

July 2025

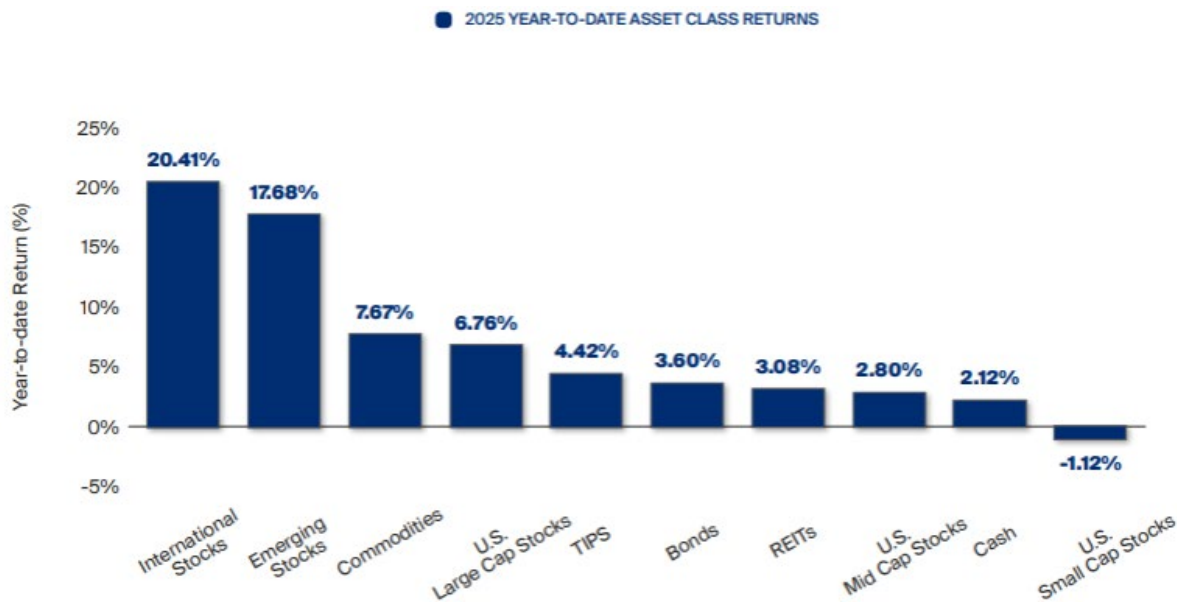
*“The scholar does not consider gold and jade to be precious treasures, but loyalty and good faith.”*

– Confucius, *The Ethics of Confucius*

## Q2 Equity Market Recap

The rebound in stock prices off the April 8 low continued into early June as investors focused on what they believed would be the most likely outcomes for the tariff-related trade conflicts and the path forward for the economy. It is increasingly a market expectation that a series of bilateral trade deals with the major trading partners of the U.S. will be announced over the summer months. The economy’s growth rate is expected to slow from the hit to both consumer and business sentiment from the tariff threats, but skirt a recession with the easing trade tensions, and possibly accelerate over the back half of the year and into 2026 as the tax and spending bill is implemented, efforts to further roll back regulations progress, and the Fed likely cuts interest rates.

Foreign stocks maintained their outperformance versus their US counterparts in the 2nd quarter as European and Asian equities were bid higher on continued structural policy changes. The US dollar weakness against other major foreign currencies also maintained a tailwind for companies’ shares traded/denominated in something other than the US dollar.



Source: FactSet Research Systems, Inc, Standard & Poors. Data as of July 4, 2025

## Interest Rates & The Fed

The Federal Reserve held the target range for the federal funds rate steady at the June 17-18 FOMC meeting at 4.25% to 4.50%, where it has been since December. The Committee’s new projections lowered the economy’s expected growth rate for 2025 to 1.4% from 1.7% and raised the unemployment rate to 4.5% from 4.4% and raised the outlook for core personal consumption prices to 3.1% from 2.8%. Chair Jerome Powell stated at the press conference that tariff increases are likely to push up prices and weigh

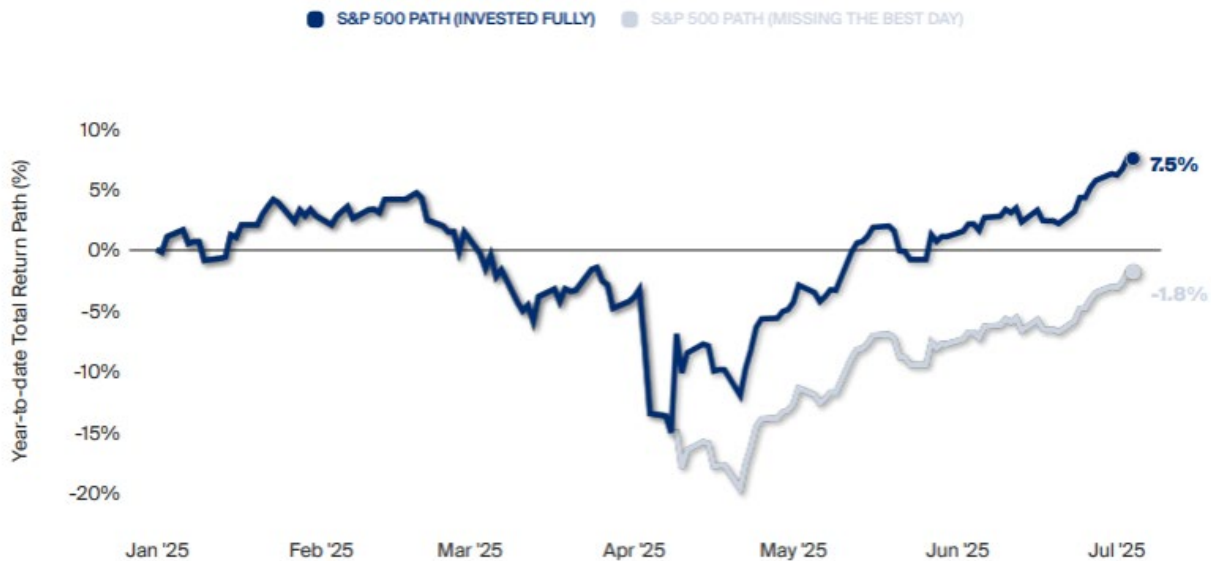
on economic activity, affecting both sides of the central bank's dual mandate.

Chairman Powell once again emphasized that the Federal Reserve needs to make sure that one-time, tariff-related price hikes do not become an inflation problem. While the Summary of Economic Projections pointed to two additional rate cuts remaining their base case for the remainder of 2025, the possibility of no rate cuts this year continues to grow. While 10 of the 19 members of the FOMC Committee penciled in two rate cuts this year, the cohort which expects that the Committee will not cut rates this year saw its ranks climb to seven, up from four in March and one in December.

This growing divide on the Committee suggests more members will not consider lowering rates without material weakness showing up in the economic data, particularly in the labor market. The prospect of tariff-related pricing pressures over the next couple of months makes it difficult for the Federal Reserve to pre-emptively cut rates. It will likely take a rise in the unemployment rate above 4.5% from the current 4.2% for the FOMC Committee to restart the rate cutting cycle.

### Investing in Volatile Markets

The stock market extremes seen in the first two quarters of 2025 are a good reminder for investors that long term success is often measured by time in the market versus timing the market. A good example of this would be an investor who panic sold their equity portfolio and only missed one day in the market in the entire first half the year (April 9th) would still show a price return loss as of the start of the July 4th trading week versus someone who held and had an attractive positive equity return for the year to date despite the political and market handwringing.



Source: FactSet Research Systems, Inc, Standard & Poors. Data as of July 4, 2025

### Parting Thoughts

As the political players on the world stage continue to restructure global trade, the volatility of all types of investments will likely continue to exhibit greater than usual swings. In this type of environment, it can be valuable to focus on a few important takeaways we would emphasize:

- ✓ Meet with your advisor: We will review your long-term goals and re-affirm your portfolio and risk tolerance are appropriate. If changes are necessary, implementing

- those in a well-thought-out plan is crucial.
- ✓ Tax- loss harvesting: Achieving tax efficiency is an important component of any investment plan and we will continue to implement tax strategies as appropriate to enhance after-tax returns.
  - ✓ Focus on what you can control: As the world continues to grow smaller via social media and online connectivity, it often feels overwhelming that we are all presented with the world's problems on what seems like a daily basis. That constant flow of information (often negative because fear sells) takes its toll on all of us if we let it. Being your trusted advisor means we shoulder some of that responsibility and help guide you through what, if anything, deserves yours, and ours, collective attention and response from a holistic wealth perspective. In challenging times please know that the PCM team stands ready to be a guiding hand.

Sincerely,  
The Private Capital Management Team

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