Cygnus
ASSET MANAGEMENT, LLC

A View From the Bevy – 2Q25

Market Review

The stock market's roller coaster ride continued during the second quarter, driven by the most used word in the English language these days – tariffs. Looking at President Trump's social media posts on any given day was perhaps the best harbinger of the direction of the market.

The quarter began with a sell-off precipitated by the President's tariff announcements on April 2nd; the S&P 500 fell almost 20%. Stocks staged an impressive comeback in May, however, as the enactment of many tariffs was delayed; the S&P 500 had its best May performance since 1990.

While uncertainty is never good, investors saw through the haze and recognized the underlying strength of the U.S. economy; year-over-year corporate earnings grew for the eighth consecutive quarter. Despite war in the Middle East between Israel and Iran, market strength continued through quarter-end as a cease-fire was quickly announced. Many major stock indices ended the quarter at or near all-time highs, highlighting the market's extraordinary comeback.

As illustrated below, despite the impressive rally in the U.S., major international and emerging markets have both significantly outperformed the U.S. year-to-date.

Stock Market Indices	2nd Quarter 2025	Year-to-Date
S&P 500	10.94%	6.20%
S&P 500 (Equal-Weight)	5.46%	4.82%
Dow Jones Ind. Average (DJIA)	5.46%	4.55%
NASDAQ Composite	17.75%	5.48%
Russell 2000	8.50%	-1.79%
Bloomberg US Agg Bond	1.21%	4.02%
MSCI World	11.47%	9.47%
MSCI World ex U.S.	12.05%	18.99%
MSCI Emerging Markets	11.99%	15.27%

Source: AJO. Data supplied by FactSet Research Systems.

Investors eagerly bought any dips in Artificial Intelligence (AI) and large-cap technology stocks, as NVIDIA reclaimed its place as a market leader and many other large-cap stocks, such as Meta and Microsoft for example, ended the quarter at all-time highs. Gold also had a strong quarter, and the dollar declined for the second straight quarter on concerns over American exceptionalism.

The technology, communication services and health care sectors led the way, while energy financials and real estate lagged.

Market Outlook

We enter the third quarter with momentum, as tensions in the Middle East have cooled for now, alleviating fears of major disruptions to the global supply of oil. A tentative trade deal with China was announced near quarter-end and other deals seem likely soon. As always, there are positives driving the market outlook, as well as some headwinds that might derail or slow the outlook.

Looking at the positives underlying the market first, the economy has remained strong, and tariffs have done little so far to affect prices, although this may be changing. The unemployment rate remains low at 4.2%, and the May nonfarm payroll report showed only a slight softening of the labor market. Consumer confidence remained strong in May as well, as do the outlooks for business conditions, employment prospects and future income.

Because the economy has held up so far despite the tariff and inflation uncertainty, the Atlanta Fed increased its estimate for second quarter Gross Domestic Product (GDP) growth from 2.2% to 3.8% (at an annual rate).

On the negative economic side, the Institute of Supply Management (ISM) reported a decline in its manufacturing index in May to 48.5, the third straight month of contraction. The private sector only created 37,000 private sector jobs in May, the fewest in more than two years. Retail sales fell 0,9% in May, down sharply from April and again perhaps a sign that tariffs may be starting to have a negative impact on consumers. And finally, late in June, the U.S. Federal Reserve's (Fed) favorite inflation reading (the personal consumption expenditure index) rose more than expected – to a 2.7% annual rate of inflation. Those hoping for a July interest rate cut may be disappointed.

The expected announced of more trade deals between the U.S. and its trading partners should provide some more clarity and reduce some corporate, consumer and investor anxiety. And future earnings should be bolstered by deregulation, tax cuts and lower short-term borrowing costs with the passage of the President's signature legislation. Positively as well, the Fed is now expected to reduce short-term interest rates two times in 2025.

Finally, remember the market tends to be more volatile during the summer, as trading volume tends to be light as many on Wall Street take summer vacations. But the last 50 years of market data (1975 – 2024) does show that the S&P 500 was positive for 34 of those years (or 68% of the time) between June and September. Have a great summer!

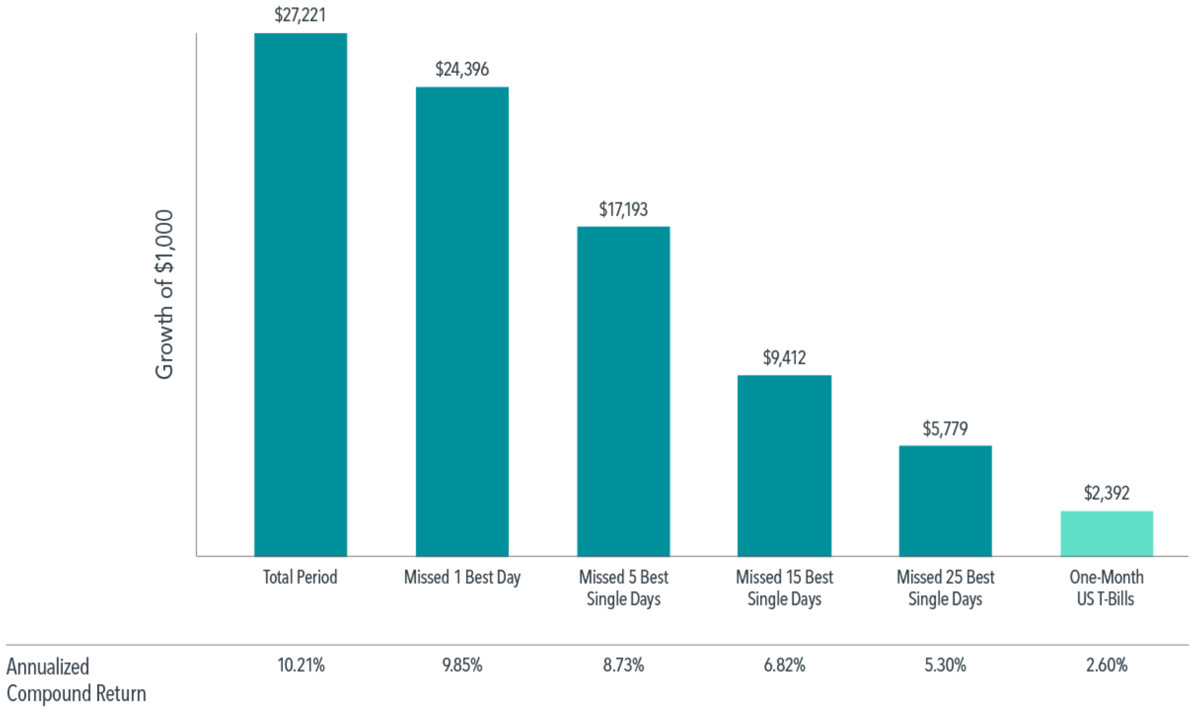
Of Interest: Recent Market Chaos Reaffirms Market Adage

As mentioned above, the stock market has felt like a roller coaster since President Trump's inauguration, and even more so since he initiated a global trade war by increasing tariffs on almost all our trading partners. In April we experienced some of the largest negative stock market days in history as well as one of the largest positive days ever. All within the span of a week!

Specifically, the decline of 10.5% between April 3rd and 4th was the worst two-day performance for the S&P500 since March 12, 2020. Then on April 9th, the S&P 500 gained 9.5%, its third largest one-day return since 1987.

This up and down volatility helps reinforce the market adage that we have often used in the past: It is time in the market that matters, not timing the market. It is a bad idea to try to trade during market chaos. Anyone who tried to sell stocks during the downturn in hopes of then trying to buy stocks back at lower prices missed the tremendous recovery in May and June.

S&P 500 Index Performance Based on Time in the Market (1990 – 2023)



Source: Dimensional Fund Advisors (DFA)

Downturns are a necessary part of investing in stocks. Over long periods of time, stocks provide a higher return than investing in bonds. Why? Because investing in stocks is riskier than investing in bonds. Investors therefore demand a higher rate of return (known as the risk premium) to invest in stocks than in bonds.

But higher return comes with much more volatility. On average, stocks fall by 5% roughly two to three times per year, 10% roughly every year or two, and 20% or more roughly once every 4 to 5 years. Nevertheless, the S&P 500 has risen in three out of every four years for the past 100 years.

Those kinds of declines are part of the price we pay for higher returns. This is where mental discipline really comes in. You need to fight the urge to do something when there is market chaos and remember the nature of and risks associated with investing,

Sticking with your plan requires real mental discipline. In bull markets, greed and envy take over, and risk is overlooked. In bear markets, fear and panic take over, and even well-thought-out plans can end up in the trash heap of emotions.

One rule of successful investing is not taking on more risk than you are comfortable with. If the prospect of a 20% decline in the markets leaves you sleepless, you either need to realize it is a long-term game and not worry about the short-term losses or reduce your exposure to risk.