

Your Journey Towards Financial Independence Begins Here

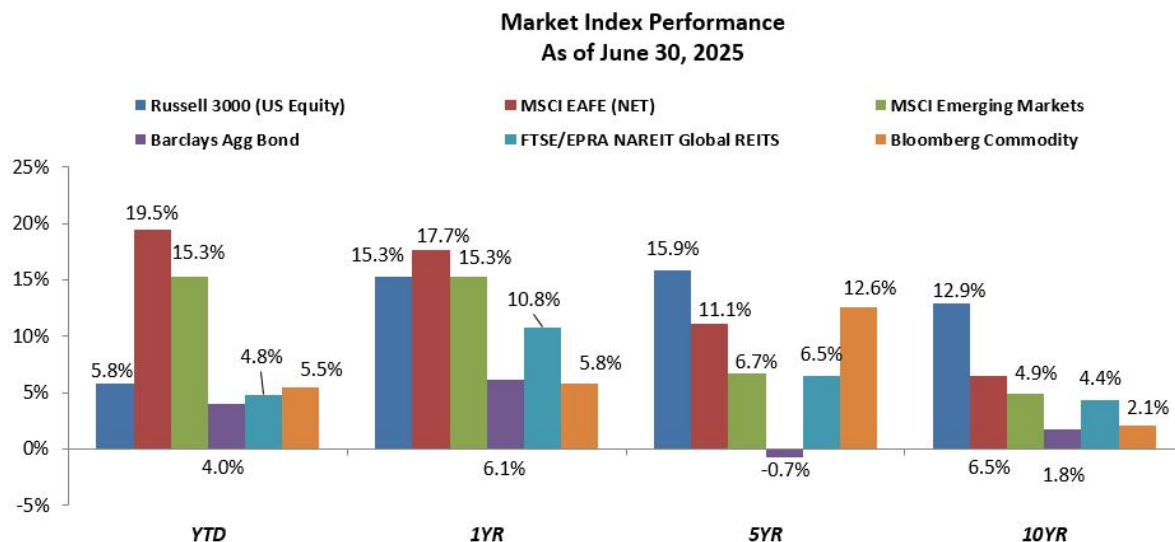
3Q 2025 - GWM Quarterly Letter

As we pass the midpoint of 2025, financial markets are reflecting a careful balance of optimism and caution amid a fast-evolving global economic backdrop. Major equity indices have reached fresh all-time highs, supported by robust corporate earnings - particularly in the technology sector - and ongoing momentum from advancements in artificial intelligence.

The quarter was marked by significant volatility, beginning with the "Liberation Day" tariff announcements on April 2nd. These initial announcements triggered a swift and sharp global sell-off, with the S&P 500 dropping approximately 10% in just two days. The imposition of steep tariffs initially unsettled markets, but a combination of partial tariff relief, solid corporate earnings, and steady central bank policy helped fuel a V-shaped recovery as the quarter progressed. This rebound occurred despite heightened geopolitical tensions, most notably the escalation of the Israel-Iran conflict and U.S. involvement in strikes on Iranian nuclear facilities.

In addition to easing trade concerns, slowing inflation and a stable labor market contributed to improved investor sentiment. With strong underlying fundamentals and encouraging earnings results, markets have demonstrated notable resilience in the face of multiple headwinds.

Among asset classes, developed non-US equities are leading year-to-date performers, with the MSCI EAFE rising 20% YTD, while the US equity market is broadly up 6% YTD. Meanwhile, US bonds are up a modest 4% with shifting expectations around tariffs and fiscal policy.



Our team anticipates continued market/economic uncertainty and oscillations over the 2nd half of 2025, considering some of the key market and economic considerations we are tracking closely over the next 6 months:

- Federal Reserve Policy Uncertainty** - Uncertainty around administrative policy has been the main factor behind the Fed's decision to hold rates steady throughout the first half of 2025 - neither cutting nor raising interest rates. With the full effects of tariffs yet to appear in economic data and the fiscal policy outlook still unclear, the Fed continues to favor a cautious, deliberate approach. Most economists anticipate at least one rate cut in the fall, with the potential for additional easing before year-end.
- Trump Administration 2.0** - Tariffs have once again taken center stage in administrative policy, as

President Trump renews his tariff threats, including formal notifications to several nations indicating higher tariffs will take effect on August 1st unless additional concessions are made. So far, this more aggressive trade posture has not dampened investor sentiment - but the long-term implications remain to be seen. Also of note is the recent passage of the "One Big, Beautiful, Bill" (OBBB), which marks a significant shift in fiscal policy. The legislation introduces substantial spending cuts and structural reforms alongside sweeping reductions in both individual and corporate taxes. While markets had largely priced in the move - resulting in a short-term boost for equities, concerns persist over the nation's growing debt burden.

- **Declining Dollar** - The US dollar has declined significantly since the start of the year, weighed down by an initially elevated valuation and the direction of US government policy. In the near term, further weakness may be constrained as other major central banks move more aggressively to lower interest rates. However, over the longer term, subdued economic growth and a persistent trade deficit could continue to put downward pressure on the dollar.
- **Geopolitical Tensions** - Global tensions remain elevated, driven by continued instability in the Middle East, the ongoing Russia-Ukraine conflict, and the complex dynamics between the US and China. As geopolitical relationships evolve, they have the potential to influence market volatility, alter trade flows, impact energy prices, and create region- and sector-specific risks. While geopolitical events typically do not dictate long-term strategic investment decisions, we remain attentive to the global landscape and its potential implications.
- **Evolving Market Leadership** - International stocks have outperformed US stocks considerably in the 1st half of 2025, the first meaningful change in market leadership we have experienced in years. Even after this rally, international stocks continue to trade at a discount to the US market, with compelling fundamentals that might drive a continued period of outperformance. GWM clients have benefited from this outperformance as globally-diversified investors.
- **Technological Advancements and Opportunities** - AI enthusiasm has helped propel US equity markets higher; however, performance has outpaced earnings growth – leaving valuations at a meaningful premium to the rest of the market. The "AI Supercycle," could result in a boom-or-bust for US Mega-cap stocks at current levels, accentuating the value of a diversified approach to risk assets.

The key events and themes driving markets today will certainly evolve over the course of the year. New opportunities and concerns will present themselves as the year develops. With that in mind, it is always important to maintain focus on the things in life you can control and know that uncertainty is assured. Preparing for a year of change with considerable unpredictability is no different.

We are encouraged that clients continue to stay on track for long-term objectives. Please never hesitate to let us know how we can support you during this time and be the best partner we can in achieving your most meaningful goals. As always, we will be in touch as we continue to navigate the everchanging landscape of the world and how it might impact our clients.

Wishing everyone a great rest of the Summer!



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