

Market Commentary Second Quarter 2025

Headline news from around the globe can easily rattle investors—even experienced professionals. That phenomenon was demonstrated by sharp sell-offs in the U.S. stock and bond markets in early April as investors reacted to tariffs being raised on imports from many countries, followed by the affected countries' retaliation. The all-time five largest intraday point swings in the S&P 500 happened on April 9, April 7, April 8, April 10, and April 4—in declining order of the size of the change.¹

Unlike many investors who sold stocks in response to the tariff-related April gyrations, we swam against the tide. After all, we remembered that during the first Trump administration markets fell in response to tariffs, but quickly recovered. This was not a structural problem that would take a long time to unwind. The tariff crisis differs from structural challenges like the mortgage crisis that began in 2007, which took two or three years to resolve.

We didn't just stick with existing stock and bond holdings. Instead, we significantly increased our stock market exposure near the market's lows on April 3 and 4, which we funded by selling money market funds and equivalents that we had bought during 2024. We also added to our holdings in fixed-income investments that had fallen in value. Our approach contrasted with that of advisors who may not study the market as closely as we do, or who reflexively

pursue a challenged 60% stocks and 40% bonds allocation because it has done well historically.

Looking forward, one might anticipate a bull steepening of the yield curve, when money market yields are around 3% before tax and inflation is possibly around 2%. In that environment, market funds will have a negative real return. Where might money flow at that point? As a result of our active management, over the year-to-date ended April 4, our Balanced and Income representative accounts fell only 5.3% and 1.89%, respectively, versus a fall of 14.42% for the S&P 500.

In general, we strive to nimbly pursue opportunities that others don't see. Our approach is to analyze the fundamentals of the companies in which we invest and not be distracted by market movements that are likely to be temporary.

We ask two very important questions: Are companies still making money? Will they continue to make money despite the headlines that are roiling the world? These questions require careful analysis because the economy is weakening. Corporations like Amazon and Procter & Gamble are cutting middle management. Caution about spending is now affecting the middle class as well as the less affluent.² In addition, as Federal Reserve Chairman Jerome Powell noted in his comments on June 18, tariffs might boost inflation, and the Fed has cut its economic growth forecast.³

Stagflation—an intractable combination of inflation and stagnant economic growth—seems like a real possibility.

If you pay too much attention to headlines, you'll never buy stocks cheaply. Instead, you'll be fleeing risk that might not hold down otherwise attractive stocks. The stock market typically anticipates good news six to nine months before it occurs. As a result, stock prices can rise while bad news still dominates headlines. Companies can survive and even thrive if their futures aren't negatively affected by world events.

We believe that the world is going to experience much more geopolitical risk, which will discourage many investors from taking advantage of opportunities. Historical patterns suggest that recent headlines created by the conflict between Israel and Iran will not be the last to distract investors.

When I visited China during my children's spring break, it reinforced my interest in looking at changes that brought about the end of dynasties. China's dynasties lasted from 221 B.C. to 1912. The Russian Romanov dynasty ruled from 1613 to 1917. Those two great dynasties ended within five years of each other. Both were subject to forces generated by World War I and the Second Industrial Revolution of 1870 to 1914, which included advances in military technology such as machine guns, planes, artillery, and submarines.

Advances in technology can often destabilize society and end governments. Neither China nor Russia handled change well. For example, Empress Dowager Cixi took money that was meant to upgrade China's navy and spent it on the Summer Palace.⁴ This kind of misguided spending contributed to the fall of China's imperial government. It offers evidence that when governments fail to protect their people, they are eventually overthrown.

More recently, economic issues, including inflation—a widespread problem today—brought down the Iranian shah in 1979.⁵ The Arab Spring protests of 2010 were sparked by a Tunisian fruit vendor who set himself on fire to protest government corruption.⁶

Today, a fourth Industrial Revolution is bringing stressful changes with new technologies such as artificial intelligence (AI). It's unclear whether AI will improve workers' lives or make it harder for workers to find rewarding employment.

I remain alert for opportunities that may arise, especially with pullbacks in stock prices.

As always, thank you for the trust you have placed in me and in 7Summit Advisors. We work hard to earn that trust each day.

Sincerely yours,

Li Chang

¹ "List of largest daily changes in the S&P 500 Index," Wikipedia, last modified May 27, 2025, https://en.wikipedia.org/wiki/List_of_largest_daily_changes_in_the_S%26P_500_Index.

² Sarina Trangle, "McDonald's Says Middle-Income Americans Are Feeling Squeezed Now Too," Yahoo Finance, May 1, 2025, <https://finance.yahoo.com/news/mcdonalds-says-middle-income-americans-201716394.html>.

³ Darla Mercado, "Fed decision recap: Central bank signals stagflation fears, Powell says Fed 'well positioned to wait' on rates," CNBC, June 18, <https://www.cnbc.com/2025/06/18/fed-meeting-live-updates-feds-interest-rate-projections-loom.html>.

⁴ "Summer Palace and Empress Dowager Cixi," Facts and Details, last updated May 2020, <https://factsanddetails.com/china/cat15/sub94/entry-6457.html>.

⁵ "Iranian Revolution [1978–1979]," Britannica, <https://www.britannica.com/event/Iranian-Revolution>.

⁶ Thessa Lageman, "Remembering Mohamed Bouazizi: The man who sparked the Arab Spring," Al Jazeera, Dec. 17, 2020, <https://www.aljazeera.com/features/2020/12/17/remembering-mohamed-bouazizi-his-death-triggered-the-arab>.