

**Thomas J D'Auria, CFA**  
*Managing Partner, CIO*

**Caleb Lennon, CRC**  
*Director*

**Barbara Tweedy**  
*Wealth Manager*

If we told you on April 8<sup>th</sup> of this year (with the S&P having declined 12% in the prior week) that the index would rebound and record a gain of 10.9% for the second quarter, you would have likely scoffed. While the second quarter of 2025 saw a sharp increase in financial market volatility, the period from April 8<sup>th</sup> through quarter end witnessed a near vertical rise of more than 25% in US equities. This marked the fastest rebound from a 15% decline in history. For the six-month period, the benchmark S&P 500 index increased by 6.2%.

Tariff news remained the primary catalyst for market moves, although the short-lived Iran conflict garnered headlines in mid-June. Stepping away from the news headlines, we see a US economy that has slowed noticeably over the past several months with employment growth continuing to recede. Payroll growth in May and June averaged 145,000, a slowdown from previous months, while jobless claims climbed to about 240,000, the highest since early 2021. A weaker job market and stubborn inflation are at the top of our list of concerns.

The Federal Reserve continued to hold the Fed Funds rate steady at 4 3/8% during their two meetings in the past quarter. The Fed has held to its prediction of two rate cuts during 2025, despite rising inflationary expectations and the uncertainty from tariffs. Barring unexpected shifts in the inflation picture, we believe the next rate cut will come between September and December this year. Interest rates across most of the maturity spectrum declined modestly during the quarter as softening economic data combined to move rates lower. The 1-year Treasury bill yield declined to 3.98% from 4.04% on March 31. The 2-year Treasury note began the quarter yielding 3.92% and declined to 3.72% at the end of June. The benchmark 10-year US Treasury note ended the quarter with a yield of 4.23%, slightly higher than the 4.21% yield on March 31.

### **Economic and Market Outlook**

Current earnings estimates for the S&P 500 in 2025 are \$260-265, down from a range of \$275-280 at the start of the year. While we had long been wary of the 13% earnings jump predicted at the start of the year, estimate reductions over the past six months have moved them to a more reasonable 9% increase. However, with estimates declining during the first half of the year and stocks rising, the forward P/E multiple stands slightly above 22x forward earnings estimates. We remain concerned that an expensive market could combine with earnings disappointments over the coming months, leading to declines in equities from current all-time highs.



3 Third Street, Suite 215  
Bordentown, NJ 08505  
Tel 609-452-2100

220 S Pleasant Street  
Prescott, AZ 86303  
Tel 928-521-5628

Between July and September, the US Treasury will refinance over \$3 trillion in maturing federal debt, part of a broader \$11 trillion wave coming due over the next 12 months. This is the result of years of short-term borrowing at exceptionally low rates, which now mature at higher costs. Refinancing this debt at current yields - significantly higher than those locked in during 2020–2021 - could cost hundreds of billions in additional annual interest payments.

Over the past quarter, the US economy has navigated a turbulent crossroads of tariffs and trade policy shocks which temporarily slowed GDP and rattled investor confidence. The Federal Reserve is walking a tightrope—maintaining higher rates now, with potential easing on the horizon if inflation cools and growth weakens.

### Portfolio Positioning

Market concentration in a few large technology names continues to concern us. While they have been leading the market higher for the past two years, they will be the first sold when investor moods change. We witnessed this in early April as the Magnificent Seven were among the largest decliners following the tariff announcements. The US equity market is expensive and needs earnings growth to match expectations while interest rates do not drift much higher to maintain the current P/E multiple. Where client portfolios have moved away from target asset allocations we have done some trimming in equities, preferring to take profits and move funds to short-term fixed income.

For the first time in several years, international stocks have been outperforming US markets during the past six months. Capital has begun to flow toward Europe amid US uncertainties and the weaker dollar. Additionally, heavy EU defense/infrastructure investment expected over the remainder of the decade bode well for European corporate earnings. While we have been cautious about US equities due to valuations, we have methodically increased our international equity exposure for the past year. While six months does not make a trend, there is a fair probability that capital will continue to flow to international markets which makes them more enticing than they have been in many years. With interest rates remaining elevated compared to recent years, we continue to view short-term debt and money market funds as viable components of a well-balanced portfolio.

### Conclusion

The recent months have tested many assumptions: growth has been weaker than expected, inflation remains sticky, labor is softening, and policy is unpredictable at best. Equity markets plunged, then rebounded on earnings and a pause in tariffs, yet bonds tell a cautionary tale of an overleveraged fiscal path. The coming months are pivotal—not just for a potential ‘soft landing’ but for reestablishing trust in US economic leadership and stability. Trade negotiations, key economic data, and central bank communications will determine whether the US can achieve a “soft landing” or fall into recessionary pressures. Investors must parse macro data, policy shifts, and global capital flows.



3 Third Street, Suite 215  
Bordentown, NJ 08505  
Tel 609-452-2100

220 S Pleasant Street  
Prescott, AZ 86303  
Tel 928-521-5628

## Second Quarter 2025

As always, we remind you to review your portfolio asset allocation and contact us if there are any significant changes in your financial situation, risk tolerance or if you have any specific questions or concerns about your investments.

June 30, 2025

Tandem Investment Partners, LLC ("Tandem") is a registered investment advisor. Tandem only transacts business in states where it is properly registered or is excluded or exempted from registration requirements.

All expressions of opinion reflect the judgment of the author as of the date of publication and are subject to change.

Information contained herein does not involve the rendering of personalized investment advice but is limited to the dissemination of general information. A professional adviser should be consulted before implementing any of the strategies or options presented.

Past performance may not be indicative of future results. Therefore, clients should not assume that the future performance of any specific investment, investment strategy (including the investments and/or investment strategies recommended by the adviser) will be profitable or equal to past performance levels. All investment strategies have the potential for profit or loss. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will either be suitable or profitable for a client's investment portfolio.



3 Third Street, Suite 215  
Bordentown, NJ 08505  
Tel 609-452-2100

220 S Pleasant Street  
Prescott, AZ 86303  
Tel 928-521-5628