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Investor emotions catalyzed one of the most remarkable quarters in recent memory. On the surface, the second quarter of 2025 was strong, with the S&P 500 gaining nearly 11%. However, the headline number does not tell the full story. In April, the index was on the verge of entering a bear market, which entails a decline of 20% from its recent high. By the end of June, not only had the market erased these steep losses, but it also reached new closing highs. This dramatic rebound was driven more by shifting perceptions than by underlying fundamentals. It serves as an important reminder for investors to resist acting on emotional impulses and to remain focused on a long-term investment plan.

The quarter began with significant volatility when President Trump announced his reciprocal tariff plan on April 2, 2025. Fears quickly spread that these tariffs would reignite inflation, stall economic growth, and squeeze corporate earnings. Many investors responded by liquidating their portfolios, driving equities sharply lower. This fearful mood lasted exactly one week. On April 9, 2025, the President announced a 90-day pause on tariffs to allow time to negotiate bilateral trade agreements. As simple as it sounds, this single announcement lifted investor sentiment and sparked an unprecedented rebound in stocks.

While geopolitics commanded investor attention, other key developments provided fundamental support for the market's advance. Corporate earnings, set against modest expectations, came in solid. Encouraging economic data suggested that growth remains resilient, easing recession fears and fueling optimism for continued expansion. Inflation reports indicated that price pressures are moderating and trending toward the Federal Reserve's 2% target, boosting hopes that the Fed may begin lowering rates as soon as late summer.

Unlike past rallies that were driven by a narrow group of mega-cap stocks, market breadth improved, with most sectors participating—a sign that this rally may have healthier foundations.

Looking ahead, we encourage investors to remain clear-eyed and disciplined. The financial press will continue to highlight risks that could threaten the market's stability. Significant risks do remain, including uncertainty around trade negotiations and the path of inflation, both of which will influence consumer spending and the Fed's policy direction. Yet potential catalysts also exist. Earnings season may be solid again, supported by modest expectations. The promise of AI-driven efficiencies could help expand corporate margins, supporting current valuation levels. The U.S. economy remains in good shape, with low unemployment. Even the housing market, which has been a relative weak spot, could recover in the second half if interest rates ease further.

We believe staying anchored to a long-term, fundamentals-based strategy remains the surest path to enduring investment success.

We believe the key lesson from the second quarter is that investors are better served by not getting caught in the short-term cycle of fear and greed that fuels excessive volatility. Instead, the focus should remain on systematically investing in high-quality businesses with the ability to grow earnings predictably, even in uncertain times. We believe staying anchored to a long-term, fundamentals-based strategy remains the surest path to enduring investment success.

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