D|A|DAVIDSON
WEALTH MANAGEMENT

Market & Economic Outlook July 2025: Pivots Over Divots

Major Equity Indices	Value (6/30/25)	2Q25 (3/31/25 - 6/30/25) Price Return	2Q25 (3/31/25 - 6/30/25) Total Return*	2025 YTD (12/31/24 - 6/30/25) Price Return	2025 YTD (12/31/24 - 6/30/25) Total Return*
S&P 500	6,204.95	10.6%	10.9%	5.5%	6.2%
Dow Jones Industrial Average	44,094.77	5.0%	5.5%	3.6%	4.5%
NASDAQ Composite	20,369.73	17.7%	18.0%	5.5%	5.9%
Russell 2000	2,175.04	8.1%	8.5%	-2.5%	-1.8%
Russell 1000 Value	1,181.45	3.2%	3.8%	4.9%	6.0%
MSCI EAFE (USD)	2,654.79	10.6%	12.1%	17.4%	19.9%
MSCI Emerging Markets (USD)	1,222.78	11.0%	12.2%	13.7%	15.6%

*Data Source: FactSet, as of 6/30/25; Further discussion of market indices can be found in the Appendix section. Price returns refer to the change in prices from the beginning of the period to the end of the period. *Total Return includes dividends and assumes reinvestment.*

Outlook Summary:

U.S. financial markets began the second quarter (2Q25) under duress but ended the period upbeat as major equity indices rode a momentum-driven reversal to close at all-time highs. At the forefront of the market turnround was a tariff policy pivot (from the Trump Administration) that set expectations for trade deals and tariff delays, reducing the risk of aggressive sudden tariffs causing an immediate slowdown (an economic "divot") and potential recession. Following better-than-expected 1Q25 earnings results and mostly tame 2025 inflation data, we have revised our S&P 500 fair value estimate modestly higher, now at 6,100 (from 5,800 in April). We still see the potential for a relatively wide trading range between 5,200 to 6,600, which can be influenced by potential positive and negative factors. As we discussed in our April market outlook, "Tariffs On Cats and Dogs," the announced universal and reciprocal tariffs on 4/2/25 (aka "Tariff Liberation Day") reflected peak investor uncertainty, which quickly reversed starting on 4/9/25 when many tariffs were delayed. Investor sentiment improved throughout the quarter as consumer spending was resilient, economic data trended above 1Q25 levels, interest rates settled into a narrow range, and the President's 2025 budget bill moved toward completion ahead of schedule (ultimately signed on 7/4/25).

With the S&P 500 equity index at all-time high levels (closing price of 6,279 on 7/3/25), we believe investors are pricing in more upside surprises to corporate earnings and economic growth estimates. While these optimistic outcomes are possible, particularly as we look to late 2025 or 2026, the near-term outlook is more subdued as 2Q25 year-over-year (Y/Y) earnings growth estimates reflect deceleration, and the outlook for quarterly Y/Y economic growth over the balance of 2025 has trended lower. Market valuations (using price-to-earnings, or P/E, ratios) are once again elevated, which may limit upside potential absent upside surprises, but investors will reward companies, in our view, that generate predictable earnings and cash flow and strengthen competitive positions. We believe that investors expect announced trade deals to replace tariffs and lack of progress on this front remains a risk in the second half of 2025. Below are our key investor topics as of July 2025.

1. Our S&P 500 fair value estimate is 6,100, and we see a potential trading range of 5,200 to 6,600.
2. Lofty equity market valuations could limit near-term upside, but value can be found.
3. Long-term interest rates are likely to remain elevated, even as the Fed lowers fed funds targets.
4. U.S. economic growth has slowed, but markets see potential for more than a soft landing.
5. We expect ongoing market volatility, creating portfolio rebalancing opportunities.

S&P 500 Price: 12/31/2019 - 6/30/2025

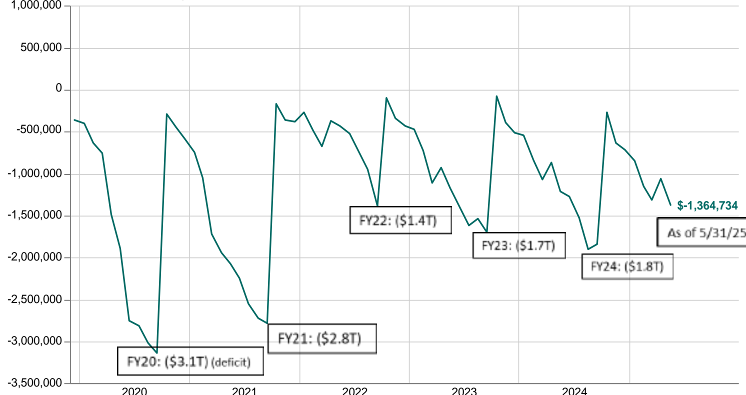
Data Source: FactSet, as of 6/30/25. S&P 500 daily closing prices, 12/31/19 to 6/30/25. Price return does not include dividends.

Second quarter review. The S&P 500 increased an impressive +10.6% on a price basis (+10.9% total return, including dividends) in 2Q25, reflecting a strong recovery from 1Q25's -4.6% decline. After dropping -0.8% in April, the index posted consecutive gains of +6.2% and +5.0% in May and June, respectively. April included an -11.2% drop to start the month (3/31/25 to 4/8/25) following escalating tariff announcements. From the index closing low of 4,983 on 4/8/25, the S&P 500 price was 6,205 on 6/30/25, an increase of +24.5%. The rally from lows was largely concentrated in growth- and technology-centric sectors and indices, fueled by increased tolerance for risk as tariff and recession fears subsided and by positive market momentum. We define growth stocks as companies and sectors that carry expectations for higher sustained growth rates for revenue, earnings, and cash flow. While the S&P 500 is considered to skew moderately towards growth, the two most widely followed large-company growth indices are the Nasdaq Composite and Russell 1000 Growth. These two indices led the way in 2Q25 with respective price increases of +17.8% (Nasdaq Composite) and +17.7% (Russell 1000 Growth). The alternative to growth stocks are value stocks, which we define as companies and sectors that typically trade at valuations (P/E and other factors) that are lower than market and/or peer group averages. The large-company Russell 1000 Value gained +3.2% in 2Q25, significantly lagging the broader market. International stocks also performed well in 2Q25, adding to 1Q25 gains. The MSCI Europe, Far East, and Australasia (EAFE) index, a proxy for developed foreign markets, and MSCI Emerging Markets index posted double-digit percentage increases in 2Q25, both extending gains from the first quarter. Both indices were quoted in U.S. dollar terms, and thus benefitted from a weaker dollar in the quarter (the trade-weighted U.S. dollar index ended 2Q25 at 96.88, down -7.0% from 104.21 at the end of March), but international equity gains have also been helped by global portfolio rebalancing as investors see lower valuations in many international indices relative to U.S. equities.

The yield on the U.S. 10-year Treasury bond, which we track as a proxy for long-term interest rates, ended 2Q25 at 4.23%, nearly identical to 4.21% on 3/31/25, but the yield moved to a low of 4.01% on 4/4/25 (as investors feared a tariff-driven recession), spiking to 4.60% by mid-May as negotiations on the 2025 budget bill did very little to address the U.S. annual federal budget deficit. Both fears subsided by the end of the quarter, although the ever-growing national debt is likely to remain a recurring concern for investors as bond investors could demand higher yields over time, keeping interest rates higher. During 2Q25, on 5/16/25, Moody's Ratings downgraded the U.S. credit rating to Aa1, down one notch from Aaa previously (its highest rating). While Moody's emphasized that the U.S. still "retains exceptional credit strength," the agency also believes the U.S. should consider a combination of spending cuts and higher taxes to alleviate long-term credit risks.

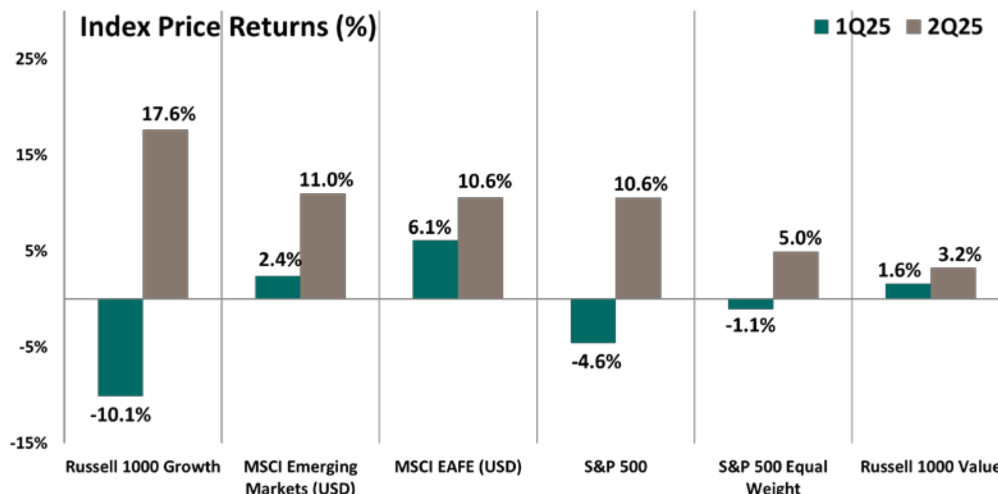
US 10-Year Treasury Yields (past 10 years)

Federal Budget: Annual Surplus / Deficit (year-to-date; in millions)



Data source: Daily closing Treasury yields from FactSet, as of 7/14/25. Years are calendar years. U.S. Department of the Treasury, Daily Treasury Statement. Years for government debt are fiscal years ending September 30th. T is trillions.

Tale of two quarters. For growth-focused indices, such as the Russell 1000 Growth and Nasdaq Composite, 2Q25 gains reversed large 1Q25 declines. This was true for the S&P 500 as well (which skews growth due to the market capitalization (cap) dominance of its largest constituents). The value indices were more balanced, and the Russell 1000 Value index posted gains in both quarters. The S&P 500 Equal Weight index, which neutralizes the impact of the large cap stocks, was also balanced, posting a modest -1.1% decline in 1Q25, reversing to a 2Q25 increase of +5.0%.

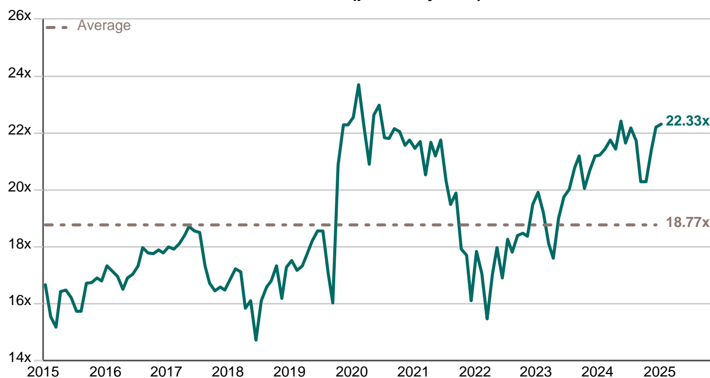


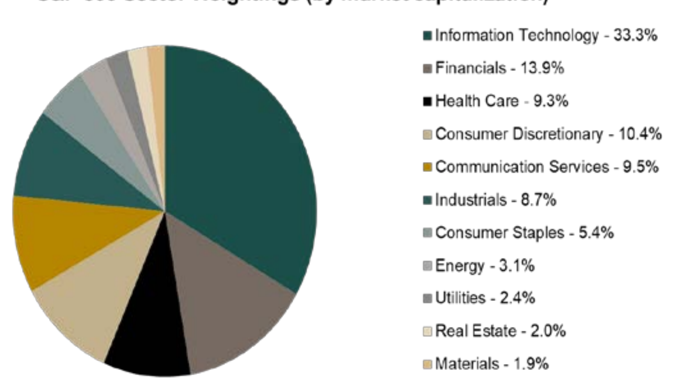
Data Source: FactSet and exchange data, using closing prices. 1Q25 is 12/31/24 - 3/31/25 and 2Q25 is 3/31/25 - 6/30/25. Index descriptions can be found on page 8 in the disclosures. Price return does not include dividends.

The outperformance of growth vs. value indices in 2Q compared to 1Q was a reversal of large underperformance of growth in the first quarter. Investors have digested multiple disruptive, domestic political and global geopolitical events that have contributed to financial market volatility in 2025. This included President Trump returning to the White House for a non-consecutive second term in late January, and immediate uncertainty tied to the "Department of Government Efficiency" (DOGE) and global universal tariffs. DOGE fears settled down over time as the labor market impact was mild, and the federal government continued to operate. The tariff debate remains in full force as markets fear that large global tariffs can either derail economic growth (if higher prices erode demand) or crimp corporate earnings (higher costs can weigh on margins), or both. Markets breathed a sigh of relief when escalating tariffs were delayed and, in our view, the investor outlook has evolved to accept some level of more permanent tariffs as likely, but the threats of tariff escalation are being used as a negotiating strategy that can lead to bilateral trade deals. At the same time, the Trump Administration appears prepared to pivot policy away from extremes if perceived economic headwinds rise and investor sentiment is shaken. With a current average tariff rate somewhere between 10% to 15% on all imported goods, this could result in more than $300 billion (B) of added costs to be absorbed, at least partially, by consumers and businesses. While investors have become more comfortable with those numbers, it remains uncertain regarding the near-term impact on consumer spending and corporate earnings. The President's budget bill, the One Big, Beautiful Bill Act, was signed into law in early July and included an increase in the debt ceiling and a permanent extension of the 2017 reduction in individual tax provisions, along with new temporary tax reductions (tax breaks on tips, overtime pay, and Social Security payments for many), that were viewed as expensive (by reducing tax revenue received by the government). Increases in defense spending and border security were paid for with cuts and efficiencies to some safety-net programs. The initial equity market reaction to the bill was positive, which we attribute both to its completion (removes uncertainty) and pro-growth takeaways from accelerated depreciation provisions that can stimulate business investment. In addition, federal receipts will be enhanced by tariff payments, helping to offset the deficit. Investors also contended with U.S. joining Israel to attack Iran's nuclear facilities and seemingly stalled peace negotiations between Ukraine-Russia and Israel-Hamas, highlighting significant global uncertainty.

For the first half period, 12/31/24 to 6/30/25, the growth vs. value discrepancy evened out with the total return (including dividends) of the S&P 500 of +6.2% only modestly better than the Nasdaq Composite total return of +5.9% and the Russell 1000 Value total return of +6.0%. The Russell 2000 index, the most widely followed measure of small-company stocks, despite a 2Q25 total return of +8.5%, was down -1.8% for the year-to-date, as of 6/30/25. Growth sectors and indices had a volatile first half of 2025 (1H25), while value sectors and indices were more steady (lower lows and a modest rebound). The net result was largely positive for equity investors, especially those who stayed invested, followed their long-term investment plans, and rebalanced portfolios as needed.

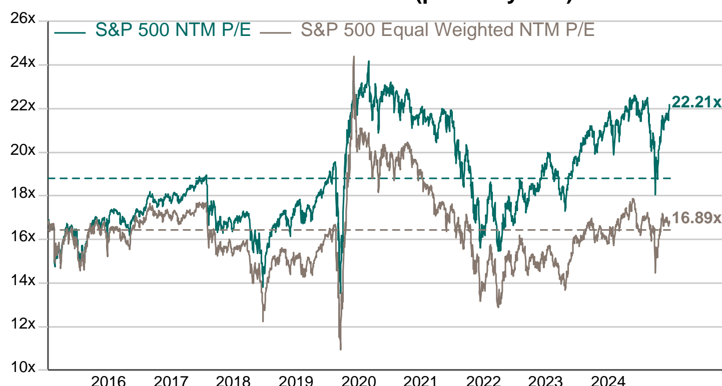
Our S&P 500 fair value estimate is 6,100 with a potential trading range (still wide) of 5,200 to 6,600. Our 6,100 FV level is 5% above our 1Q25 fair value estimate and reflects the recent trends of resilient economic data and solid 1Q25 Y/Y earnings results, as well as expected earnings growth in 2Q25. Our fair value is 2% below the S&P 500 closing level on 6/30/25 and represents a full-year price gain of about +4%, and a full-year total return (including dividends) above +5%. As of 6/30/25, the S&P 500 traded at 22.4x the FactSet consensus earnings estimate over the next four quarters of $278. This represents a 19% premium to the 18.6x P/E (one-year forward earnings estimates) average since 2014 (a 10-year period of relatively elevated valuations). Our 6,100 FV is 21.9x that next twelve months consensus estimate and 20.4x the 2026 consensus estimate of $305. Valuations have accelerated since our April update (at that point, the S&P 500 traded at 19.4x next four quarters' earnings estimates), which we attribute to less uncertainty (progress on tariffs and a signed budget bill) and an improving economic outlook (recovering from early second quarter pessimism). Our upside range of 6,600 represents a P/E of 22.1x the 2026 consensus earnings estimates (which assumes Y/Y earnings growth of +14%). This level is achievable if a series of high expectations (positive tariff and inflation outcomes, stable interest rates, and positive earnings and economic growth trends) are met, but negative surprises in any of these factors could cause resumed volatility. Our downside S&P 500 range of 5,200 is 16% below 6/30 levels and is not our base case but rather reflects the potential for earnings or economic growth to falter. Under this scenario, if 2026 earnings growth remained positive but slipped to +5% ($276), the S&P 500 forward P/E would be 18.8x, roughly in-line with its 10-year average. With tariff threats once again escalating in early July, we will pay close attention to commentary on consumer spending trends, margin pressure, and capital spending plans as companies begin reporting 2Q25 financial results. In our view, investors are looking for confirmation that uncertainty has receded and visibility has improved.

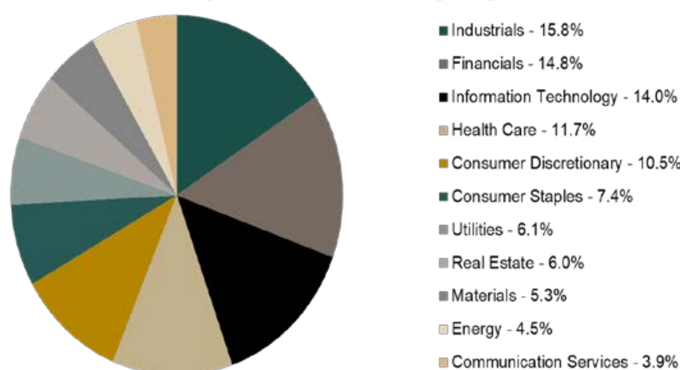




Data source: FactSet, using exchange data, as of 6/30/25. Shows ratios over the past ten years, 2015 to 2025. Dotted lines represent the average over the period. *See Other Disclosures on page 8 for further discussion of P/Es and S&P 500 sector weightings.*

Lofty equity market valuations could limit near-term upside, but value can be found. As we have discussed, the S&P 500 trades above 22x forward earnings estimates, a 19% premium to its average P/E over the past 10 years. While P/E ratios are an unreliable tool to predict market inflections, we do not expect the S&P 500 to sustain P/Es above 22x for long periods of time. The market P/E could adjust lower if the index trades lower (as we saw in 1Q25 and early April), but the P/E could also come down if earnings exceed expectations and estimates move higher. However, with 2026 earnings growth estimates already approaching +14%, even hitting that number will be a challenge. With 2025 now more than half complete, investors will begin to look toward potential 2026 results (and even 2027 in some cases), but significant uncertainty remains this year, which could limit upside in indices and sectors that trade well above long-term average valuations. We continue to see relative value in the Equal Weight S&P 500 (EWSP), an index that removes market capitalization concentration of the largest S&P 500 companies (and thus emphasizes the "average" stock). The EWSP traded at 16.9x estimated forward earnings (as of 6/30/25), a slight premium to its 10-year average P/E of 16.4x. The EWSP also trades at a wide discount to the S&P 500, with the current P/E (16.9x) 24% below that of the S&P 500. This compares to the average discount of 13% over the past 10 years. Multiple factors can contribute to the valuation discrepancy, but we point to the outperformance of growth stocks vs. value stocks over the past several years and the influence of technology investment on the economy across multiple sectors. However, we expect the discrepancy to narrow over time and believe potential valuation expansion from current levels is more likely to come from discounted areas of the market, such as the EWSP. One way to gain this exposure is to manage sector exposure. The four largest sectors by weight in the EWSP are Industrials, Financials, Technology, and Health Care, comprising 56% of the index (as of 6/30/25). The top four sectors in the S&P 500 – Technology, Financials, Consumer Discretionary, and Communication Services – comprise 67% of the index. Technology represents 33% of the S&P 500, but just 14% of the EWSP. Conversely, Industrials, at 16%, is the largest weighted EWSP sector, vs. 9% in the S&P 500.





Data source: FactSet, using exchange data as of 6/30/25. P/E ratios are shown over the past 10 years from 6/30/15 to 6/30/25. Green line is the S&P 500, dotted line is the 10-year average, gray line is the EWSP P/E with dotted line its average. EWSP sector weightings based upon the number of companies in each sector.

S&P 500 GICS Sectors Earnings Growth & P/Es

(6/30/2025)	Earnings Growth 2025 E	P/E 2025E	3 Year E ('25-'27) Earnings Growth	PEG '25 PE / 3 Year growth
Consumer Staples	0.1%	23.7	5.0%	4.7
Real Estate	1.7%	18.4	5.1%	3.6
Consumer Discretionary	0.9%	30.8	10.1%	3.1
Utilities	6.7%	18.7	7.9%	2.4
S&P 500	**9.3%**	**23.6**	**11.8%**	**2.0**
Info Technology	18.0%	31.6	15.8%	2.0
Industrials	8.9%	26.1	13.1%	2.0
Energy	-11.8%	16.3	8.8%	1.9
Materials	8.9%	21.5	12.4%	1.7
S&P 500 Equal Weight	**6.4%**	**17.9**	**10.4%**	**1.7**
Financials	5.6%	18.0	10.4%	1.7
Communication Services	17.3%	20.9	13.0%	1.6
Health Care	15.1%	17.3	12.5%	1.4

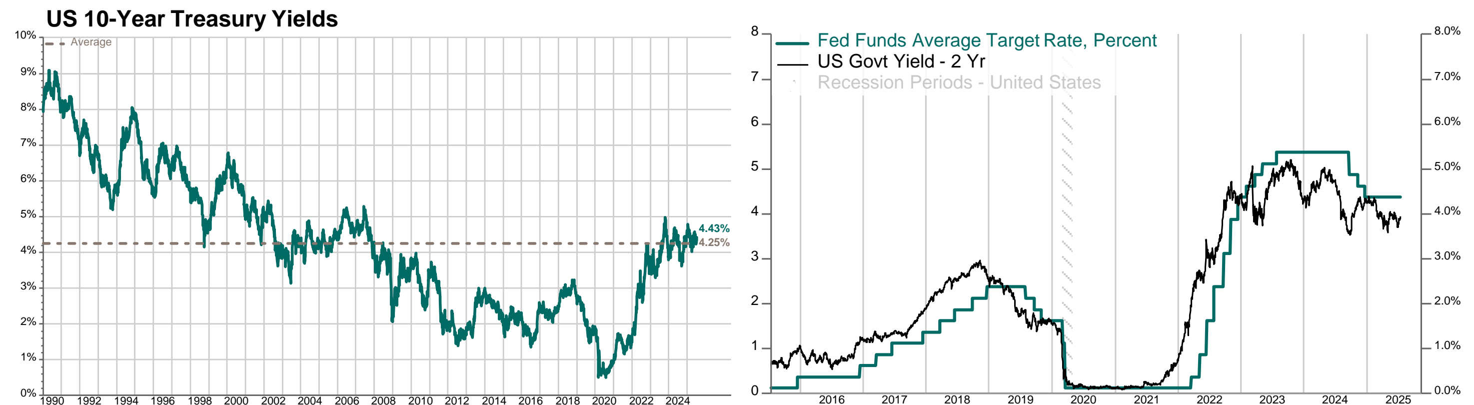
Data source: FactSet, using exchange data, as of 6/30/25. Earnings growth for 2025 is the FactSet consensus estimate, and the 3-year (2025-2027) growth rate is the average (mean) over the period. The P/E is the closing price of the sector or index on 6/30/25. The P/E to growth or PEG is a ratio of the 2025 P/E divided by the 3-year growth estimate.

Several S&P 500 sectors trade at a discount to the broader index when adjusting P/E multiples to account for expected annual earnings growth. Typically, we expect investors to pay higher multiples for companies and sectors that have higher expected earnings growth. This makes sense when one accepts that the price of a stock should reflect future expected earnings and cash flow. The S&P 500 Technology sector trades at 31.6x estimated earnings for 2025 (estimated to grow +18.0%). This is the highest sector multiple in the index, and also the highest earnings growth rate. Using the 2025 P/E multiple and dividing by the average earnings growth over the next three years, gives the P/E-to-growth, or

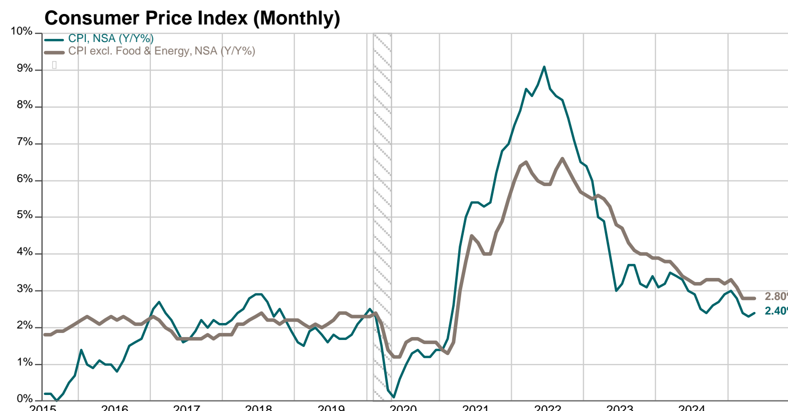
PEG, ratio. Three sectors trade at a PEG ratio that is lower than both the S&P 500 and EWSP: Health Care, Communications Services, and Financials. Technology and Industrials trade at a PEG of 2.0, matching the S&P 500, and on that basis do not appear overvalued.

Long-term interest rates are likely to remain elevated, even as the Fed lowers fed funds targets. 2025 has included much investor discussion about the direction of short-term interest rates, especially the overnight bank lending fed funds target that is managed by the Federal Reserve Bank (Fed). After lowering the fed funds target range by -100 basis points (bp) over three Fed meetings in late 2024 (September, November, and December), the fed funds target range was 4.25% to 4.50% at year-end. In December, Fed Chair Jerome Powell shared the view of moderating inflation, weak housing data, and slowing, but resilient, U.S. consumer spending. December 2024 consumer inflation, as measured by the consumer price index, or CPI (from the Bureau of Labor Statistics), was +2.9% year-over-year (Y/Y vs. December 2023), and core CPI (excludes food and energy prices) was +3.2% Y/Y. In May 2025, CPI and core CPI were +2.4% and +2.8%, respectively. While still above the Fed's +2.0% inflation target, the trend has moved lower (although slowly). The Fed believes that its current fed funds target of 4.25% to 4.50% is "restrictive" (limits economic growth) and slowing economic growth could likely benefit from lower interest rate targets. But the Fed is concerned that tariffs and potential tariffs will disrupt the trajectory of lower inflation in the months ahead. The Fed's Open Market Committee has held four scheduled meetings in 2025 (January, March, May, and June) and has kept its fed funds target unchanged each time. With four additional meetings scheduled through year-end (the next meeting ends on 7/31/25), we expect the Fed to lower its target -0.50% to 3.75% to 4.25%, most likely with the first of two -25 bp cuts coming at the September meeting. Since mid-2021, the U.S. 2-year Treasury yield, which we view as a proxy for short-term interest rates, has accurately predicted changes to the fed funds target, albeit with a several months lag. The 2-year Treasury yield was 3.89% as of 7/11/25, suggesting a bond market view that a -0.50% reduction in the Fed's rate target is possible.

A reduction in the fed funds target does not, however, ensure lower rates across the yield curve. Treasury yields are set by the market and are influenced by several factors, including economic growth and inflation trends, global demand for U.S. securities, and increasing supply of Treasury bonds due to annual budget deficits. The U.S. 10-year Treasury bond is a bellwether for long-term interest rates and influences economic activity as a reference for borrowing rates on mortgages, cars, construction projects, and business loans, etc. From mid-2008 to late 2022, the U.S. 10-year Treasury yield remained below 4.0%, and spent long periods below 2.0%. Since November 2022, the yield has mostly been above 4.0%, with high rates due to accelerating inflation (2022 to 2024), and more recently due to inflation fears, tariff uncertainty, and government debt. While many believe that lower inflation will support long-term interest rates moving to lower levels of the recent past, we point out that since 1990 (35 years), the 10-year Treasury yield has averaged 4.25%, only slightly below the yield of 4.42% as of 7/11/25. The "real" 10-year Treasury yield, which subtracts the inflation rate from the 10-year yield, is currently (7/11/25) 1.87%, which subtracts inflation of 2.55% from the 4.42% yield. Since late 2002, the real yield has mostly been below 2.0%, but prior to that, real yields were often above 2.0%. Given high levels of tariff and budget deficit uncertainty in 2025, we believe that real rates could remain higher than many investors expect, which could keep 10-year Treasury yields above 4.25% even if the Fed lowers the short-term fed funds targets.

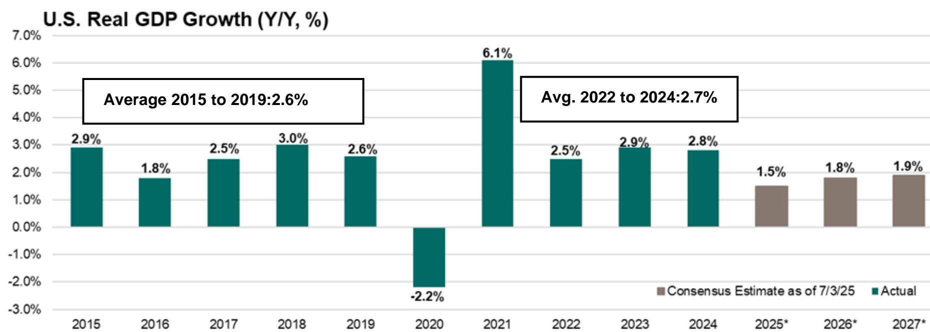


Data Source: FactSet and U.S. Treasury, as of 7/14/25. Yields are based upon the daily closing prices of U.S. Treasury bonds (2-year and 10-year). The fed funds target rate is the midpoint of the Federal Reserve Bank's target range, which is published by the Federal Reserve.



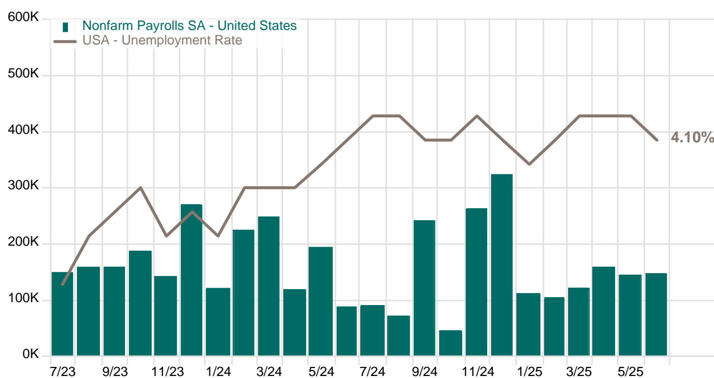
Data Source: FactSet and U.S. Bureau of Labor Statistics (BLS). CPI (green line) year-over-year (Y/Y) change in consumer prices monthly compared to same month prior year. Core CPI (gray line) excludes food and energy prices. Reported monthly, as of 5/31/25.

U.S. economic growth has slowed, but markets see potential for more than a soft landing. U.S. economic growth, as measured by gross domestic product, or GDP (reported by the Bureau of Economic Analysis, BEA), is expected to slow from post-pandemic (2022 to 2024) levels. The BEA reports real GDP (GDP), which adjusts for inflation. The 2025 FactSet consensus estimate (from Wall Street economists) for GDP is +1.5%, and the estimate has trended lower since our April market outlook when the consensus was +2.0%. This is partially due to the 1Q25 GDP data, which was down -0.5%, and revised lower GDP growth estimates for the second half of 2025 (3Q25 and 4Q25). The -0.5% decrease in 1Q25 GDP was attributed to adjustments for imports and inventories, which were impacted by tariff preparations as companies and consumers pulled forward goods and input materials ahead of expected price hikes. Imports are a subtraction to GDP as the goods are not produced in the U.S., but if those inputs are used in production to build inventories, some of that is added back. The net impact of the imports and inventory adjustment in 1Q25 subtracted -200 bp from GDP (excluding the adjustments GDP increased +1.5%). The impact is expected to reverse in 2Q as companies slowed the pace of imports and used some of the inventory. This could take the reported 2Q25 GDP report above the +1.6% consensus estimate. Over the past 9 years (37 quarters), the average adjustment for imports and inventory is just -20 bp on a quarterly basis, and government spending also typically adds to GDP data. Annual GDP strength in 2023 (+2.9%) and 2024 (+2.8%) was helped by government spending growth that exceeded long-term averages. The recent budget bill (One Big, Beautiful Bill) maintained modest spending increases. While deficit hawks pressed for larger spending cuts, the contribution of government expenditures is expected to be positive in the quarters ahead. We watch the combined impact of consumer spending (personal consumption expenditures, or PCE), business investment (non-residential fixed investment), and housing (residential fixed investment) to track the vitality of the private economy. On that basis, growth slowed in the first quarter but remained solidly positive. The combined contribution of those three categories was +1.6%, vs. an average of +2.0% across all quarters since the beginning of 2016. We believe that the contribution will remain positive over the balance of this year, but GDP growth is not accelerating in the current environment. We define a "soft landing" as GDP growth that remains positive but falls below the long-term potential. A 2025 soft landing would be growth between +1.0% to +2.0%. This could create challenges for investors in 2025 as markets appear to have priced in upside to expectations in 2025, and perhaps 2026 as well. A key element in achieving upside to prevailing GDP estimates, in our view, will be consumer spending trends.

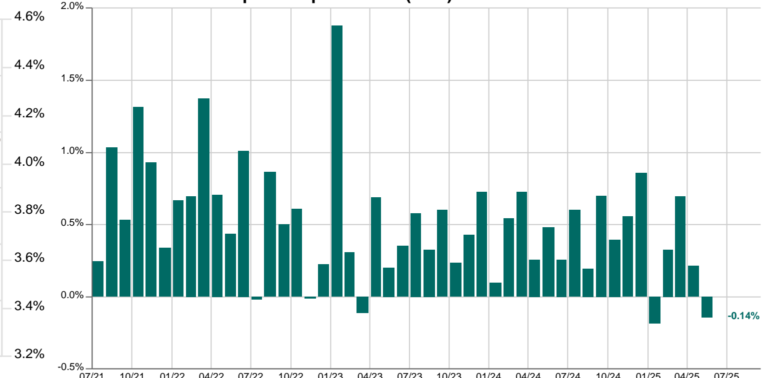


Data Source: FactSet consensus estimates and Bureau of Economic Analysis, as of 7/3/25. Chart shows annual real GDP reported by the BEA, 2015-2024 (green bars), and FactSet consensus estimates, 2025-2027 (gray bars).

Monthly Jobs Gains From Prior Month



Consumer Spending

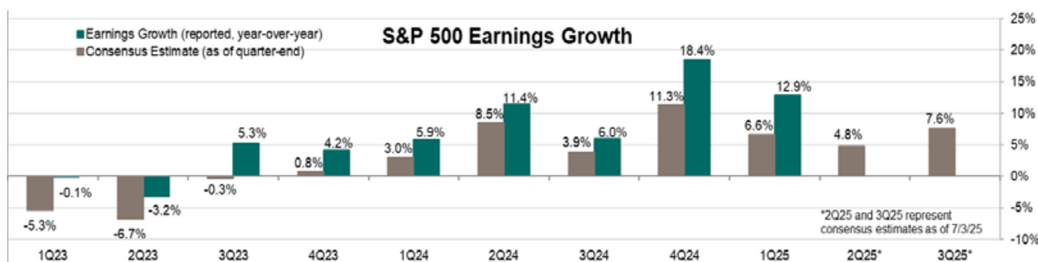


Data Source: FactSet and the U.S. Bureau of Labor Statistics (BLS), as of 6/30/25. Shows the change in nonfarm payrolls on a month-to-month basis, and the unemployment rate. Nonfarm payrolls are from the BLS' Establishment survey and the unemployment rate is from the BLS' Household survey. July '23-Jun '25. Personal Consumption Expenditures (PCE) from the Bureau of Economic Analysis. % growth from prior month, July 2021 to May 2025.

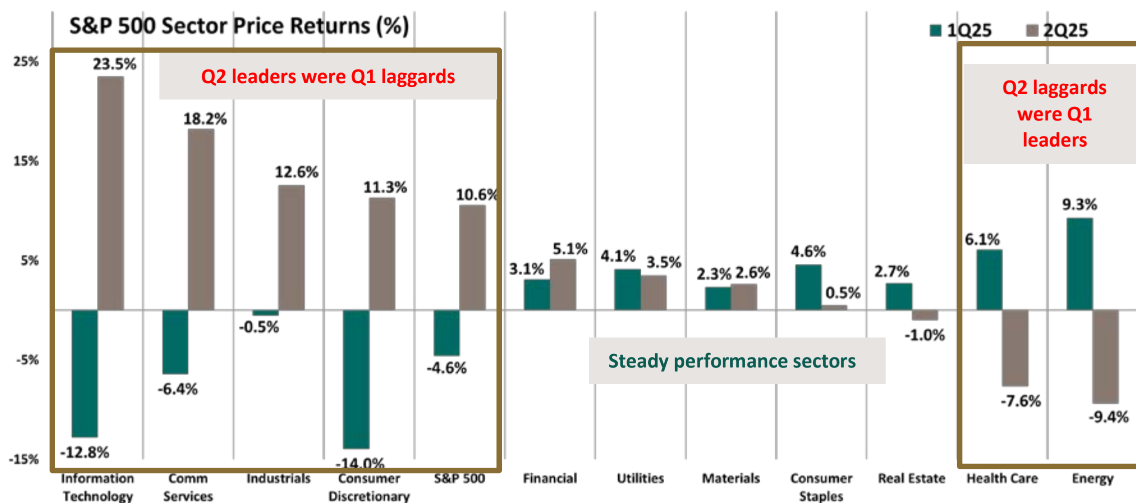
The U.S. labor market has produced consistent gains in monthly jobs in 2025. The most recent Bureau of Labor Statistics (BLS) data for June 2025 showed a monthly increase of +147 thousand (K) nonfarm payrolls (jobs). Jobs growth exceeded estimates in each month of the second quarter and the 2Q25 average monthly increase was +150K. This was below 2024's (full-year) average monthly jobs gain of +168K but reaccelerated from 1Q25 when the quarter averaged +116K. According to the St. Louis Federal Reserve Bank, the "breakeven" jobs number (a dynamic number that estimates the amount of monthly job creation needed to keep pace with changes in the labor force) is currently +153K, indicating that recent jobs gains support moderate economic growth. Monthly Y/Y wage growth has moderated in 2025, from +3.9% in January 2025 (vs. January 2024) to +3.7% in June 2025. Fortunately, wage growth exceeded inflation (CPI) in each month in 2025 through May, continuing a trend over the past two years, indicating that consumer purchasing power has improved over past four years (May 2022 through May 2025), however, inflation exceeded wages. This explains some of the spending angst described by many consumers. Consumer PCE trends have been mixed in 2025 through May, with M/M declines in January and May bookending solid growth from February through April.

These trends suggest some caution to us as markets appear to expect sustained PCE growth, and not further weakness. Key data points to watch will be monthly reports on nonfarm payrolls, PCE, personal income, and average hourly earnings.

We expect ongoing market volatility, creating portfolio rebalancing opportunities. Equity market gains over the past several quarters are supported by strong earnings as S&P 500 Y/Y earnings growth was positive for each of the past seven quarters. Additionally, reported earnings growth exceeded pre-reporting consensus estimates in each of those quarters. Growth accelerated over the past two quarters, +18.4% and +12.9% in 4Q24 and 1Q25, respectively. Growth is expected to slip to single-digit percentages in 2Q25 and 3Q25, reflecting lowered expectations, but recent gains in equity indices, in our view, assume another quarter of better-than-expected results. As earnings reporting season begins to ramp-up in mid-July, we see potential volatility. 2025 has included significant volatility across sectors as growth sectors, including Technology, Communications Services, and Consumer Discretionary, have strongly led the 2Q25 equity market rebound. Those same sectors led the decline in 1Q25, at the peak of tariff rhetoric and economic uncertainty. At the other end, both Health Care and Energy led market gains in 1Q25 but declined in 2Q due to concerns about oil prices, health care reimbursement, and potential tariffs on imported pharmaceuticals. Despite the volatility, four sectors were positive in both quarters: Financials and Materials (both considered cyclical and linked to economic growth), and Utilities and Consumer Staples (both considered defensive and often outperform in a weak economy). In our view, this reflects high levels of uncertainty faced by equity investors in 2025, and despite progress on the budget and some trade deals (the U.K., Vietnam, and China), trade rhetoric has resumed in early July. This highlights that uncertainty remains and a balanced approach to U.S. equity exposure (sector diversification across high-quality companies) can allow investors to maintain exposure and balance risk.



Data Source: FactSet, as of 7/3/25. Consensus S&P 500 EPS estimates (Wall Street analysts) in gray. Percentage change from same quarter the prior year. Past quarters were the estimate at the end of the reporting quarter. Green bars are the actual reported Y/Y growth in earnings 1Q23 to 1Q25.



Data Source: FactSet and MSCI. Q1:12/31/24 to 3/31/25, Q2: 3/31/25 to 6/30/25. Sectors are market capitalization-weighted according to Global Industry Classification Standards, or GICS. Past performance is not an indicator of future results. Price returns reflect market appreciation or depreciation excluding the reinvestment of capital gains, dividends, interest, and other income.

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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, exchange-traded companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. Today the NASDAQ Composite includes over 3,000 companies. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification. The Bloomberg U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The Russell 1000® Growth Index is a market cap weighted index that measures the performance of the large-cap growth segment of the U.S. equity market. It includes those Russell 1000 companies with relatively higher price-to-book ratios and higher expected earnings growth rates. The Russell 1000® Value Index includes those Russell 1000 companies with relatively lower price-to-book ratios and lower expected earnings growth rates. The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance.

Other Disclosures: The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

The forward S&P 500 price-to-earnings ratio (P/E) is a valuation measure, calculated by dividing the price of the S&P 500 index over the weighted average earnings per share (EPS) estimate of each company in the index. Earnings are based on "forward" consensus estimates expected over the next 12 months (NTM), using quarterly analyst estimates as provided by FactSet.

Fair value refers to a valuation method based on our view of the intrinsic value of an asset or index, determined by macroeconomic factors and earnings expectations rather than current market prices. This is our view of intrinsic value as of the date of this report.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data as a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at www.bea.gov.

FactSet is a data aggregation software utilized by D.A. Davidson's Investment Management & Research. The FactSet consensus refers to the aggregate of all analysts estimates from firms that submit estimates to FactSet for a given financial metric.

The annual price returns of the S&P 500 index are calculated using the index closing value on 12/31 of one year to 12/31 of the next year. 2025 returns are calculated as of 6/30/2025. Intra-year, peak-to-trough percentage declines are calculated using the index closing prices from an intra-year high date to a subsequent low date. Closing prices are provided by S&P Global through FactSet. Averages across years are calculated using the arithmetic mean.

S&P 500 earnings growth reflects the year-over-year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

Price-to-earnings (P/E) ratios and P/E-to-growth (PEG) ratios are valuation measures used on market indices and stocks and allow investors to compare valuations of companies and indices to a peer group and to the company or index valuation over time. When using estimated numbers for earnings in future periods, the estimates are subject to frequent revisions. There are also other valuation methods that are used by investors.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members – the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and four of the remaining eleven Federal Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth.

The term "monetary policy" refers to the actions undertaken by a central bank, such as the Federal Reserve, to influence the availability and cost of money and credit to help promote national economic goals. The Board of Governors of the Federal Reserve System is responsible for the discount rate and reserve requirements, and the Federal Open Market Committee is responsible for open market operations. The Federal

Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and, in this way, alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment. Treasury security data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

The U.S. Personal Consumption Expenditures (PCE) Price Index is an indicator of the growth in consumer spending and measures the value of goods and services purchased by persons who reside in the U.S. It is reported monthly by the Bureau of Economic Analysis. PCE inflation is the percentage rates of change in the price index for personal consumption expenditures (PCE).

The National Bureau of Economic Research (NBER) is a private non-profit research organization. The NBER is widely used as an organization that analyzes U.S. economic data and the business cycle, and determines the start dates and end dates of economic recessions. The NBER defines recession as "a significant decline in economic activity that is spread across the economy and that lasts more than a few months" and also looks at the depth, diffusion, and duration of the downturn.

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys. The household survey measures labor force status by demographics, while the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component of the establishment survey is drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work.

The BLS also publishes the Job Openings and Labor Turnover Survey (JOLTS) which measures job openings, hires, and separations from a monthly survey of U.S. business establishments. The Department of Labor (DOL) reports weekly data from states on initial insurance claims from unemployed persons.

The consumer price index (CPI) is a measure of average change, over time, in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics.

Volatility looks at to what degree and how quickly prices move over a given span of time. In the stock market, increased volatility, in the form of rapidly falling prices, is often a sign of rising uncertainty.

The U.S. Census reports annualized monthly data on housing starts, permits, and completions. It is a widely followed measure to track construction activity in the residential housing market. New home sales measures sales of new single-family homes and is a measure of the demand for housing. Home price data is monitored by the S&P CoreLogic Case-Shiller Home Price Index.

We track a measure of wages, average hourly earnings of all private employees, which is calculated and reported on a monthly basis by the U.S. Bureau of Labor Statistics. The data measures average hourly earnings of all private employees on a "gross" basis (includes overtime and late shift work but excludes benefits).

U.S. monthly receipts, outlay, deficit, or surplus are reported by the U.S. Treasury at fiscal.treasury.gov. Supporting data is also available from the Congressional Budget Office (CBO). Federal revenue (mostly tax receipts) and outlays is reported on a monthly and annual basis.

On 2/12/25, The Trump Administration announced a framework for its Reciprocal Tariffs, with a link to the memorandum, "Fair and Reciprocal Plan." On 3/26/25, the White House announced tariffs on imported automobiles and certain automobile parts. Here is a link to a Fact Sheet from the President that outlines the action. The President referred to 4/2/25 as "Liberation Day" and released a Reciprocal Tariff Memorandum. Then, on 4/9/25, the White House delayed most reciprocal tariffs, and released a memo, Modifying Reciprocal Tariff Rates. This was considered a policy change (or pivot), and since then has led to negotiated trade deals (U.K., China and Vietnam) while many of the other tariff pauses are scheduled to be implemented on 8/1/25 if additional trade deals are not signed.

When we discuss "growth stocks," we are referring to companies that generate expected earnings growth (over a multi-year period) that is above expected earnings growth for the overall market (typically the S&P 500 index). The largest sector weights (by market capitalization) in the Russell 1000 growth index (as of 6/30/25) were Information Technology, Consumer Discretionary, and Communication Services. "Value" stocks are characterized by companies that trade at discounted valuations to an index, sector, and/or a peer group. The largest sector weights in the Russell 1000 value index (as of 6/30/25) were Financials, Industrials, and Health Care.

Defensive sectors include companies that are historically less sensitive to economic cycles as product demand remains relatively more consistent across the business cycle. Cyclical sectors include companies that are more exposed to the business cycle such that growth accelerates when economic growth is above trend and decelerates when the economy slows.

International Trade in Goods and Services is published monthly by the Bureau of Economic Analysis. It measures trade in goods and services between U.S. residents and residents of other countries. U.S. sales are exports, U.S. purchases are imports.

The U.S. Census reports retail sales through its Advance Estimates of U.S. Retail and Food Services. It is a survey that measures monthly sales for companies in the retail trade and food services sectors. This survey covers retail companies with one or more establishments that sell merchandise and related services to final consumers. These firms provide data on dollar value of retail sales for selected establishments.

In 2025, the U.S. Congress (both the Senate of House of Representatives) passed a 2025 Tax Act bill using the budgetary reconciliation process. The One Big, Beautiful Bill Act was signed by the President into law on 7/4/25.

The wealth effect is an economic theory that predicts that consumers will increase spending when their investment accounts rise in value rise, and decrease spending when investment values decline.

The U.S. dollar index calculates the value of the U.S. dollar to a basket of foreign currencies from countries that represent some the U.S.' largest trade partners. This includes the Euro, Japanese yen, British pound sterling, Canadian dollar, Swedish krona and Swiss franc.

A long-term chart on the 10-year Real Interest rate (10-year Treasury yield adjusted for inflation) is published by the St. Louis Federal Reserve Bank.

The St. Louis Federal Reserve Bank wrote a paper in 2025 to answer the question, How many new jobs are needed to keep unemployment stable? The answer and methodology can be found in their paper on Breakeven Employment Growth.

Moody's provides credit analysis on issuers of debt and issues a credit rating on a scale of 21 ratings categories. A credit rated' Aaa is judged to be "of the highest quality, with minimal risk." The next highest category Aa1 is "high quality and subject to very low credit risk". Here is a link to Moody's Rating Scale and Definitions. On 5/16/25, Moody's downgraded the U.S.' debt ratings to Aa1 from Aaa.

Information on U.S. monthly receipts and outlay and deficits is published by the U.S. Treasury Department, in its Monthly Treasury Statement. The Treasury also published monthly data on the current level of public debt, in its Monthly Statement of Public Debt.

The Department of Government Efficiency was established by President Trump as a temporary organization to identify government spending waste and modernize technology and software to improve productivity.