INVESTMENT STRATEGY UPDATE

MARKET REPORT
JULY 2025

ASCENTIAL WEALTH ADVISORS

US EQUITY MARKETS STAGE COMEBACK

US equities rebounded from correction territory to close the second quarter positive as the Trump administration appeared to back down on tariffs. Markets dropped on the April 2nd announcement of larger than anticipated “reciprocal tariffs” but recovered those losses and more, after a 90-day pause was announced on April 9th. Markets continued to move higher through the end of June, expressing optimism that the pause could be extended and the possibility that the most aggressive tariffs may not take effect despite few official trade deals finalized.

US economic data remained fairly resilient for the quarter, and calls for recession subsided after the tariff pause, giving markets confidence that there might be limited damage from the trade war. Excitement over the economic prospects of artificial intelligence also contributed to the equity market recovery, along with first quarter earnings that exceeded expectations.

Within the US, most stocks ended Q2 with positive year-to-date returns, touching new all-time highs in June. The NASDAQ, which posted the largest losses in the first quarter, bounced back from its bear market loss to close up +5.5% year-to-date. The Russell 2000 index of small companies was an outlier at a -1.8% loss. Strength was not limited to the US however, with the foreign stock rally continuing as well.

Index	*2025 (through 6/30)*
S&P 500	+6.20
Dow Jones Ind. Avg.	+4.55
MSCI EAFE	+19.45
BC US Aggr. Bond	+4.02

International equities were a true standout for the first half of 2025, significantly outperforming the US with double digit returns. Developed international stocks gained the most with the MSCI EAFE Index rising +19.45%, followed by strong performance in the MSCI Emerging Markets Index up +15.3%. Supporting factors for foreign stock performance include cheaper valuations and investors’ desire to diversify geographically due to trade-related concerns. For US investors, returns were enhanced by the falling value of the dollar, which dropped ~11% over the first half of 2025. New commitments from foreign nations to increase government spending also added to the appeal, with investors anticipating economic growth as a result.

Dow Jones Relative Risk Benchmarks	
Conservative	+3.61
Moderate	+7.19
Aggressive	+9.71

Bonds also added to portfolio returns, with short and intermediate term yields falling in anticipation of interest rate cuts by the Federal Reserve in coming months. The Fed left interest rates unchanged for the first half of 2025; however the 10-year US Treasury yield fell from 4.6% at the end of 2024 to 4.2% at the end of June. Longer term yields remained elevated however as markets digested the prospects for continued deficit spending by the US under the proposed spending bill.

OUR VIEW

FIXED INCOME:
Ongoing US deficit spending has caused concern in bond markets. The US credit rating was downgraded by Moody’s in May, after previous downgrades by S&P and Fitch. Carrying a lower credit quality, and any perception of irresponsible financial management, could increase borrowing costs for the US government which would likely create a ripple effect throughout the bond market by creating a higher floor for long-term interest rates. Given this potential risk, we are in favor of increased allocations to fixed income alternatives. The direction of interest rates feels highly uncertain, and in such an environment we are in favor of a combination of traditional fixed income and fixed income alternatives.

US EQUITY:
The equity market rally pushed the S&P 500 to a valuation at 22 times forward earnings to close the second quarter. Earnings estimates have become harder for many firms to forecast given the uncertainty surrounding trade policy. At current price levels, expectations are high, and there could be volatility ahead if the trade war reignites or the economy softens under the pressure of higher prices. On the

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US EQUITY (CONT.):
other hand, the prospects for artificial intelligence to fuel a productivity revolution could support a continuation of the rise in earnings. Given the wide potential range of outcomes, we remain in favor of a balance between growth and value, along with more selectivity and incorporating flexible strategies that can respond to changing market conditions.

INTERNATIONAL EQUITY:
Foreign equities crushed US stocks for the first half of 2025. The rally was fueled by low starting valuations and investors seeking to diversify away from the US equity market. Although geopolitical risks remain elevated with much remaining to be sorted out in the trade landscape, we believe this trend could persist. Until recently, foreign equities had lagged the US for some time, and even after the recent rally foreign stock valuations remain attractive. We are in favor of a slightly higher allocation to developed international equities for the near term but being selective about exposure.

What Drives Interest Rates?

U.S. Treasury rates are one of the most influential financial indicators in the global economy. These rates—yields on government-issued debt securities—have historically been referred to as the “risk-free rate” and serve as a benchmark for everything from mortgage rates to corporate borrowing costs. Understanding what drives Treasury rates, and how they impact the national debt, is crucial for policymakers, investors, and taxpayers alike.

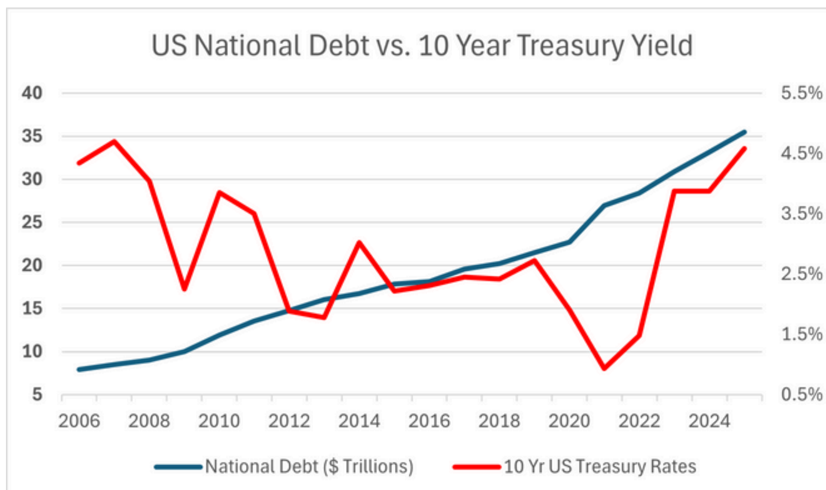
What Determines US Treasury Rates?

- Supply and Demand of Treasuries
- Inflation Expectations
- Economic Outlook
- Geopolitical Uncertainty
- Federal Reserve Policy

The U.S. national debt currently exceeds $36 trillion and continues to grow (US Treasury Dept, 2025). Persistently high Treasury rates, especially if coupled with rising deficits, can spark concerns over debt sustainability. If investors begin to question the U.S. government’s fiscal discipline, they may demand even higher rates, further increasing borrowing costs—a potentially vicious cycle. This would affect rates on other corporate and consumer borrowing as well.

Moving forward, we will be watching the national debt to interest rate relationship to determine what effect it could have on portfolios and the economic outlook.

As our national debt continues to grow, it is important to recognize how the volume of U.S. debt issuance can influence rates. When the federal government borrows more (increasing the supply of Treasuries), it can put upward pressure on yields, especially if demand doesn’t keep up. Foreign buyers, pension funds, and individual investors all play roles in shaping demand.



Sources: US Treasury Department, Federal Reserve Bank of St Louis, 2025

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