



The S&P 500 achieved a record high during the Second Quarter despite general investor angst regarding the economic impact of tariffs. In terms of major stock market indexes, the S&P 500's performance was second only to the NASDAQ. Following a brief period of broadening, market performance was dominated by a concentrated group of mega cap tech stocks, especially those involved with AI. Diversified portfolios struggle to maintain pace when index leadership is extremely narrow, as has been the case for nearly three years.

Yet, on a year-to-date basis, the S&P 500 lags developed markets, particularly European indexes. Investors re-allocated to non-US equity markets to increase diversification, both for equities and currencies. European markets also responded to announcements of large fiscal stimulus packages. These stimulus packages represented a marked divergence from the fiscal austerity that characterized the continent for much of the last decade. One of the highlights of the quarter was the NATO Summit at which member nations agreed to substantially boost defense spending.

As we expected, early data indicate Q2 GDP likely benefited from inventory re-accumulation and advanced purchases of goods subject to tariffs. Companies in several sectors now confront the prospect of replenishing supplies while policies remain unsettled. In this environment, the Federal Reserve confronts a dilemma of recalibrating interest rate

policy while inflation forecasts remain highly uncertain. Given these dynamics, we support the Fed's "wait and see" approach to monetary policy. The Trump Administration's pause on reciprocal tariffs expires August 4th, and recent communications suggest the deadline will not be extended. Therefore, trade negotiations should contribute to episodic volatility for the remainder of the year. To date, tariff collections have been substantial. Notably, several of the tariffs have provided effective leverage during bilateral negotiations over policies that extend beyond economics. More important, tariffs have yet to fuel inflation, which was a concern of many economists in April. However, it is premature to conclude whether new agreements will rebalance global trade without major disruption. There could be impactful second and third order effects that eventually surface.

In addition to tariff negotiations, Congressional actions regarding provisions of the 2017 tax act, the budget bill, and the debt ceiling could elevate volatility during the Third Quarter. Overall, the US economy remains stable and growing, with low unemployment.

We maintain a long-term approach to asset allocation and advocate a well-diversified strategy. We caution against over-reacting to announcements and proposals. We look forward to discussing our outlook with you. Please contact the firm to schedule a meeting or video conference to review your accounts.