



June 4, 2025

Dear Valued Investor,

As June begins, markets continue to navigate a complex landscape shaped by trade policy shifts, an uncertain economic and earnings outlook, and bond market headwinds. Several key developments in recent weeks may have implications for markets:

- **Trade Policy in Flux.** The May 28 court ruling blocking most of President Trump's tariffs has introduced some additional uncertainty for investors. The administration has other legal avenues to pursue if needed and will likely be able to maintain tariffs at levels consistent with prior expectations. Rising tensions with China surrounding critical mineral exports and Taiwan in recent days serve as a reminder for investors that geopolitical risk remains elevated.
- **Solid Earnings Results, But Caution Ahead.** First quarter earnings season delivered broadly positive results, with nearly 80% of companies exceeding analysts' expectations. Mega-cap technology companies (the so-called Magnificent Seven) drove nearly half of the 13% S&P 500 earnings per share growth. While the results were strong, they may not be enough to sustain the recent market rally given limited visibility into the economic and profit backdrop for the second half of the year.
- **Stock Valuations May Reflect Too Much Optimism.** Markets continue to price in limited impact from tariffs, highlighting the fragility of the latest rally. That doesn't mean the broad market can't reach new highs this year, but it will likely take some pleasant surprises to help overcome tariff-driven pressures on inflation and profit margins. It would help investor sentiment if trade uncertainty cleared up so the focus could shift toward the tax bill currently in Congress. Whatever your view is on tariffs, there is no doubt that tariff revenue — if preserved — will be helpful in getting the 2017 tax cuts extended.
- **Bond Market Headwinds Persist.** The Treasury market is facing several headwinds. The prospects of tariff-driven inflation, our lack of fiscal restraint, reduced demand from foreign buyers, higher non-U.S. yields, and a resilient U.S. economy are just some of the factors putting upward pressure on yields. Ultimately, Treasury yields are primarily a function of growth and inflation expectations, so until the economic data softens, Treasury market volatility is probably here to stay.

As we move further into the summer months, key catalysts to watch include inflation data, further developments in trade negotiations, central bank commentary, and progress on the tax bill. Meanwhile, corporate America's sales and profit margins will garner increasing support from artificial intelligence in the quarters and years ahead. We encourage long-term investors to watch for opportunities to add equities on dips, though periodic bouts of market volatility are to be expected until there is greater clarity on trade.

Thank you for your continued trust.

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All data is provided as of April 1, 2025.

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