STOKES CAPITAL ADVISORS, LLC

Market Commentary
June 30, 2025

Quarterly Market Review

Q2 2025 was marked by volatility driven by geopolitical and policy uncertainty, particularly around U.S. trade tariffs and Middle East tensions. Despite a rocky start, global equity markets rebounded strongly, buoyed by resilient economic data, easing trade tensions, and robust corporate earnings.

Key Market Drivers Q2

U.S. Trade Policy: The announcement of “Liberation Day” tariffs in April triggered a sharp market selloff. However, a subsequent 90-day suspension and progress in U.S.-China trade talks helped restore investor confidence.

Middle East Conflict: Tensions between Iran and Israel spiked volatility but had limited long-term market impact. Oil prices briefly surged to $80/barrel before retreating to $68.

Central Bank Actions: The ECB cut rates twice, signaling the nearing end of its easing cycle. The Fed held rates steady, shifting focus to fiscal policy and debt sustainability.

Equities Summary Q2

U.S.: The second quarter of 2025 was a tale of two halves for U.S. equities—starting with a sharp selloff and ending with a powerful rebound that pushed major indexes to new all-time highs. The S&P 500 gained 10.9% in local currency terms for the quarter to close at 6,204, eclipsing the February 19th record high of 6,144. Tech and AI-related stocks, especially the “Magnificent 7,” led the rally with an 18.6% return. Below is a summary of how the major sectors in the U.S. equity market fared during the quarter.

Sector	Q2 %	Notes
Communications	10.9%	Ad revenue rebound, AI optimism
Industrials	10.7%	Defense spending, infrastructure spend
Utilities	9.6%	Rate stability, defensive rotation
Technology	8.7%	AI led rally, cloud services growth
Financials	6.8%	Yield curve steepening, solid earnings
Staples	4.2%	Resilient demand, steady margins
Energy	-0.3%	Oversupply concerns, oil price volatility
Health Care	-1.4%	Regulatory headwinds, weak sentiment
Discretionary	-3.1%	Tariff impacts, consumer spending

Europe: Eurozone equities rose, led by industrials and real estate. Defense stocks benefited from increased NATO spending commitments.

Emerging Markets: EM equities returned 12.2% in USD terms, aided by a weaker dollar and improved trade sentiment.

Fixed Income Summary Q2

U.S. Treasury yields spiked in April but stabilized as trade tensions eased. However, concerns shifted toward long-term debt sustainability while the path of fiscal policy for the United States remained uncertain. The Federal Reserve’s policy stance in the second quarter of 2025 was defined by caution, complexity, and a balancing act between their dual mandate: price stability and maximum employment. The Central Bank maintained their Fed Funds target rate at 4.25% to 4.50% as the impact from the Trump Administration’s Tariff proposals kept policy makers from considering a rate cut during the quarter. However, the market continues to expect two quarter-point rate cuts by year end while the Fed’s June “Dot Plot” hinted at only one rate cut in 2025, creating a disconnect with market expectations. European bonds rallied on ECB rate cuts, while credit spreads narrowed globally amid improving risk sentiment.

Currencies & Commodities Q2

The second quarter of 2025 was a whirlwind for global currency markets, shaped by shifting central bank policies, geopolitical tensions, and the fallout from U.S. trade tariffs.

The U.S. Dollar Index fell 7.1%, boosting returns for dollar-based investors in foreign markets. This decline was driven by policy ambiguity from the Federal Reserve and tariff-related uncertainty, which dampened investor confidence.

The second quarter of 2025 was one of the most volatile periods for commodities in recent years, driven by geopolitical tensions, shifting supply-demand dynamics, and investor flight to safe-haven assets.

Despite brief spikes, broad commodities underperformed with a -3.1% return for the quarter. Gold soared to new all-time highs, fueled by tariff-related uncertainty and demand for safe-haven assets. After a strong Q1, energy markets reversed in Q2. Crude oil was volatile, spiking briefly due to Middle East tensions and fears of a Strait of Hormuz shutdown. However, OPEC's production increases and oversupply concerns weighed heavily on sentiment. Brent Crude futures finished the quarter at $67/bbl and has been in backwardation since November 2022, a market condition in futures trading where the current spot price of an asset is higher than its futures price. This typically signals that traders expect the asset's price to decline over time, and it often reflects short-term supply shortages or spikes in demand.

Investment Strategy & Outlook

Despite all the drama, markets have demonstrated remarkable resilience year to date. However, investors remain cautiously optimistic heading into Q3, while risks remain—from unresolved tariff disputes to potential stagflation.

Even in the wake of these risks, Wall Street analysts continue to raise their earnings estimates and subsequent year end price targets for 2025 and see the broader equity market higher by year end ranging from 6,500 to 7,000 for the S&P 500. Based on the June 30 close of 6,204 that would be a 5% to 12% gain in the back of 2025. I would think most investors would be thrilled with that outcome.

For this forecast to become a reality, essentially everything must go exactly right. Earnings will need to beat analyst estimates, consumers must continue to spend, inflation will need to remain under control, no cracks can surface in the labor market data, the Fed will need to cut rates, geopolitics must cool down and the Tariff uncertainty will need to be resolved. While this is quite a list, there are no preset conditions for equity markets to remain risk-on and for bull markets to continue. As the saying goes, "markets can stay irrational longer than you can stay solvent". However, there is another old saying too," Bull markets don't die of old age, they are murdered".

If history is a guide, here are a couple of suspects that may trigger the end to this bull market: **(1) Monetary Policy Mistakes** – The Federal Reserve has historically been either late or early with their policy prescriptions. The Fed is data dependent which is backward looking. In addition, the Fed's summary of economic projections or SEP while has been a valuable tool for understanding policymakers' expectations, its track record for accuracy is mixed. The 2000 and 2007 bull markets both ended after the Federal Reserve aggressively tightened monetary policy as it was late in grappling with their inflation mandate.

The second suspect: **(2) Asset Bubbles & Valuations** – Bull markets often lead to a valuation issue and in extreme cases an asset bubble can form. The higher valuations rise, the more susceptible they are to monetary policy mistakes. In 2000, the Dot-com bubble burst. The Fed's restrictive monetary policy had a cascading effect on equity valuations and indiscriminate, panic selling brought down the entire market. The 2008-2009 financial crisis was a twin bubble of asset valuation and excessive use of leverage or debt. The Federal Reserve started raising short term interest rates in 2004 when Fed Funds were 1.00% and continued tightening policy until September 2006; Fed Funds peaked at 5.25%. When tremors emerged in the sub-prime mortgage market, it was too late. Banks were in trouble, and you know the rest of that story.

Fortunately, we don't have any of these conditions present in the capital markets today. The Federal Reserve acknowledges their policy is restrictive and would have most likely further lowered short interest rates in Q2 if the Tariff uncertainty did not exist.

The valuation concern is valid with the broader market trading at more 25 times trailing 12-month earnings, but this is a far cry from the 2000 valuation of 44 times earnings. Lastly, earnings growth remains strong with 11% growth in 2024, and 10% growth expected for 2025.

Capital Markets Scorecard

Benchmark Description	Q2	YTD
U.S. Treasury 3 Month T-Bill	1.05%	2.10%
Barclays Aggregate Bond Index	1.21%	4.02%
Bloomberg US High Yield Bond	3.53%	4.57%
S&P 500 Index Total Return	10.94%	6.20%
S&P 500 Equal Weight Index Total Return	5.46%	4.82%
NASDAQ Composite Total Return	17.96%	5.85%
S&P U.S. Dividend Growers Total Return	5.99%	5.49%
Russell 2000 Index Total Return	8.50%	-1.79%
Alerian MLP Index Total Return	-4.91%	7.06%
MSCI Emerging Markets Index	8.13%	10.98%
China SCI 300 Index Local Currency	2.38%	1.37%
U.K. FTSE 100 Index Local Currency	3.19%	9.50%
Japan Nikkei 225 Index Local Currency	13.87%	2.58%