



Atlantic Retirement & Wealth Advisors LLC
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An Uneven Road Higher, A Battle Between Hard and Soft Data

Mid-year Highlights

- The path of least resistance entering the second half of the year would be to say risk on, with equity markets trending higher. But we can't forget a timeless piece of strategic wisdom: "Hope is not a strategy." The global economy's resilience is reason for hope, but investors need more than hope because there is no shortage of concerns— tariffs aimed at supporting U.S. business that risk isolationism, inflationary White House policies at odds with a cautious Fed, tax cuts that increase the deficit, friction between the executive and judiciary branches, and renewed military escalation in the Middle East and Europe to name a few.
- Even with these challenges, we continue to believe that global economies around the world will prove resilient. However, we do expect a considerable slowing of growth as well as pressure from a sluggish job market in the United States. The Q2 GDP is estimated to be in the 3-4% range (due to buildup of inventories prior to tariffs), but after the contraction of Q1 2025 GDP of -.5%, we are still only averaging a run rate of ~1.5%-2%. This is much slower than previous years.
- Soft data refers to sources like forward-looking surveys and high-frequency indicators that are constantly updated, while hard data refers to historical reports that are produced from actual results (government stats). Currently, both hard and soft data are pointing in opposite directions, telling two different stories about the U.S. economy. The soft data portends a tough road ahead. Consumer sentiment recently reached one of the lowest readings since 1980, casting doubt on the resilience of consumer spending that drives the U.S. economy. Small business optimism has also dipped, and while the drop was not as dramatic as the fall-off in consumer surveys, only 22% of small business owners expect to make a capital investment in their business over the next six months. The hard data has stayed strong in most areas, like consumer spending and capital investment (from the larger AI firms). We believe the soft data will start to show in the hard data over the next couple of quarters.
- As we have previously mentioned, equity markets are extremely concentrated. Within the S&P index, 22 stocks are currently at all-time highs near the end of June, compared to 67 during January 2024's breakout, 54 during August 2020's breakout, 97 during March 2021's breakout, 82 during May 2007's, 66 during November 1998's, and 51 during February 1991's breakout.

Opportunities and Risk Moving Forward, with Volatility and Uncertainty

The U.S. economy is navigating a period of high uncertainty regarding policy. While corporate fundamentals are strong, we anticipate a growing divergence among industries as some are more affected by tariffs and other policy shifts. In this environment of growing dispersion, active sector selection should be an important driver of opportunities and returns. We still believe smaller firms will struggle in this interest rate and tariff world. As noted on the year-to-date Index returns below, S&P Small Cap 600 is -4.46% and the Russell 2000 is -1.79%. We are seeing opportunities in high dividend paying firms.

International equities have underperformed US equities for years, decades in some cases, but not in 2025. Many countries are starting to re-invest in their own economies as well as provide additional stimulus to offset falling international trade. Again, there will be a dispersion as some industries will be winners and others will struggle. We like international defense, utilities, mid and small caps and emerging markets, ex China. One other tail wind for international equities is the weak US dollar, a move that we think will continue.

In terms of inflation, we find ourselves in the eye of the storm—the policy changes have hit, but the impact on prices is still on the horizon. We anticipate the year-over year gain in core personal consumption expenditures (PCE) price inflation will rise near 3 percent by the fourth quarter. However, we continue to see this as a one-time price boost and not an enduring source of inflation. Underlying fundamentals point to further disinflation, with housing and wage inflation continuing to cool. Please note, based on Oxford Economics, Haver Analytics and our analysis we estimate that an average 12% tariff rate would equate to 1% of the US GDP. Whoever is “paying for this tax” will feel the cost and expense. We believe the consumer will pay at least 50% of it, probably more.

Higher quality fixed income returns remain stable, and we believe they provide an attractive source of steady yield to help buffer downside risks amid continued policy uncertainty. For interest rates, we expect the 10-year Treasury yield will maintain its trading range of 4%–4.75%, with upward pressure from fiscal policy offset by slowing growth and a trend toward easier monetary policy. We are expecting one or two interest rates cuts in the US in 2025, with an additional cut in 2026. This means that short term rates should decline faster and more than longer term rates (higher inflation seen longer term). Even with lower rates, we don't believe the housing market will come back quickly, thus we are forecasting some price declines in the next year.

The municipal bond market has had a challenging year in 2025, with some areas underperforming by over 700 basis points (7%) to treasuries. State, local and district utilities have increased their bond

offerings in the first 6 months while rates were increasing, thus putting pressure on prices. We see this as a buying opportunity as some of these yields have not been seen for a long time.

Lastly, each of our clients has an allocation to alternative investments, some in market neutral as well as long short hedging strategies (depending on client objectives). These strategies have performed well in 2025 and we expect that to continue. We anticipate adding to these strategies to better mitigate future volatility as well as to enhance performance outcomes.

Overall Landscape

We focus on long term results and client outcomes and objectives. A diversified portfolio can benefit investors as volatility increases and valuations become more important. Diversification comes in many forms: stocks, bonds, commodities, currencies, leverage, cash and real estate are good examples. Our goal is to match our portfolios to our clients' goals, risk levels, timeframe, market opportunities and dynamics as well as current valuations and thoughts. These are never static given all the variables included in our analysis.

Atlantic Retirement & Wealth (ARWA) – Enhancements in Client Reporting, Financial Planning and Investment Analysis Systems

Over the course of the last couple of months ARWA has been in the process of upgrading and developing our enhanced technology layout. Although we will continue to finalize these products through the end of the year, our clients will see improvements in our quarterly statements, meeting materials, financial planning process systems as well as faster electronic delivery. Along with these client improvements, we are also adding and building out our investment analysis engines. With these deeper and broader technology tools that utilize industry best practices and AI, we are excited to dive deeper into what we analyze and deliver to our client base.

Index Returns

<u>Index</u>	<u>Q2 202025</u>	<u>YTD 2025</u>
Dow Jones Average (TR)	5.46%	4.55%
S&P 500 (Price)	10.57%	5.50%
S&P 500 (TR)	10.94%	6.20%
Morningstar US Mid Cap Core (TR)	5.78%	2.60%
Morningstar US Small Cap Core (TR)	5.32%	-1.26%
S&P Small cap 600 (TR)	4.90%	-4.46%
Morningstar Large Cap Value (TR)	0.89%	6.89%
Morningstar Small Cap Value (TR)	4.01%	0.12%
Russell 2000 (TR)	8.50%	-1.79%

International Equity

MSCI EAFE (International)	11.78%	19.45%
MSCI Emerging Markets GR	12.20%	15.57%

Fixed Income / Bonds

Bloomberg US Bond Aggregate (TR)	1.21%	4.02%
BBGBARC Muni 10 Yr 8-12 TR US	0.78%	1.04%
BBGBARC Muni Inter-short 1-10 (TR)	1.14%	1.95%
Bloomberg High Yield Muni (TR)	-1.14%	-0.33%
Morningstar US CEF Municipal	-2.10%	-3.35%

S&P Target Risk Models

S&P Target Risk Conservative (PR)	3.58%	4.53%
S&P Target Risk Moderate (PR)	4.56%	5.26%
S&P Target Risk Growth (PR)	6.53%	6.70%
S&P Target Risk Aggressive (PR)	8.48%	8.11%

Important Disclosures

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