

MARKET UPDATE

Q2 2025

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THE LAYTON TEAM

Throughout Q2, global trade tensions caused by reciprocal tariffs and increasing unrest in the Middle East impacted the markets daily. A new wave of tariffs, particularly against China, created market concern and triggered a downturn in April. This was followed by a 90-day de-escalation period announced in May, which temporarily paused some of the heightened tariffs and led to a sharp market rally. This uncertainty and ongoing trade negotiations and the potential for new tariffs remained a key source of volatility throughout the quarter. After a tumultuous start to the quarter, the market showed remarkable resilience ending higher in June.

U.S. stocks rebounded in Q2. The S&P 500 began Q1 with a negative quarter lasting through April. However it rebounded posting gains in May and June. The NASDAQ showed strength in the second quarter driven by growth in AI shares and digital stocks. The Dow also closed the second quarter higher. Energy, health care and real estate were the only market sectors to lose ground. The bond market continued to underperform expectations due to heightened volatility and a complex interplay of economic and geopolitical factors.

While inflation did not escalate to the level experts projected due to increased tariffs, the Consumer Price Index (CPI) and the personal consumption expenditures (PCE) price index gradually decreased, easing earlier inflation fears. Despite the moderation, inflation remained slightly above the Federal Reserve's 2.0% target. The Fed maintained a cautious stance on interest rates, keeping them unchanged. Early returns on corporate earnings have been mostly favorable. Job growth, while steady, declined in Q2 but exceeded reduced expectations in all three months. The unemployment rate declined to 4.1% in the second quarter. Both new claims for unemployment benefits and continuing claims rose during the second quarter.

The U.S. economy, as measured by gross domestic product, contracted by 0.5% in the first quarter, partly due to a surge in imports as businesses increased costs for products and services anticipating tariff increases. While the rebound was expected for Q2, the overall growth trajectory of the economy for the remainder of 2025 is anticipated to be slower than in previous years. The U.S. real estate market continued an upward trend in home prices, gradually improving inventory with persistently elevated mortgage rates. The average 30-year fixed-rate mortgage as of June 18th was 6.81%, according to Freddie Mac.

Crude oil prices fluctuated in Q2, influenced by supply increases, softening demand forecasts and lingering geopolitical tensions. While initial oversupply concerns and weak demand forecasts led to a dip, the latter part of the quarter saw prices rebound. The retail price for regular gasoline was \$3.213 per gallon on June 23.

Market/Index	Close 2024	As of June 30	Monthly Change	Quarterly Change	YTD Change
DJIA	42,544.22	44,094.77	4.32%	4.98%	3.64%
Nasdaq	19,310.79	20,369.73	6.57%	17.75%	5.48%
S&P 500	5,881.63	6,204.95	4.96%	10.57%	5.50%
Russell 2000	2,230.16	2,175.04	5.26%	8.16%	-2.47%
Global Dow	4,863.01	5,519.07	3.62%	8.09%	13.49%
Fed. Funds	4.25%-4.50%	4.25%-4.50%	0 bps	0 bps	0 bps
10-year Treasuries	4.57%	4.23%	-17 bps	-1 bps	-34 bps

In This Update

- Market Update
- The Psychology of an Inheritance Windfall
- Budget Tips for Planning Your Travel
- Eye on the Quarter Ahead
- Layton Team News and Events

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Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.



THE PSYCHOLOGY OF AN INHERITANCE WINDFALL

An inheritance windfall can bring a complex mix of emotions, psychological challenges, financial and legal decisions. While a sudden financial gain might seem great, the reality often involves navigating grief, guilt and new responsibilities. Understanding the psychological impact of an inheritance can help estate owners and beneficiaries make sound financial and emotional decisions.

THE EMOTIONAL ROLLERCOASTER OF INHERITANCE

When someone receives an inheritance grief often impacts their initial reaction. Some heirs might experience guilt or a sense of obligation, believing they must use the inheritance in a way that would honor the deceased.

Others may feel excitement or relief especially if their loved ones have struggled with physical or financial issues. However, sudden wealth can disrupt a person's financial mindset and long-term goals.

THE PSYCHOLOGICAL PITFALLS OF SUDDEN WEALTH

Receiving an inheritance, can trigger behaviors similar to those seen in lottery winners. Common psychological pitfalls of sudden wealth may include:

Sudden Lifestyle Inflation — Many people upgrade their lifestyle quickly, often making expensive purchases without considering the long-term impact on their finances.

Guilt-Induced Generosity — Some heirs feel compelled to share their inheritance with family members or donate excessively to charity, sometimes depleting their funds faster than anticipated.

Fear and Decision Paralysis — Some individuals become overwhelmed by the responsibility of managing a large sum of money and delay making important financial decisions which leads to missed opportunities or poor decisioning.

Family Conflicts — Inheritances can lead to disputes among relatives, sometimes creating emotional stress and divisions.

Risky Investments — Some recipients may invest impulsively in get-rich-quick schemes or volatile assets without financial literacy, leading to losses.

STRATEGIES FOR MANAGING AN INHERITANCE WISELY

Recipients should take time to evaluate their emotional state and how to invest the money for long-term gains.

1. **Allow Time for Emotional Processing:** An inheritance comes with emotional weight. Take time to grieve and reflect before making major financial decisions to prevent rash and emotionally driven choices.
2. **Seek Advice from Your Wealth Management Advisor:** We can help you as the estate holder, and/or your beneficiaries understand complex tax and legal implications, investment options and wealth preservation strategies to manage your inheritance wisely.
3. **Establish Clear Financial Goals:** Define short- and long-term financial goals such as paying off debt, investing for the future or funding education. Goals prevent impulsive spending and ensures the money serves a purpose.
4. **Create a Budget and Investment Strategy:** Beneficiaries should treat their inheritance as part of a structured financial plan to budget and diversify investments and sustain wealth over time.
5. **Address Emotional Attachments:** Understand that an inheritance is a gift intended to support your future. It can help you relieve financial concerns if it is used wisely, rather than held onto indefinitely out of sentimentality.

Whether you receive an inheritance or are concerned about your heirs upon your death, we can help you navigate all of the emotional, financial and legal issues associated with your wealth management plan.

BUDGET TIPS FOR PLANNING YOUR TRAVEL

With travel at an all-time post-pandemic high, here are five tips to help you plan your next vacation without breaking the bank.

1. **Travel in the Off-Season:** At certain times of the year, you can get major deals on some vacation destinations as nearly all of them have an “off-season.” For instance, in wintertime, everyone wants to escape the cold and hit the beach, but if you are willing to travel somewhere cold like Alaska, it should be cheaper. Consider the weather, open attractions and the cost savings.
2. **Skip the Hotel:** All-inclusive resorts can be great, but for some trips, it may not be worth it. Consider other lodging options through Airbnb, Vrbo and other search sites. They offer a wide variety of rooms, homes and villas. This can be very cost-effective, especially when sharing costs with other people.
3. **Make Your Own Meals:** If you're staying in a rental house, you may have a full kitchen which allows you to cook for yourself and save money. You may also have groceries delivered to you or be near local food markets and vendors. Cooking for yourself is usually more cost-effective than eating out.

4. **Shop Around for Flights:** Use flight comparison sites that summarize offerings from all the major and discount airlines to compare flight times, legs of the trip and costs. Compare quotes and know that Tuesday is generally the best day to book your tickets. You may get better deals if you wait until it is close to your trip, although you may risk a full flight. Most travel experts recommend booking 25-150 days ahead of your trip to get the best deals.
5. **Set Up Alerts for the Best Travel Deals:** When searching flights, hotels and other packages, most travel sites allow you to set up “travel alerts.” Simply enter the flight you want and add in your travel dates. Then, ask to be “alerted” when the price drops. Airfarewatchdog, Google Flights, Orbitz, Travelocity and other travel search engines make it easy to get the best deal.

If you want to treat yourself to a vacation this year, you can make it happen without blowing your budget. All you need is patience, flexibility and an open mind.



EYE ON THE QUARTER AHEAD

July is an important month for economic news, despite the fact that it is also a popular vacation month. The employment report for June is out at the beginning of the month. The number of new jobs has been waning over the past several months. The Federal Open Market Committee meets at the end of the month when interest rates may be adjusted lower.



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LAYTON TEAM NEWS AND EVENTS

The Layton Team welcomes Spencer Castillo, our new Client Service Manager.



After graduating from St. Olaf College with a degree in Chemistry and working as a Physical Therapist for five years, Spencer discovered a passion for helping people achieve their goals—an enthusiasm he now channels into supporting clients in their financial planning journeys.

Spencer's experience in patient care taught him the value of clear communication, trust, and personalized strategies. Inspired by his father, Josue' Castillo, also a Financial Advisor on our team, Spencer is excited to follow in his footsteps and continue a legacy of thoughtful, client-focused service.

Outside of the office, Spencer is an avid runner and overall endurance athlete. He enjoys being outdoors with his wife and two kids and they enjoy visiting Duluth in the summertime.



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