



## Quarterly Recap – June 30<sup>th</sup>, 2025

We're halfway through 2025, and the stock market has resumed making all-time highs. The extremely volatile quarter was largely driven by the Trump administration's policies and their methods of execution which are anything but traditional. The stock market fell as much as 20% during the quarter, only to sharply rebound. The bond market was also volatile in early April and experienced a rise in long-term interest rates and a slight decline in short-term interest rates.<sup>1</sup> The Federal Reserve has remained steady, waiting for clarity following the tariffs.

The stock market closed the quarter at all-time highs. If you only review your statements quarterly you might think it was an uneventful few months. On the contrary it was the most intense market action since the worst days of the pandemic. Fears of a tariff-driven slowdown clobbered markets, only to dissipate as those tariffs were lowered or pushed back. Valuations are back to levels where they started the year.

Long-term yields rose slightly during the quarter. Investors at times were fearful of recession, sending them broadly lower, and other times worried about fiscal spending, causing yields to rise. Short-term rates fluctuated around 3.9% as investors assessed the likelihood of a Federal Funds interest rate cut.<sup>2</sup>

The Federal Reserve has been gifted a period where they are not under heavy scrutiny from markets. The tariffs represent a potential upside risk to inflation, and a downside risk to economic growth, which would argue in favor of rate cuts, but it's difficult to know to what degree. Inflation remains higher than their 2% target which would argue for a more hawkish policy. As such, the Fed has not changed interest rates, though they still forecast two more rate cuts before year end. President Trump has increased his criticism of the Federal Reserve as he pushes for lower rates. First quarter GDP was negative due to import activity, and second quarter GDP is likely to be surprisingly high as that dynamic reverses. Actual economic strength or weakness resulting from the shifts in policy will take some time to establish, giving credibility to the Fed's current approach.

We remain cautious towards stocks, noting their generally high valuations and broadly bullish investor sentiment. A number of concerns remain which could throw cold water on the current rally. During most of the post-financial-crisis period, investors referred to "TINA" – There Is No Alternative (to stocks). Bonds' yields were too low to be a real competitor for investing. That's no longer the case as even safe bonds yield in the high single digits.

The recent selloff is a stark reminder of the volatility of the stock market. Our wealth management philosophy accounts for occasional selloffs and long periods where stocks don't appreciate. But if the market action during April kept you up at night, the current rally is a great opportunity to rebalance portfolios to sleep better during the eventual next downturn.

<b>INDEX RETURNS<sup>3</sup></b>	<b>2<sup>nd</sup> Qtr</b>	<b>2025</b>	<b>2024</b>
<b>MSCI All Country World</b>	11.0%	10.3%	19.2%
<b>S&amp;P 500</b>	10.5%	6.2%	25.0%
<b>Dow Jones Industrial</b>	5.5%	4.6%	15.0%

<b>TREASURY RATES<sup>4</sup></b>	<b>6/30/25</b>
<b>Fed Funds</b>	4.38%
<b>3 Month</b>	4.29%
<b>2 Year</b>	3.72%

<sup>1</sup> Bloomberg

<sup>2</sup> Bloomberg

<sup>3</sup> Bloomberg

<sup>4</sup> Bloomberg

<b>Russell 2000</b>	8.5%	-1.8%	11.5%
<b>EAFE</b>	10.9%	19.9%	4.4%
<b>MSCI Emerging Markets</b>	11.2%	15.5%	8.0%
<b>BC Aggregate Bond Index</b>	0.9%	4.0%	1.3%

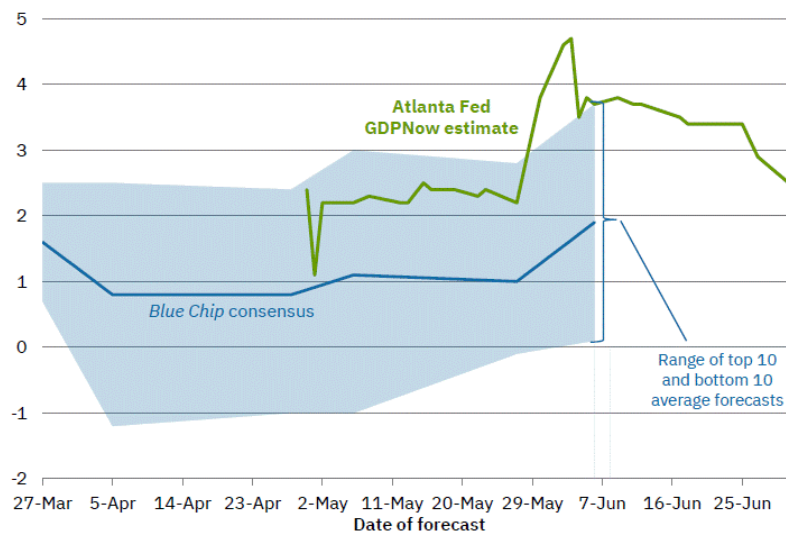
<b>5 Year</b>	3.80%
<b>10 Year</b>	4.23%
<b>20 Year</b>	4.78%
<b>30 Year</b>	4.78%

## Economic Developments

The economic story for the second quarter was extraordinary uncertainty. President Trump inherited an economy which had some warts and bruises but which was otherwise acceptable. Instead of putting cream on the warts and band-aids on the bruises, he did the economic equivalent of an experimental and invasive surgery. We can't say we weren't warned – Trump recently called tariffs the “most beautiful word to me in the dictionary.” But the size and extent of the recently proposed tariffs dwarfed economist estimates, as well as the tariffs he imposed in his first term, the majority of which were kept by the Biden administration.

The impact of these tariffs is still very uncertain in at least four ways. Some trade agreements are largely in place, such as with the UK and China. With other countries we are approaching the end of the ninety-day window for negotiation. We still don't know what will be imposed on these countries by the mercurial Commander-in-Chief, but at least his decision will soon be made. Once those policies are finalized corporations will need to decide how to react. They'll possibly need to adjust investments, headcount, supply chains, prices, and more. Third, months later, we'll see the ultimate impact on the economy and markets. Finally, it's still unclear how the tariffs will impact the global economy long-term. Tariffs can be used to raise revenue, onshore manufacturing & jobs, or as a bargaining chip in other negotiations. But if, for example, tariffs in a given sector are removed through political negotiations, they will no longer generate any revenue or incentivize domestic manufacturing. It remains to be seen how these competing priorities get resolved by the government and individual corporations.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2025: Q2  
Quarterly percent change (SAAR)



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts  
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

*The Atlanta Fed's GDPNow projects that second quarter GDP bounced back to a solid level of growth.<sup>5</sup>*

The second quarter (and probably the third quarter as well) is therefore best understood as a sort of economic purgatory. It's rare to have such a momentous change in the economy in such a short period. Recent economic data isn't completely useless. For example, it shows that corporations anticipated and understood the impact of the tariffs and imported as much as they could in advance. And if it had shown substantial and immediate weakness, that might have affected the Federal Reserve's actions. But the data isn't very useful for forecasting and has been

<sup>5</sup> Federal Reserve Bank of Atlanta

relatively benign. We'll recap what we've seen with the understanding that we're in a unique period where we must wait to see the impacts of these historic changes.

First quarter GDP was negative, for the first time since 2022, by 0.5%.<sup>6</sup> This was largely caused by a substantial and understandable increase in imports, not necessarily latent weakness in the economy. The Atlanta Fed's GDPNow forecast for the second quarter shows this dynamic reversing. The current estimate of 2.5% would be a return to the solid growth of 2024. A major contributor is (lack of) imports, though it's worth noting that only about 60% of the first quarter's import surge is currently accounted for.<sup>7</sup> The complete normalization of imports – or not, due to the new tariffs – will necessarily take place over several quarters.

Inflation is perhaps the most worrisome and uncertain effect of the proposed tariffs. Inflation has been the precipitating factor driving policy for several years. It forced the Fed to raise interest rates. It was arguably a large electoral issue for the 2024 election. A major piece of legislation – the “Inflation Reduction Act” – was even named after the issue. Now that we are finally near the Fed's inflation target of 2%, tariffs threaten to resurface the issue yet again. Consumer expectations for inflation over the next five years are high, though the measure is extraordinarily partisan. Democrats believe that tariffs will be a big tax on consumers, while Republicans are more sanguine, believing that either the tariffs will fall more on corporations, or that the tariffs will be negotiated down to a less onerous level.<sup>8</sup>

It's too early to measure the effect of tariffs on inflation, at least through the usual measure of CPI. But excluding that concern, inflation has continued to improve, which is perhaps an encouraging sign. That said, there are a variety of reasons to think that inflation might move higher over the summer. The rolling twelve-month measure will be losing some very low readings from last year – the so-called “base effect” – which will probably cause inflation to rise back to 3% or higher.<sup>9</sup> In recent years inflation has picked up during the summer. Oil and gas prices are relatively low, so any move higher will be a tailwind for inflation. Finally, real-time measures of inflation such as “Truflation” show a recent pick-up in goods inflation – 1% higher since “Liberation Day” – likely an early sign of tariff-driven inflation.<sup>10</sup>



<sup>7</sup> Federal Reserve Bank of Atlanta

<sup>8</sup> Bloomberg

<sup>9</sup> Bloomberg

<sup>10</sup> Truflation.com

<sup>11</sup> Bloomberg

The labor market has remained stable this year, at least when looking at the broad measurements that the Fed monitors. Though headlines highlight the uncertainty facing corporations, the impact of cuts to the federal workforce, and the broadening use of Artificial Intelligence, layoffs remain at a historically normal level.<sup>12</sup> The labor market would have to seriously deteriorate from current levels for the Federal Reserve to become concerned. That's not to say everything is rosy. The length of time spent unemployed has recently started to increase, indicating that corporations are reluctant to hire. Statistics regarding the employability of recent graduates are also worth watching. This is the first class of college graduates that had access to AI during their entire college experience. College graduates aged 22-27 have an unemployment rate of 5.8% - excluding the pandemic that's the highest since 2012.<sup>13</sup> That doesn't include the graduates who are underemployed.<sup>14</sup>

Recession expectations have swung wildly. During the despair of April many economists put the recession probability for the year well over 50/50. A few months later, with second quarter GDP expected to be as high as 3% or more, it's difficult to see how a recession could materialize this year.<sup>15</sup>

Middle East tensions ratcheted higher near the end of June as the United States intervened in the Israel/Iran conflict in the Middle East. What's currently a tense ceasefire could have potentially become a larger conflict. So far the conflict has not escalated, though oil's price was volatile through the conflict. If the "Twelve-Day War" really ended in just twelve days, it removes a significant headwind from the global economy.

### **The United States' Debt Rating**

On August 5<sup>th</sup>, 2011 the credit rating agency Standard & Poor's lowered their rating on the debt of the United States from AAA to AA+. This happened after Congress voted to raise the debt ceiling following a partisan standoff. The next day stocks were down in the mid-single digits amid furious selling. Ironically US debt (the asset under scrutiny) became more valuable in the immediate aftermath as investors looked for a safe asset amid the bloodbath in stocks.<sup>16</sup> Eighteen days later the CEO of the rating agency stepped down amid blowback from both political parties.

Though the rationale was understandable & a central conversation topic at the time (and even more salient today), the market reaction in 2011 was intense when the rating was actually reduced.<sup>17</sup> It's not because investors suddenly panicked about the ability for the US to repay its debt. Rather, it was feared that institutions would be forced to liquidate holdings as a result of the downgrade. Any contract which referenced AAA debt was potentially affected. Considering that the US was the world's largest issuer of AAA debt, that posed a potential problem. A worst-case scenario could have looked like the Great Financial Crisis of 2008 or the unwinding of Long Term Capital in 1998. In both scenarios legitimate concerns were exacerbated by

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<sup>12</sup> Bloomberg

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<https://abcnews.go.com/Business/wireStory/college-graduates-face-toughest-job-market-decade-hiring-123221189>

<sup>14</sup>

<https://apnews.com/article/college-graduates-job-market-unemployment-c5e881d0a5c069de08085a47fa58f90f>

<sup>15</sup> Bloomberg

<sup>16</sup> Bloomberg

<sup>17</sup> Bloomberg

leverage, margin calls, and liquidity. In 2011 the fear was that trillions of dollars of US debt would need to be sold in order to buy the debt of other countries or companies. Cooler heads ultimately prevailed and markets marched higher after a few months. But permanent damage was done – S&P has never backtracked on the downgrade, and it was no longer technically true that US debt was the most risk-free asset in the world. Eleven countries somehow currently have AAA ratings. Contracts that explicitly reference “AAA debt” are no longer best practice. Lawyers have learned their lesson. Instead, they often reference “AAA debt and/or government securities” or something along those lines.

That’s a good thing, because the two other major credit rating agencies recently downgraded the US as well. Fitch downgraded our debt in August of 2023, and Moody’s did the same in May of this year to much less fanfare. The US is now technically not a AAA issuer according to any major credit rating agency.

This comes at an important point for the United States as we again wrangle over the debt ceiling. The government is currently at the debt limit and is using “extraordinary measures” in order to continue operating. Treasury Secretary Scott Bessent has some discretion with how he handles the budget, but it looks like an agreement needs to be made by mid-August in order to avoid a technical default. The “Big Beautiful Bill” will raise the debt limit. It recently passed both the Senate and the House of Representatives and awaits the President’s signature.



Credit Default Swaps (CDS) often make for spicy headlines when the debt ceiling is in the news. CDS’s are a security which pays out in the event of a credit default. They were originally designed as a form of insurance for bondholders. An investor in bonds for a corporation could buy a CDS to reduce the impact of a potential default. They’re still mostly used this way, but are also monitored to determine the perceived likelihood of a negative credit event. For the US government, speculators might buy them to wager on whether the debt ceiling standoff becomes more embittered. These speculators might have no conviction of an actual default. It’s not even clear what a default would look like for the federal government, or whether the CDS’s would pay out for a technical default. It’s important to know that CDS’s for the government aren’t really at all tied to real world outcomes. Headlines referencing CDS prices moving higher or lower can mostly be ignored.

A more concerning development is the general rise in bond yields. While the Federal Reserve has a large impact on short-term treasury yields, it has little explicit control on longer-term bond yields. This was very apparent in September of last year. The Fed lowered its benchmark yield by half a percent, and in the next four months the 10- and 30-year yields rocketed more than 1% higher.<sup>19</sup> This causes a general increase in government interest expense. Reducing the government deficit was a major priority of President Trump's agenda. Establishing the Department of Government Efficiency (DOGE) under Elon Musk's guidance was one of his first major initiatives. But with the recent fallout between the two magnates, and the failure to legislatively enshrine DOGE's cuts in the "Big Beautiful Bill," that priority seems to be falling by the wayside for now.

Long-term yields have fallen in during the past few weeks but remain a canary in the coalmine regarding the health of the US government. The federal government is proving incapable of willingly reining in expenses under either political party. The political and extrajudicial opposition to DOGE, which was ostensibly targeting fraud and waste, demonstrated that it was dangerous to one's wellbeing to aggressively pursue cost-cutting. If that's the case, lawmakers might need to be forced to reduce spending through a financial crisis. In 2022 UK Prime Minister Liz Truss proposed a stimulative federal budget during a period of rampant inflation. The bond market's reaction was swift and painful. Yields spiked over the next few days and caused a financial panic for their leveraged pension funds.<sup>20</sup> She resigned after just 49 days and the budget was reconfigured into something more realistic. It's disconcerting to consider, but a similar story might need to happen in order for United States lawmakers to be given the mandate to seriously reduce spending.

### Preserve – Interest Rate Commentary

As we await the fallout from the tariff negotiations, the Federal Reserve has been mostly quiet. Decent progress in subduing inflation and recession fears have investors hoping for further interest rate cuts. At the same time the Fed is concerned about tariffs being passed through to consumers. Ultimately they have decided to stay put and wait for further data. The Dot Plot was recently updated and shows what Federal Reserve members project for interest rates in the future. It also has not changed – they expect two more rate cuts before the end of the year.<sup>21</sup> That said, Nick Timiraos of the Wall Street Journal recently pointed out that the Fed's short-term projections are... shall we say... sketchy. He highlighted

<sup>19</sup> Bloomberg

<sup>20</sup> Bloomberg

<sup>21</sup> Bloomberg



### World Central Bank Rates

1	Switzerland	0.25%
2	Cambodia	0.45%
3	Japan	0.50%
4	Denmark	1.75%
5	Seychelles	1.75%
6	Thailand	1.75%
7	Botswana	1.90%
8	Barbados	2.00%
9	Eurozone	2.00%
10	Taiwan	2.00%
11	Bulgaria	2.07%
12	Cuba	2.25%
13	Sweden	2.25%
14	Morocco	2.25%
15	Cabo Verde	2.50%
16	South Korea	2.50%
17	Algeria	2.75%
18	Canada	2.75%
19	Albania	2.75%
20	Libya	3.00%
21	Malaysia	3.00%
22	China	3.00%
23	New Zealand	3.25%
24	Trinidad and Tobago	3.50%
25	Czechia	3.50%
26	Bolivia	3.82%
27	Australia	3.85%
28	Costa Rica	4.00%
29	The Bahamas	4.00%
30	Kuwait	4.00%
31	Papua New Guinea	4.00%
32	Bosnia and Herzegovina	4.14%
33	United Kingdom	4.25%
34	United Arab Emirates	4.40%
35	United States of America	4.50%
36	Cameroon	4.50%
37	Equatorial Guinea	4.50%
38	Gabon	4.50%

*Handwritten notes:*  
 "JEROME - YOU ARE AS USUAL - TOO LATE". YOU HAVE COST THE USA A FORTUNE - AND YOU SHOULD LOWER THE RATE - BY A LOT!  
 "HUNDREDS OF BILLIONS OF DOLLARS BEING LOST!"  
 "NO INFLATION!"  
 "Should be here" (with arrow pointing to 0.25%)

that in June of 2024 the Fed reduced the number of expected rate cuts from three to one. Without much change in the economic environment, the Fed ended up cutting four times by year end.<sup>22</sup>

President Trump has at times been fiercely critical of Federal Reserve chairman Jay Powell. Trump nominated him during his first term but later soured on this choice. We discussed Trump's criticisms leading up to the election, when the Fed lowered rates by half a percent in a move that some considered politically-motivated. Powell has so far remained steadfast in his desire to stay "above the fray" and data dependent. Trump has promised to replace Powell in May of 2026 when his term runs out. It's not clear whether Trump has the authority to "fire" Powell ahead of that. When rumors swirled that Trump was considering such a move, investors and commentators were alarmed, prompting Trump to directly address the concern and promise that Powell would serve out his term.

Trump's criticisms of Powell have recently escalated. The President (an ex-real estate developer who would be uniquely sensitive to interest rates) believes that rates should be lower, and bristles that Powell wants to assess the potential future impact of tariff

policies. He's even given Chairman Powell a new nickname – "Too Late" – because he was late to raise rates in 2022 and is arguably late to cut them in 2025. Trump has promised to appoint someone who believes that current rates are too high. And if he nominates someone soon, which he has suggested he'll do, that person will have enormous impact even before their term starts. Lame duck Powell can do what he'd like with interest rates for the next nine months, but the next Chairman will certainly make media appearances talking about how he or she will do things different starting in May of 2026. A "shadow" Fed Chairman would be an unprecedented situation. Most anyone who's ever worked under co-CEO's would agree that it's an unsteady arrangement.

The decision for the next Fed Chairman has four frontrunners, including current Treasury Secretary Scott Bessent. It's been suggested that Bessent could take both roles, another unprecedented move which would challenge the traditional "independence" of the Federal Reserve. It's interesting to note that two current Fed governors, Chris Waller and Michelle Bowman, have recently made the case for a July rate cut. It's unclear whether they are merely signaling to Trump to boost their own chances of being nominated. But whether that's the case or not, if they cast dissenting votes in July it will be the first time two governors have dissented in the same meeting since 1993.<sup>24</sup> Typically the Federal Reserve Chairman likes to get everyone on the same page to signal high conviction and a united front. The unfolding drama with the President threatens to upend that routine. (Arguably this is a good thing; the Supreme Court doesn't require unanimous votes. Let the dissenters make their case!)

## **Earn – Bond Market Commentary**

The bond market experienced a positive quarter, though it was not without challenges. The primary bond benchmark – the "Bloomberg US Aggregate Index" – finished higher by roughly 1%, though it was lower for much of the quarter. Its primary risk is rising interest rates,

*President Trump shared a handwritten note he sent to Federal Reserve Chairman Jerome Powell, indicating that interest rates should be closer to 1% than the current level of 4.5%.<sup>23</sup>*

*"I'd love to hear an argument for why Powell cut rates 50 points right before an election but can't do it now with inflation lower."*

*-Vice President JD Vance on X.com (previously Twitter)*

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<sup>22</sup> X.com

<sup>23</sup> X.com

<sup>24</sup> Bloomberg

so when the 10-year yield rose to 4.6% and the 30-year hit 5.0%, the market was challenged. High yield bonds finished higher by more than 3% but experienced a drawdown of more than 3% early in the quarter.<sup>25</sup> Tariff panic raised concerns that corporate defaults would soon rise. With those concerns now mostly alleviated, high yield spreads are once again quite low. That means that investors are receiving less reward for taking the risk from owning these securities.

Similarly, closed-end funds (CEFs) experienced volatility during the quarter but also ended the quarter at expensive levels. Investors see a tempting investment where they can continue to get paid high distributions in an environment where they worry about short-term rates falling. Yield-focused investors are likely considering CEFs as an alternative to money market funds. This, plus solid performance, has generally led to the discounts for CEFs to narrow.

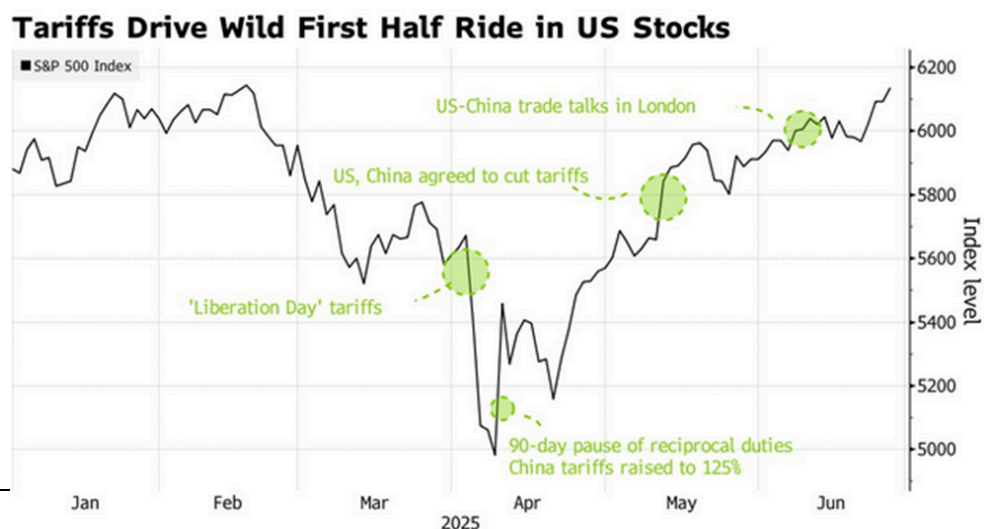
### Flexible Income Portfolio<sup>26</sup>

The Flexible Income Portfolio (FIP) had another positive quarter, slightly outpacing its benchmark. Most of the portfolio experienced low single-digit gains. Our holdings in pipelines were a drag on performance as oil's price reacted poorly to the tariff announcement.<sup>27</sup> While pipelines are less sensitive to the price of oil than they were in the past, they still have a kneejerk reaction when the price of oil experiences dramatic moves lower.

Our Business Development Company (BDC) holdings were the other major detractor from performance. These are companies that make private loans to smaller businesses. We had been reducing our holdings in this asset class earlier this year. We will continue to do so as the prices recover. This is part of our continued broader goal of limiting credit exposure in the portfolio. We aren't concerned with imminent defaults, but we do believe that the current environment is not adequately compensating investors for credit risk.

We continue to reduce our holdings of expensive closed-end funds. When other investors bid up the prices of these funds, we want to take those gains and move the cash into different investments with less volatility and which trade more closely to net asset value. The prices of CEFs typically move in cycles. Because they are large and illiquid holdings we have to be vigilant in selling when it's relatively easy to do so. We will have more opportunities to buy these funds back when discounts get wider. Despite these changes, the distribution rate of the portfolio should continue to remain around these levels.

### Grow – Stock Market Commentary



<sup>25</sup> Bloomberg

<sup>26</sup> See disclosures

<sup>27</sup> Bloomberg

Global stock markets experienced a rollercoaster ride during the second quarter, ultimately ending at new all-time highs. While President Trump set the date for “Liberation Day” in advance, and set expectations for new tariffs, the bizarrely large and abrupt tariffs nevertheless shocked markets. President Trump clearly knew that the tariffs would be impactful to the stock market, as he scheduled the announcement outside of market hours. This was likely to give investors time to digest the news. Digest it they did, and the result was... well this is a family newsletter, so we won't go farther with the analogy.

What followed was one of the worst and fastest selloffs in stock market history. The S&P 500 briefly touched “bear market” territory as it was down 20% from its highs from February. It's not clear whether the market convinced him to change his tune, or if it was his plan all along, but days later Trump postponed the tariffs in order to give countries a chance to negotiate.

What followed was perhaps the most textbook case of “wall of worry” that we will ever see. A

*Tariffs were the main story for the quarter, as rapidly changing tariff announcements sent stocks screaming lower than higher.<sup>28</sup>*

“wall of worry” is the idea that stock markets can perform well in an environment with many negative headlines that are known. So while investors could point to tariffs, recession risk, high interest rates, Middle East tensions, and other issues, these were all understood and the concerns were reflected in the current price of stocks. As one issue after another got resolved,

*Reporter: “Mr. President, Wall Street analysts have coined a new term called the TACO trade. They're saying Trump Always Chickens Out [TACO] on the tariff threats and that's why markets are higher this week. What's your response to that?”*

*President Trump: ... “I chicken out? I've never heard that. You mean because I reduced China from 145% that I set down to 100... and because I gave the European Union a 50% tariff and they called up and they said ‘Please let's meet right now.’ ... You call that chickening out?... It's called negotiation... Don't ever say what you said. That's a nasty question.”*

*-President Trump corrects the record at a press conference on May 28<sup>th</sup>: the TACO trade is classic “Art of the Deal”*

would threaten something big but would rarely follow through with it. We would argue this is nothing new. You might even say that Trump wrote an entire book about it. But it is very funny that traders found a way to reframe his approach to negotiations in a way that Trump finds infuriating.

stocks moved higher. Because of the self-imposed nature of the tariffs – this was a manmade issue with manmade solutions – the market quickly rallied back to all-time highs over the next two months. This was the fastest selloff of 15% to lead to new highs in market history – just 55 days!<sup>29</sup>

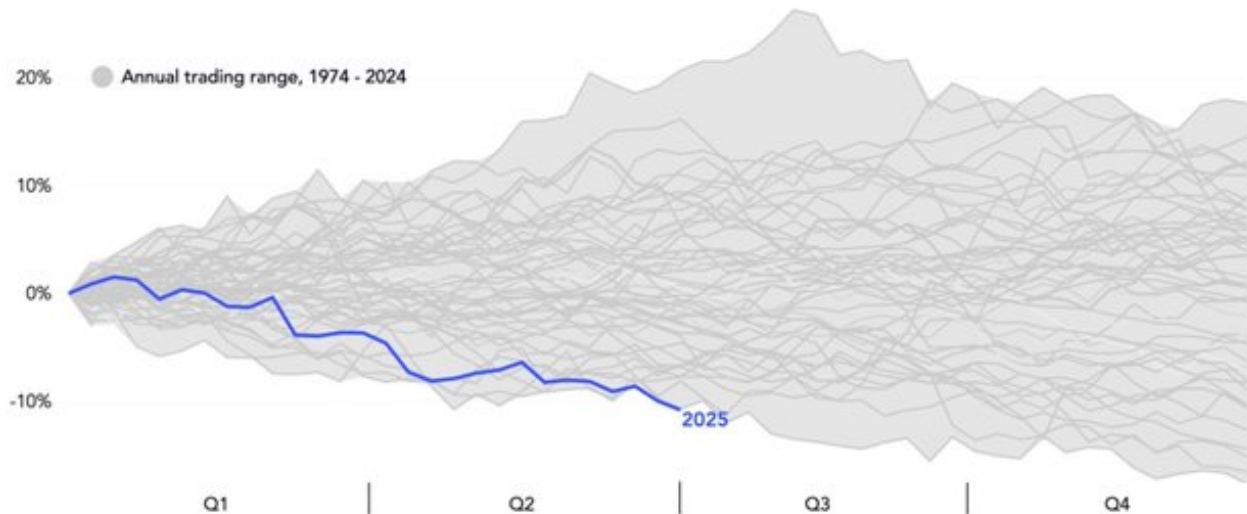
An amusing new acronym emerged during the quarter – TACO – for “Trump Always Chickens Out.” Investors noticed a repeating pattern that Trump

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<sup>28</sup> Bloomberg

<sup>29</sup> Bloomberg

International markets continue to outpace domestic markets, though not to the same extent as earlier in the year. The main driver of this has been the decline in the value of the dollar. For the stock market, this has the effect of enhancing returns for US investors who hold foreign companies with dollars – like us! The 10.7% decline in the dollar for the year is the worst six month decline since 2009.<sup>31</sup> The outperformance of international markets is largely a result of this depreciation. Europe’s performance is 58% from the exchange rate. Japan’s performance



*The Dollar’s first six months of the year are the worst since 1973. It’s the worst general six-month stretch since August 2009.<sup>30</sup>*

is 79% from the exchange rate. The Trump administration appears to be content with the decline. Specifically, it supports exports, which will narrow the trade deficit with the rest of the world.

The stock market has again bifurcated between the Magnificent 7 and “the rest.” The Big Tech stocks that are perceived to be the farthest ahead with Artificial Intelligence did very well during the quarter. The three best Big Tech plays this year are over half of the S&P’s return. Adding in the Big Tech underperformers brings the Mag 7’s contribution down to just 23%. This is the “narrowest” breadth that the S&P 500 has ever seen while making all-time highs. Only 22 S&P 500 stocks are at their own all-time highs!<sup>32</sup>

Small- and mid-cap stocks have performed poorly for years as they continue to struggle to borrow money at high interest rates. If President Trump gets his way and the Fed lowers rates significantly there will be a lot of companies hoping to refinance debt at cheaper levels. Such an environment could lead to the outperformance of smaller stocks.

### ETF Portfolio<sup>33</sup>

The ETF portfolio had exceptional performance during the quarter. This put it roughly inline with major domestic indexes while slightly trailing its global index. The portfolio continues to benefit from its global diversification.

<sup>30</sup> Bloomberg

<sup>31</sup> Bloomberg

<sup>32</sup> Bloomberg

<sup>33</sup> See disclosures

Early in the trade war we significantly reduced our exposure to China. When rhetoric got extremely heated Trump suggested that the US could take action against publicly-traded Chinese stocks. We also note that Chinese stocks trade under a legal arrangement which is murky, and which the Chinese government could weaponize. We thought it better to reduce this exposure until we had more clarity. This turned out not to impact performance in either direction.

Our exposure to Uranium and the nuclear sector was the highlight for the quarter. After selling off post-Liberation Day, it nearly doubled in price. Big Tech firms have been embracing nuclear technology as an obvious solution for powering their Artificial Intelligence data centers. More recently the Trump Administration has put forth executive orders to streamline and promote the development of nuclear technology. Other governments around the world have been moving marginally in that direction as well.

We were fortunate to not have dramatically altered the portfolio during the April tumult since stocks bounced so aggressively. As we make new highs, we have become more cautious. Valuations are again at historically high levels. Valuations can certainly go higher, or earnings could improve to justify these price multiples. But right now we consider the market fully-priced and extremely optimistic.

**From the desk of Jenny, Tracy, Yaelle, Tess & Sophie**

We are excited to announce that we will be moving to our new & permanent office space in early August. Please come visit us at the new address!

Verismo Financial  
320 S. Canal St.  
Suite 2975  
Chicago, IL  
60606

Best regards,



30 S. Wacker St.  
Suite 3910  
Chicago, IL 60606  
312-763-9662

**Frank DeVincentis, CFP**  
Founder, Managing Partner  
Financial Advisor  
NMLS # 1255537

**Craig Eyler, CFP**  
Founder, Managing Partner  
Financial Advisor  
NMLS # 1270172

**Molly Girard, CFP**  
Partner

**Jennifer Huns, CFP**  
Group Director

Financial Advisor  
Branch Manager  
NMLS # 2359441  
312-763-9673

**Scott Tucker, CFA**  
Chief Investment Officer  
Executive Vice President  
312-763-9651

**Yaelle Kimmelman**  
Marketing Director  
Vice President  
Senior Registered Client Associate  
312-763-9603

**Sophie Spence**  
Registered Client Associate  
312-763-9604

Executive Vice President  
Senior Registered Client Administrator  
312-763-9602

**Tracy Weidman**  
Operations Manager  
Senior Vice President  
Senior Registered Client Analyst  
312-763-9652

**Tess Kearns**  
Branch Administrator  
Registered Client Associate  
312-763-9605

**Trey Plummer**  
Client Associate  
312-763-9653

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The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.

The MSCI All Country World Index (ACWI) captures large and mid cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries.

The Dow Jones Industrial Average is a price-weighted index of 30 "blue-chip" industrial U.S. stocks.

The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of 21 developed markets, excluding the U.S. and Canada.

MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of 23 emerging markets.

Bloomberg U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market.