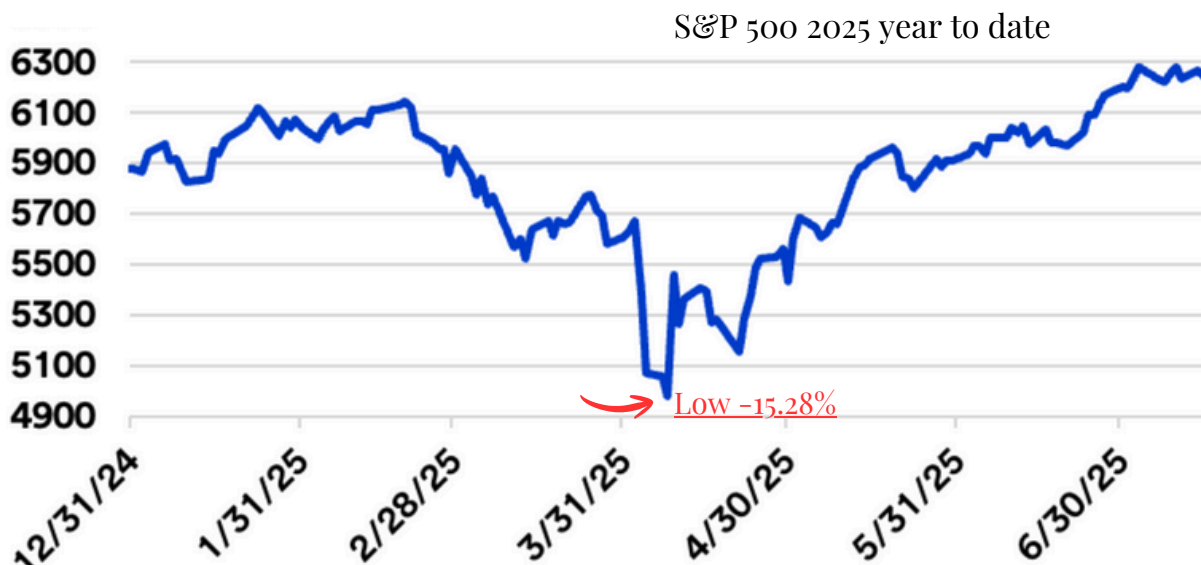


The Capital Markets

The stock market in 2025 has been anything but steady. What started as a promising surge quickly turned into a reality check for investors. After racing ahead in January, markets reversed course, tumbling nearly 19% from their mid-February highs to a low point on April 8—just a hair away from officially entering bear market territory. This dramatic shift serves as a reminder: in today's economic environment, momentum can be fleeting, and volatility remains very much in play.



Source: U.S. Bank Asset Management Group Research, Bloomberg. As of July 15, 2025.

- Health check. The equal-weight S&P 500—our proxy for the “average” stock—is still about 4 % below its record, a reminder that the megacaps are doing the heavy lifting.
- Small-caps lag. The small cap Russell 2000 ended June roughly 11 % under its November 2021 peak and is negative in 2025, even after a respectable second-quarter bounce.

Newsletter Highlights:

Reality Check for investors in the 2nd quarter.

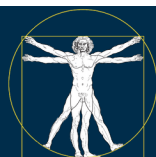
Tariffs without clear strategy risk higher costs, economic drag, and growing uncertainty in global trade relations.

Jerome Powell and the trade policy takes the spotlight

Market performance highlights & sector performance

Trump's tariffs remains uncertain and raises more questions than answers

2025 mid-year outlook: Cautious optimism about long-term consequences.



Trade Policy Take the Spotlight

Earlier this year, our team identified trade and tax policy as two of the most significant risks facing capital markets. Recent developments have brought sharper focus to the trade front. The Trump administration’s announcement of new “retaliatory tariffs” has added clarity—if not calm—to the situation. These tariffs, which function as taxes on imported goods, are designed to shield U.S. industries by making foreign products more expensive and less competitive in the domestic market.

As a result, both consumers and businesses may see higher prices on imported goods—a shift that can, though not always, spark inflationary pressures, especially in industries that rely heavily on foreign materials and components.

In the larger picture of the U.S. trade balance—the difference between exports and imports and a key indicator of economic health, often measured as a share of nominal GDP—tariffs play a strategic role. The administration's goal is to shrink the trade deficit by discouraging imports and encouraging domestic production. While this may benefit certain sectors and preserve jobs, it also carries the risk of driving up prices and curbing consumer spending, which could ultimately slow economic growth.

Adding to the uncertainty is the lack of transparency around how tariff levels were set. Media reports suggest the administration based the rates on each country’s share of the U.S. trade deficit, rather than a standardized economic formula—raising questions about both rationale and effectiveness.

Looking ahead, the path forward remains uncertain—and potentially problematic. While tariffs can be a useful tool in addressing legitimate trade imbalances, their effectiveness depends heavily on clear objectives, consistent strategy, and data-driven execution. The current approach, marked by a lack of transparency and a seemingly arbitrary methodology, raises more questions than answers. Without a coherent framework or clearly defined goals, such measures risk doing more harm than good—driving up costs, straining global trade relationships, and dampening economic momentum. As markets digest these developments, a cautious and measured outlook remains warranted.

Trump Tariffs So Far					
Effective Date*	Target Countries	Goods Targeted	Tariff Rate	Bloomberg Economics Forecast	Retaliation?
2/4/2025	China	All	10%	Hike nearly as large as Trade War I, impact manageable	Restrained
3/4/2025	China	All	Another 10%	Overall, 20% tariff hike is close to twice Trade War I, risks 65% drop in China exports to US	Restrained
3/4/2025	Canada, Mexico	USMCA noncompliant goods from March 7 (all goods from March 4–6)	25%; 10% for Canadian energy; and potash 10% from March 7 versus 25% before	38% of Canadian goods and 49% of Mexico's were USMCA compliant in 2024. More could comply under the new rules. Points to a hit to US GDP of 0.5% or less, will help limit shocks to Canada and Mexico as well as disruptions to autos.	Canada
3/12/2025	Major exporters	Steel, aluminum, some derived consumer products	25%	Marginal impact on US and EU. Canada exposed	EU, Canada
4/2/2025	European Union	All	25%	Risks 70% cut in EU exports to the US – hitting 1.5% of EU GDP	Threatened
4/2/2025	Major exporters	Cars, chips, pharma	25%	Awaiting details	Undetermined
4/2/2025	All	Undetermined	Unspecified reciprocals vs VAT, other barriers	Matching VAT and non-tariff measures would be a major shock	Undetermined
4/2/2025	All	Food imports	Unspecified on agricultural goods	Awaiting details	Undetermined
11/26/2025	All	Timber and lumber	Unspecified on timber imports	Awaiting details	Undetermined
11/22/2025	Major exporters	Copper	Unspecified	Marginal impact on US, Chile, Canada most exposed	Undetermined
12/31/2025	EU, UK, Canada	Undetermined	Unspecified vs digital taxes	Awaiting details	Undetermined

Source: Bloomberg
Note: Data as of March 12, 2025. Future dates subject to change; for tariffs targeting digital taxes, date hasn't yet been set yet.

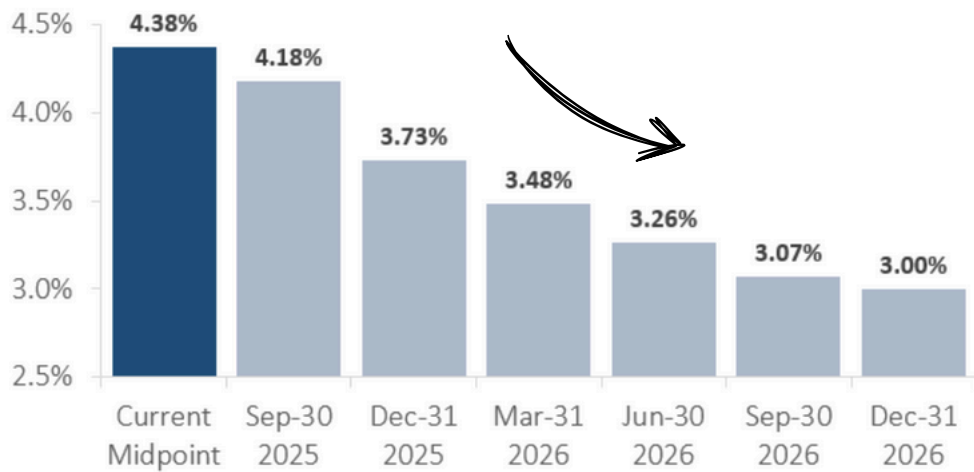
Bloomberg

Source: Bloomberg

Federal Reserve Urges Patience Due to Uncertainty

Tariffs and trade policy uncertainty are also affecting the Federal Reserve’s decisions. The Fed faces a tough choice: tariffs might push inflation higher, but they could also slow down the economy by reducing demand. Because of this uncertainty, the Fed kept interest rates steady in May and June, saying it wants more information before cutting rates.

The market seems to agree with this cautious approach. Referencing the chart on the right, current futures prices show that the market expects interest rates to start falling gradually around September. Starting from the current range of 4.25%–4.50%, rate cuts are predicted to speed up in the last part of the year and continue through 2026. By December 2026, the market expects the Fed to have lowered rates by about 1.25% over the next 18 months.



Source: Milestone

Given the current economic landscape, we believe the Federal Reserve's measured approach reflects the complex balancing act they face in navigating both inflationary pressures and economic growth concerns. While market expectations point toward gradual rate reductions beginning this fall, we must remain mindful that these projections are built on today's information and assumptions.

The interplay between trade policy developments and monetary policy decisions creates an environment where flexibility in our planning approach becomes particularly valuable. Rather than positioning your portfolio based solely on current rate expectations, we recommend maintaining a diversified strategy that can adapt to various scenarios – whether rates decline as anticipated, remain elevated longer than expected, or move in unexpected directions due to evolving trade dynamics.

As we move forward, we'll continue to closely monitor Federal Reserve communications, inflation data, and trade policy developments to ensure your financial plan remains aligned with the changing economic environment. Our focus will be on identifying opportunities while managing risks, recognizing that in times of uncertainty, a well-structured, adaptable approach often serves our clients better than attempting to time specific market movements based on current projections alone.

Market Performance Highlights

Equity Markets Surge Despite Early Volatility

The S&P 500 closed Q2 with gains exceeding 11%, while the technology-heavy Nasdaq posted an impressive 18% quarterly return. Even the more conservative Dow Jones Industrial Average managed a solid 4.6% gain for the quarter. This performance represented a remarkable turnaround from the market-wide selloff that occurred in early April following the Trump administration's announcement of new tariff policies.

Growth Stocks Reclaim Leadership

Growth-oriented investments decisively outperformed value strategies during the quarter. The Morningstar US Growth Index returned 19.43%, significantly outpacing the Morningstar US Value Index's modest 1.33% return. This shift marked a reversal from the first quarter, when value stocks had briefly taken the spotlight.

Technology and AI Drive Recovery

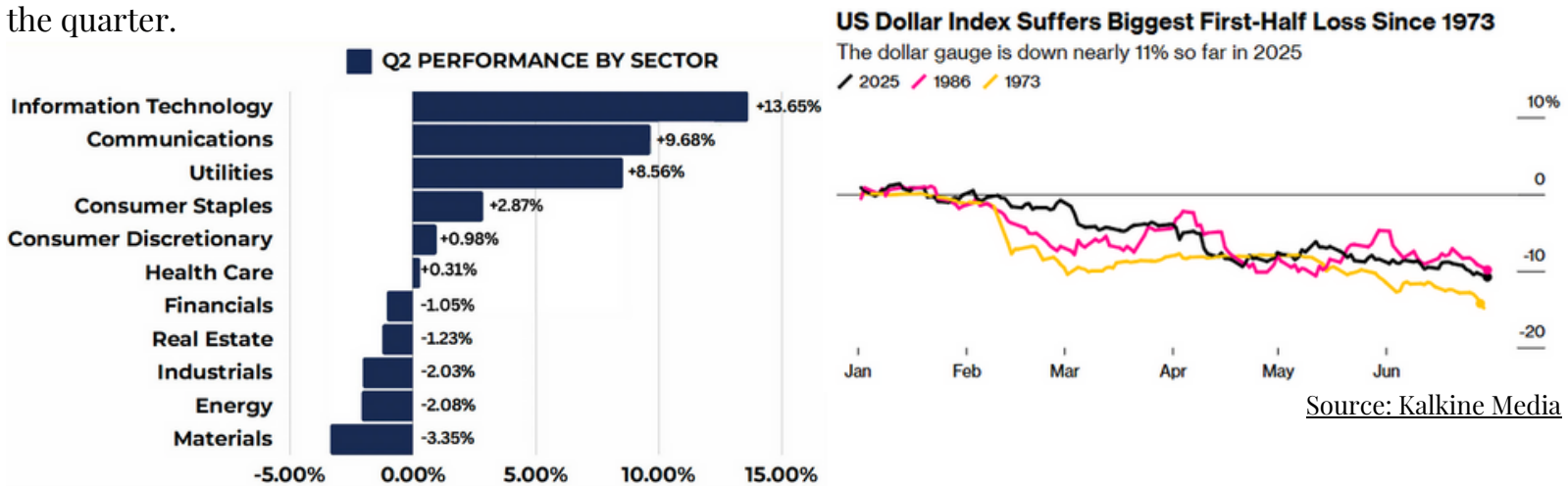
The quarter's strong performance was largely driven by technology and artificial intelligence stocks, despite initial concerns about AI spending efficiency. Early in the year, tech stocks tumbled after DeepSeek, an AI chatbot from a Chinese startup, raised questions about U.S. companies' AI infrastructure investments. However, strong corporate earnings and renewed optimism about AI's long-term potential fueled a speculative rally that carried the sector through the quarter.

Mixed Earnings Results

Corporate earnings results painted a mixed picture of economic activity. The energy sector declined approximately 19% year-over-year, while materials fell roughly 12%. These declines in traditionally cyclical sectors reflected broader economic activity concerns. However, technology and communications companies, particularly those with AI exposure, showed strong performance that helped offset weakness in other areas.

Bonds Post Modest Gains Despite Fiscal Concerns

The bond market delivered positive returns for the quarter, with the US Core Bond Index gaining 1.17%. This performance came despite investor concerns over the fiscal deficit that sent yields soaring in May. Fixed income portfolios tilted toward riskier fare outperformed more conservative bond strategies during the quarter.



Source: Spartan Capital

2025 Mid-Year Outlook: Staying Disciplined and Focusing on What You Can Control

The first half of 2025 delivered surprises few could have predicted at year-end. Market enthusiasm quickly gave way to policy-driven turbulence, creating a pattern that may well continue through the remainder of the year. Yet despite this uncertainty, financial markets have demonstrated remarkable resilience. The S&P 500's Q2 performance marked its strongest quarterly showing since late 2023, completely erasing first-quarter losses and reinforcing the market's adaptive capacity.

This recovery suggests investors believe tariff impacts will prove manageable and temporary. The reality, however, is more nuanced. Our complex economy faces multiple potential outcomes from ongoing trade policy shifts. We might see brief disruptions as businesses adapt to new conditions, or we could witness cumulative effects that begin weighing on growth, employment, and inflation in the latter half of the year. Current market pricing appears to reflect a middle path: expecting some growth moderation while maintaining cautious optimism about long-term consequences.

The coming months will be particularly telling. Second-quarter GDP data, due in late July, will provide our first clear picture of how trade policy changes have affected economic activity. Corporate earnings calls will offer valuable insights into business conditions, while companies' forward guidance will help us understand management's outlook. Monthly economic indicators will continue tracking consumer spending patterns, manufacturing activity, and labor market conditions as trade policies evolve.

Market volatility, while uncomfortable, represents a normal part of the investment journey. Periods of exuberance naturally lead to recalibration, and feeling uncertain during these times is entirely human. However, investment history consistently demonstrates that maintaining positions through volatility while keeping a long-term perspective proves most beneficial. A diversified portfolio aligned with your personal financial objectives provides the foundation for weathering market fluctuations.

As we navigate the second half of 2025, our guiding principle remains straightforward: concentrate on what lies within your control. We cannot predict the ultimate economic impact of current trade policies, nor can we anticipate whether policy directions might shift again. What we do know is that economies and markets historically adapt to changing conditions. Rather than reacting to daily headlines or short-term market movements, success comes from adhering to your financial plan, maintaining portfolio diversification, and making decisions consistent with your long-term objectives.

We appreciate the confidence you continue to place in our relationship. As we move forward, we'll work together to navigate today's evolving economic environment, building upon our established foundation while maintaining the adaptability needed to respond effectively to changing market conditions.

Please don't hesitate to contact me if you have any questions or concerns about your portfolio or the current market environment.



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