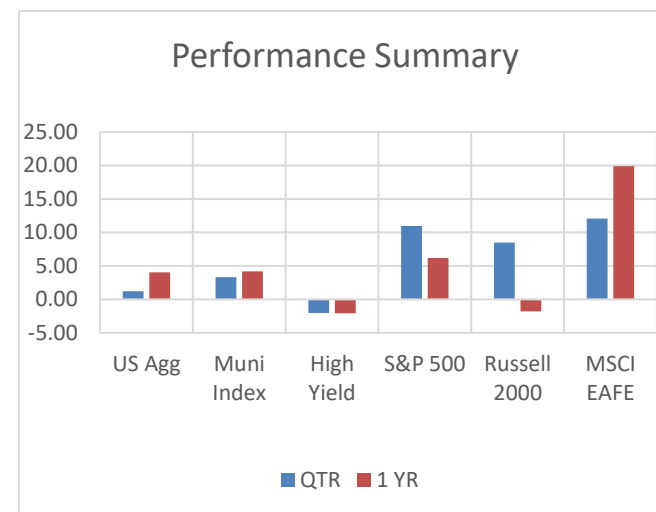


The second quarter provided some significant contrasts in global investment performance. The start of the quarter experienced extreme volatility, and global stocks flirted with bear market territory, down 19% from their February high, before surging to a new all-time high by quarter end. The swift turnaround marked the best quarterly performance for global stocks since 2020. The main catalysts for the recovery included a crucial “pause” in the most severe U.S. tariff plans, corporate earnings exceeded expectations, and inflation data was surprisingly subdued. Below are some of the highlights:

- S&P 500 rallied close to 11% in the second quarter, and small-cap stocks were up 8.5%.
- Foreign stocks continued to outperform in the quarter, with developed and emerging markets up about 12%. On a year-to-date basis, foreign stocks have a large performance lead over U.S. stocks.
- The technology, consumer cyclical, and communication services sectors rebounded in the second quarter with double-digit returns after suffering sharp sell-offs in the first quarter. Year-to-date, the industrial, communications, utilities, and financials are the top-performing sectors.
- Core U.S. bonds were up a little over 1% in the second quarter and have returned a solid 4% year-to-date.
- Gold continued to rally in the quarter, up 5%, and is up over 25% year-to-date. Bitcoin stormed back, increasing close to 30% for the quarter after falling sharply in the first quarter.



### Pricing in Goldilocks?

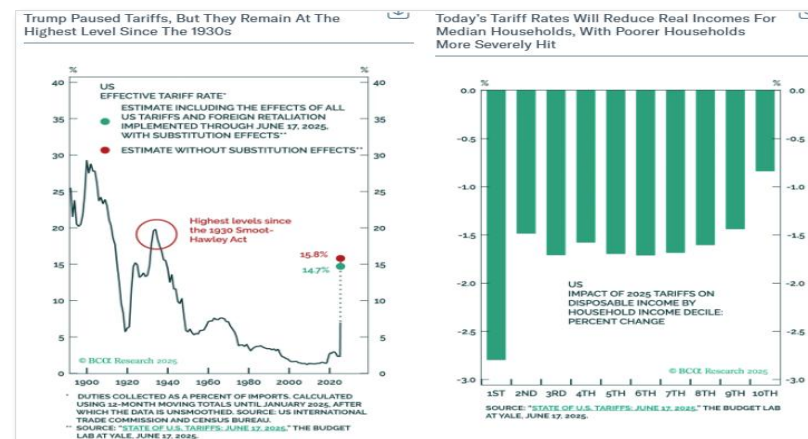
There’s an old Wall Street adage, “Markets tend to climb a wall of worry.” This adage has passed the test of time because it is based on emotional patterns that tend to repeat themselves and have happened many times in the past. When there are many obvious risks in the markets, stocks do a good job of pricing them quickly (selling off), as they did back in April. Then, when the risks start to fade or are not as dire as once thought, stocks start to rally in the face of those known risks, hence the term “Markets tend to climb a wall of worry.”

With global stock markets reaching new highs, the sentiment of investors has shifted from one of worry to a “Goldilocks” environment for risk assets. This Goldilocks mentality is based on the following beliefs: inflation will remain tame, the Federal Reserve will be more dovish (likely to cut rates), fiscal stimulus is coming, tensions in the Middle East will continue to de-escalate, and further progress will be made on trade negotiations (lower tariffs). These Goldilocks beliefs will be tested soon as the 90-day tariff pause is expected to end in the next few days. We will also start getting the second quarter earnings reports in mid-July. Their reports will provide insight into how well companies have been able to navigate the current tariff and economic environment.

## Factors to Watch

In the face of a lot of worry, the global markets have produced solid gains in the first half of the year. As always, we are looking forward and monitoring the factors that may influence the markets longer term. Below are some of the key factors investors should keep an eye on to see what comes next:

- The impact of tariffs:** Although some of the worst-case scenarios for tariffs have been taken off the table, current estimates still expect the effective tariff rate to be close to 15%. This would be the highest level in over 90 years. Unless reduced further, the tariffs may start to show up in one or all of the following areas: lower profit margins for corporations, higher costs for consumers (with the lowest earners hit the hardest), lower global trade, and a slower economy (higher unemployment). The upcoming quarterly earnings will tell us a lot about what comes next.
- Valuations have snapped back:** Stock market valuations in the U.S. peaked earlier this year at 22x forward earnings and dropped to a low of 18x in April. The recent rally in stocks has quickly brought the current valuation back to 22x forward earnings. This does not mean stocks cannot keep rallying as valuation is a notoriously bad market timing tool. However, at 22x forward earnings the stock market is at a very high historical level. This level has historically suggested lower longer-term future returns.



- **Narrow markets in the U.S.:** In the first quarter, stock market returns broadened out, meaning more companies participated in the rally. However, in the rally after April's correction, the stock market has again become very narrow. The research team at Bank of America put together the chart to the right, showing that only 22 companies in the S&P 500 have broken out to all-time highs. Making this the narrowest market rally since 1990. Typically, stock market rallies that have broad participation tend to be healthier and more resilient. The current rally is heavily reliant on a handful of stocks, namely the Magnificent Stocks.

**Table 1: S&P 500 on cusp of 7<sup>th</sup> great breakout since 1990**  
S&P 500 breakouts and number of stocks at all-time-highs

S&P 500 breakout	# of stocks at ATH
2/13/1991	51
11/23/1998	66
5/30/2007	82
3/28/2013	97
8/18/2020	54
1/19/2024	67
<b>6/26/2025</b>	<b>22</b>

Source: BofA Global Investment Strategy, Bloomberg. Note: 83 stocks in the S&P 500 are currently within 5% of their all-time high, while 146 are within 10%.

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- **Other factors we are watching closely:**
  - Will U.S. exceptionalism continue? Since the Great Financial Crisis ended in 2009, U.S. stocks have outperformed foreign stocks. However, this year we have seen a significant rotation into developed and emerging market stocks, which have outperformed U.S. stocks by a wide margin. Foreign stocks continue to trade at a large valuation discount to U.S. stocks, and we will be watching closely to see if the recent outperformance can persist.
  - The U.S. dollar has had its worst start to a year since 1973 and still looks overvalued using purchasing parity. The longer-term trend in the dollar will have significant implications for the performance of foreign stocks and real assets and could lead to higher inflation.
  - The impact of the One Big Beautiful Bill (OB BB): The OB BB will inject significant fiscal stimulus into the U.S. economy but is likely to also increase the budget deficit and add trillions to the national debt in the next decade. Currently, the financial markets seem more focused on the positive impact of the fiscal stimulus, but there is concern that at some point, the markets' focus will shift back to the deficits and debt, causing interest rates to spiral upwards.
  - Geopolitical risks have quieted for the time being but have the potential to re-escalate at any time, and could have significant impacts on energy prices, inflation, and financial markets in general.


### Stay Focused on Long-Term Goals

The selloff in April was nerve-wracking for a lot of investors. The roller-coaster action in the stock market this year is a good reminder that investors who sell during the market's worst days often miss out on the best days. This is why it is important to have a plan in place to help avoid making overly emotional decisions about your investments. As investors, we do not know what the markets will do next week or month, but having a plan and keeping a longer-term perspective can help investors stomach the kind of volatility we recently

experienced or may lie ahead. Our goal is to construct portfolios that can withstand that volatility so that when the markets are evolving and tensions are high, you do not have to make emotional decisions day-to-day. You can trust that your plan is in place and will work for you through it.

Please call if you have any questions about your investment strategy or want to discuss the current market environment.

Best regards,

A handwritten signature in black ink, appearing to read "Steve Giacobbe".

Steve Giacobbe, CFA, CFP®