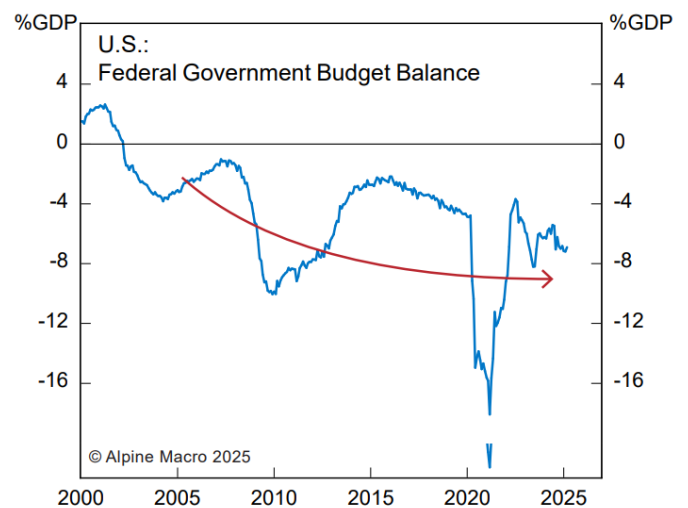
Barring an absolute miracle, which I am not holding my breath for, I see no easy way out on the national debt. Our government is structured and incentivized due to elections every two years to spend more and more money. Politicians are incentivized to give away benefits to constituents in order to get reelected. In spite of the Republicans' best efforts to rein in this runaway freight train the best we've been able to do is nibble away at the edges. In fact, as you can see in the next chart the budget deficits continue to be quite high based upon the CBO projections and will likely be even if we have a boom in the stock market.

### Federal Debt 1965 - 2024



Source: <https://fiscaldata.treasury.gov/datasets/historical-debt-outstanding/historical-debt-outstanding>

*The [usdebtclock.org](http://usdebtclock.org) estimates current accumulated over-spending or the deficit at \$37 trillion. The chart above reflects the official data from the government and will not be updated until this fall. So \$35.5 trillion was the official number of the national debt at the end of the last fiscal year.*

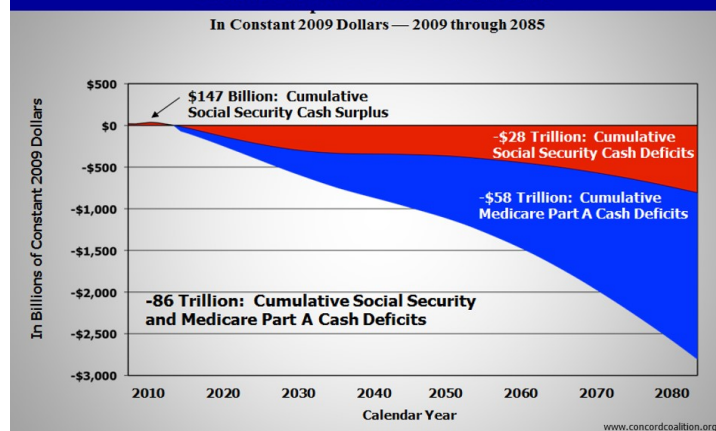


In all, I think we should enjoy the next few years because we could have unmitigated disaster in the 2030's. Heaven forbid that we end up having World War III with China and Russia or whomever that decade, which would blow the top off the debt even further. For a further understanding of this as we work our way through history, I strongly recommend you read a book called *The Fourth Turning*, which is virtually prophetic in what it said would be happening *now*, *written in 1997!*

There is a sequel called *The Fourth Turning is Here* by Neil Howe, I think the original book is better and you can see with the benefit of hindsight just how accurate it has turned out to be.

So, in all, I believe we could have another four years of prosperity, maybe longer but I believe that we are truly sitting on a ticking timebomb based on the government's debt in the long-run and this will likely come home to roost in the early 2030's.

## Social Security & Medicare Cumulative Deficits



Long term projections of the cumulative debt from Social Security and Medicare alone are almost like opening up the Grand Canyon. I see no realistic way that these numbers will work. Remember that both the Social Security and Medicare trust funds are just bookkeeping entries. Congress has borrowed the funds from both of the "trust" funds and previously spent them.

Talk about unsustainable! Every cycle the budget deficits get larger and the accumulated debt gets larger. Now that it appears that we have entered a new phase of the economy similar to the 70's, where interest rates are likely to be *permanently* higher. The cost to fund the government's debts could become unsustainable sometime in the next decade or so. Current projections for the budget deficits are enormous and do **NOT** include expenses for either a war or another recession, which we will eventually have. The numbers are gargantuan and likely to be very destructive to the U.S. economy not too far down the road.

### Jamie Dimon Warns of Coming Debt Crisis

*JPMorgan Chase Chief Executive Jamie Dimon delivered a dire warning for the markets, predicting a crisis unless the U.S. takes steps to address its spiraling national debt.*

*"You are going to see a crack in the bond market, OK?" Dimon said during an interview at the Reagan National Economic Forum in California. "It is going to happen."*

*Bond markets have been rattled by the prospect that the already wobbly fiscal situation in the U.S. will worsen, should tax legislation backed by President Trump become law. A House-passed measure increases projected budget deficits by some \$2.7 trillion over a decade, adding to a national debt that already stands at more than \$36 trillion...*

*Without substantial changes, the U.S. is headed for a reckoning, Dimon said. "And I tell this to my regulators...it's going to happen, and you're going to panic," he said. "I just don't know if it's going to be a crisis in six months or six years."*

*- Hamilton Lane 2025*

*(ED Note: This statement was made prior to the BBB becoming law)*

## Conclusion

So in all, my best educated guess at this point is that the economy avoids a recession, the stock market continues its relentless march up, albeit with corrections, and things continue to improve for a while, possibly for several more years.

I would not be surprised to see the market continue putting in new highs until sometime toward the end of the decade. If this happens, we may experience another stock market mania similar to the late 90's only this time with *actual corporate profits* backing up stocks, not vapor like the dot com era.

Despite the best revenue projections for the government's budget and the positive impact of government revenue, the national debt will almost certainly continue to balloon higher and could eventually get so out of control that it destabilizes our whole system.

We've had almost two decades now of extremely low interest rates which have enabled us to finance the government's burgeoning debt without wreaking havoc on the bond market and the rest economy. This has started to change. Interest rates appear to have established a new higher plateau that will probably be permanent and will likely go higher as the decade continues.

At this point, virtually everything from my perspective is pointing to another round of inflation, before the decade is over. Inflationary pressures from multiple angles appear almost certain, and as we stated, tariff revenues will help in the short-run, and at this point any help is welcome. But the national debt, without radical budget surgery, which is not likely, will relentlessly march higher throughout the decade.

So, in all, enjoy this season while it lasts. I think much bigger problems await us in the 2030's.

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