LSAM LIFESTYLE ASSET MANAGEMENT

Market Commentary

July 2025

Equity and Bond Market Update

(as of June 30, 2025)

Index	YTD	1-Year
Dow Jones Industrial Average TR	+4.6%	+17.7%
S&P 500 Total Return Index	+6.2%	+15.2%
Russell 2000 Total Return Index	-1.8%	+7.7%
MSCI EAFE Index (net)	+19.5%	+17.7%
MSCI Emerging Markets Index (net)	+15.3%	+15.3%
Bloomberg US Aggregate Bond TR	+4.0%	+6.1%

Recent Economic Indicators

	Statistic	Data as of
Unemployment Rate	4.1%	Jun 2025
Gross Domestic Product (GDP)	-0.5%	Q1 2025
Consumer Price Index (CPI) – Y/Y	+2.4%	May 2025
Consumer Confidence (1985=100)	93.0	Jun 2025
30-year fixed mortgage rate	6.80%	Wk of Jun 29
Housing Starts (single family)	924,000	May 2025
10-Year Treasury Yield	4.30%	7/2/2025

Aggregate equity and bond markets performed well in June, with diversified emerging markets, small-cap and large-cap U.S. stocks leading the pack. The outperformance of diversified foreign equity markets slowed down during the month but have still vastly outperformed their U.S. counterparts by well into the double-digits year-to-date. The Bloomberg US Aggregate bond index (which is made up close to 50% in U.S. Treasuries) is up over +4.0% in 2025.

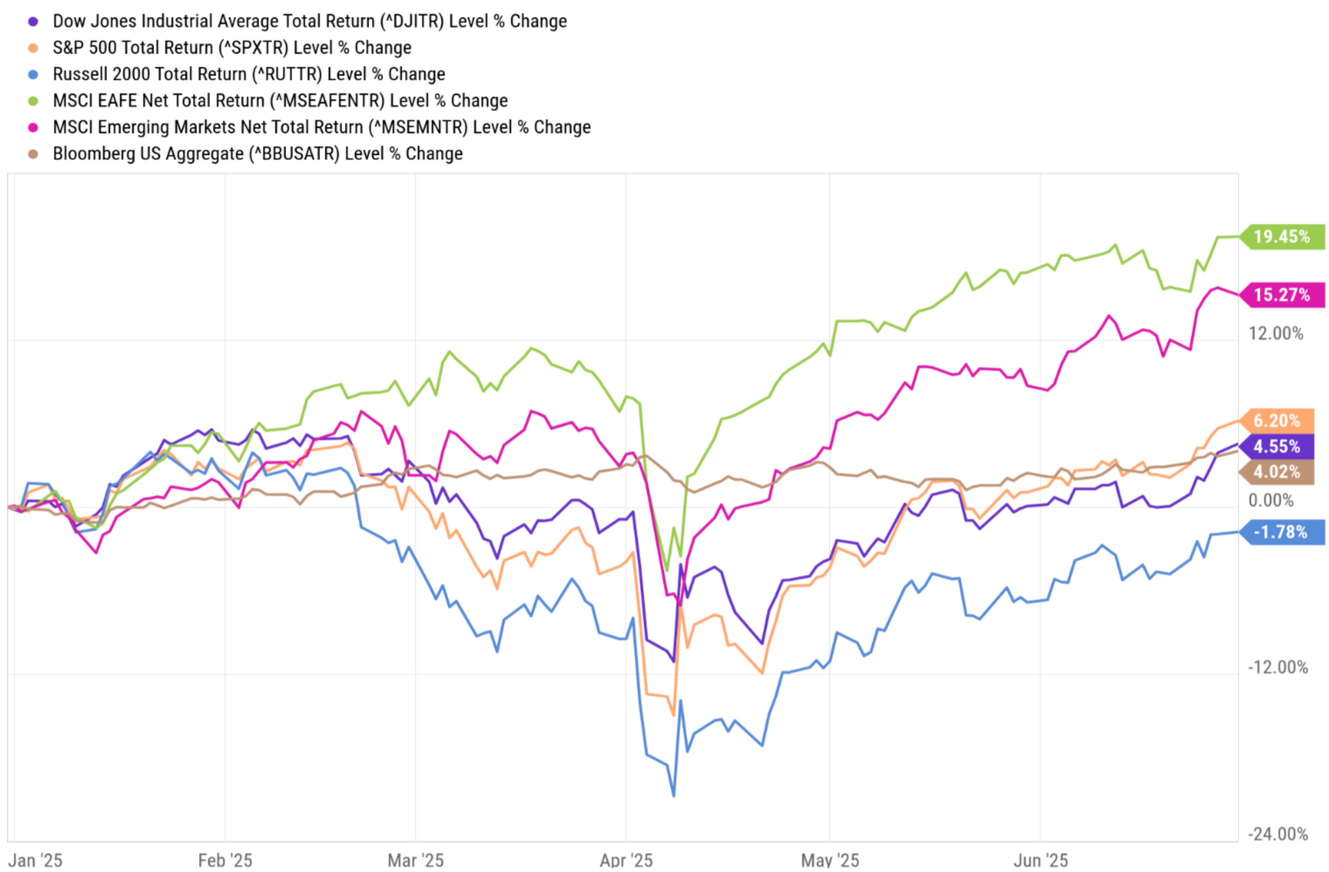
With the new quarter starting, much of the focus on the stock market will be on earnings season starting over the next couple of weeks. First quarter earnings beats (surprises to the upside) saw over 77% of companies in the S&P 500 index beating expectations, with communications services and healthcare seeing the highest percentage of companies beating estimates, both over 90%. There will be quite a bit of focus on upside/downside surprises from the second quarter to gauge if overall S&P 500 company earnings can justify the high valuations we are seeing in the stock market. Even if we hit the highest of expectations for overall corporate earnings in the coming twelve months, the S&P 500 Index is trading at a premium of +25% based on historical levels computed by Price-to-earnings ratios.

Even though the top ten largest companies in the S&P 500 Index have trailed performance of the overall index, they still make up close to 38% of the overall market capitalization of the index. This concentration risk in the index means that a select few companies are still contributing over one-third of the attribution of the overall index's performance, both on the upside as we have seen over the last few years, and on the downside as we have seen this year. That being said, market performance participation has spread since there is only a four-percentage point difference in the large-cap growth over value indices year-to-date. Last year at this point, large-cap growth had outperformed value by almost 20 percentage points.

The final estimate of Gross Domestic Product ("GDP") for the first quarter this year came in with a contraction of -0.5%. Some of the drag on GDP in the first quarter can be attributed to corporations front-loading imports ahead of expected U.S. tariffs, temporarily inflating imports and weighing on net exports. Currently, the Federal Reserve Bank of Atlanta is estimating second quarter GDP to have reversed and expecting an increase of +2.6%. Recently, some analysts are expecting this reversal to be more dramatic, closer to the +4.0% range. The first advance estimate of second quarter GDP will be released on the morning of July 30th.

Inflation remains moderately elevated, with both the core Personal Consumption Expenditure ("PCE") (+2.7%) and core Consumer Price Index ("CPI") (+2.8%) above the Fed's preferred target of +2%. Both of these measures only increased by +0.1% in May, however this perceived stability masks underlying price increase stickiness, especially given potential tariff pressures and higher shelter costs. It looks as if, according to the Fed's official statements and comments from Fed Chairman Jerome Powell, that they are likely to keep short-term rates at bay, delaying any cuts into the fall. Currently, fed funds futures are not expecting any cut at the July 30th meeting, but are expecting a 25bp cut at the mid-September meeting, and two cuts by year-end.

Major Market Indices Total Return (YTD through June 30, 2025)



Source: YCharts

There has been much discussion recently about the level of debt the U.S. government is carrying as well as is expected to increase over the next decade, especially with the passage of the Big, Beautiful Bill in early July. Rising U.S. debt-to-GDP (expected to top 125% by 2026) and increasing issuance of Treasuries (~$2 trillion/year) are raising questions about long-term sustainability.

Japan and China, historically the two largest foreign holders of U.S. Treasuries, have been gradually reducing their holdings of U.S. government debt instruments. As of the middle of this year, Japan has reduced their holdings by about -15% from levels in 2021, down to $1.1 trillion. China's holdings have declined to $750 billion, the lowest in over a decade. These declines are partly due to currency management needs, geopolitical tensions, and diversification away from U.S. dollar-denominated assets. Although there have been declines by Japan and China, the U.S. Treasury market still remains the preferred asset class for flights to quality during risk-off scenarios, reinforcing the role despite political noise. In addition, other countries such as the U.K., Ireland, and Luxembourg, as well as oil-exporting nations such as Saudi Arabia and the UAE have stepped in to increase demand recently, Lastly, private foreign investors such as sovereign wealth funds and private insurers are increasing allocations to U.S. Treasuries, especially at yields offered higher in the U.S. than abroad.

Always keep in mind that fear, panic, and optimism are not investment strategies, but rather emotions that drive short-term markets.

Please contact Lifestyle Asset Management, Inc. at (281) 612-2035 or by email at **pjackson@lsaminc.com** should you have any questions or comments.

Sources:
- S&P Dow Jones Indices website (us.spindices.com)
- MSCI Barra website (http://www.mscibarra.com)
- The Conference Board (www.conference-board.org)
- Bureau of Economic Analysis (www.bea.gov)
- JP Morgan Guide to the Markets
- CME FedWatch Tool (www.cmegroup.com)
- FTSE Russell (www.ftserussell.com)
- Bankrate.com (www.bankrate.com)
- Bureau of Labor Statistics (www.bls.gov)
- United States Census Bureau website (www.census.gov)
- Federal Reserve Bank of Atlanta (https://www.atlantafed.org/cqer/research/gdpnow)
- OpenAI, ChatGPT

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The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The S&P 500 is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities. The index is meant to reflect the risk/return characteristics of the large capitalization U.S. universe.

The S&P 500® Equal Weight Index is the 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 in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

The Russell 2000 is an index measuring the performance of approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of the 3,000 largest stocks in the United States. The Russell 2000 serves as a benchmark for small-cap stocks in the U.S. and is meant to reflect the risk/return characteristics of the small capitalization U.S. universe.

The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. It is maintained by MSCI Barra, a provider of investment decision support tools; the EAFE acronym stands for Europe, Australasia and Far East.

The MSCI Emerging Markets Index is an index created by Morgan Stanley Capital International (MSCI) designed to measure equity market performance in global emerging markets.

The Barclays US Aggregate Bond Index is a broad-based benchmark index that measures the investment-grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS.

The Dow Jones Equity All REIT Index is designed to measure all publicly traded real estate investment trusts in the Dow Jones U.S. stock universe classified as equity REITs according to the S&P Dow Jones Indices REIT Industry Classification Hierarchy. These companies are REITs that primarily own and operate income-producing real estate.

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