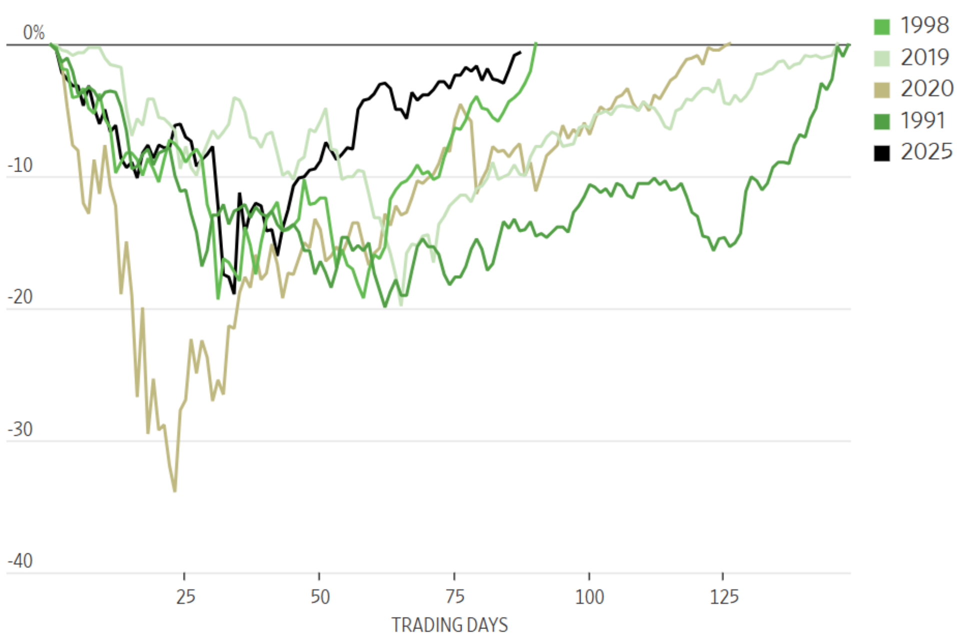
As summer is in full swing with longer days and warmer weather, my “glass half full” nature appears. When it comes to markets and investments however, I maintain the “glass is simultaneously half full and half empty” perspective. On the negative side we have tariffs, geopolitical unrest and a rising deficit. On the positive side, the economy continues to grow, earnings continue to rise and inflation is moderate.

At the start of the year I stated that my primary concern was inflation. With tariffs as yet unresolved, this concern remains. The CPI index has been surprisingly subdued, however, recently running at a 2.4% annualized rate, not far from the Federal Reserve’s 2% target. More recently, I’ve been monitoring the status and composition of the tax-and-spending bill making its way through Congress. As pertains to investments, consensus expectations are for an extension of the current tax brackets, which are the lowest we’ve seen in 50 years. This should provide continued stimulus for the U.S. economy, primarily in consumer spending.

Even though we are at mid-year, 2025 so far has felt like many years rolled into one. Domestic and geopolitical uncertainty remain high, with both trade wars and real wars in full force. And yet, when one looks at market returns year-to-date, these events don’t seem to have made much of a dent. In fact, the S&P 500 recently reached a new all-time high and is up 6% year-to-date. This marks the swiftest recovery ever back to a record close after a decline of at least 15%.

S&P 500’s quickest recoveries to records following a decline of at least 15%



Note: Preliminary; as of June 25, 2025
Source: Dow Jones Market Data

A look at historical events helps put the effect of market volatility into perspective:

S&P 500 gains/losses following major geopolitical events

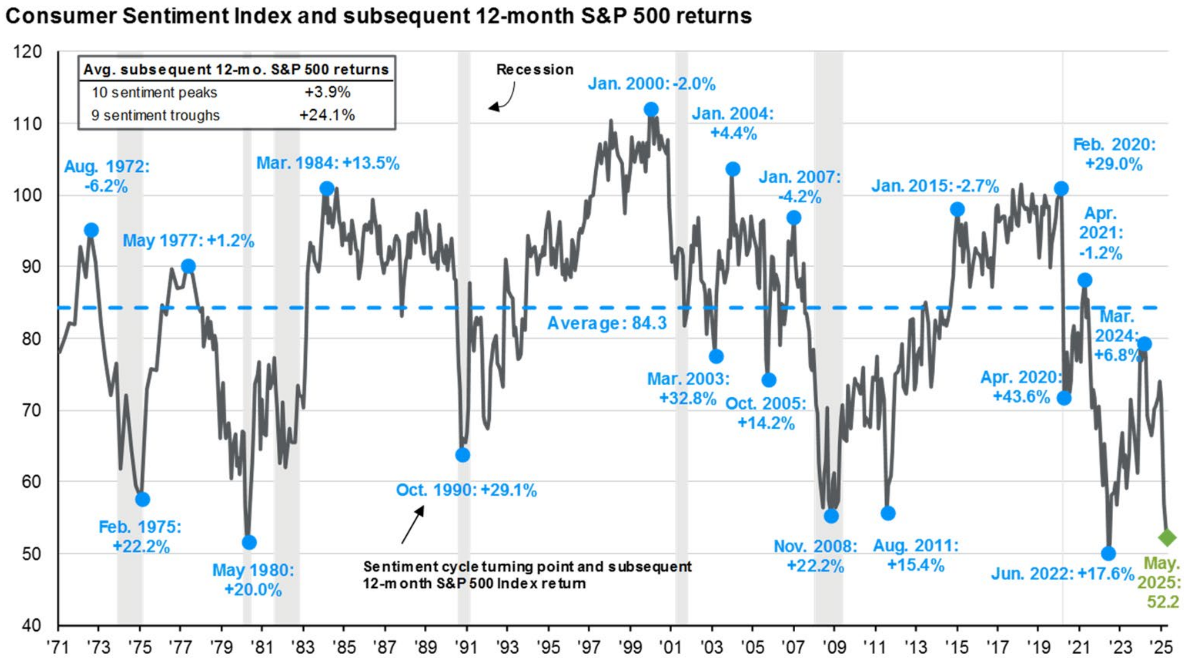
Event	Date	Days to recover	Drawdown
WWII Pearl Harbor	December 7, 1941	306	-19.8%
Cuban missle crisis	October 14, 1962	none	none
Assasination of President Kennedy	November 22, 1963	4	-2.8%
Iranian hostage crisis	November 4, 1979	8	-2.6%
First Gulf War	August 2, 1990	188	-16.9%
9/11 Attacks	September 11, 2001	30	11.6%
Iraq war	March 20, 2003	none	none
Brexit vote	June 23, 2016	7	-4.1%
Russia invasion of Ukraine 2022	February 24, 2022	none	none
Israel-Hamas war	October 4, 2023	none	none

Source: *Deutsche Bank*

We've had four bear markets (declines of 20% or more from the highs in the S&P 500) in the last 7 years. That's roughly one every two years. Even so, the average annual return of the market has been 11.7% per year. It is often best to buy stocks after a decline.

As we look ahead to the second half of 2025, there are some additional tailwinds for stock returns that I'd like to highlight

1. Consumer Sentiment is low, and that's good for stocks. This may seem counterintuitive, but sentiment usually falls after bad news is known and stock prices are lower. We reached a recent trough in sentiment in May of this year, after the surprise tariff announcements in April. This number has started to recover and so too have stock prices.



Source: JP Morgan

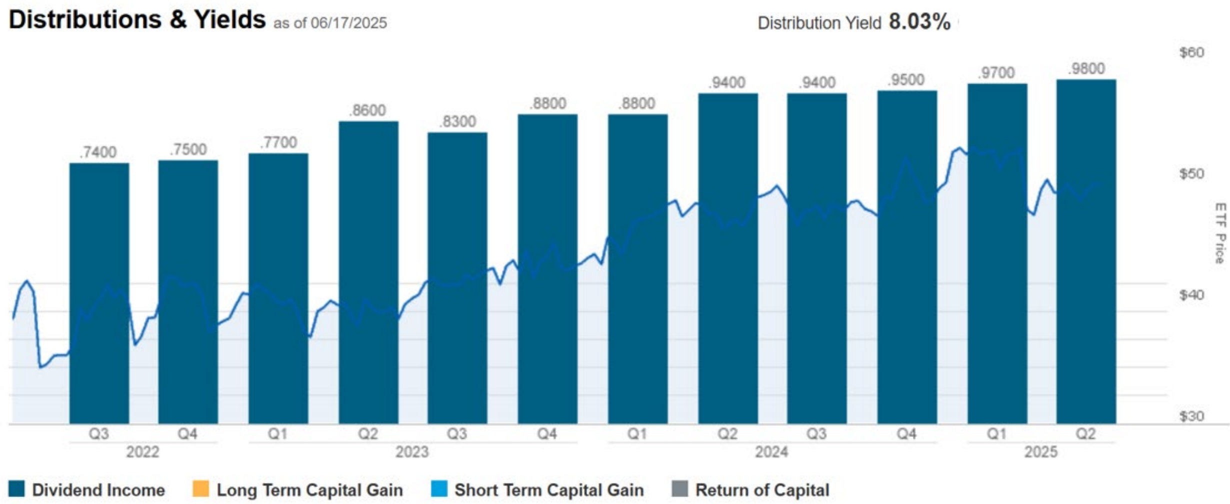
2. Consensus earnings estimates for the S&P500 are up 9.4% for this year, and 13.7 % for next year. In practical terms, this means that stocks can rise by a similar amount, without their becoming more expensive*. Source: WSJ*

3. Total money market assets in investor accounts are near $7 trillion – and all-time high. Recent economic data and comments from the Federal Reserve indicate an increased probability of additional rate cuts in the second half of the year. Should short-term interest rates decline further as expected, many of these funds are likely to be reinvested into stocks and bonds. *Source: Bloomberg*

With the second quarter now behind us, I'd like to highlight a few investment changes I've been making in portfolios.

1. **Added Pipeline Master Limited Partnerships (MLPs).** These are energy infrastructure companies involved in the transportation of oil and gas. They generate steady cash flow and have attractive and rising yields. The chart below shows the quarterly payouts for the Alerian MLP ETF (AMLP). This investment provides an additional source of return in a portfolio that is not correlated with

the equity or bond markets. In particular, demand continues to grow for natural gas, supported by both exports and power generation demand for AI data centers.



Source: Charles Schwab

2. **Switched to more focused profitable U.S. Small Cap stocks**

Declining interest rates and positive economic growth is a backdrop in which smaller companies tend to do well. In particular, small company stocks with positive earnings stand out as the most compelling valuations at current levels.

3. **Increased allocations to International Developed market stocks**. Foreign stocks are having a strong year, but remain at attractive valuations compared to the U.S.

Source: JP Morgan

To circle back to the "half empty/ half full" analogy: When it comes to the stock market, the glass continually fills. This comes in the form of retirement savings, economic growth and index investing, to name a few sources. Therefore, when it reaches a "half empty" state, it likely won't remain that way for long.

As always, please feel free to contact me directly if you'd like to discuss any of the above items, your investments, or the markets and economy in general.

Very Truly Yours,

Jim

James Herrell, CFA / Sr. Portfolio Manager
Generate Wealth LLC / generatewealthllc.com

jamesherrell@generatewealthllc.com
P:626-345-5830 / **M:** 805.451.5960
A: 155 N. Lake Avenue Suite 800 Pasadena, CA 91101