

A Tale of Two Quarters

What a difference a quarter makes! Harkening back to late 1Q and early 2Q, we witnessed the financial markets roiling in anxiety over the uncertainty of the US imposing steep trade tariffs across some 200 countries around the globe, in an effort to level the playing field in international trade. Something that had never been done or even attempted in the history of US trade relations. This policy gave immediate rise to renewed expectations for rising inflation and material concern that US economic growth would stall, if not collapse. Meanwhile, it was thought that DOGE's focus on cutting wasteful government spending was also likely to contribute to the prospect of a nasty recession. And while all of this was happening, geopolitical risk was reaching a new apex in the Middle East. Understandably this backdrop served to trigger frighteningly high daily volatility and unnerving financial market performance across all asset classes. At its worst by April 8th US stocks, both the S&P 500 and the tech heavy Nasdaq composite, rapidly breached correction territory posting (15.3%) and (20.9%), respectively. Meanwhile over the same period, the US dollar quickly weakened and treasury yields spiked, as foreign investors began selling off these assets. Following this, bond markets began rattling with prices retrenching in a potential inflationary spiral.

Fast forward a mere sixty days to the mid-year close and what we witnessed was an absolutely exceptional reversal, as financial markets began retracing their losses to approach or achieve full recovery.

This rapid turnaround was initially fueled by deliberate (off again, on again) suspensions of US tariffs designed to prod our global trading partners into serious trade negotiations. Shortly thereafter, a handful of small but encouraging trade deal breakthroughs emerged, followed by what are now acknowledged to be a recent string of significant negotiations with major countries around the globe including Indonesia, the Philippines, and the UK. Japan and, most recently, the European Union are likely to be among the largest trade deals yet. To sweeten these deals, the agreed upon tariffs will, in many cases, be accompanied by commitments to make material investments in America. Meanwhile, despite that forward guidance was becoming hazy, US corporate earnings remained solid. In addition, US economic data, earlier thought to be mixed at best, proved itself extraordinary resilient, as was the staying power of the job market and the US consumer (who at this juncture appears to be ramping up spending once again). And then of course we absorbed daily headline news indicating it was now our National Will and Corporate America's resolve to position the US to become the uncontested world leader in AI.

With all of the above as a backdrop, the second quarter witnessed the S&P 500 advance by a whopping +10.94%, to deliver a solid mid-year return of +6.2%. The Russell 2000 small cap index also notched a robust +8.50% quarterly return to break its malaise and lead the index to breakeven on the YTD. Beyond the solid recovery in equities, the VIX has retreated and Treasury yields have once again normalized to become boringly range bound. Exactly what the good doctor prescribed. The US dollar has recovered much of its relative strength and our bond markets

continue to demonstrate resilience, buoyed by market fundamentals and a comfort that comes in trusting that the FED is likely to follow through on lowering interest rates once or twice before year end. And as if all of this were not enough good news, July was another rock-solid month for performance, as the major US stock indices routinely struck all-time highs almost daily in the last week leading up to July's close. Taken together, this collective reversal in financial market performance (all in less than 90 days) is exceptional. It's almost as if nothing unusual happened since the President coined his "Liberation Day".

In concluding our remarks, we'd be remiss not to mention what we perceived to be the last-minute impact of the successful pre-July 4th passage and signing of President Trump's "One Big Beautiful Bill". Despite that it arguably comes with its own set of concerns and a big price tag related to an already overburdened national debt, we believe its legislative scope including its mandated tax cuts provided material additional spark to the economic and financial markets, which in turn led to July's solid market performance. In its breadth, the legislation is said to be unparalleled, but perhaps for the post 1929 New Deal legislation delivered by Franklin D. Roosevelt in 1933. We all remember from history how important that legislation was at that time. We can only hope this new legislation will have a similar impact!

Looking Forward

As we look to the remaining months of 2025, we believe markets are likely to rise further but at a much slower pace than we've just experienced. On the one hand, as additional trade negotiations become

final and major deals are announced, the financial markets are certain to rejoice as the uncertainty of US Trade Policy and its impact on international commerce continues to subside. At the same time, a still resilient US economy and all that it underscores may also begin to cool a bit, at least in the intermediate term, as the cost of tariffs on imports navigate their way through Corporate America and the US consumer. Let's all hope for the best!

In the meantime, we close by saying we have no near-term thoughts regarding changing any of our recommended asset allocations across our various client risk profiles. It still remains attractive to be modestly overweight equities as the balance of the year plays out.

In the meantime, enjoy the heart of these summer months!

Eideard Group

7/30/2025