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What Comes Down, Must Go Up?

Points of Interest:

- * Tariffs
- * The US Dollar
- * Israel / Iran
- * DOGE
- * The Fed
- * Tax Bill
- * Employment
- * Earnings

If your only source for tracking market performance is the quarterly reports I send to you, you are missing out on some massive fluctuations. The S&P 500 finished quarter 2 up nearly 6 percent for the year. From mid-February through mid-April, we saw nearly a 20 percent drop in this index only to see it roar back to an all-time high by the end of the quarter. I feel like I have whiplash from it all. Q2 saw the continuation of Trump's tariff and DOGE policies. There was a short conflict with Israel and Iran which included

the US bombing various nuclear targets in Iran. The potential for a wide-reaching conflict was very unsettling and weighed on markets. The Fed has been barraged with attacks from the president for their caution regarding lowering the Fed Funds rate.

Diversified portfolios with international equities and bonds have enjoyed more consistent returns so far this year. For the first time in a long time, international equities have led major equity index performance two quarters in a row. The dollar's decline certainly has aided

their returns. Just before the 4th of July, Congress and the President passed their wide-reaching tax bill that will impact the US for the next decade and possibly beyond. (Turn Page Over)



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\$1 Trillion Gained in 2024 for the Richest Americans

Total US household wealth is estimated to be \$148 trillion as of the end of 2024. As of 2023, the top 1 percent wealthiest in the US held 34.8 percent of total US household wealth and this percent is expected to keep rising. Data suggests that \$1 trillion of wealth was created for the 19 richest American households alone in 2024. This amount is more than the entire value of Switzerland's economy. Surging stock

markets in 2024 supercharged wealth creation of the top wealthiest Americans. Some from this group of richest Americans include Elon Musk, Jeff Bezos, Mark Zuckerberg, Bill Gates and Warren Buffett. JP Morgan Chase's private bank estimates US billionaires numbered nearly 2,000 last year, up from 1,400 in 2021. If any of you know someone on this list, please hand out my business card.

What Comes Down, Must Go Up?

In early Q2, the President introduced his liberation day tariffs that added up to around 23 percent and he very quickly put a pause on all except for a 10 percent base-line tariff. China was imposed a steeper levy. A 90-day window was set to speed up negotiations with key trading partners and yielded only a couple of finalized deals. We are currently in a short extension until August 1. The President is ramping up threats on many major trading partners and has vowed to give no additional extensions. The 10 percent base-line tariff is significant and will lead to inflation over the next 12 months. If the additional tariffs go into effect August 1, I believe we will see an economic slowdown that could lead to a recession. The administration's tariff policies have been anything but smooth. The lack of clarity surrounding tariffs leaves businesses unable to properly plan, which could lead to lower employment and slower corporate investments.

DOGE efforts to reduce the size and expense of government have so far been dramatically below expectations. Efforts are still ongoing, though without the assistance of Elon Musk. Federal grants for research are still being suppressed, many of them were congressionally approved. The US has led the world in science, medicine and technology due in large part to government support of these fields. I am hopeful that the courts are able to overturn many of the suppressed research funds so we will have the opportunity to maintain our superiority in innovation.

The Fed has been in a wait-and-see mode, holding the Fed funds rate steady since Trump took office. With inflation closer to their 2 percent target and low unemployment, their fear of tariffs impact has them hesitant to lower rates. This has upset the President to say the least. The Fed has outlined 2 rate cuts this year with only 4 meetings remaining. I do not believe the Fed cutting rates will have an impact on intermediate to longer term rates. These are controlled by market forces and supply and demand. Since the US runs a deficit, along with almost every other sovereign nation, there is plenty of supply. With the recent passage of the tax bill, we are expected to run even bigger deficits for the next decade. Bottom line, do not look to the Fed to stimulate the economy with lower rates because higher mortgage and auto loan rates are probably here to stay.

On June 13, Israel unleashed a wide-spread attack on Iran's nuclear and military installations. Tensions and minor aggression between the two nations have been going on for decades. The US joined Israel and targeted nuclear facilities in hopes to set their program back by years. Worth noting, Iran has been accused of being months away from having nuclear weapons capabilities for over a decade. Iran struck back at Israel for about a week and attacked a US military base in Qatar in retaliation. Israel and Iran agreed to a cease fire, which still holds as I write this. Oil prices gyrated about 10 percent and currently are below where we started the year. Lower oil prices can mute some inflationary pressure from higher tariffs, thankfully.

International equities are having their moment in the sun. They were up almost 20 percent through the first half of the year. Despite this move, international equities trade at around 14 times earnings compared to the US companies at around 23, so there is still room to grow. Almost half of the gains in international equities were due to the US dollar declining compared to other major currencies. The US dollar has been too strong for too long, so this is welcome for US exporters. Recent US policies have pushed other nations to expand their budgets for economic growth.

I have been an investment advisor for almost 30 years now and the first half of this year's market activity has been one of the strangest I have witnessed. This market just does not seem to want to stay down despite so much uncertainty. The Q1 earnings results were stellar, up 13.1 percent year over year. The tax law recently passed is also likely a big contributor to market performance. It will lead to higher deficit spending over the next decade, and this surplus of cash has typically found its way into our equity markets. This quarter was a nice lesson for us all, stay the course with investments despite all of the issues. It is nice to see international equities picking up the slack and making a major impact on clients overall performance. I look forward to meeting with you all to discuss how all of this influences investment decisions.

If you need additional copies of this newsletter for friends, family or neighbors please let me know. I am grateful for any opportunity to get in front of other investors like yourselves. Please keep me in mind to help others you know that may need financial advisory assistance.