

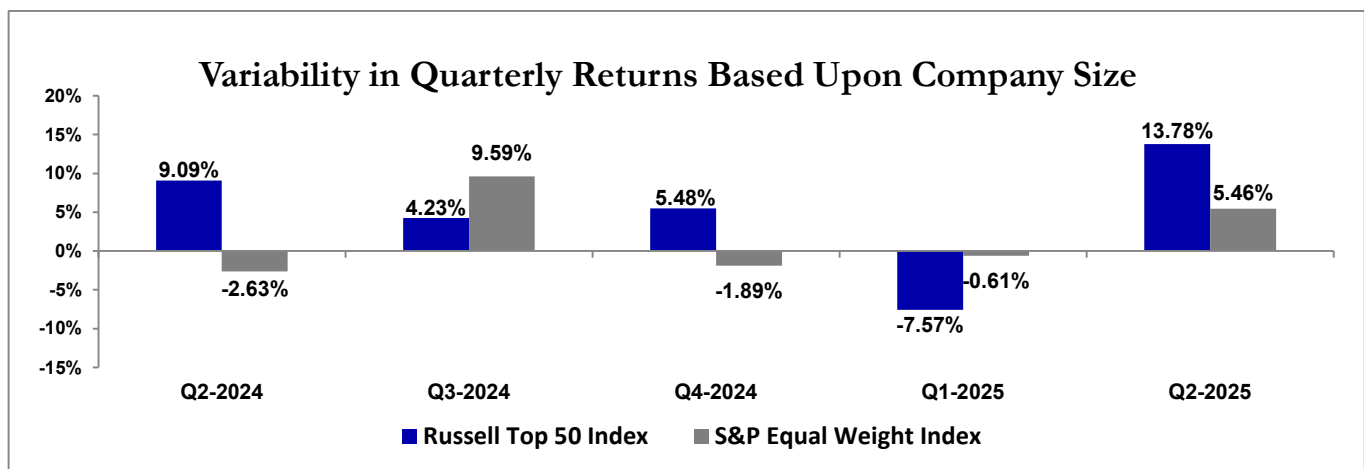
SECOND QUARTER FINANCIAL MARKET COMMENTARY  
“NINETY DAYS IN NINETY SECONDS”  
JUNE 30, 2025

### HISTORIC REBOUND

- ♦ In reaction to the “Liberation Day” tariff announcements, the S&P 500 began the second quarter with an 11% drop. After that six-day period of widespread economic fears and uncertainty, the market erased its losses and staged a surprising 24% rally. Over the past 100 years, the S&P 500 has only been able to turn a 10% drop into a gain within the same calendar quarter three times, and the second quarter of 2025 was the most exceptional of those rebounds.

### ROLLER COASTER

- ♦ Stock market leadership is often described as either broad or narrow. In broad market environments, most stocks rise or fall together. Over the past decade, markets have tended to be narrow with the major indexes driven higher by mega-cap technology companies while the average stock lags. A more choppy pattern seems to be emerging in which market breadth shifts frequently, thereby creating performance volatility for long-term investors.
- ♦ The graph below shows the diverse quarterly performance of the 50 largest stocks in the S&P 500 compared to the average stock. Strong performance in a given quarter by either group has recently been followed by a sharp reversal during the following quarter.



### DODGING BULLETS

- ♦ Market rallies are usually the result of a confluence of positive factors. The second quarter rally from April's Liberation Day meltdown was mostly about events that did not happen. Tariffs have yet to impact economic growth or inflation, tensions in the Middle East have cooled somewhat, Chinese tariff rhetoric deescalated, and China's Deep Seek artificial intelligence model has not upended U.S. A.I. dominance.
- ♦ While these factors were interpreted positively in the second quarter, they remain sources of uncertainty.

### RISKS THAT COULD CLOUD THE OUTLOOK

- ♦ The President's self-imposed deadline of July 9th for re-negotiating trade pacts is rapidly approaching. Trump has a history of extending deadlines and it remains to be seen how tariff negotiations will evolve with our major trading partners. Another element of uncertainty is the pending appeal of lawsuits challenging the president's use of the International Emergency Economic Powers Act (IEEPA) to authorize tariffs with executive orders.
- ♦ The job market remains solid but private nonfarm payroll growth has slowed over the past two years as the economy remains near full employment and tougher immigration enforcement has cut the foreign-born labor force by over 1.1 million workers since March.
- ♦ Investors in different asset classes sometimes have divergent views on future economic trends. Yields in the government bond market have recently been declining in expectation of slower growth and rate cuts by the Fed. In contrast, cyclical stocks are significantly outperforming companies with more defensive or non-cyclical business models. Stock investors are clearly bullish on future economic growth rates. These two viewpoints are not consistent and in our view, are likely to be resolved in favor of equity investors.

### THE FEDERAL RESERVE'S INTEREST RATES AND INFLATION

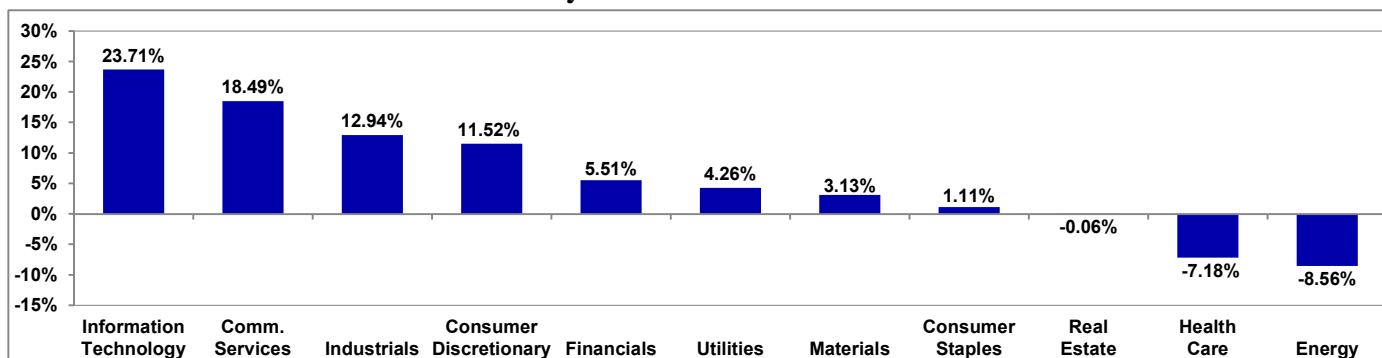
- ♦ These topics are even more interrelated than usual. Tariffs, the weak dollar, and immigration restrictions are expected to put upward pressure on inflation in the second half of the year. But it has not happened yet. The Fed has taken a patient approach to cutting interest rates and views the path of the economy as "highly uncertain." This has infuriated President Trump. His verbal attacks on Chairman Powell are unprecedented and create worries about the ability of the Fed to remain an independent institution and avoid the politicization of monetary policy.
- ♦ Secretary of the Treasury, Scott Bessent, recently stated that "there is nothing more transitory than tariffs." If that is correct, inflation worries could recede, thereby providing a catalyst for the Fed to begin cutting policy rates later this year and continuing into 2026. The other big macroeconomic variable is the federal debt. The forecast of a \$3 trillion increase in debt from the "big beautiful bill" will increase government borrowing and could raise interest rates in the bond market, especially in longer term securities.

### CONCLUSION

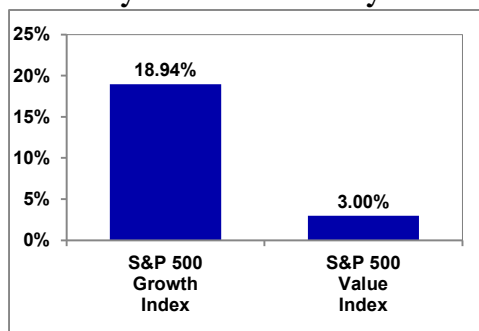
- ♦ Equity market valuations remain high. Geopolitical risks have increased. Yet corporate profits continue to rise. Based upon year-to-date earnings results, as well as full year estimates, corporate management teams appear to have navigated the global environment exceptionally well.
- ♦ Volatility is likely to return to the markets when it is least expected. However, ownership of good companies in a diversified portfolio should continue to provide strong returns.

## Second Quarter Investment Performance (including income)

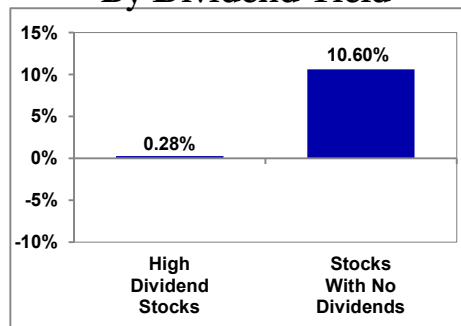
### By Economic Sector



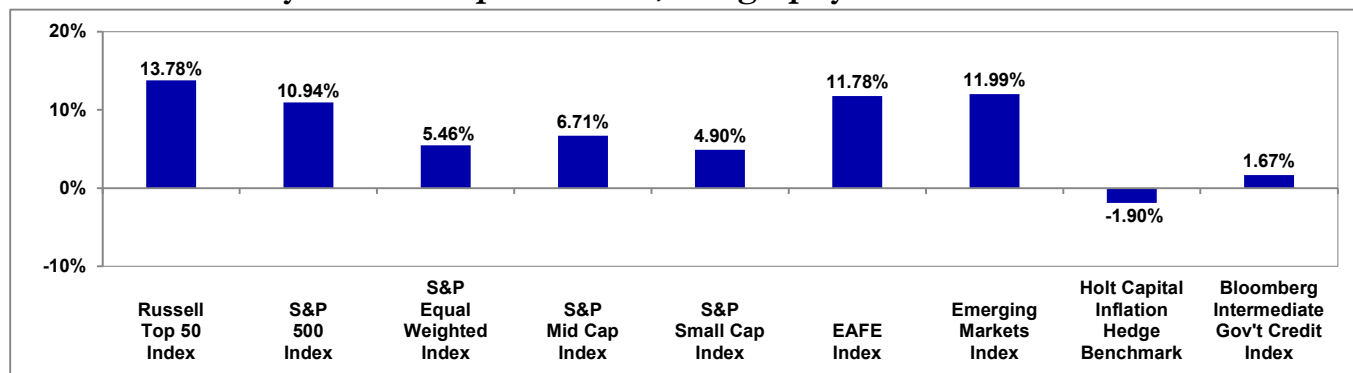
### By Investment Style



### By Dividend Yield



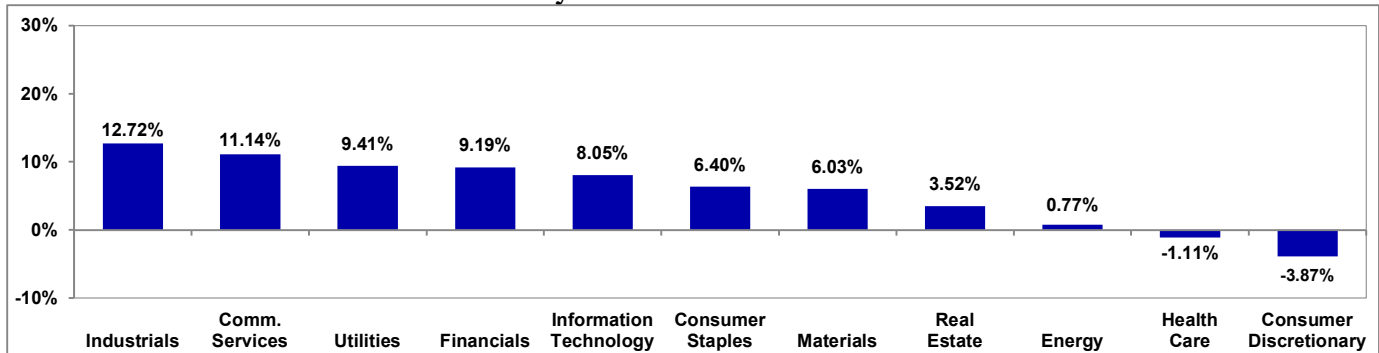
### By Market Capitalization, Geography and Asset Class



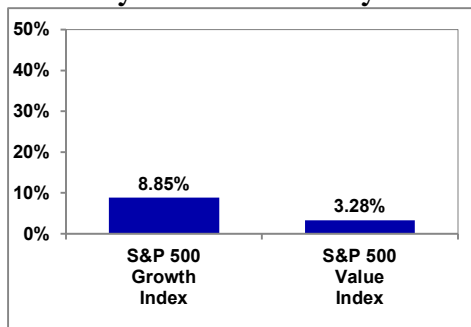
- ♦ Growth factors dominated stock market performance during the second quarter. This was not just a domestic phenomenon, as value strategies lagged growth strategies on a global basis.
- ♦ This was a so-called "risk on" period with many high quality or defensive sectors, such as health care and consumer staples underperforming their more volatile growth counterparts. Indicative of this trend, the Goldman Sachs index of unprofitable tech stocks rallied 27% and the highly valued Magnificent 7 produced an average return of 21%.

## Year-to-Date Investment Performance (including income)

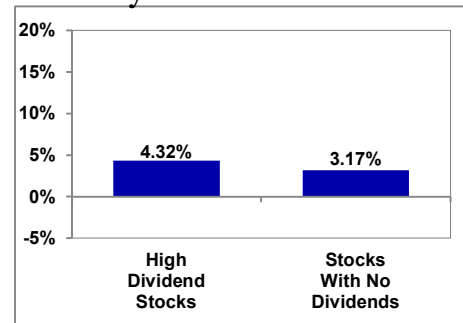
### By Economic Sector



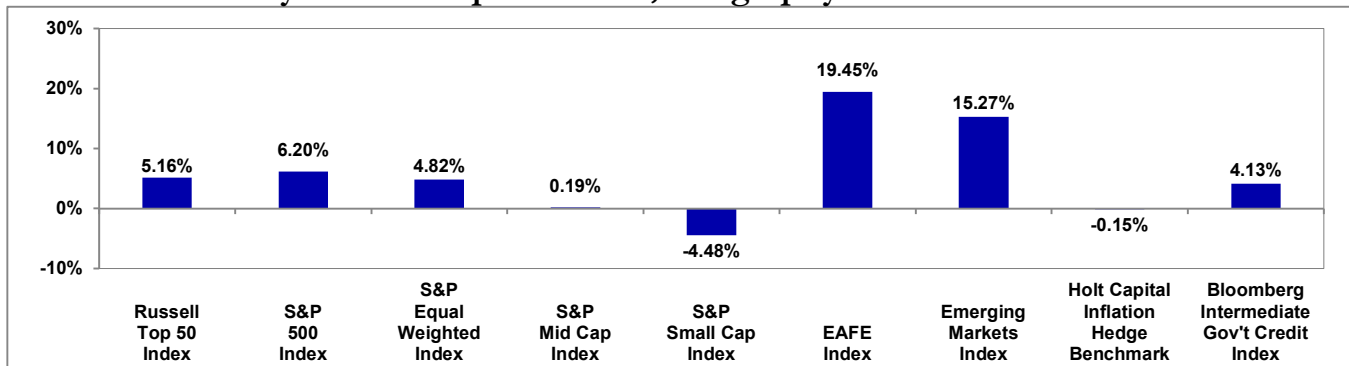
### By Investment Style



### By Dividend Yield



### By Market Capitalization, Geography and Asset Class



- While the major indexes ended the quarter at record highs, that strength is somewhat misleading. Within the S&P 500, a surprising 55% of the constituents are still 15% or more below their all-time highs.
- The technology sector is by far the largest weight in the S&P 500, but health care and consumer discretionary are in the top 4. Health care returns were hurt by turmoil at the FDA and pricing pressures. UnitedHealth, Merck, Bristol Myers, and Pfizer were notable decliners. Likewise, mortgage rates negatively impacted home building stocks, as well as Home Depot and Lowe's. In addition to these trends, weakness in Tesla also weighted on consumer discretionary returns.
- International equities benefited from lower valuations and accommodative monetary policies in a number of countries. The returns presented above are in dollar terms and the translation effects of the weak dollar were responsible for a large part of the strong performance.