October 2025

CAPSTONE PACIFIC
INVESTMENT STRATEGIES INC

THE CAPSTONE QUARTERLY

As we approach the final stretch of the year, the fourth quarter is always a great time to reassess, adjust, and set ourselves up for a strong finish to the year. Whether you're gearing up for year-end planning or simply looking to make sure you're on track, now is the perfect time to take a step back and review your financial goals. In this newsletter, Bryce gives some perspective on the tariffs and taxes in our country, and Casey discusses how a government shutdown has affected the economy in the past.

BRYCE'S POINT OF VIEW

Bryce Pease, CFP®

Tariffs and the Income Tax

Core inflation slowed down in August, the Federal Reserve's (the Fed) preferred gauge showed last Friday. This suggests President Trump's tariffs are not creating significant price increases for American households as many economists have been predicting.

The Commerce Department said core prices, a measure that excludes the volatile food and energy prices, rose 0.2% from the prior month. Compared with 12 months ago the core index is up 2.6%. The prices of durable goods, those items most likely to get hurt by tariffs, fell for the second straight month, declining 0.1%. Durables are consumer goods that can last for years, such as vehicles and appliances.[1]

Over the past seven months, or since the start of Trump's presidency, durable goods prices are up 0.4%. That amounts to an annualized rate of inflation of 0.6%. This fresh inflation data comes just a week after the Fed slashed interest rates by a quarter point to 4-4.25%, its first cut since December 2024. The Fed raised its benchmark interest rate 11 times in 2022 and 2023.

Real spending on durable goods after adjusting for inflation rose 0.9% after climbing 1.8% in July, an indication that consumers have not put off buying longer-lasting goods.[2] Despite high prices and President Trump's slew of tariffs, consumer spending rose at a strong and quicker than expected 0.6% pace. This can be very good news because about 70% of our economy is driven by consumer spending.

This past April Trump told reporters "It'll take a little while before we do that, but we're going to be cutting taxes, and it's possible we'll do a complete tax cut, because I think the tariffs will be enough to cut all of the income tax."

Trump's proposal draws inspiration from the 19th-century U.S. economy, which was primarily funded by tariffs before the establishment of the federal income tax in 1913. He has stated, "We were at our richest from 1870 to 1913. That's when we were a tariff country."

In the late 1800s, tariffs were not just a tool of economic policy—they were the primary source of federal revenue. Before the implementation of income tax, in 1913 the government relied heavily on import duties to fund its operations. This heavy dependency on tariffs influenced both economic and foreign policy.

President Wilson and other members of the Democratic Party had long seen high tariffs as equivalent to unfair taxes on consumers. Wilson's first priority upon taking office was to reduce or eliminate tariffs. Following the ratification of the Sixteenth Amendment in 1913, Democratic leaders agreed to seek passage of a major bill that would dramatically lower tariffs and implement an income tax. Rep. Underwood quickly shepherded the revenue bill through the House of Representatives. The bill won approval in the United States Senate only after an extensive lobbying campaign. This eventually led to the highest marginal tax rate in U.S. history of 94%, which applied to incomes over $200,000 during the years 1944 and 1945. When I came into the business in 1977 it was still at 70%.[3] Quite a difference from what it is today!

CASEY'S CORNER

Casey Morris, CFP®

Government Shutdown

As you may have heard in the news, the United States government has entered its first day of a of a shutdown, a scenario that could bring significant disruption to various aspects of the economy. With ongoing debates over government funding, the initial threat (and now reality) of a shutdown has raised important questions about its potential impact on your investments, financial planning, and day-to-day life. I want to break down the situation and provide clarity on what a government shutdown means for you and your finances.

A government shutdown occurs when Congress and the President fail to reach an agreement on funding the federal government. Without a budget or a continuing resolution to fund government operations, non-essential services are temporarily halted, and many federal employees are furloughed. Essential services, like military and law enforcement, continue, but many other programs can be suspended or delayed.

Government shutdowns are relatively rare. Over the past twenty years, there have been four major government shutdowns (this is our 15th, however, since the 1980's). History suggests that extended shutdowns are extremely rare. For instance, half of the government shutdowns over the past twenty years were resolved within three days. In 2018, the government shut down for 35 days over a US-Mexico border dispute during the first Trump presidency. The government also shut down for 16 days in 2013 over a congressional fight over Affordable Care Act (ACA) spending.

While government shutdowns don't last indefinitely, they can have effects on the economy. In the short term, a government shutdown could lead to increased market volatility. Investors often view a shutdown as a sign of political dysfunction, which may erode investor confidence. Stock markets could experience fluctuations, especially if the shutdown is prolonged or if it's seen as a symptom of larger economic or fiscal instability. Volatility doesn't necessarily have to be a bad thing, however. It can create both risks and opportunities at the same time.

Many economic reports, including key data on employment, GDP, and inflation, are often delayed during a shutdown because federal agencies responsible for compiling and releasing these numbers may not be functioning. This lack of data can create uncertainty in the markets, as investors rely on these reports to gauge the health of the economy. It could also make it harder to plan around certain economic indicators until normal operations resume. Stocks started off lower early Tuesday as uncertainty mounted after the Bureau of Labor Statistics, or BLS, said it wouldn't release Friday's jobs report if the government closes, leading to fear that the Fed won't be able to cut rates for lack of data. The market rebounded Tuesday, and as of this publishing on Wednesday October 1st most of the market indexes are up.

Programs such as Social Security, Medicare, and unemployment benefits are typically not affected by a shutdown, as they are mandatory spending programs. However, certain discretionary programs, including federal student loans, housing assistance, and other federal support, may experience delays or disruptions.

Did you know?

The largest U.S. banknote ever issued was a $100,000 bill! Printed in 1934, it featured a portrait of Woodrow Wilson, the 28th president of the United States. This note was never circulated among the public; it was used only for large transactions between banks and the Federal Reserve. Though it's technically still legal tender, it's considered more of a collector's item today. Imagine walking into a store and paying with a $100,000 bill—now that would turn some heads!

Check us out on social media!

Follow us on LinkedIn®: www.linkedin.com/company/capstonepacific

Facebook®: @capstonepacific or www.facebook.com/capstonepacific

Instagram®: @capstone_pacific or www.instagram.com/capstone_pacific/

It's easy to become consumed by the drama surrounding a government shutdown, but it's essential to zoom out and keep perspective. These shutdowns are often temporary, and the government has a vested interest in avoiding prolonged disruptions. While they can have an immediate impact on the markets and economy, their long-term effects are generally limited, especially if the shutdown doesn't extend for weeks or months.

Remember, economic cycles are full of ups and downs, and political disruptions—while frustrating—are just one piece of the puzzle. We've seen through past shutdowns that resilience, careful planning, and patience can go a long way in mitigating the risks posed by such events.

Our primary goal is to help you navigate all aspects of the economy, from the predictable to the uncertain. If you have questions about how the government shutdown might affect your specific financial situation, we're here to help.

FINALLY…

One more note on the government shutdown, as it has entered its first day early this morning, after Senators failed to pass a stopgap funding bill before the midnight deadline Tuesday night. The Republicans put forth a bill in the Senate that was already approved by the House of Representatives last night. It failed in a 55 to 45 vote in the Senate which was five shy of the 60 votes needed to pass. This morning, as one might expect, the accusations of wrongdoing are flying back and forth from all sides. This may get interesting. One thing we do know here at Capstone Pacific is that we are not going to find out for several days or weeks what is really happening until after all the dust settles. As always, we continue to monitor the situation and are prepared for however this may impact the markets and economy.

Sincerely,

The Team at Capstone Pacific

California | Colorado | Nebraska
1281 E Magnolia St, Unit D 1007
Fort Collins, CO 80524

626-915-7006
bpease@capstonepacificinc.com
cmorris@capstonepacificinc.com

P.S. If you ever run across anyone who could use our services or is unhappy with their current adviser, we always appreciate it when you pass on our name.

[1]https://apnews.com/article/federal-reserve-inflation-trump-tariffs-prices-consumer-0a10b8f245eb90115c84026d7061d2b0

[2] https://ycharts.com/indicators/us_durable_goods_orders

[3]https://taxfoundation.org/data/all/federal/historical-income-tax-rates-brackets/