



Wealth Advisory Market Update

July 8, 2025



Market Update

Equities

Markets continued their upward trajectory in June, with technology stocks once again taking the lead—despite increasingly stretched valuations. The S&P 500 climbed over 5% for the month, marking a sharp rebound from earlier lows and reaching a new all-time high. A number of key events shaped the month, including heightened tensions with Iran, a Federal Open Market Committee (FOMC) meeting, and critical economic data releases.

Despite the strong market rally, the fundamentals of the market continue to deteriorate. The index hit a new high with only 49% of S&P 500 components trading above their 200-day moving average—down from 59% in February. Historically, major breakouts have occurred alongside broad participation. Since 1990, the average number of stocks hitting all-time highs during breakouts has been 70; this time, only 22 stocks reached such levels. This narrow breadth suggests the rally lacks a strong foundation.

Additionally, speculative behavior persists: penny stocks are approaching 50% of total market volume, and leveraged equity ETF flows are at a five-year high—echoing risk signals reminiscent of the meme stock era. AI themes and high beta names are driving indices like the S&P 500 higher with retail traders buying more in the first half of 2025 than any other time in history. Our overall outlook for the market remains cautious.

Despite high valuations, we continue to identify undervalued opportunities. Recent pullbacks in select names, driven by overdone market reactions, have created favorable entry points—particularly in companies with strong balance sheets, solid customer demand, and robust free cash flow.

Economic Indicators, Fed Policy, and Geopolitics

The FOMC left interest rates unchanged at its June meeting, in line with expectations. However, attention focused on the Summary of Economic Projections (SEP). The Fed lowered its GDP growth forecast by 30 basis points to 1.4% for this year and by 20 basis points to 1.6% for 2026. Unemployment projections edged higher, and inflation estimates were revised upward by 30 basis points to 3.1%—despite inflation surprising to the downside in four consecutive reports before the latest slight uptick.

Fed Chair Jerome Powell added further uncertainty days later when he suggested that tariff-driven inflation could become a significant factor—based on forecasts rather than current data. This marked a notable departure from his previous stance in 2018, when he cautioned against relying heavily on predictions of rare events due to model limitations and high uncertainty. Currently all data points to tariffs being deflationary longer term and any price hikes being transitory. We believe the FOMC's policy stance is wrong, which is typical. The FOMC has other tools to control the money supply besides interest rates. The Fed's balance sheet would be the best way to keep conditions tight while also allowing it to lower interest rates. This would take the burden off Americans and put pressure on where inflation is truly coming from, the wealth effect from overvalued markets.

Economic data continues to signal weakness in the U.S. consumer sector. A record 31% of student loan borrowers are in late-stage delinquency, with one-third of 5.8 million delinquent accounts expected to enter default in July. Vanguard also reported a 120-basis point year-over-year rise in 401(k) hardship withdrawals, now at 4.8%. While employment data exceeded low expectations and the unemployment rate declined slightly, job gains remain tepid, with much of the growth driven by government hiring.

Geopolitical tensions flared as the U.S. conducted a military strike on Iran's nuclear facilities—an escalation in the ongoing Israel-Iran conflict. Oil prices spiked initially but reversed after Iran's muted response and the announcement of a peace agreement, bringing prices lower than before the conflict. This situation remains volatile and bears close monitoring.

Strategy

In a news-driven market prone to sharp swings, we maintain a disciplined and defensive investment approach. Our focus remains on companies with inelastic demand, strong balance sheets, and durable cash flows.

Volatility is also present in fixed income markets. Interest rates continue to fluctuate sharply in response to tariffs, economic data, and legislative developments. We find the middle of the yield curve most attractive, particularly Mortgage-Backed Securities and Municipal Bonds, which offer compelling value combined with strong credit profiles. Spreads continue to favor high-quality instruments.

Outlook

We remain committed to active and risk-aware portfolio management in the face of a rapidly evolving macroeconomic environment. While the current landscape is undeniably complex, we continue to seek opportunities that align with our long-term investment philosophy. We appreciate your trust and partnership during these challenging times.

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