

## **Quarterly Client Letter**

### **July 7, 2025**

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Please find enclosed your Quarterly Report and Billing Statement for the period ending June 30, 2025.

The second quarter of 2025 saw a significant rebound in the stock market, with major indices closing at or near all-time highs. Following a steep decline in early April, US stocks rose dramatically. International stocks also showed continued strength, outperforming US markets for the quarter and year-to-date. The bullish sentiment in stocks was fueled by easing concerns about tariffs and generally positive economic data and corporate earnings reports.

Bond returns were positive but slowed compared to the previous quarter. Investor concerns about the fiscal deficit and the potential for inflation due to tariffs led to bond yield volatility during the quarter, though rates have come into a narrower range recently.

The Global Markets Summary shows additional detail on how various markets have performed.

Global Markets Summary June 30, 2025						
Index	2Q	YTD	1 Year	3 Years	5 Years	10 Years
US Large Cap Stocks <i>S&amp;P500</i>	10.9%	6.2%	15.2%	19.7%	16.6%	13.6%
US Small Cap Stocks <i>Russell 2000</i>	8.5%	-1.8%	7.7%	10.0%	10.0%	7.1%
Foreign Developed Stocks <i>MSCI EAFE</i>	11.8%	19.5%	17.7%	16.0%	11.2%	6.5%
Emerging Market Stocks <i>MSCI Emerging Markets</i>	12.0%	15.3%	15.3%	9.7%	6.8%	4.8%
Investment Grade Bonds <i>Bloomberg US Aggregate</i>	1.2%	4.0%	6.1%	2.6%	-0.7%	1.8%
High Yield Bonds <i>BofA Merrill Lynch US High Yield, Master II</i>	3.6%	4.6%	10.2%	9.9%	6.0%	5.3%
Municipal Bonds <i>Bloomberg Muni Bond: 5 Year</i>	1.4%	2.3%	4.3%	2.7%	0.9%	1.8%
Commodities <i>Bloomberg Commodity</i>	-3.1%	5.5%	5.8%	0.1%	12.7%	2.0%
Cash <i>FTSE 3 Month T-Bill</i>	1.1%	2.2%	4.9%	4.8%	2.9%	2.0%

## What's happening in the economy and markets?

Markets will contend with a range of uncertainties into Q3 as trade tensions, geopolitical conflict and economic crosscurrents converge. The July 9 expiration of the reciprocal tariff postponement looms large, with few trade deals secured and expanded tariffs now targeting consumer goods. While tariffs could be further postponed past July 9th, uncertainty persists. The Federal Reserve faces a delicate balancing act given persistence in calls for lower rates and inflation risk. Currently, the general expectation is for one or two 25bp rate cuts by year end 2025, with some expectation of the same in 2026.

Corporate earnings growth is in the process of slowing, though not to the point of recession. With the recent rally in stocks and resulting higher valuations, it's reasonable to reduce expectations for gains moving forward. This is true especially in the US, highlighting the need for diversification across asset classes and geographies.

The “One Big Beautiful Bill Act” was signed into law on July 4<sup>th</sup>. Primarily, it makes permanent the tax cuts under the Tax Cuts and Jobs Act, which were set to expire at the end of this year. There are economic pluses and minuses with this bill, with varying implications for the stock and bond markets. It is viewed as pro-growth and stimulative for the economy, which could benefit stocks. However, projected increases in the federal budget deficit and debt will keep upward pressure on Treasury bond yields as it will likely take more return to entice future bondholders. While there is hope that more economic stimulus will lead to higher tax revenue, I think we have all come to realize our government on both sides of the aisle find it difficult to balance a budget. As always, I will be reviewing how this tax legislation impacts each client specifically and reaching out as necessary.

Again, with tariffs, tax bills, geopolitical tensions and a host of other issues on the table at any given time, it’s important not to focus one’s attention too much on any of it. And the best expression of that in an investment portfolio is broad diversification.

### **What’s happening in portfolios?**

Portfolios were up nicely for the quarter, mostly in line with expectations. Small changes have been made throughout the quarter to reduce some sector over-weights and move toward a more neutral position within stocks. In fixed income, securitized credit and mortgage-backed securities remain overweight, while treasury bonds and corporate bonds are underweight.

As always, your business is appreciated. Please let me know if you have any questions about your report or other matters. I hope you enjoy the remaining days of summer.

Best Regards,



Mark G. Smith, CPA, CFP®, ChFC®  
President

Enclosures