Dear xxxx;

The S&P 500 ended the 2nd quarter at 6,204.95, an all-time high. This is not only remarkable and exciting, but it is a shocking turn of events from the intraday low point of 4,835.04 on April 7th, and the first close below 5,000 since February 2024. The US stock market drawdown and subsequent ongoing rally were a product of "Liberation Day," the "TACO" trade, and the possibility of peace in the Middle East.

In aggregate, the second quarter was a fantastic one for both international equities (Q: +10.95%) and US equities (Q: +10.74%). Conversely, US fixed income (Q: +1.21%) traded slightly positively, and commodities finished in the red (Q: -2.93%). These positive quarterly results mask the broad financial fears many investors have experienced during the last 90 days. This letter will provide an analysis of the major geopolitical, financial, and thematic events that shaped the second quarter and our thoughts on the remainder of 2025 and beyond.

Tariffs

President Trump declared April 2nd, 2025, "Liberation Day" as he implemented new tariffs on imported goods. The tariffs included a 10% universal tariff on all imported goods and a "reciprocal" tax rate applied to individual countries. This reciprocal tax rate was calculated by taking the "greater of two different quantities: (a) 10 percent, or (b) the 2024 US trade deficit in goods with a given country, divided by the total quantity of US imports from that country."

While global markets expected a tariff announcement, no one predicted tariffs of this magnitude. The stock market reaction was extreme. At its low on April 7th, the S&P 500 had dropped by 13.4% since Trump's Liberation Day announcement, and more than 20% since its February 19th all-time high. Each day during this six-day collapse, the market would explode higher when news of tariff halts appeared before dropping to fresh lows when Trump deemed the reports to be fake news. On April 9th, after telling the world via social media that "this is a great time to buy", he proceeded to announce a 90-day pause on the reciprocal tariffs. After this announcement, the S&P 500 rose 9.52%, its biggest one-day gain since 2008.

Tariffs have continued to dominate the news cycle since April 9th. For the most part, each tariff announcement played the same: Trump presents a tariff rate, the target country comes to the table, and then the tariff enforcement is delayed while a deal is ironed out. This has been coined the "TACO" trade. The acronym stands for "Trump Always Chickens Out." In general, the stock market has become resilient and is now able to ignore the tariff chatter. The existing tariff deadlines are set to expire on July 8th and 9th. As we close out the second quarter, America's effective tax rate is 14.1% up from 2.3% last year. Since companies are still selling through their pre-tariff inventories, the true ramifications of this tax rate increase have yet to be seen.

Weaponization of US Treasuries

Typically, when the price of stocks decrease, the price of bonds increase, and their yields decrease. This was exactly the case on April 3rd and 4th. In fact, US treasuries' yields decreased so sharply that Trump called for the Federal Reserve to lower rates. Almost in unison with this announcement, the price of US treasuries began decreasing rapidly. This was an alarming shock to the world. It seemed that foreign countries were so upset with the Liberation Day tariffs they resorted to using their US treasury holdings to make a statement. As of the end of the first quarter, Japan, China, and the UK held approximately 2.5 trillion dollars of US debt. At 10% of outstanding debt, these countries cumulatively have more than enough to make a statement. Strategic sales of debt in weak overnight markets caused a meaningful decrease in prices and a corresponding uptick in yields. In fact, during the overnight fixed income trading session on April 8th, the 10-year treasury spiked from under 4.25% to above 4.5%. This move was so calculated and dramatic that Trump announced the retraction of his reciprocal tariffs.

Federal Reserve

Initially, the public's fear was that tariffs would raise the price of all goods. However, it turns out that companies have large inventories of goods which were imported before the tariffs went into effect, and for that reason have not yet needed to raise their prices. Once these inventories are depleted, economists project that the 14.1% effective tax rate will cause US inflation to double. It is expected that this surge in inflation will happen by the end of 2025. Powell has stated that he will not make any policy changes until he becomes confident that the effects of the new tariffs are reflected in the economic data he receives.

During the 2nd quarter, the Federal Reserve Board of Governors met twice and held rates steady both times. While the Governors expect 2 rate cuts in 2025, we believe tariff-driven inflation prints during the back half of 2025 will hinder that projection. The Fed's most recent projections hint at stagflation as a repercussion of elevated tariffs. Stagflation is a period where slow economic growth occurs alongside high inflation and high unemployment. Should stagflation materialize, it is unlikely that the Federal Reserve will cut rates. We anticipate 0-1 rate cuts during the final half of 2025.

Cryptocurrency

Bitcoin performed extremely well in the second quarter (+26.33%), however, it did not always function as the hedge it was designed to be. The price fell during the tariff craze of early April, rose when the tariffs were removed, and fell sharply when the US attacked Iran before recovering during the ceasefire. Bitcoin, due to its limited quantity and new institutional demand, has the potential to act as a market hedge like gold. However, time and market fluctuations continue to prove that Bitcoin is not yet a proxy for gold, instead it remains an extremely volatile and immature asset class.

Market Response to US Politics & Global Wars

The second quarter was rife with political turmoil and military displays; however, the broad markets were not bothered by these extreme measures. During the quarter we witnessed tariff drama, Russia/Ukraine escalation, a new Iran/US/Israel war, and a breakup of the Trump/Musk coalition. Global markets, both equity and oil, remained largely unphased. Only time will tell if this steady push higher is a new normal, or if financial participants are simply waiting for more clarity. From our standpoint, we strongly desire peace, as long-term peace has proven to bring prosperity to all.

Conclusion

Financial markets do not always behave as the public would expect. For example, most people feared a swift negative market reaction to a US strike on Iran; however, the stock market is up 3.97% since June 20th. This "irrationality" makes it incredibly difficult to predict future market moves. At GA Pincus Funds, our algorithm covers the day-to-day market movements, while we aim to look 12-18 months into the future. Due to this setup, we actively harvested tax losses during April and further diversified into new fixed income funds with increased yields.

As we look forward to the second half of 2025, we believe the Fed will remain cautious with rates. While the Fed continues to project two rate cuts, we think 0-1 is more likely. Although we do not agree with many aspects of the "Big Beautiful Bill", we see its passage as a positive catalyst for the stock market. We believe the performance of the global markets during the third and fourth quarters will continue to be driven by President Trump and his ability to generate deals with both our allies and our adversaries.

APPENDIX

Diversification

As you know, GA Pincus Funds uses a proprietary algorithm embedded within custom software to deliver tax-adjusted returns that aim to outperform your blended benchmark. We aim to use a broad set of asset classes so that each of your portfolios represents the global stock, bond, and commodity markets. Each year there will always be a best performing asset class and a worst performing asset class. Diversification ensures stability since your portfolios own a blend of the global market. Part of our investment strategy involves shifting portfolio weightings to minimize the exposure to the underperforming asset classes while maximizing exposure to the stronger asset classes. We will continue to monitor the changing ETF landscape to further diversify each of your portfolios when it is applicable.

Client Referral Network

One of the oldest and most successful methods to grow a business is through word of mouth. GA Pincus Funds has been fortunate and has grown substantially due to referrals made by you and your fellow clients. We would like to use our future quarterly newsletters to return the favor to our clients. We plan to dedicate a section of our newsletters to our client's businesses. Rather than list your name or company name, we will instead indicate the category of business and location where you operate. For example, Real Estate Professional in Chicago, or Employment Lawyer in Georgia, or Public Relations Professional in New York, etc. If you would like to participate in this program, please let us know. This referral program is **free marketing** for your business. **We will not accept payments for these referrals.**

Performance Calculations

The performance of your accounts is calculated daily, taking into consideration daily deposits and withdrawals, and those daily returns are combined to form your quarterly, YTD, and since inception returns. When we round off this enhanced precision it may shift your performance by 0.01-0.02% when compared to the calculation ((end date value – start date value)/start date value). Please note, the performance figures in your statement are accurate and are GIPS (Global Investment Performance Standards) compliant.

Exchange Traded Funds (ETFs) are required to distribute all excess cash, net income, and dividends received from their constituent companies to their shareholders annually. These distributions take the form of dividends. Many ETFs issue special dividends at the end of the year to ensure compliance with this rule. The amount of the dividend is removed from the ETF on x-date, and the shareholder receives the funds on the pay date. The x-date and the pay date can at times straddle New Year's Day. Please be aware, your full year returns may be slightly lower than expected due to this nuance.

It is impossible to predict whether and by how much the market will increase or decrease. Our algorithm rebalances your accounts according to changes in the relative weightings of the securities you hold. As one security becomes too heavily weighted the algorithm sells shares in that security. Conversely, as one security becomes too lightly weighted, the algorithm purchases shares of that security. Instead of rebalancing based on time (as most managers do), this algorithm rebalances based on a securities' relative weighting in the portfolio. This gives GA Pincus Funds a long-term advantage. No matter what the market does in the future or has done in the past, if your time horizon is long enough (>1 year), this algorithm has proven itself to be successful.

Please stay safe and healthy. We are always available to answer any questions you may have.

Best regards,

Gabriel

GA Pincus Funds
Gabriel Pincus, President
1574 Woodberry Court
Brentwood, TN 37027

www.gapincusfunds.com
m: 917-597-1450
e: gabriel@gapincusfunds.com