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Midsummer

The longest day of the year (6/20/2025) has passed and we find ourselves fully into the bloom of summer, when familiar traditions reawaken, and we enjoy being with friends and family to celebrate the season. It also tends to be a time when investors think less intensely about the financial markets. Granted, there are those who would disagree with that statement. To them we offer the friendly advice: take some time to “chill.”

We are now into a “summer rally,” not an unusual occurrence at this time of the year. Reassuringly, our strategists still maintain a positive outlook for the balance of 2025. More on that later.

Tariffs have gotten the attention of investors and political leaders globally. We note that tariffs are not a new thing. As a young nation in 1790, tariffs were being utilized. They can bring in revenue and protect various parts of our economy (particularly manufacturers).

There has been discussion about placing 30% reciprocal tariffs on all goods from Mexico and the European Union. Counter-discussions about working toward a more reasonable reciprocal closer to 10%-15% has become more widespread. President Trump has mentioned a 30% number, but most of us recognize, one usually does not start a discussion with a lower



number that leaves little room for negotiation. President Trump is actively seeking deals with many of our global trading partners in the hope of coming to an agreement on or before August 1, 2025. A rather tight schedule! As we write, an agreement has been signed with the EU at 15%. That is a little higher than President Trump hoped for.

We're sure that Howard Lutnick, the US Secretary of Commerce, is putting in the "air miles" in an effort to successfully complete his mission on schedule. We wonder if he regrets not being back at Cantor Fitzgerald.

Thus far we have seen little effect on our economy during this anticipatory "quiet period," but that can change.

Arrangements with our immediate neighbors, Mexico and Canada, seem in part predicated on helping to stem the flow of illegal drugs (i.e. Fentanyl) and illegal migrants into the US.

While these are viewed as positive developments that could benefit the US, negotiations can become very complex when one is talking about multiple exports and imports. Some categories, like automobiles (and parts), and medical equipment, may require more lengthy negotiations. There may be some negative impacts (shortages?) early on until the new agreements are drawn up and agreed to.

Autoworkers on the Canadian/ US border, where many parts are made and shipped, could see threats to their livelihood under the proposed tariffs. And, as we have all seen, Canadian and US relations have endured a lot of friction of late as these issues unfold. Mark Carney, Prime Minister of Canada, has embarked on efforts to replace various US auto parts and other products with non-US suppliers. Nevertheless, we don't see the long-term relationships with our neighbors (Canada and Mexico) being permanently damaged, although, it would be naïve to assume that they won't seek alternative suppliers should the current dilemma become more protracted.

Canada, while not as convenient, could do much of its automotive business globally. However, we view that as more of a last resort. There is the possibility that certain countries may decide to start doing more business away from the US. In a few years President Trump will leave office and his successors will undoubtedly seek to rebuild those old relationships, although there is no guarantee that we would be fully successful in restoring all of the goodwill that is being potentially compromised. It takes a lot of effort to restore lost trust.



In the meantime the year to date performance of various indexes is seen in the chart below.

	<u>1Q 2025 (%)</u>	<u>Estimated 2Q 2025 (%)</u>	<u>Estimated YTD 2025 (%)</u>
Dow Jones Industrials	-0.87	5.46	4.55
Standard & Poor's 500	-4.27	10.94	6.20
NASDAQ Composite	-10.26	17.96	5.85
Russell 2000	-9.48	8.50	-1.79
Russell MidCap	-3.40	8.53	4.84
Russell 1000 Growth	-9.97	17.84	6.09
Russell 1000 Value	2.14	3.79	6.00
Barclays Capital Govt./Corp. Bond	2.70	1.22	3.95
Barclays Capital 5 Yr Municipal Bond	0.91	1.35	2.27
MSCI AC World ex US	5.36	12.30	18.32

Source: Morningstar

Many of you will recall that the 1Q numbers were not stellar. We have added those numbers for your reference. Note the negative numbers in 1Q; the NASDAQ came in with a negative 10.26%, the Russell 2000 declined 9.48% and the Russell 1000 Growth fell 9.97%.

Most of the indexes have now turned positive on a YTD basis except for the Russell 2000, which was still behind -1.79%. In general, the market is expected to continue to show further growth over the balance of the year, despite the possibility of positive and negative volatility. Indications from corporate America would suggest a 6%-7% growth in earnings. Much of that expectation is likely reflected in current market levels, which implies that the market may be more sensitive to any news deemed to be negative. What we are saying is an environment of slightly higher volatility is possible over the short term. It's not something to be overly concerned about, in our view.

President Trump signed orders (2/11/2025) that imposed universal tariffs on all goods imported into the US from Canada and Mexico. It called for a 25% tariff with an exception for oil and energy which would have a 10% tariff.

Initiating tariffs has, in our view, caused more volatility in financial markets near term. Canada retaliated with a 25% tariff (equal to about \$20.6 billion) on American goods. Claudia



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Sheinbaum, the President of Mexico, has said that Mexico could join the tariff race unless an agreement with the US is signed by August 1st.

On March 6, Trump modified tariffs on exempt USMCA* compliant products. The USMCA agreement replaced the old NAFTA agreement which became effective on January 1, 1994. You must be getting as blurry eyed as we are!

Meanwhile, back at the ranch, the second quarter showed a significant improvement over the first quarter. Earnings have been strong and our strategists see the S&P 500 earnings at about \$265 for 2025 up from \$250 in 2024.

Despite the potentially disruptive impact that the tariffs could have had on many global equity markets they have performed reasonably well.

In a recent conversation with David Lefkowitz, UBS Strategist, he stated that he is cautiously positive on the outlook for equities. He is not expecting any dramatic “black swan” events to damage the equity markets. He credits stable economic conditions, moderate inflation levels and solid growth in S&P 500 earnings.

The market is currently selling at approximately 6400. The S&P 500 earnings estimate for this year is \$265 (and \$285 in 2026). That puts the P/E multiple at about 24x earnings. That’s a little expensive. The average multiple has been around 15-16 times earnings. The range of multiples historically has run from approximately from 12x-30x. There are exceptions at over 30x and as low as 8x in a truly “bear market.” The economy is strong, but not exceptionally so. Most businesses that we speak with say their business is good not great, particularly in some service businesses such as restaurants. They feel business is okay, but (as one client put it) not “gang busters.”

So what does that mean? We think the market is slightly expensive here. However, we don’t see a big downside risk at the moment, although we wouldn’t mind seeing a 5%-10% correction here. That would bring the S&P 500 down to a range of 5700 to 5800, with a multiple of 20 times the \$285 estimate for 2026.

Most of you, our dear clients, are long term investors, not traders. The focus is on a secular not short cycle basis.

*(USMCA refers to the United States – Mexico – Canada Agreement to create more advanced and reciprocal trade negotiations – this was to replace NAFTA – North America Free Trade Agreement of January 1, 1994.)



The longer term estimate for S&P 500 earnings growth is about 7%. That suggests that the current year's estimate (\$265) would grow to about \$375 by 2030. If you put a multiple of 20x the S&P 500 could be trading up near 7400-7500 (vs 6400 today.) These are relatively conservative numbers. A growth rate potential of 7% (our strategists' expectation) could, without changing any multiples that we are using currently, build the expectation seen above. Also the S&P 500 currently has a dividend yield of 1.25%, which could be additive to your total return calculation. We note the dividend yield is quite low – it averaged closer to 2% historically. Payout ratios are very low. We are referring to the percentage of earnings that are paid in the form of dividends to stockholders. We see payouts rising over the years ahead.

Lastly, in looking at the earnings numbers that have been reported by the 12% of S&P 500 companies thus far this quarter, 89% have beaten their earlier estimates. We don't know where the S&P will be over the next couple of months. However, if David Lefkowitz is right on his estimates, then it speaks well about the potential for the year ahead. As most of you know we have been following David's thinking for nearly 20 years and he is a very capable strategist.

The message is to simply stay put. If you're overweight in one area, you may want to do some trimming here. It's always advisable to maintain the balance in your portfolio, particularly when an area has greatly outperformed the rest.

If you find that you need to manage large realized or unrealized gains in your portfolio, call us and we'll provide you with assistance.

As always, thank you for the confidence you place in us. We hope the rest of the summer brings continued good health and much joy with family and friends.



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