

Second Quarter 2025 Letter



Figure 1 – S&P 500



Figure 2 – U.S. 10-Year Treasury Yield

At BWM, we continue to invest in technology to improve our clients' experience. We will soon be upgrading our client portal, providing more information in an easy-to-read format, and enabling you to link outside accounts that are not held at Charles Schwab. In the future, we also expect to provide online access to your financial plan via the portal.

On a personal note, I'm happy to share that Yad Ezra, a food pantry serving the metropolitan Detroit area, has asked me and my spouse, Monica Brockmeyer, to be the honorees at their annual fundraising dinner this year. Founded in 1990, Yad Ezra serves 1,500 families each month, distributing over 1 million pounds of food annually. I've been involved with Yad Ezra since 2003, serving in various capacities including board leadership, fundraising, food packaging, distribution and delivery, and board recruitment and development. I'm humbled by this honor and glad to make a difference in our community.

Market Recap

Stocks plunged in early April as confusion and fear over U.S. tariff announcements led to a flight to the safety of cash and U.S. Treasuries. Markets bottomed April 8th and began a rapid recovery as the administration walked back or delayed many of the original tariffs. Investors then focused on corporate earnings, which generally topped analyst expectations and fears. Investor confidence was strong enough to look past the war with Iran, which appears to have ended quickly. In addition, the expected passage of the Tax Cuts and Jobs Act of 2025 ("The Big Beautiful Bill") locked in tax rates enacted in 2017, removing a significant source of policy uncertainty. By the end of the quarter, most indices had recovered and more, and the S&P 500 reached an all-time high.

The large cap S&P 500 (**Figure 1 – S&P 500**) rose 10.9%, finishing the quarter up 6.2% for 2025. The S&P Midcap (+6.7%) and the Russell 2000 Small Cap (+8.5%) also posted solid gains. In a reversal of the first quarter's action, growth stocks (+18.9%) outperformed value (+3.0%) led by large cap technology stocks. Stocks outside the U.S. posted broad gains again. MSCI's Europe, Australia & Far East index rose 11.8% and emerging markets gained 12.0%, helped by U.S. dollar weakness. Bond indexes posted steady returns, as U.S. Treasury yields stayed in a narrow trading range (**Figure 2 – U.S. 10-Year Treasury Yield**).

In the last quarter, earnings at S&P 500 companies grew 11.9% on 3.6% revenue growth, weaker than the prior quarter's +14.0% but much stronger than the 5.9% growth expected. 78% of companies topped expectations, roughly in line with the 5-year average of 77%. Technology and aerospace were among the strongest growers. Those sectors are again expected to grow double-digits in the 2nd quarter and earnings at financials are expected to accelerate, boosted by deregulation and favorable higher bond yields. According to research services Zacks, analysts now expect 2nd quarter earnings to rise 5.2% on 3.8% revenue growth. It's worth noting that at the beginning of the year, the forecast for the quarter was +12.2% earnings growth. Expected higher costs from tariffs have taken a toll. Companies that can adapt to the new costs, either by shifting production or passing along costs to customers, will likely be rewarded as earnings reports begin next week.

Economic Perspective

The U.S. economy contracted slightly (-0.5%) in the first quarter of 2025, after growing 2.4% in the fourth quarter of 2024. Consumer spending rose a disappointing 0.5% vs. estimates of +1.3%. Exports rose only 0.4%, also lower than expected. The biggest source of the contraction came from imports, which rose sharply in the quarter, as companies rushed purchases before tariffs took effect. (In the gross domestic product (GDP) calculation, imports are subtracted from exports to calculate our economy's growth or contraction.) Looking ahead, economists expect GDP to rebound and grow 2.6% in the second quarter. Purchasing manager surveys for both manufacturing and services posted modest rises in the quarter, another potential reason for optimism, although manufacturing readings are still at contractionary levels. The housing sector, however, remained weak. Starts and permits in May were at their lowest level since 2020, a bad sign for housing affordability.

U.S. employment remained solid, as the economy added jobs each of the last three months. In June, 147,000 jobs were added, and the unemployment rate notched down from 4.2% to 4.1%. Wage growth declined for the eighth consecutive month to 3.7%. While wages continue to grow above the inflation rate, continued slowing could squeeze consumer spending as tariff increases spread through the economy.

Inflation has remained in a tight range for the last 3 months. The annual increase in prices, as measured by the consumer price index (CPI), stayed between 2.3% and 2.4%, while core CPI, which removes volatile food and energy prices, rose 2.7% to 2.8%. While more manageable for consumers than the high inflation of 2022 and 2023, these readings are still above the Federal Reserve's stated target of 2.0%. It is unclear at this time what the impact of recently enacted tariffs will be on inflation. Tariffs may lead to a one-time shift higher in many prices. Will inflation moderate after that? The Federal Reserve is still waiting for lower inflation readings before cutting interest rates. With inflation above target, and reasonably good monthly employment numbers, the waiting may continue.

Looking Ahead

The Trump administration has made deregulation a priority. This appears likely to benefit financials, including banks and insurers. Also the Federal Reserve is expected to ease reserve requirements, which will allow banks to expand their lending. In addition, because of the steepening of the yield curve, banks are able to earn higher margins on their loans. All of this paints a favorable picture for financials (**Figure 3 – Technology Sector**) going forward.

Outside the U.S., investors have been adding to positions in long neglected shares of solid companies. In Europe, governments are pursuing expansionary fiscal policies which may boost their economies. This contrasts with the U.S., where cuts in government spending and layoffs of federal employees may crimp growth. After years of underperformance, international stocks may be set to provide stronger returns.

The rapid recovery from April's trough underscores the value of staying invested through good times and bad. It also highlights the difficulty of timing the market. Major portfolio risk cuts are often made when we're the most worried, which could be close to market bottoms, and it's just as hard to determine when to put cash back to work. For most investors, it's much better to stay invested with an asset allocation that matches your financial plan.



Figure 3 – Financials Sector ETF



Figure 4 – MSCI Europe, Australia & Far East

We hope you're staying cool this summer and enjoying sunshine wherever you are. We look forward to reviewing with you soon.

Best regards,

A handwritten signature in black ink, appearing to read "Kenneth M. Bernard". The signature is fluid and cursive, with the first name "Kenneth" being more prominent.

Kenneth M. Bernard, CFA