

## Quarterly Market Commentary – Q2 2025

The second quarter of 2025 was marked by heightened geopolitical and policy-driven volatility, headlined by President Trump’s “Liberation Day” tariff announcement to kick off the quarter on April 2, 2025. The impending shock left markets rattled leading to an over 10% decline in the S&P 500 in the span of just four trading days. Investors worried about higher costs for businesses and the resulting impact on economic growth. However, markets rebounded almost as sharply after the administration’s 90-day pause on reciprocal tariffs and trade talks began in earnest. This rapid reversal left many market prognosticators and business leaders struggling to keep pace and hesitant to make forward-looking decisions. As the quarter progressed, the initial fear that gripped markets gradually loosened as investors began shifting their gaze towards the “One Big Beautiful Bill” and its potential to boost the economy.

The “One Big Beautiful Bill” which moved through the House in the back half of the quarter and was signed into Law on July 4, 2025 carries significant implications for both the economy and financial markets. We anticipate beneficiaries of the act will reside in the traditional energy, defense, industrials, and financials sectors as these stand to benefit from provisions primarily tied to deregulation and tax reform. Large-cap corporations and high-net-worth individuals will also benefit through favorable adjustments to corporate and estate tax structures. Conversely, renewable energy, healthcare providers dependent on Medicaid, and certain consumer sectors are likely to face headwinds. Cuts to clean energy incentives and healthcare funding, combined with potential reductions in consumer discretionary spending due to benefit cuts, could create pressure in these areas of the economy.

### Portfolio Positioning

Given the broader shift away from globalization and toward more protectionist policies sparked by “Liberation Day”, we have taken the stance that companies with revenues tied more closely to their domestic market will see greater near to medium-term success than those that have diversified revenue streams across many countries and geographies. As such, we’ve increased exposure to international equities, particularly those that have a sizeable chunk of their revenues derived from their domestic market. Additionally, we’ve reduced exposure to healthcare considering cuts to Medicaid, and have increased exposure to financials and industrials, which should see tailwinds associated with deregulation and potential reshoring of manufacturing stemming from stiffer tariff policies.

We continue to hold meaningful exposure to AI-focused companies across technology, infrastructure, and energy applications, as we view these as multi-year growth opportunities driven by structural demand. Within energy specifically, we maintain a preference for infrastructure over extraction and processing, as we believe midstream and transmission-focused businesses provide more stable cash flows in the current policy environment. Fixed income duration remains on the shorter end of the yield curve, as we want to remain flexible for potential policy shifts as the Federal Reserve tries to navigate choppy waters.

### Outlook

Despite the whipsawed volatility markets experienced to start the quarter, the S&P 500 posted a positive return in the second quarter as market participants looked past tariff concerns and found renewed excitement in artificial intelligence trends and potential economic tailwinds created from the passing of the “One Big Beautiful Bill.” However, we do not share this same exuberance as the broader impact of even a 10% baseline tariff on trading partners and the continued uncertainty influencing business leaders’ decisions has likely not yet been felt in the economy.

Considering this, we are closely monitoring key economic indicators and several long-term investment themes. Signs of a cooling labor market and softer consumer spending, in our view, suggest a trajectory that could weigh

on growth expectations and influence future monetary policy decisions and remain pragmatic as geopolitical tensions could further ignite and accelerate protectionist measures. We also expect energy markets to remain volatile due to persistent instability in the Middle East, reinforcing the need for careful sector exposure and individual security selection. Finally, while AI remains a key area of opportunity, we are mindful of emerging signs of overvaluation in certain segments of the market and remain patient, preferring not to chase momentum-driven rallies where fundamentals are becoming stretched.

Periods like this serve as a strong reminder of the value of staying disciplined, diversified, and focused on long-term objectives. While the headlines may change rapidly, our process remains anchored in risk management and thoughtful positioning to help you navigate uncertainty with confidence. As always, please don't hesitate to reach out if you have any questions or concerns.

Sincerely,



**Chris Knupfer**  
Portfolio Manager