

Mid-Year Market Pulse

3Q 2025

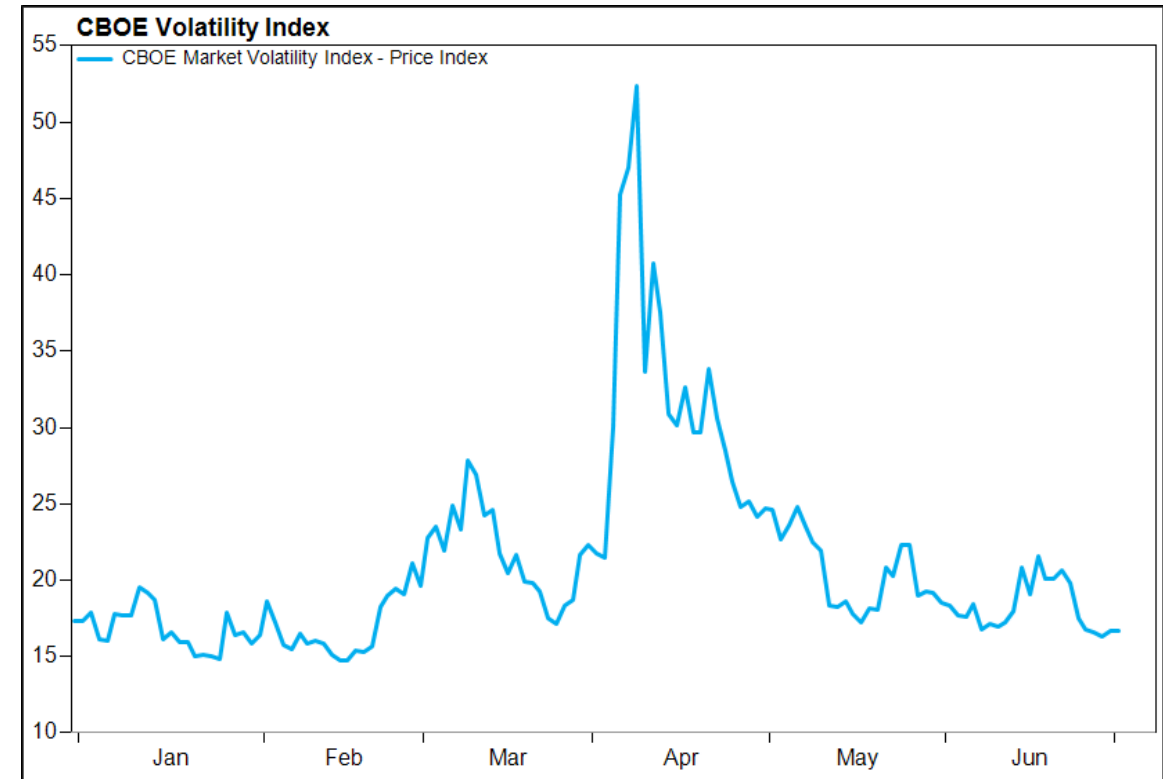
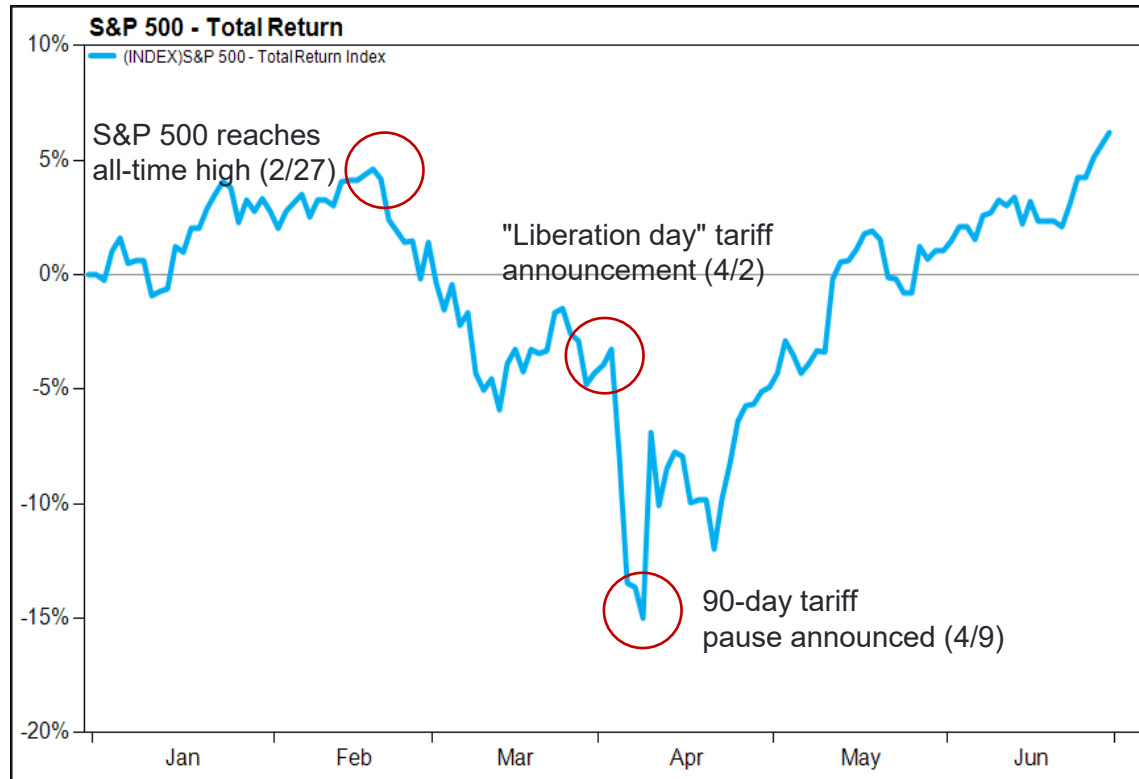


What We Will be Covering

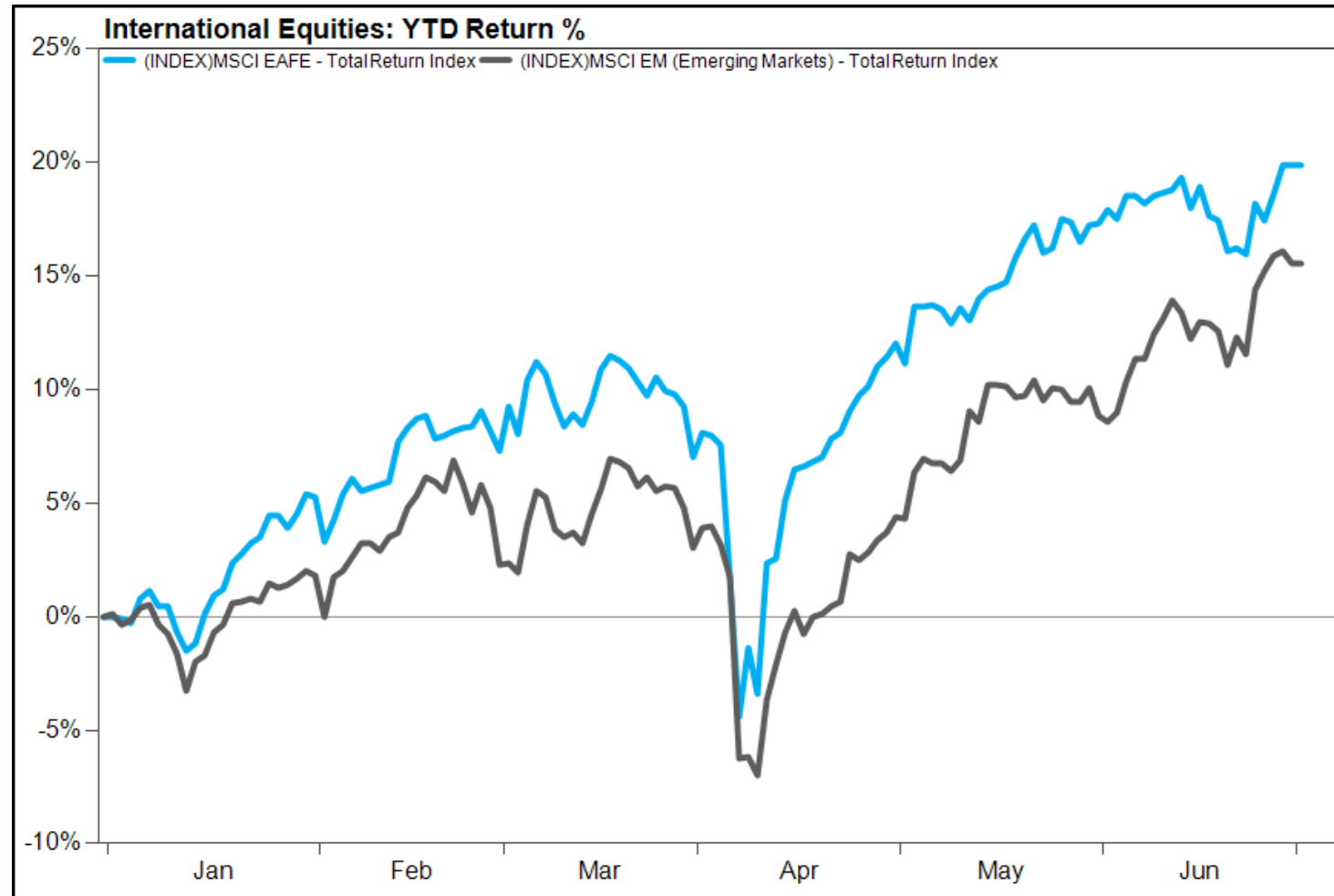
- A Look Back At Q2 And The First Half
- What Have Tariffs Brought So Far?
- The Debt And The Dollar
- What Is The Bond Market Telling Us?
- The Second Half of 2025: What We Like And Don't Like

A Look Back At Q2 And The First Half

April Was One for the Books



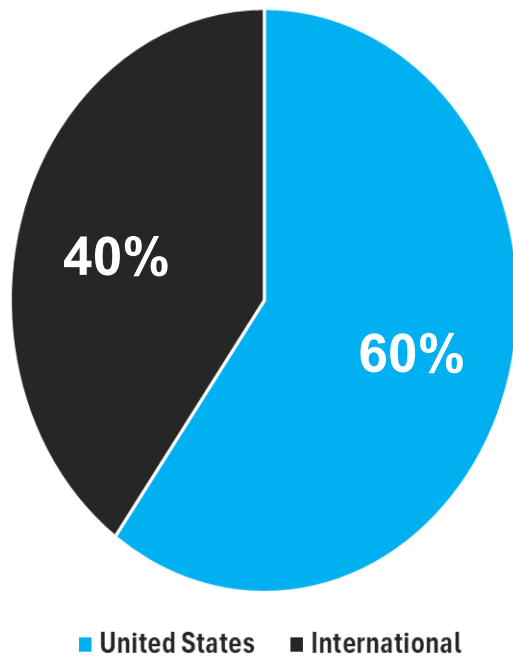
International Markets Held on to Gains



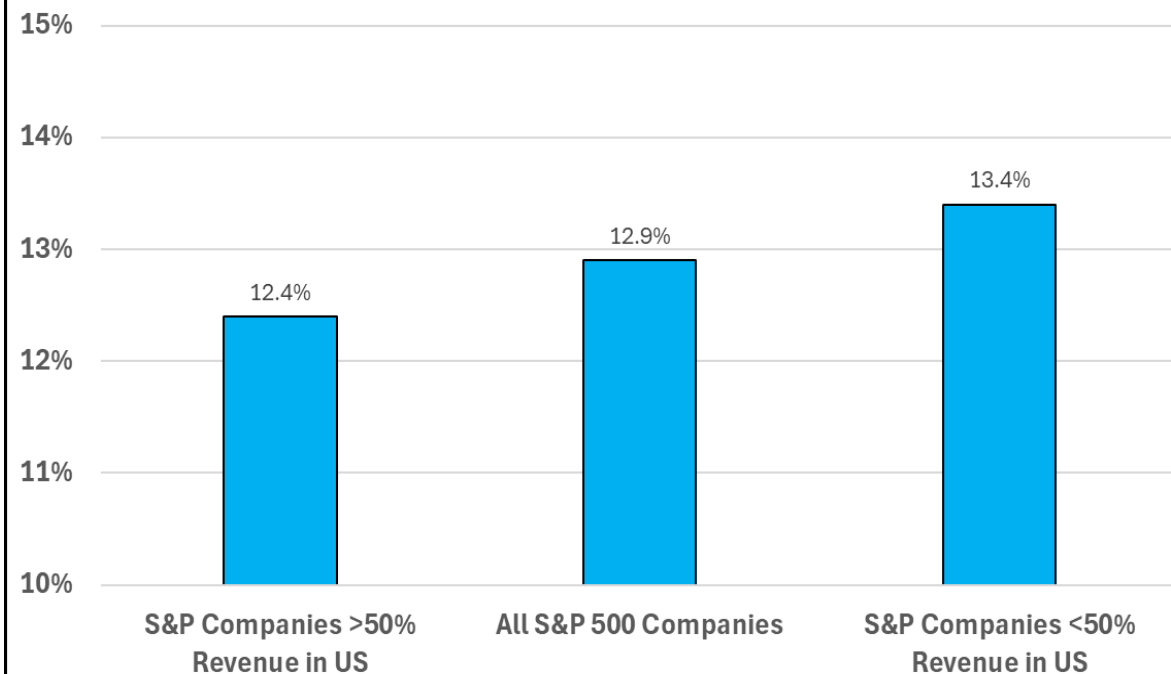
Source: FactSet

Ex-US Revenue Carried 1Q Earnings for the S&P

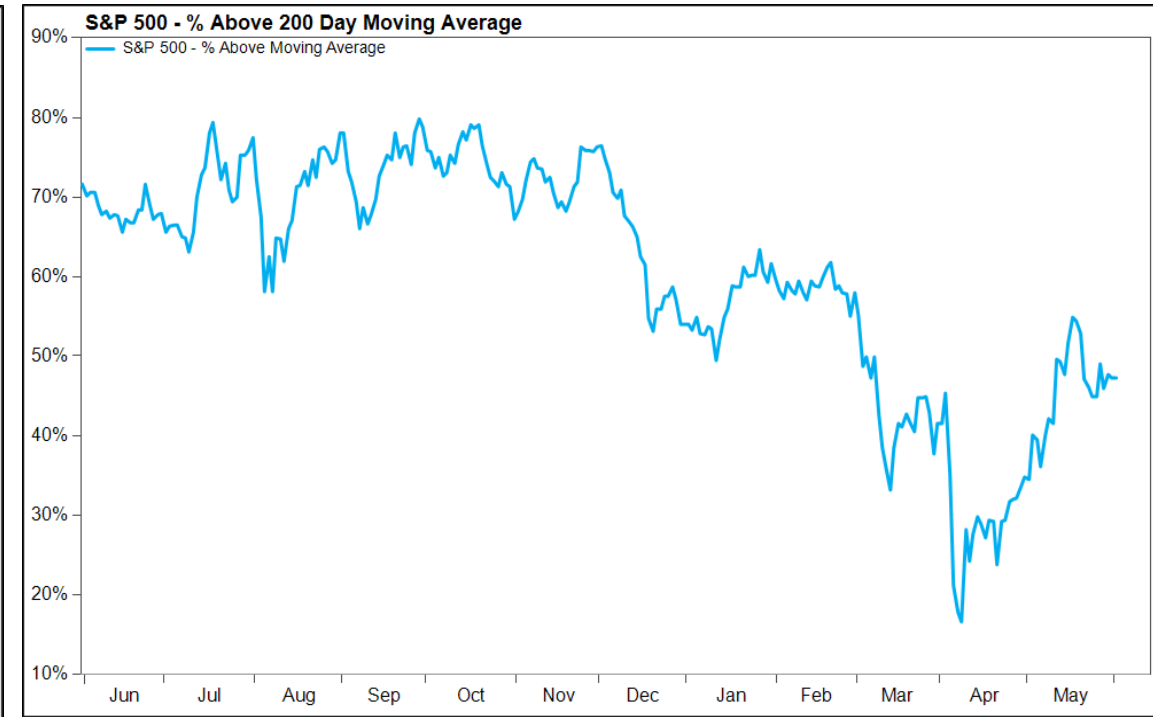
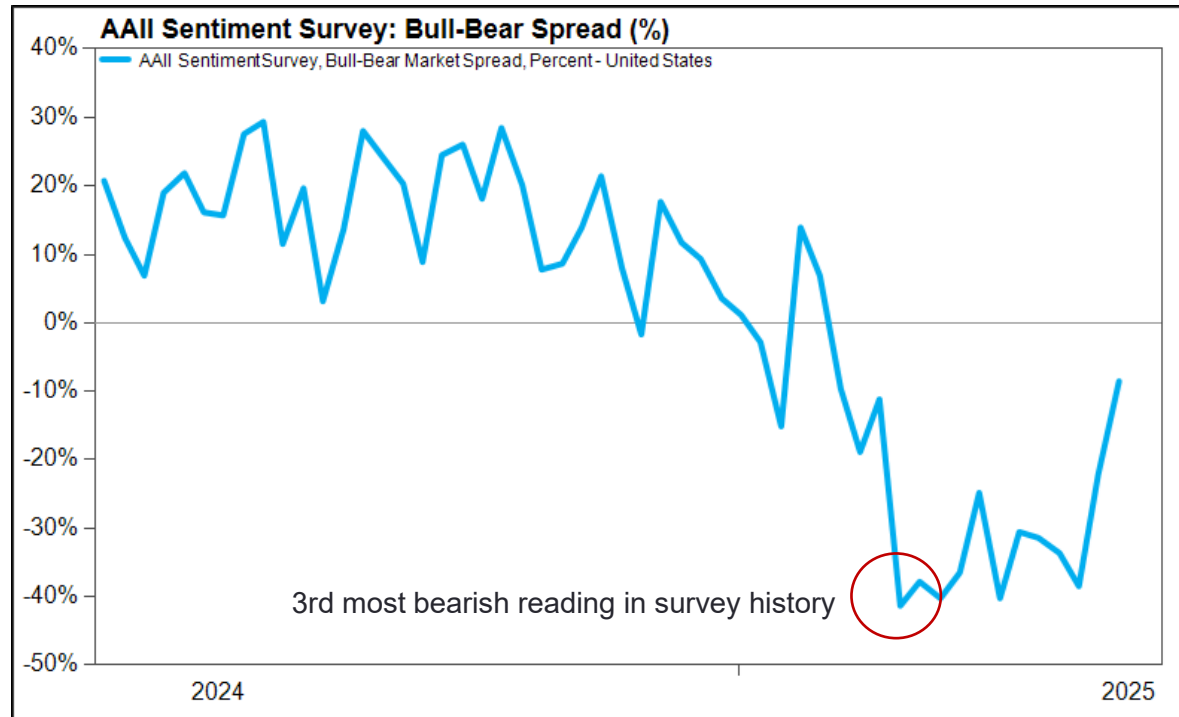
S&P 500: Aggregate Geographic Revenue Exposure %



S&P 500: Earnings Growth (y/y): 1Q '25

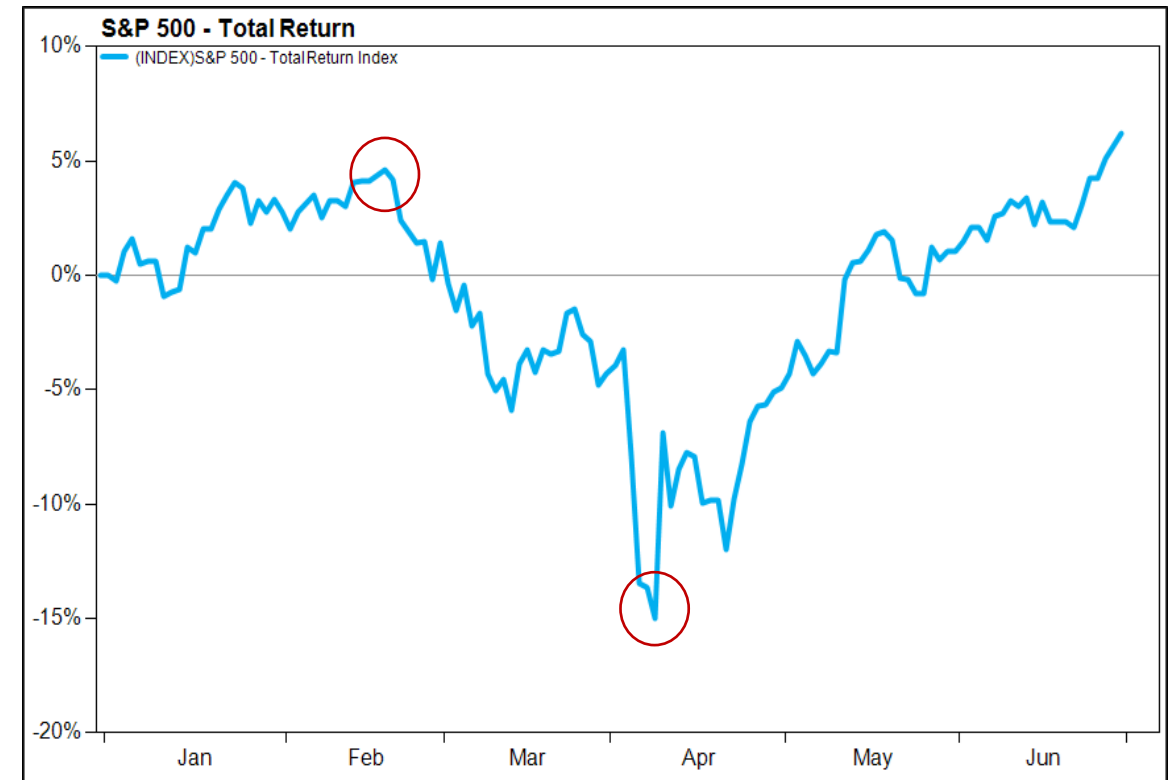


Sentiment Plunged, then Snapped Back

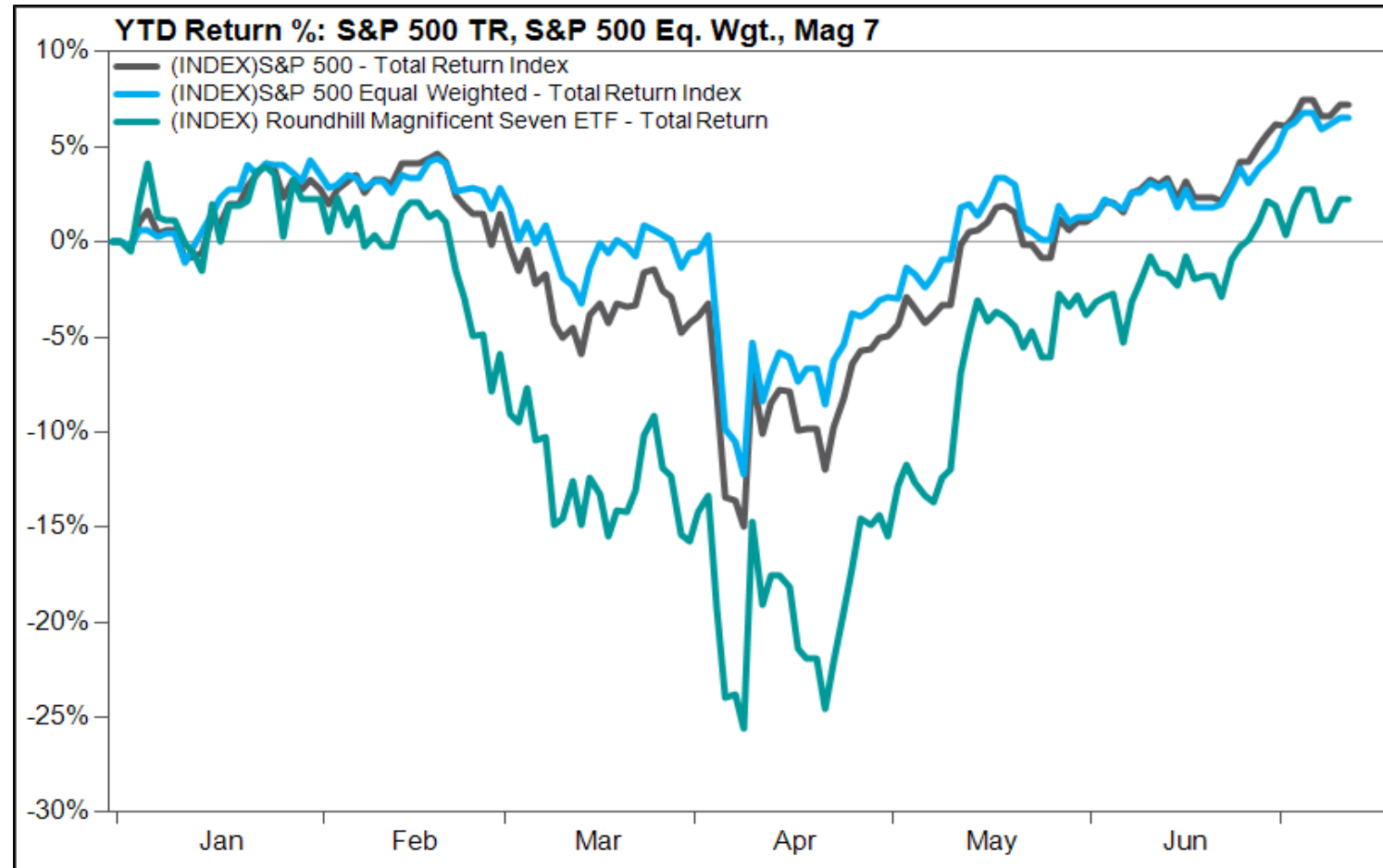


Market History is Repeating Itself

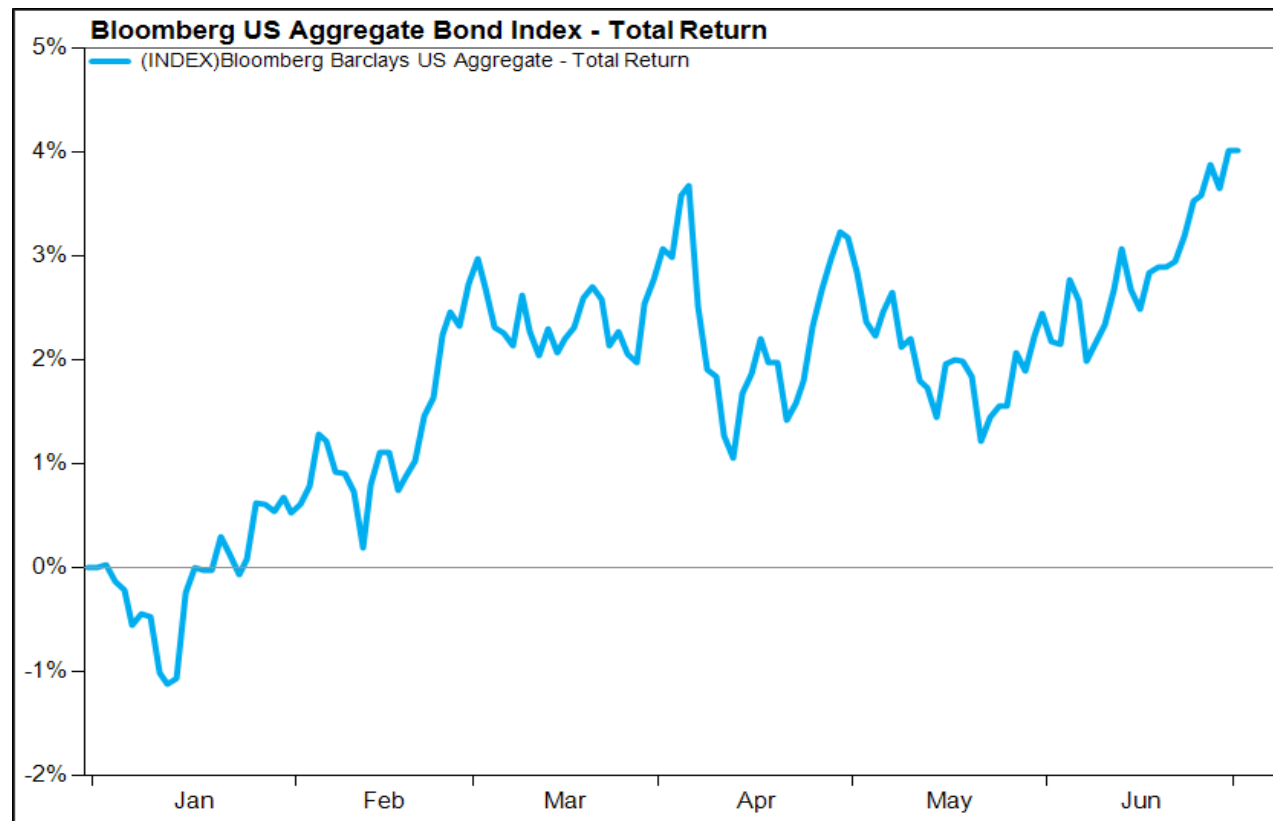
Times the AAI Bearish Sentiment Indicator Hit 60+%			
Date	Reading	S&P 500 TR 12mo Forward Return	Events Occurring
8/31/1990	61.00%	26.90%	Gulf War
10/19/1990	67.00%	29.94%	
10/9/2008	60.84%	20.92%	GFC
3/5/2009	70.27%	70.53%	
9/22/2022	60.87%	16.91%	Inflation Shock
9/29/2022	60.81%	19.79%	
2/27/2025	60.62%	?	Tariffs and Trade Wars
4/3/2025	61.92%	?	



It's No Longer Just the "Mag 7"



Bonds Provided Safety During Equity Market Volatility



Why Portfolio Diversification Has Helped in 2025

It hasn't been a panacea, but it has generally worked in investors' favor.

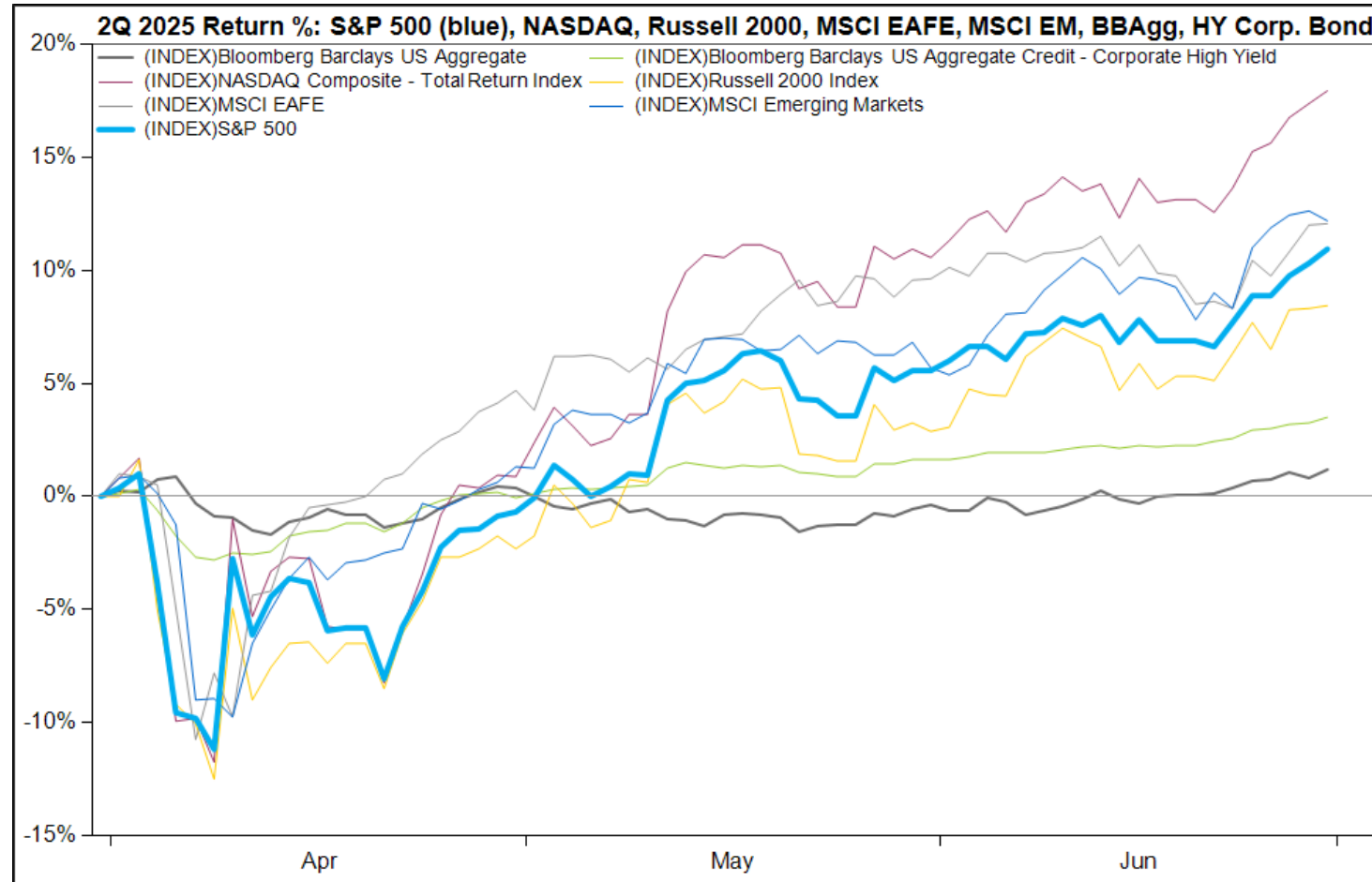


Bonds are back in market crash, but the way investors are buying fixed-income has changed

How Have Stocks and Crude Oil Traded During Key Geopolitical Events of the Past 50 Years?

Geopolitical Event	Year	Key Date	One Day Change %		1-Year Return %	
			S&P 500	Crude Oil (WTI)	S&P 500	Crude Oil (WTI)
Israel Attacks Iran	2025	6/13/2025	-0.5%	6.5%	?	?
Hamas Attacks Israel	2024	10/7/2023	0.6%	4.3%	33.5%	-1.7%
Russian Invasion of Ukraine	2022	2/24/2022	1.5%	0.3%	-5.1%	-8.4%
Iranian General Killed in US Airstrike	2020	1/3/2020	-0.7%	3.1%	15.3%	-51.1%
North Korea Missile Crisis	2017	7/28/2017	-0.1%	0.9%	14.0%	38.3%
Russian Annexation of Crimea	2014	2/20/2014	0.6%	0.0%	14.8%	-46.2%
Boston Marathon Bombing	2013	4/15/2013	-2.3%	-2.8%	31.9%	-39.6%
Syrian Civil War & Arab Spring	2011	3/15/2011	-0.1%	-1.2%	8.7%	3.0%
London Subway Bombing	2005	7/5/2005	0.9%	1.6%	7.2%	9.2%
Iraq War	2003	3/20/2003	-1.1%	0.6%	26.6%	64.6%
9/11 Attacks	2001	9/11/2001	-4.9%	-3.7%	-16.8%	-3.9%
World Trade Center Bombing	1993	2/26/1993	0.4%	-1.3%	5.1%	-39.7%
Civil War in Bosnia	1992	4/5/1992	-2.0%	0.6%	9.9%	7.5%
Persian Gulf War	1991	1/17/1991	3.7%	-31.9%	32.3%	-35.5%
Iraqi Invasion of Kuwait	1990	8/2/1990	-1.1%	20.8%	8.9%	-10.3%
Iran-Contra Affair	1986	11/25/1986	1.4%	0.0%	-0.7%	23.6%
Attempted Assassination of Reagan	1981	3/30/1981	-0.3%	0.2%	-17.5%	-2.2%
Iran-Iraq War	1980	9/22/1980	0.4%	1.0%	-10.1%	51.0%
Median			-0.1%	0.5%	8.9%	-2.2%

Despite all the Volatility, Markets Were Up and to the Right in Q2



Source: FactSet

The Prevailing Narrative into 2H

Is Most Good News Priced in?

- Trade uncertainty eases
- The dollar stabilizes
- Earnings came in better than expected in Q1
- Inflation came in cooler than expected in Q1
- Room for the Fed to cut rates
- Improved economic outlook; reduced recession odds
- Lower energy prices
- The US consumer remains resilient
- The "Big Beautiful Bill"
- Cooler heads should prevail in the Middle East

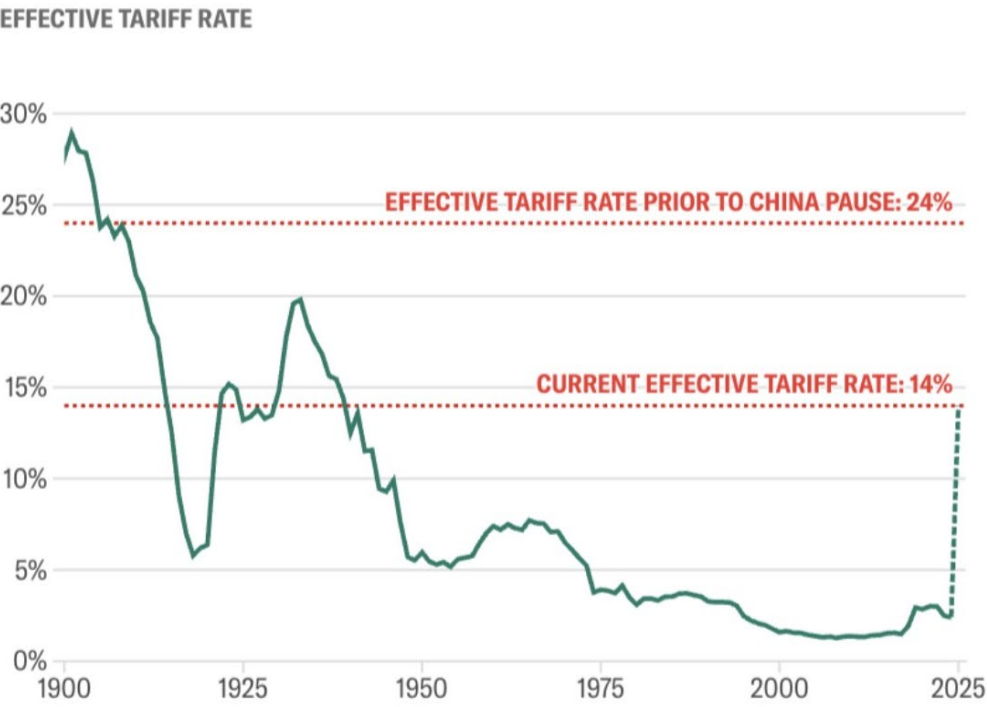
What Have Tariffs Brought So Far?

Where Do Import Tariff Rates Stand Today?

Select Countries Total Effective Tariff Rate

World Total	14%
Mexico	12%
China	39%
Canada	11%
Germany	12%
Japan	15%
Vietnam	12%
South Korea	13%
Taiwan	5%
Ireland	2%
India	10%
Italy	11%
United Kingdom	11%

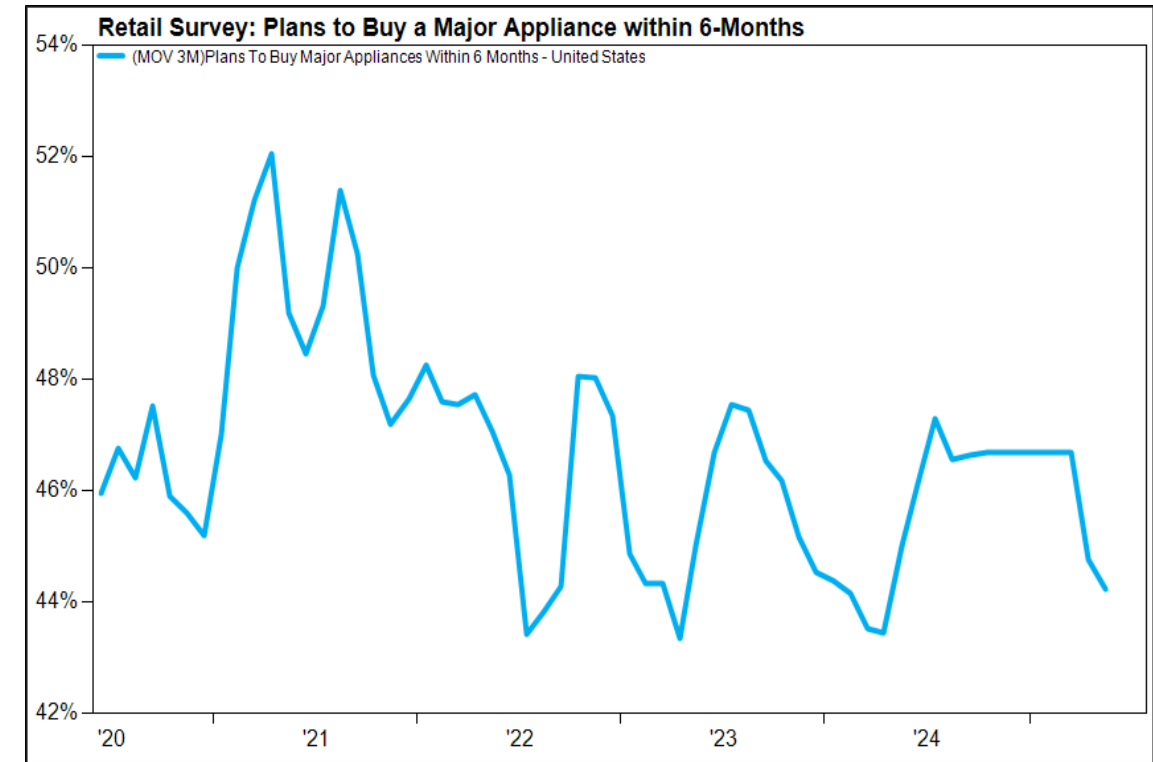
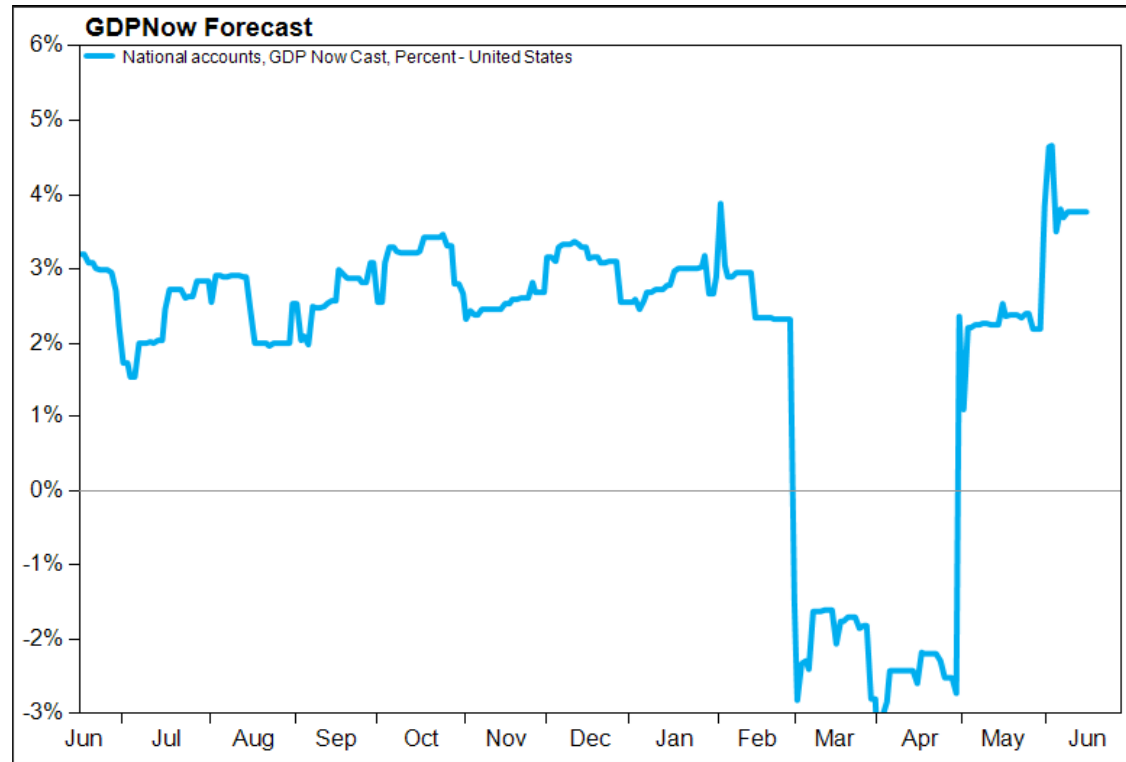
Tariff Definition: A payment that must be made to the government in order to import or export certain goods. - Merriam-Webster



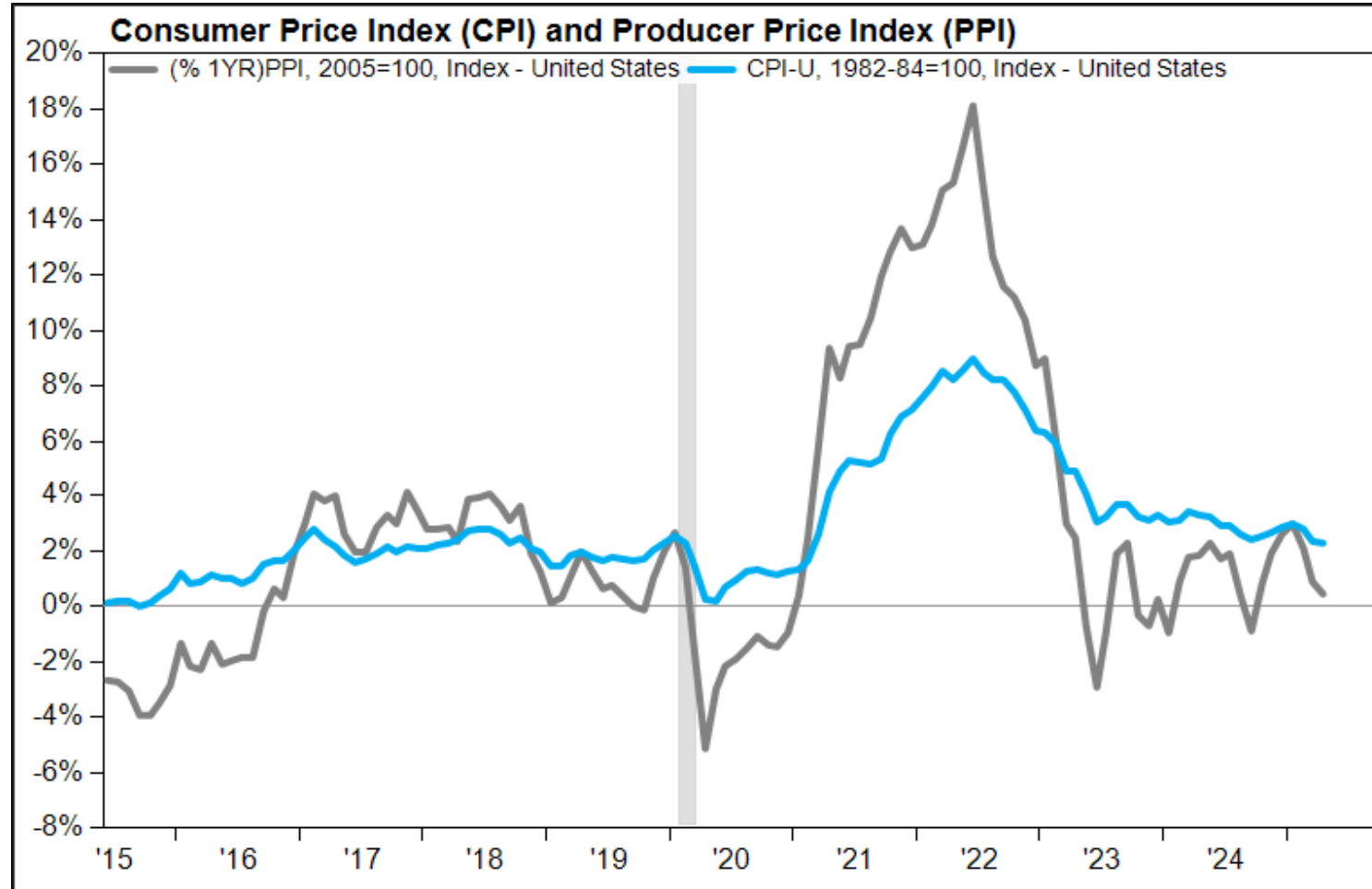
SOURCE: J.P. MORGAN, BUREAU OF ECONOMIC ANALYSIS; YALE BUDGET LAB; YAHOO FINANCE • BASED ON TARIFF POLICY AS OF MAY 12, 2025 **yahoo!finance**

Includes US import tariff rate and 10% reciprocal rate. As of 5/22/25.

Businesses, Consumers, and Investors Await Clarity

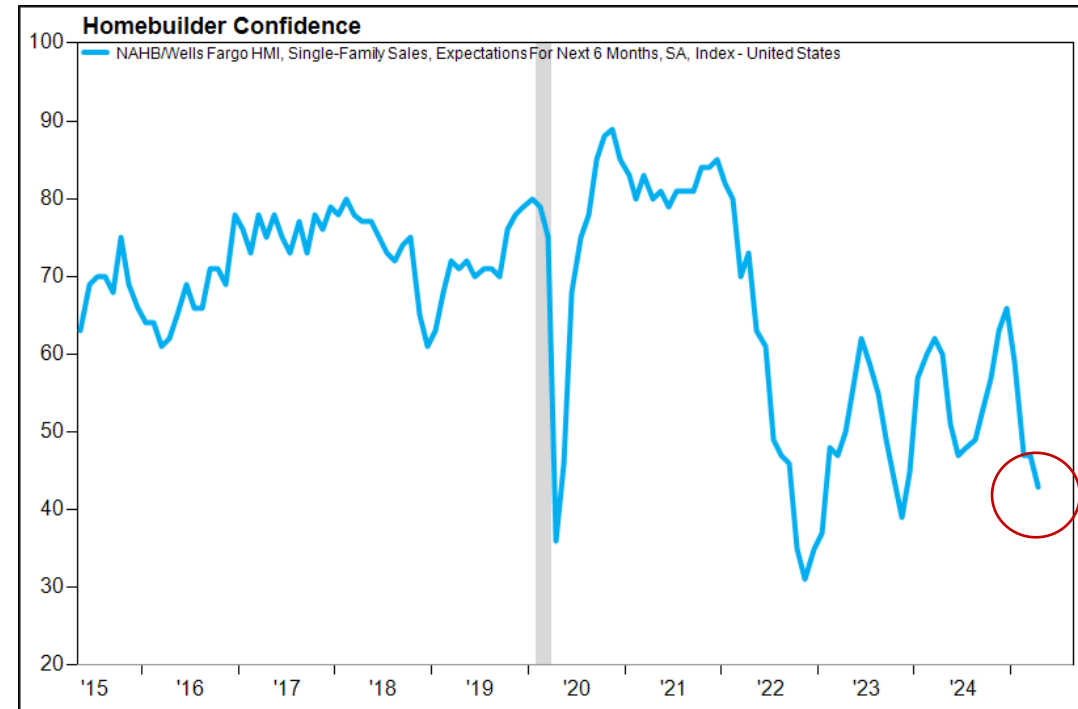
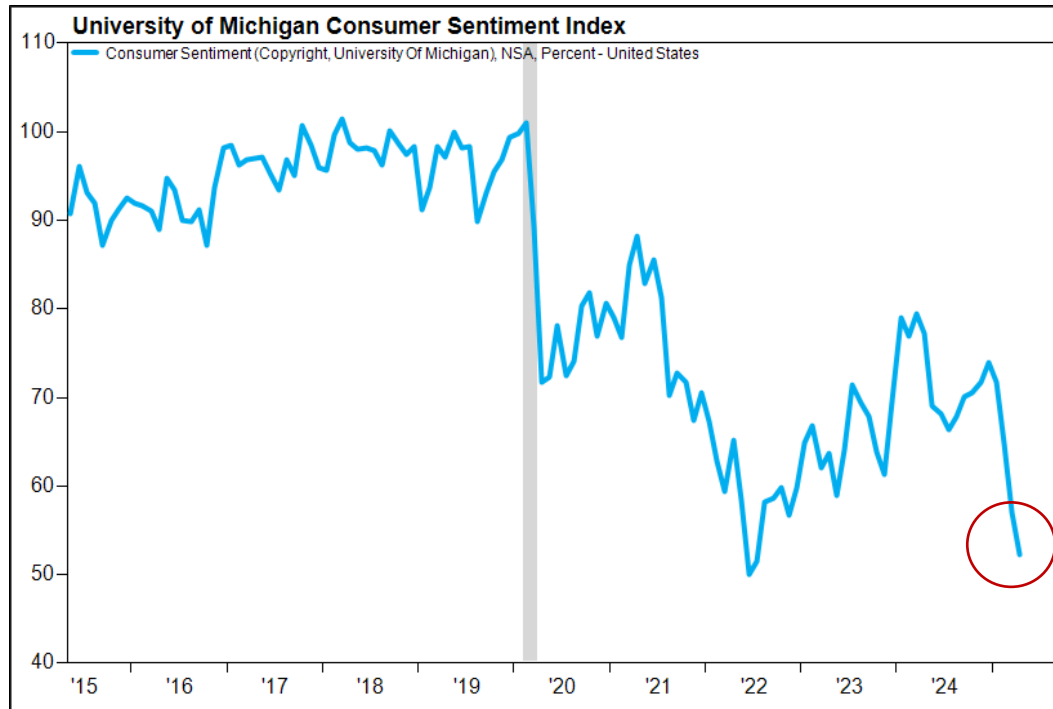


Tariffs Have Not Impacted Prices as Expected – So Far

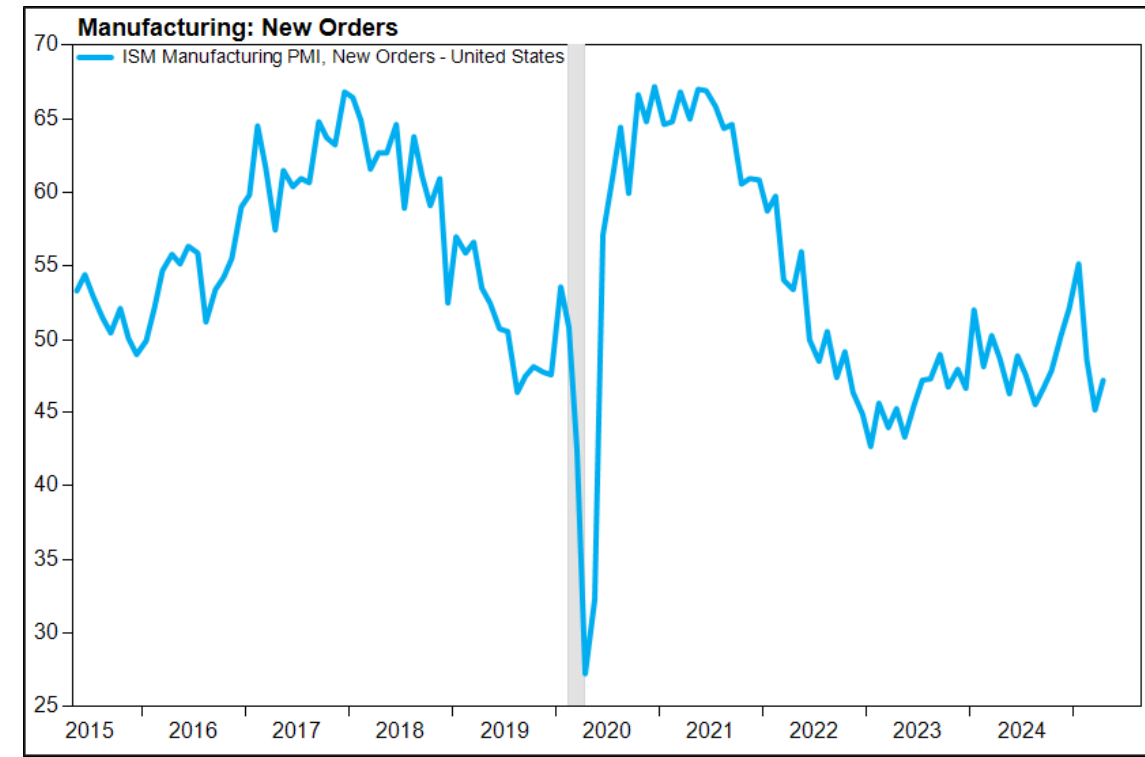
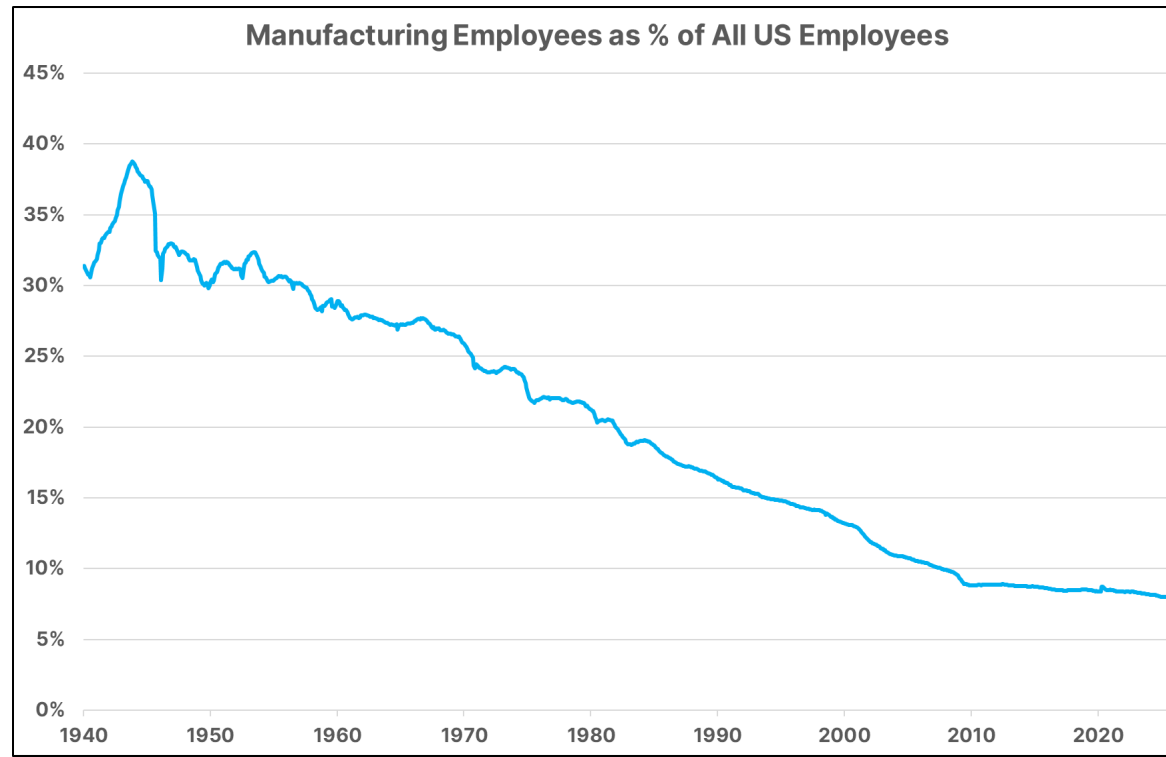


Source: FactSet
Gray bars indicate recession

The Consumer May Balk at the Tariff Tab



A Domestic Manufacturing Wave May Take Some Time



The Clock is Ticking on Trade Deals

4/2 - "Liberation Day" tariff announcements

4/9 - 90-day pause on reciprocal tariffs; temporary 10% rate announced for most countries

5/12 - Tariff rate on goods imported from China reduced from 145% to 30% during 90-day negotiating period

5/25 - 50% tariffs on European Union delayed until 7/9

6/11 - Tentative deal with China?

7/6 - Reciprocal tariff deadline extended to August 1st



The image shows Donald Trump holding a large sign titled "Reciprocal Tariffs". The sign displays a table with columns for "Country", "Tariff Charged on U.S. Imports", and "U.S.A. Reciprocal Tariff". The table lists various countries and their corresponding tariff rates.

Country	Tariff Charged on U.S. Imports	U.S.A. Reciprocal Tariff
China	67%	30%
European Union	39%	10%
Vietnam	90%	10%
Thailand	64%	10%
Japan	48%	10%
India	52%	10%
South Korea	20%	10%
Philippines	72%	10%
Malaysia	61%	10%
Indonesia	61%	10%
Brunei	47%	10%
Mexico	37%	10%
Canada	10%	10%

What Could a Tariff "Off-Ramp" Look Like?

What is Wall Street Looking For?

- A sensible deal with China
- A sensible deal with the EU; Canada and Mexico would also be well received
- No spike in inflation
- Bounce back in GDP
- Cooler rhetoric on trade

The Debt And The Dollar

USD Anxiety Spiked on Tariffs, Deficit, Geopolitics



Dollar softens on US ratings downgrade; trade tensions back on radar

By Gertrude Chavez-Dreyfuss

May 19, 2025 3:26 PM EDT · Updated 22 days ago



Why Trump wants to weaken the US dollar — and level global trade

By Jeff Ferry

Published March 11, 2025, 7:02 p.m. ET



Dollar collapse: The crisis is no longer just theoretical

BY VIVEKANAND JAYAKUMAR, OPINION CONTRIBUTOR - 04/28/25 1:00 PM ET



Unusual sell-off in the dollar raises specter of investors losing trust in the U.S. under Trump

Economy Apr 18, 2025 4:47 PM EDT



Is this the downfall of the U.S. dollar?



More Than Tariffs: Behind the US Dollar's Decline

The dollar's decline reflects concerns among global investors. Here's what it means for portfolios.

Source: Reuters, NY Post, The Hill, BBC, JPMorgan, Morningstar

Reports of the Dollar's Death are Greatly Exaggerated

- The dollar is still the world's reserve currency
- The "Sell America" trade is likely temporary
- European resurgence is not a mutually exclusive scenario against US leadership
- US trade policy touched a nerve with global leaders
- The existential risk of global capital side-stepping the US can be mitigated with a tariff "off-ramp"
- Exchange rates are driven by many factors
- Betting against America is a risky proposition



"In its brief 232 years of existence, there has been no incubator for unleashing human potential like America...Despite some severe interruptions, our country's economic progress has been breathtaking."

Our unwavering conclusion: never bet against America."

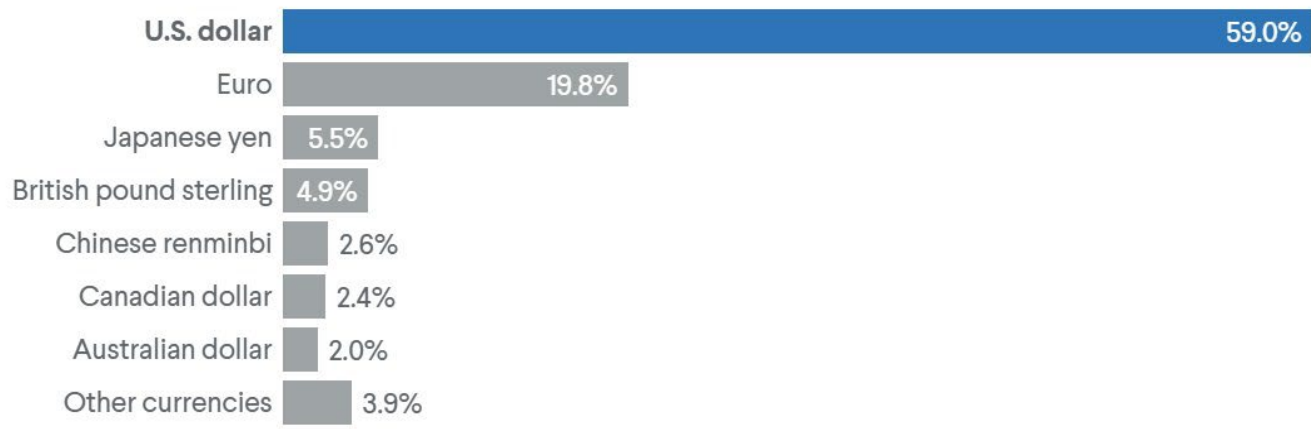
- Warren Buffett

Image Source: Google

Reports of the Dollar's Death are Greatly Exaggerated

Most Foreign Exchange Reserves Are in U.S. Dollars

Share of allocated foreign exchange reserves, first quarter of 2023



Source: International Monetary Fund's Currency Composition of Official Foreign Exchange Reserves (COFER) database.

COUNCIL on
FOREIGN
RELATIONS

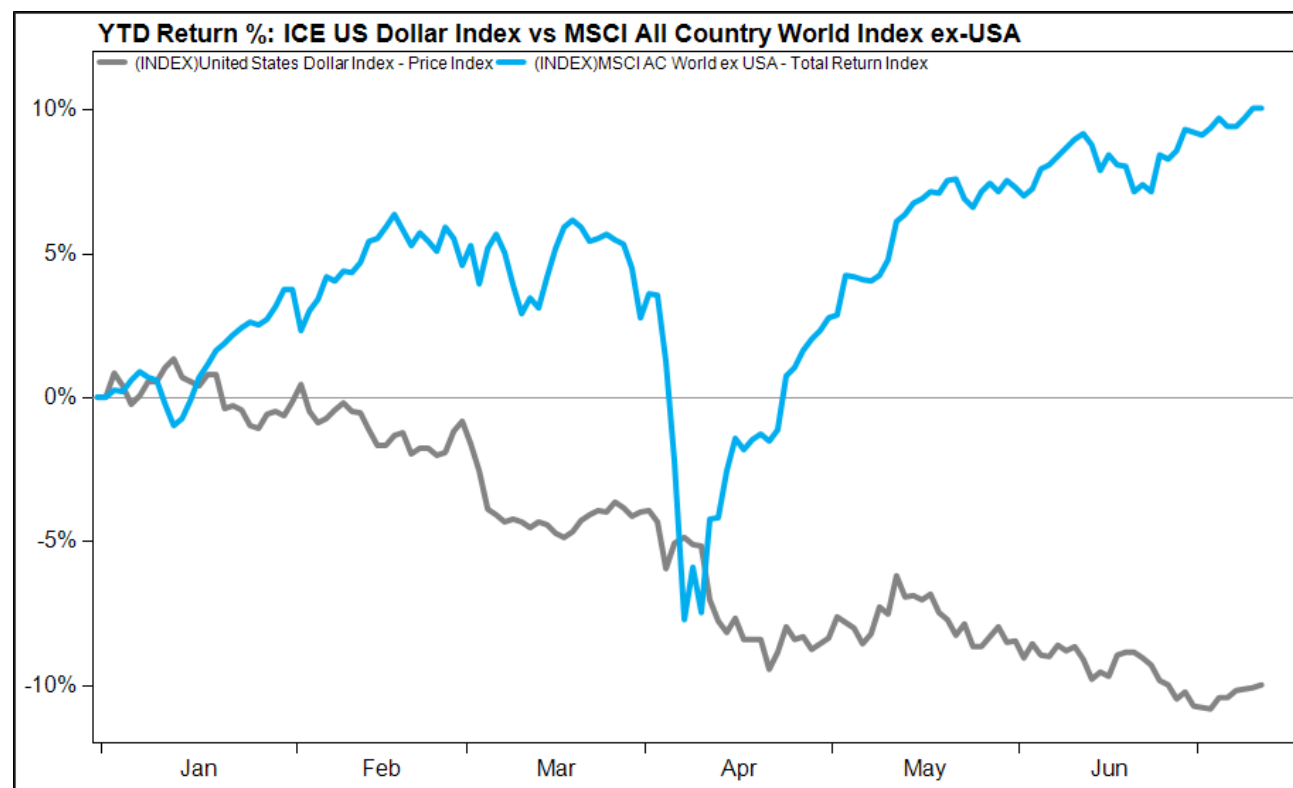
FINANCIAL TIMES

“Vladimir Putin’s alternative to ‘weaponised’ dollar fails to excite Brics partners”

CATO
INSTITUTE

The “Digital Gold” Fallacy, or Why Bitcoin Can’t Save the US Dollar

A Weaker Dollar Added to ex-US Momentum



Dollar softens on US ratings downgrade; trade tensions back on radar

By Gertrude Chavez-Dreyfuss

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Source: FactSet, Reuters, NY Post

This isn't the First Time We've Had to Talk About the Debt



1972

The New York Times

A DEBT OF \$1 TRILLION: ITS EFFECT ON ECONOMY

Share full article

By Karen W. Arenson
Sept. 30, 1981

1981



2025

BROOKINGS

2004

How to Balance the Budget

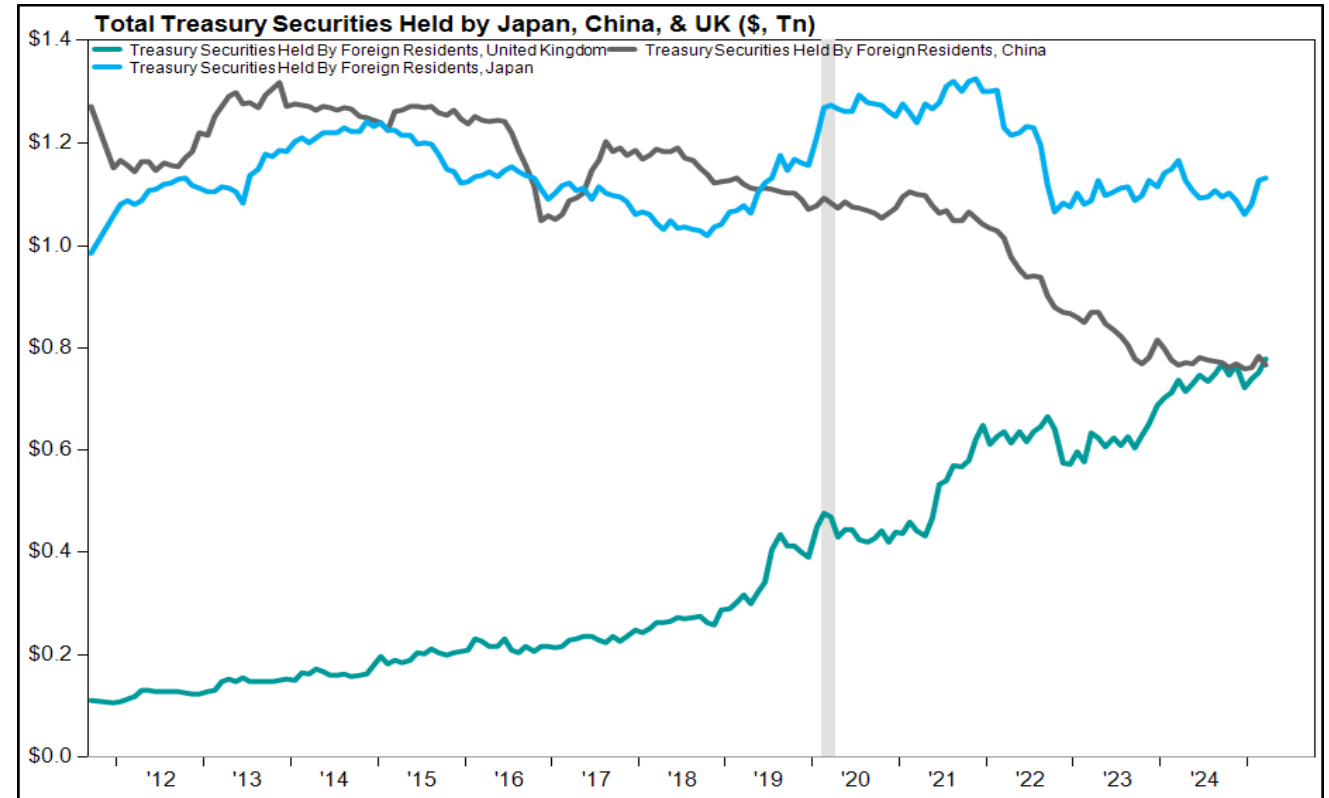
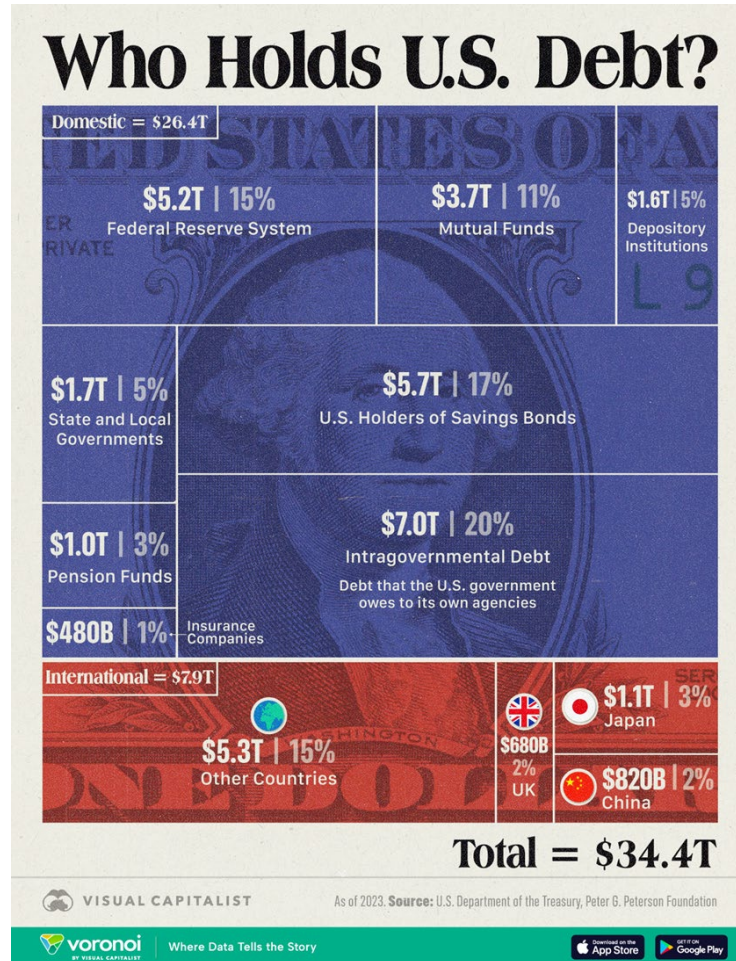
Alice M. Rivlin and Isabel V. Sawhill
March 1, 2004



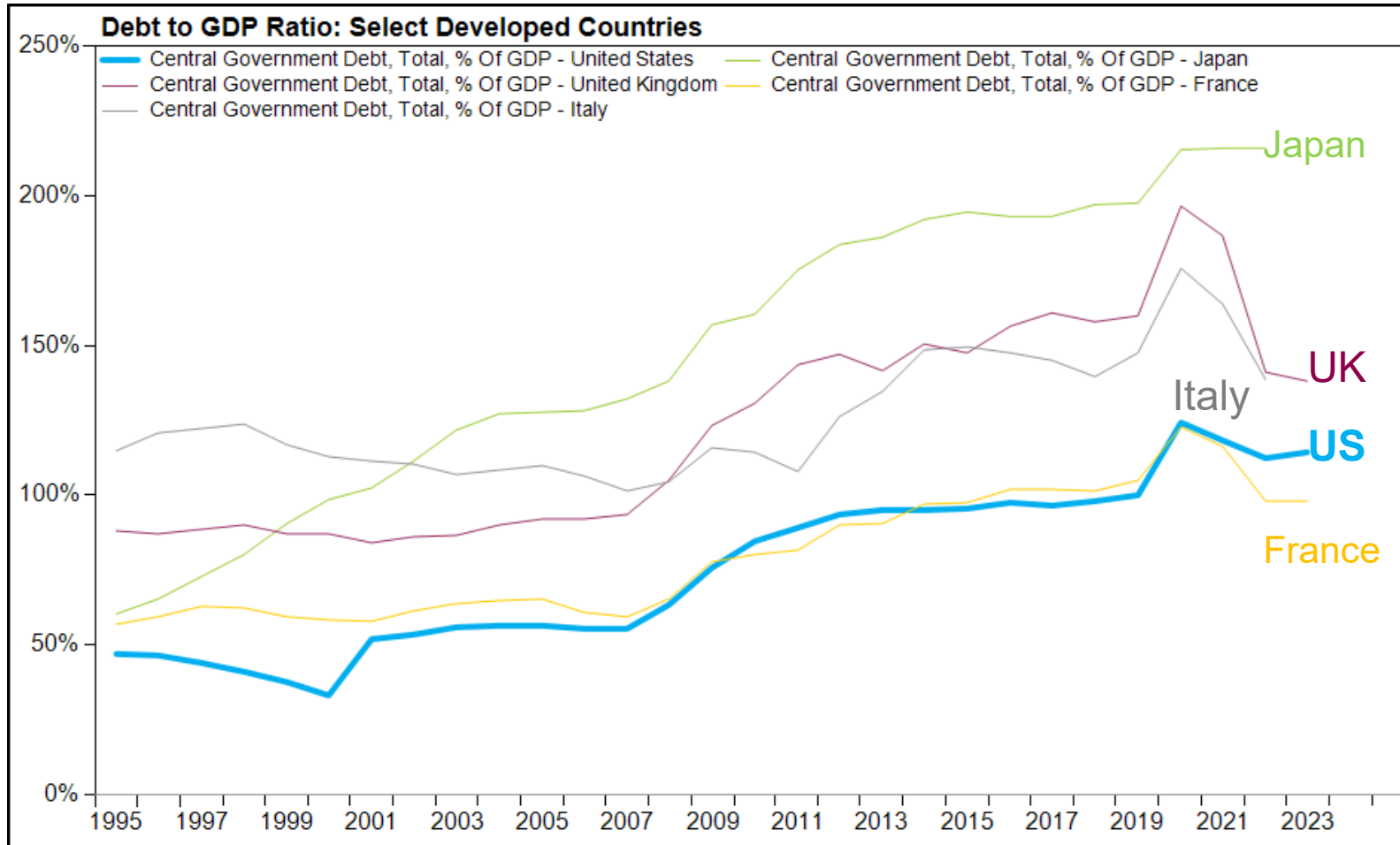
2011

Source: Time, NY Times,
Brookings, MSNBC, DOGE

Who Owns Our Debt? And Does it Matter?

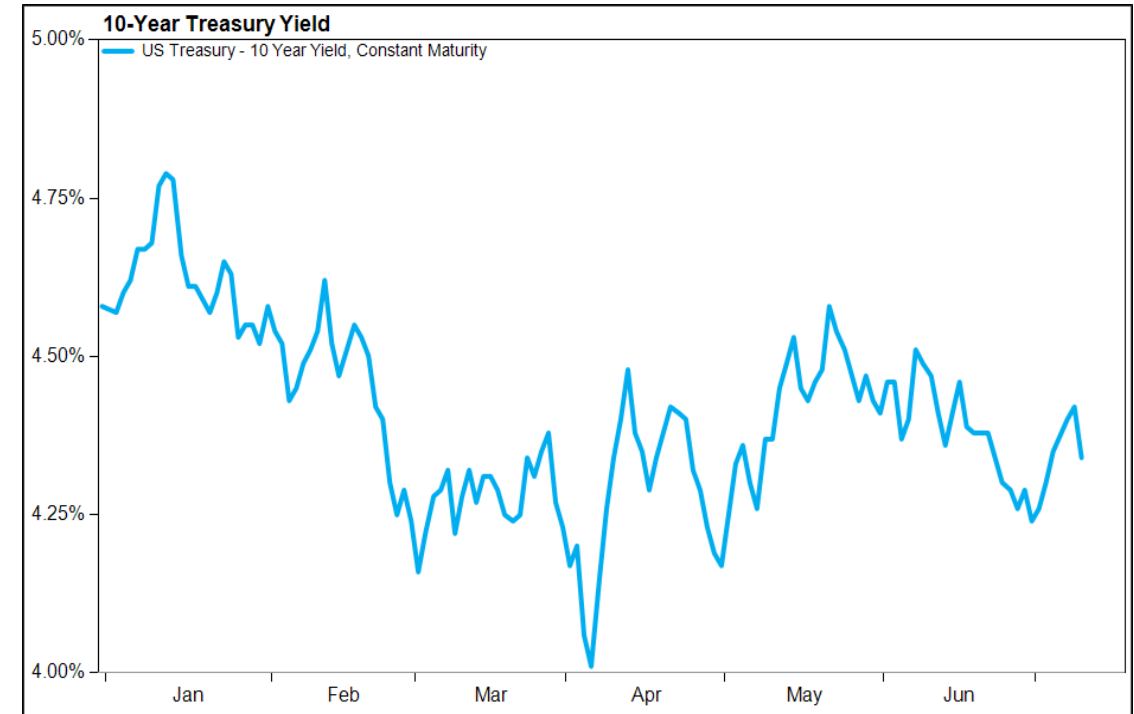
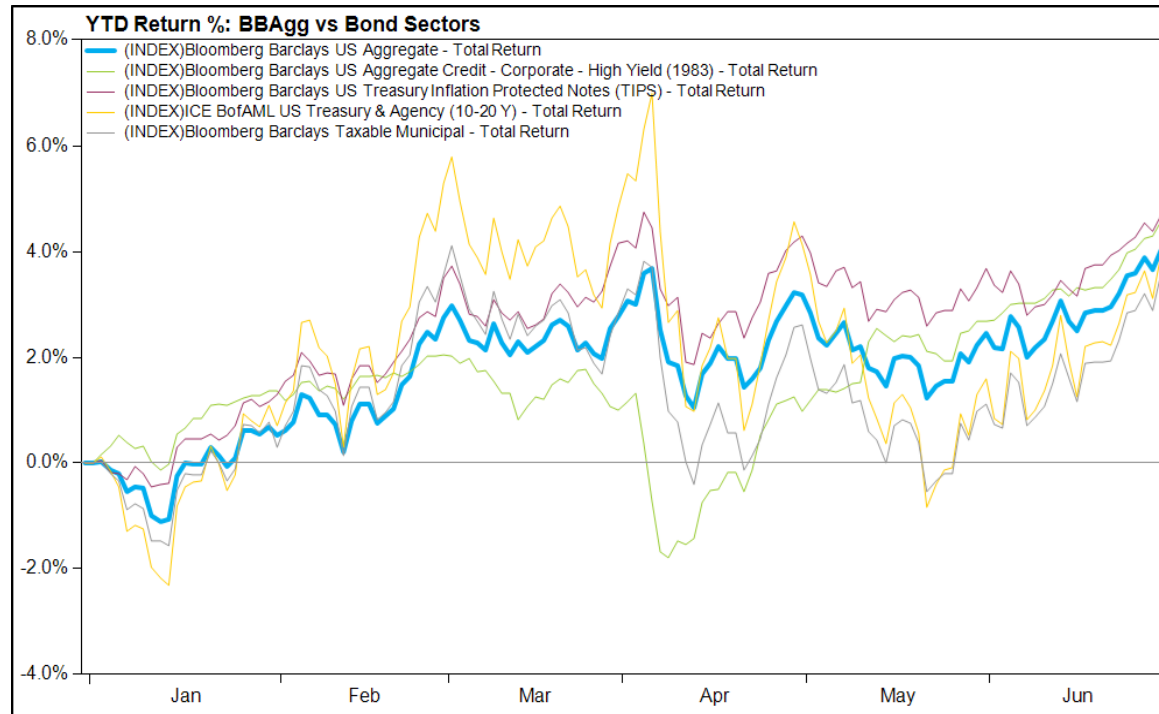


We Aren't the Only Ones Living Beyond Our Means

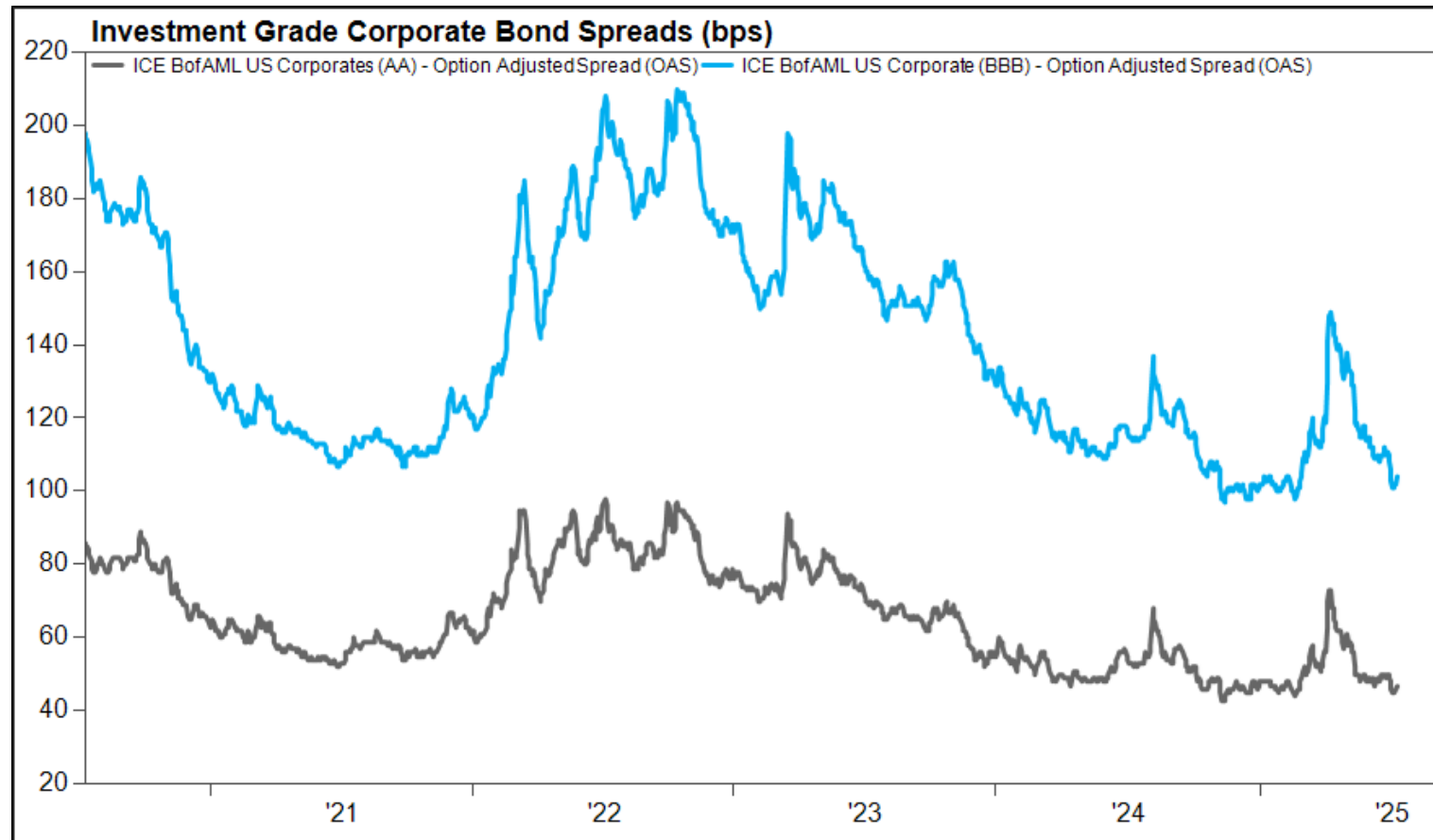


What Is The Bond Market Telling Us?

Bonds Performed Well YTD, as Rates Moved Lower

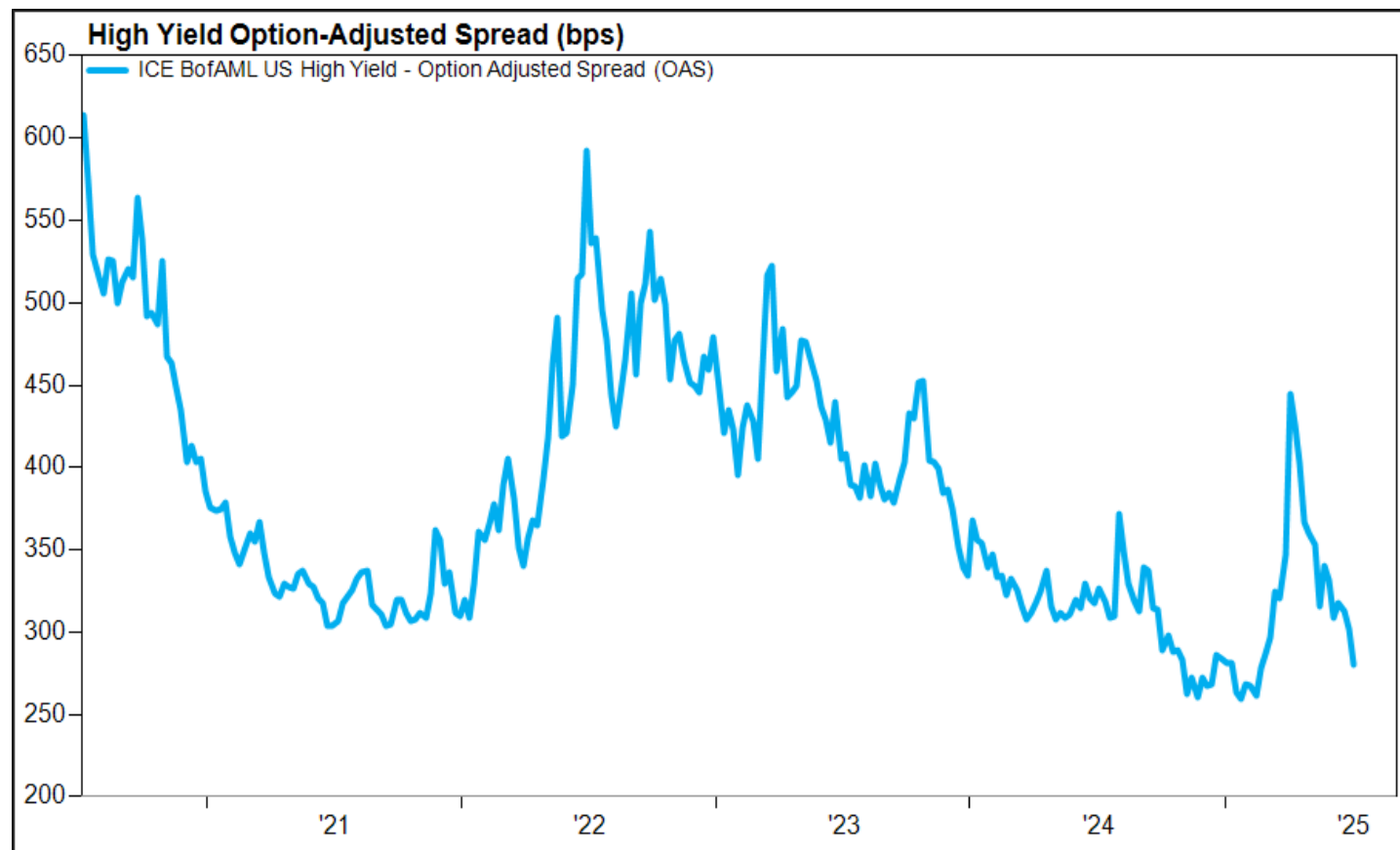


Investment Grade Bond Spreads are Tight; Defaults Low



Source: FactSet

High Yield Bond Spreads Are Also Tight



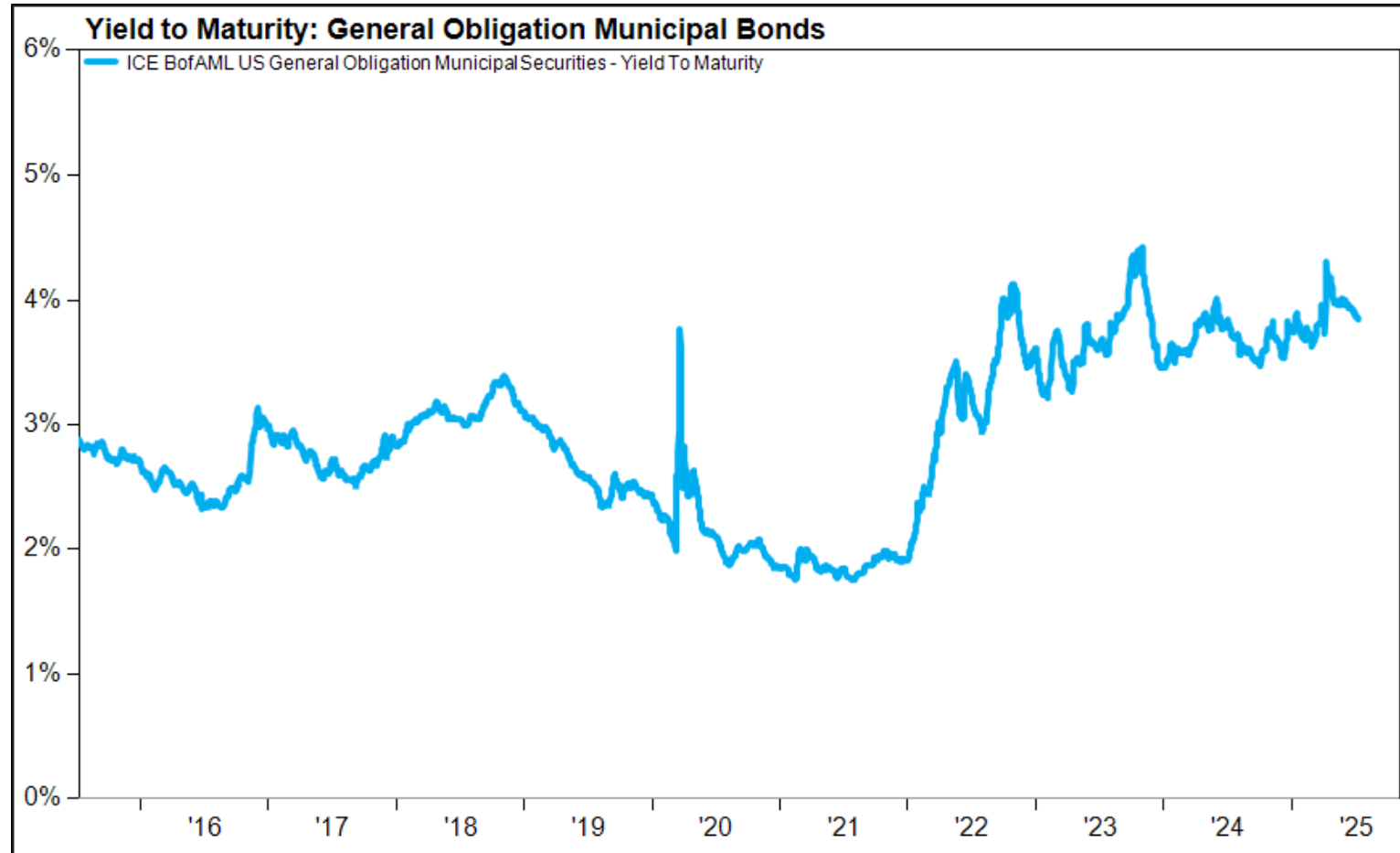
Evolution of the ICE High Yield Corporate Bond Index

	<u>December 31, 1999</u>	<u>December 31, 2024</u>
BB	32.7%	52.6%
B	54.6	33.7
CCC and below	12.7	13.7

Data from ICE

Source: FactSet

Muni Yields are Steadily Increasing



Source: FactSet

What We Like And Don't Like

The "One Big Beautiful Bill" May Boost Short-term Growth

A Net Positive for Wall Street

- Broad tax hike averted by extending 2017 tax cuts / brackets
- Tax cuts, spending incentives are immediate; spending cuts are back end loaded
- Workers earning tips and overtime get a tax break (some qualifiers)
- SALT deduction gets a meaningful bump (probably the biggest policy hurdle Republicans had to clear)
- Americans over 65 will pay less tax (ties back to "No Tax on Social Security" pledge, some qualifiers)
- Regulatory boost for energy industry
- Domestic manufacturers incented to spend (depreciation and amortization treatment)
- Markets don't like uncertainty

We're Not CPAs... But Some Tax Provisions Stand Out

What's New:

Standard Deduction	Old	New
Single	\$13,850	\$15,000
Married	\$27,700	\$30,000

65+ Extra Deduction	Old	New	Income (MAGI)
Single	\$1,950	\$6,000	<\$75,000
Married	\$3,000	\$12,000	<\$150,000

Expires 2028

SALT Deduction	Old	New	Phase Out
All	\$10,000	\$40,000	\$500,000 Income (AGI)

Expires 2029

* MAGI = Modified Adjusted Gross Income

Two Big Capex Incentives:

Sec. 111001. Extension of special depreciation allowance for certain property.

Current Law: Under current law, taxpayers are generally required to deduct the cost of property used in a trade or business over a period of time. However, in the case of certain "qualified property" (including most equipment and machinery), a taxpayer is permitted to deduct a percentage of the cost in the first year that the property is placed in service ("immediate expensing"). For qualified property placed in service in 2025, a taxpayer is generally permitted to immediately expense 40 percent of the cost. For qualified property placed in service in 2026, a taxpayer is generally permitted to immediately expense 20 percent of the cost.

Provision: This provision allows taxpayers to immediately expense 100 percent of the cost of qualified property acquired on or after January 20, 2025, and before January 1, 2030.

Sec. 111101. Special depreciation allowance for qualified production property.

Current Law: Under current law, taxpayers are generally required to deduct the cost of nonresidential real property over a 39-year period.

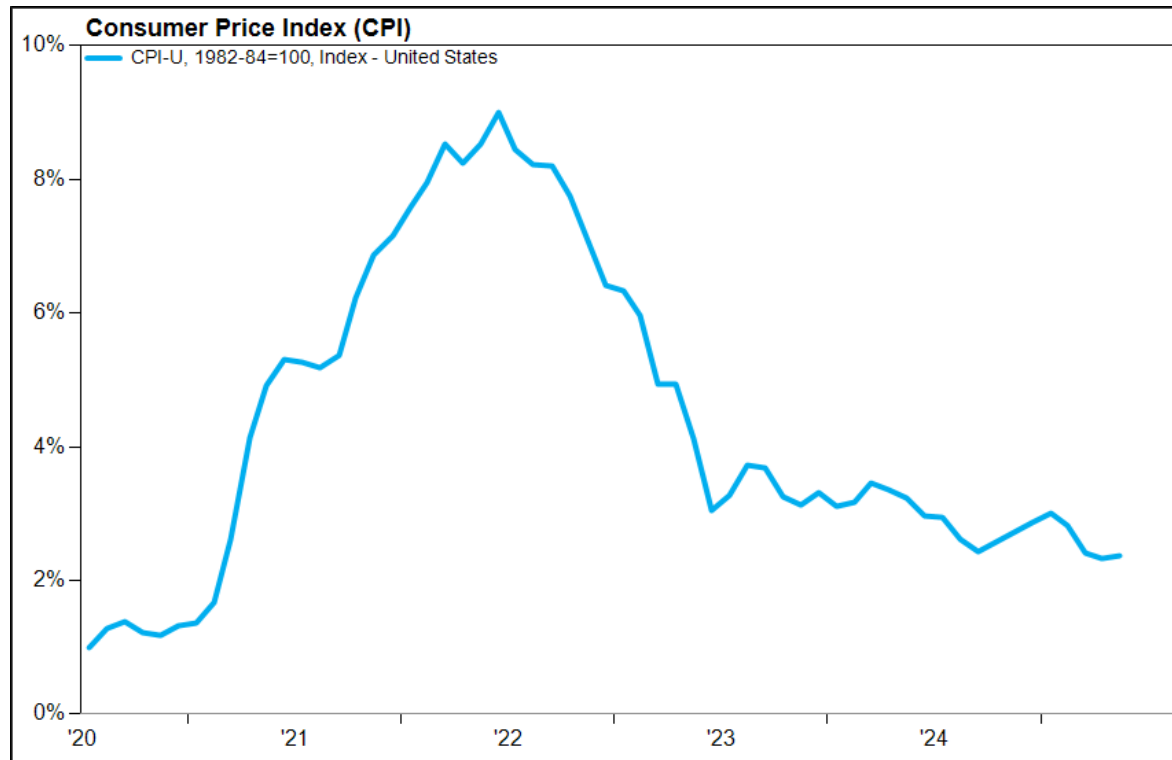
Provision: This provision allows taxpayers to immediately deduct 100 percent of the cost of certain new factories, certain improvements to existing factories, and certain other structures.

Raising the Debt Ceiling is Also a Big Deal

One Less Source of Stress for Markets

- The OBBBA raised the US debt ceiling by \$5 trillion
- Debt ceiling goes from \$36 trillion to \$41.1 trillion (\$36 trillion ceiling hit in January)
- A debt ceiling driven US government shutdown is off the table (until 2027?)
- Treasury has ample room to issue new debt
- So, Federal obligations will be met (defense, Social Security, Medicare, etc.)
- Markets don't like uncertainty

Inflation is Contained for Now, But Expectations are Mixed



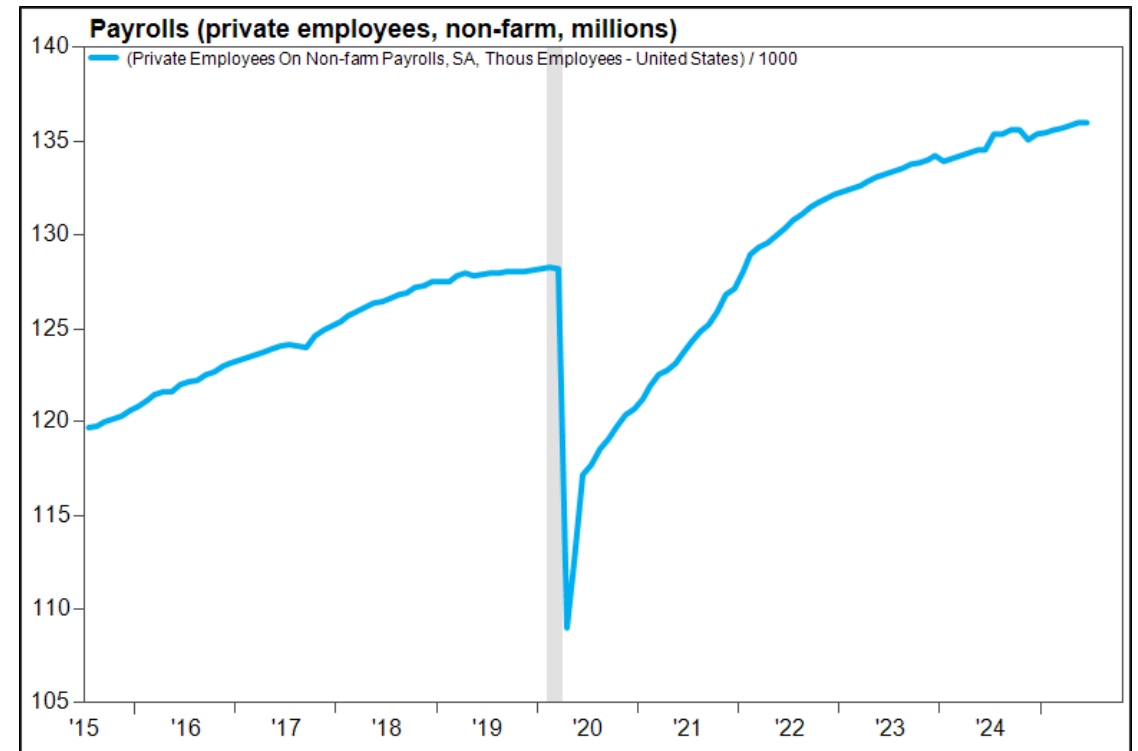
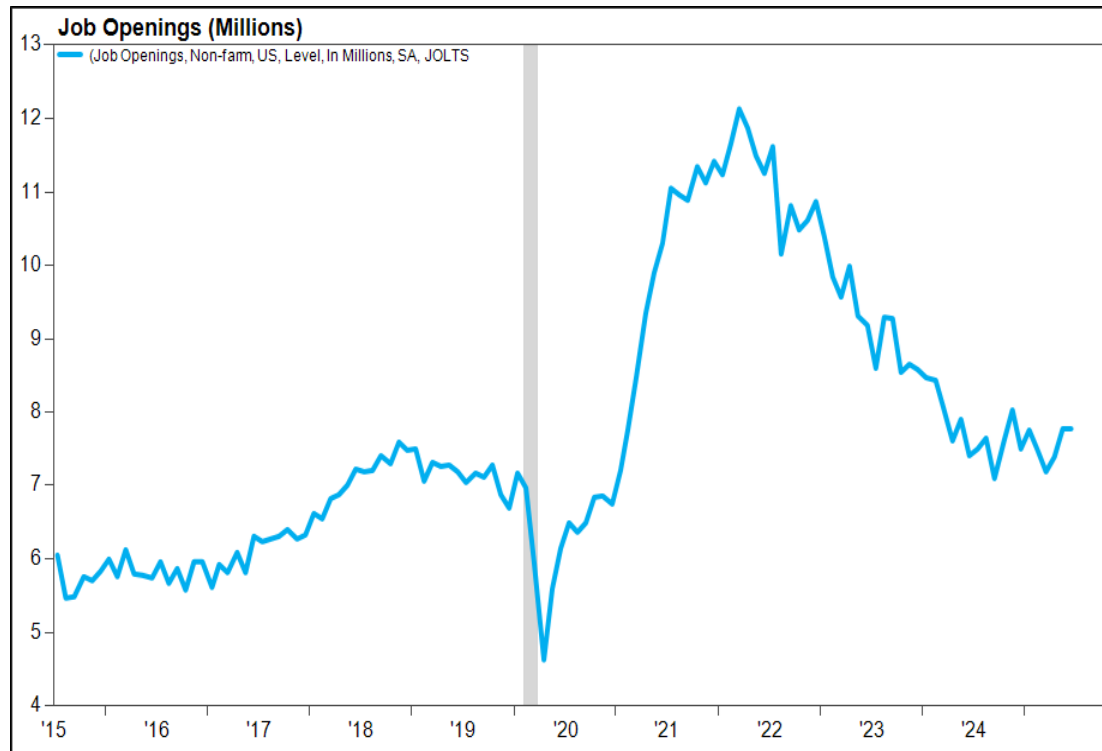
Percent FOMC Summary of Economic Expectations:

Variable	Median ¹			
	2025	2026	2027	Longer run
Change in real GDP	1.4	1.6	1.8	1.8
March projection	1.7	1.8	1.8	1.8
Unemployment rate	4.5	4.5	4.4	4.2
March projection	4.4	4.3	4.3	4.2
PCE inflation	3.0	2.4	2.1	2.0
March projection	2.7	2.2	2.0	2.0
Core PCE inflation ⁴	3.1	2.4	2.1	
March projection	2.8	2.2	2.0	
Memo: Projected appropriate policy path				
Federal funds rate	3.9	3.6	3.4	3.0
March projection	3.9	3.4	3.1	3.0

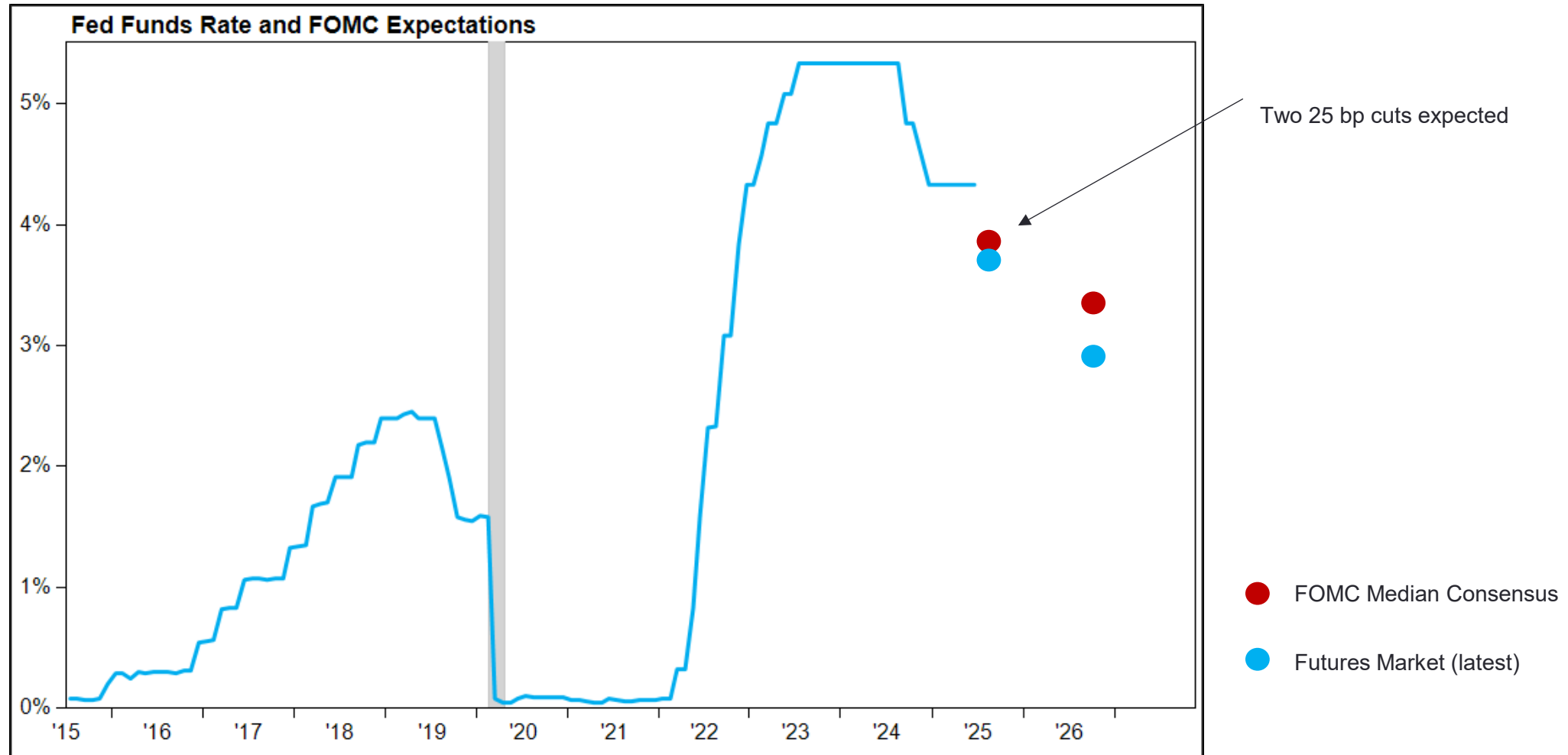
As of June 18th, 2025

Source: FactSet, Federal Reserve

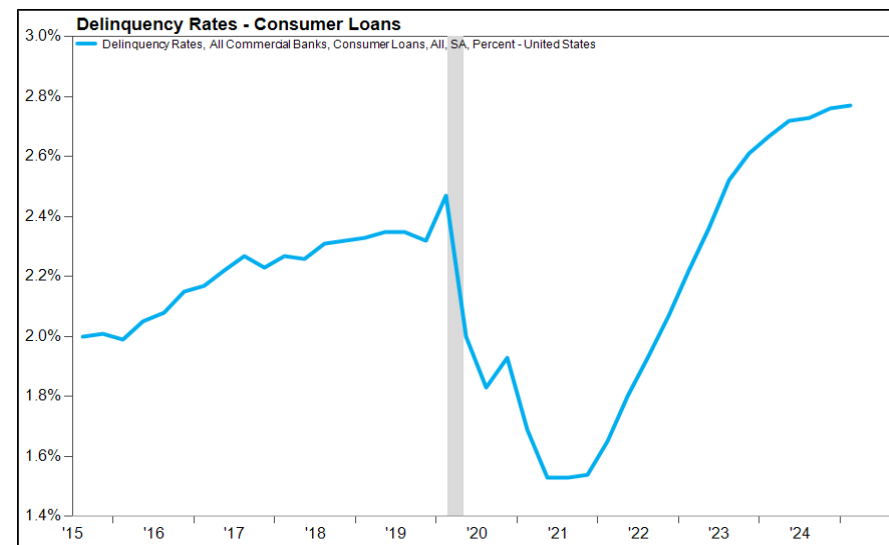
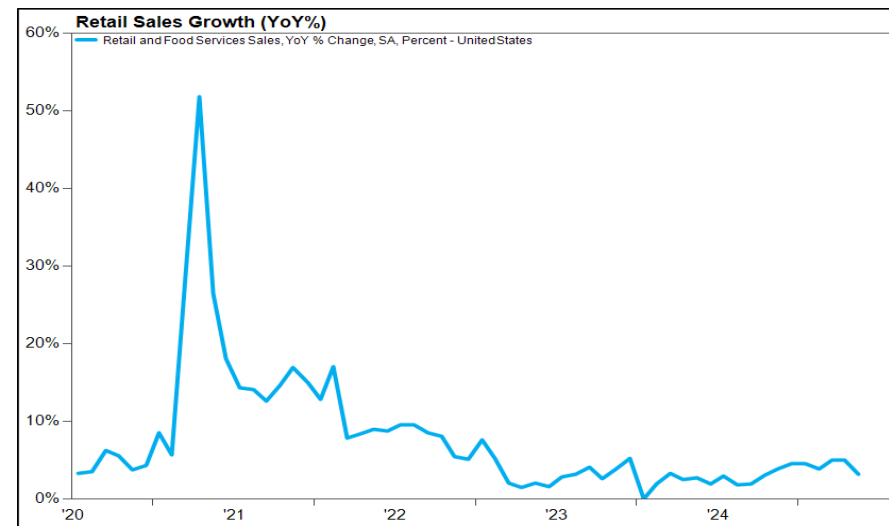
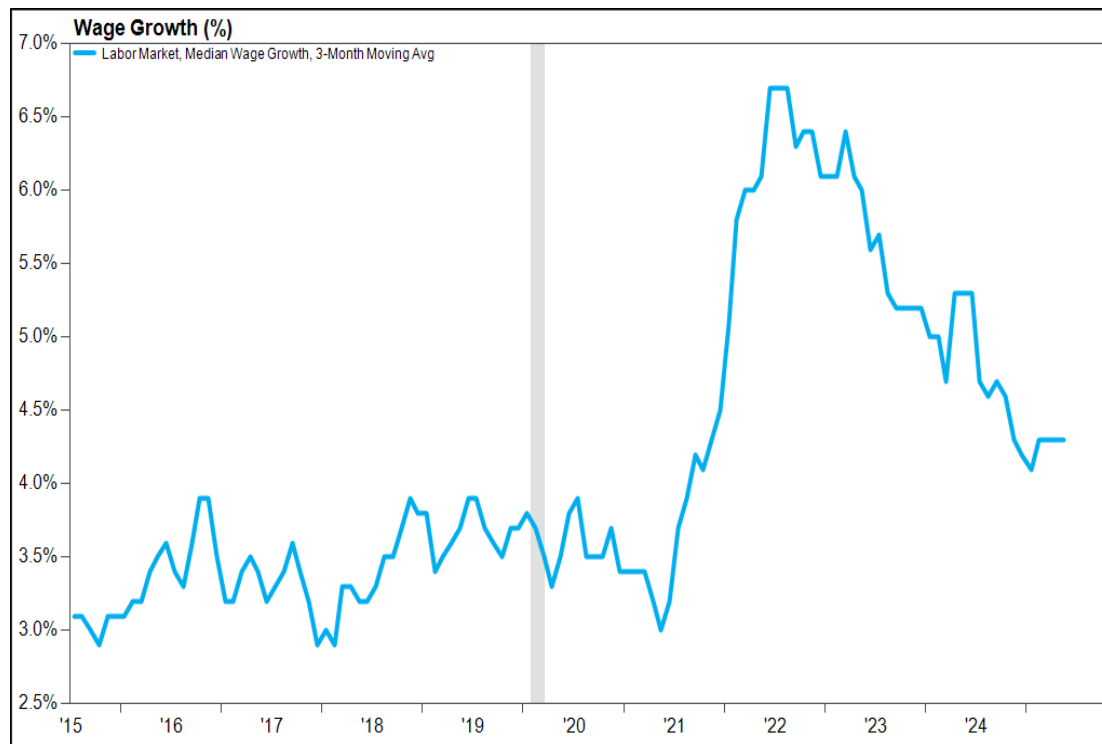
The Labor Market is Softening, but Balanced



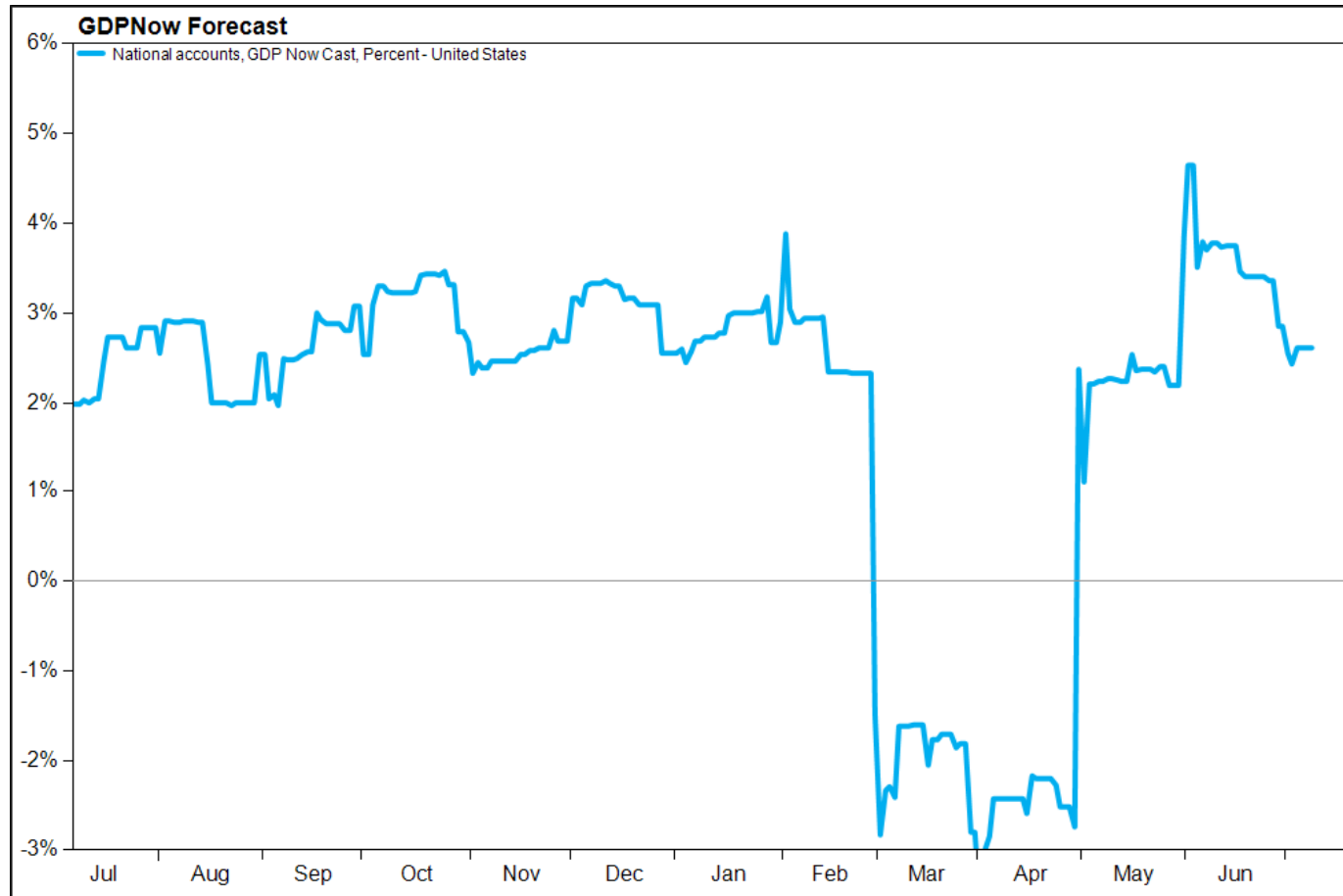
Two Rate Cuts are Possible



The US Consumer is Hanging in There



Expect a Big GDP Reversal in Q2



Source: FactSet

What We Like & Don't Like

WHAT WE LIKE

- Moving past tariffs seems likely
- The next news out of DC should be positive
- Overseas markets lifting corporate profits for multinationals
- Economic growth is resilient
- The labor market and US consumer are resilient
- The Fed has room to cut rates
- Valuations are off their near-term highs
- Energy prices moved lower
- AI tailwinds continue
- Tariff-related inflation is likely transitory
- Credit markets pricing in confidence

WHAT WE DON'T LIKE

- We are in uncharted waters regarding tariffs
- Inflation forecasts sending mixed signals
- Valuations remain historically elevated
- Overly bearish sentiment bounced back
- Monetary policy is restrictive
- The lower end consumer is stressed
- Unsettled geopolitical landscape
- The 'Big Beautiful Bill' isn't perfect
- Seasonality

Thank you!

If you have any questions or would like more information, please contact us at:

info@legacywealthic.com



Sources: Data Generated by Orion OCIO

OCIO services offered through TownSquare Capital, LLC, an Orion Company, a Registered Investment Advisor. TownSquare Capital, LLC, is an affiliated company of Orion Portfolio Solutions, LLC

The S&P 500 Index is an unmanaged composite of 500-large capitalization companies. This index is widely used by professional investors as a performance benchmark for large-cap stocks.

The Nasdaq Composite Index is an index that follows approximately 5000 stocks that trade on the Nasdaq exchange. It is considered a good benchmark for smaller company stocks.

The Russell 2000 is an index comprised of the 2,000 smallest companies on the Russell 3000 Index and offers investors a benchmark for small-cap stocks.

The Bloomberg Barclays US Aggregate Bond Index measures the performance of the total United States investment-grade bond market.

The MSCI EAFE Index is a composite index which tracks performance of international equity securities in 21 developed countries in Europe, Australia, Asia, and the Far East.

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