ACCESS FINANCIAL SERVICES, INC.

July 11, 2025

Quarterly Review and Outlook

Second Quarter, 2025

Index Returns as of June 30, 2025	3 Mo.	6 Mo.	12 Mo.
US STOCKS			
S&P 500 Index TR (large-cap stocks)	10.94	6.20	15.16
S&P 500 Equal Weight TR	5.46	4.82	12.73
Dow Jones Select Dividend Index TR	(0.10)	3.15	14.54
NASDAQ 100 Index TR	17.79	8.22	15.84
Russell 2000 Index TR (small-cap stocks)	8.50	(1.79)	7.68
FOREIGN STOCKS			
MSCI EAFE Net Total Return Index (US$)	11.78	19.45	17.73
S&P Europe 350 Index Net TR Index (US$)	11.47	23.15	18.71
MSCI Japan Net Total Return Index (US$)	11.36	11.73	13.88
MSCI Emerging Markets Net TR Index (US$)	11.99	15.27	15.29
COMMODITIES & CURRENCIES			
US Dollar	(7.04)	(10.70)	(8.49)
Euro	8.98	13.84	10.03
Gold	5.75	25.86	41.96
Oil (West Texas Intermediate)	(6.18)	(5.20)	(11.64)
CME CF Bitcoin Reference Rate	30.56	14.82	73.83
BONDS			
Bloomberg US Aggregate Bond (inv. grade)	1.21	4.02	6.08
Bloomberg US Treasury 20+ Year	(1.92)	2.59	0.32
Bloomberg US Treasury Inflation Notes	1.03	5.07	6.85
Bloomberg Municipal Bond	(0.12)	(0.35)	1.11
Bloomberg US Corporate	1.82	4.22	6.83
Bloomberg US Corp. High Yield Bond	3.53	4.57	10.29
S&P International Sov Ex-US Bond TR USD	8.27	11.11	11.54

Source: Bloomberg & Morningstar

2025 has had it all: bear markets, bull markets (Chart 1), trade wars, actual wars, truces and proposed currency accords.

Chart 1: S&P 500 Index

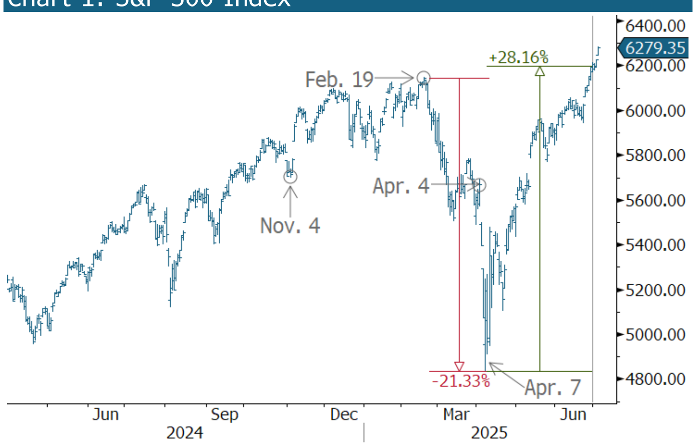


Chart source: Access Financial Services using Bloomberg Software & Data

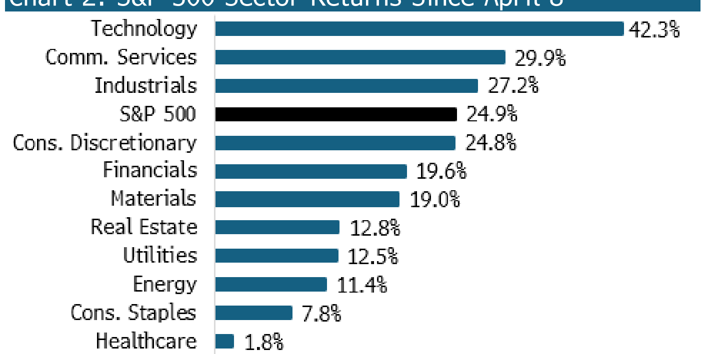
The fallout from the April 4 tariff announcements revealed that the strike price of the "Trump Put" is around the 20% drawdown mark in the S&P 500 Index (SPX). Following a number of pivots, the steady hands of Treasury Secretary Scott Bessent took over and calmed markets, pushing Peter Navarro and Howard Lutnick to the background. The SPX advanced to a new high on the eve of Independence Day, as if to celebrate its own independence from all the bad news thrown at it in recent months.

Year to date, developed foreign market stocks have outperformed US stocks by a large margin (see six month return column in returns table). The outperformance of foreign stocks versus US stocks was driven primarily by a sharp decline in the US dollar. For example, the MSCI Europe Index is up 23% year to date in US dollar terms versus 8% in local currency terms.

Under the surface the rebound in US stocks off of their recent lows does not inspire much confidence as there seems to be little fundamental underpinning to the stocks leading the gains off the lows of April.

The technology sector has led the charge having gained 42% since the SPX's April low, but more sectors have underperformed the index than outperformed it (Chart 2).

Chart 2: S&P 500 Sector Returns Since April 8



Source: Access Financial Services using data from Bloomberg

If we look at the factors driving the returns, the rally lacks strong, fundamental sponsorship. The factors that performed the best are trading, volatility and momentum. The first is represented by shares with the highest trading turnover, while the volatility and momentum factors comprise stocks with the highest realized price volatility and strengthening momentum (animal spirits). This is a reversal of the strongest factors from January 1 to April 7 (Chart 3).

In last quarter's Review and Outlook, I wrote:

This may be just another "buy the dip" opportunity in US risk assets. I doubt it though…

Chart 3: S&P 500 Pure Factor Returns

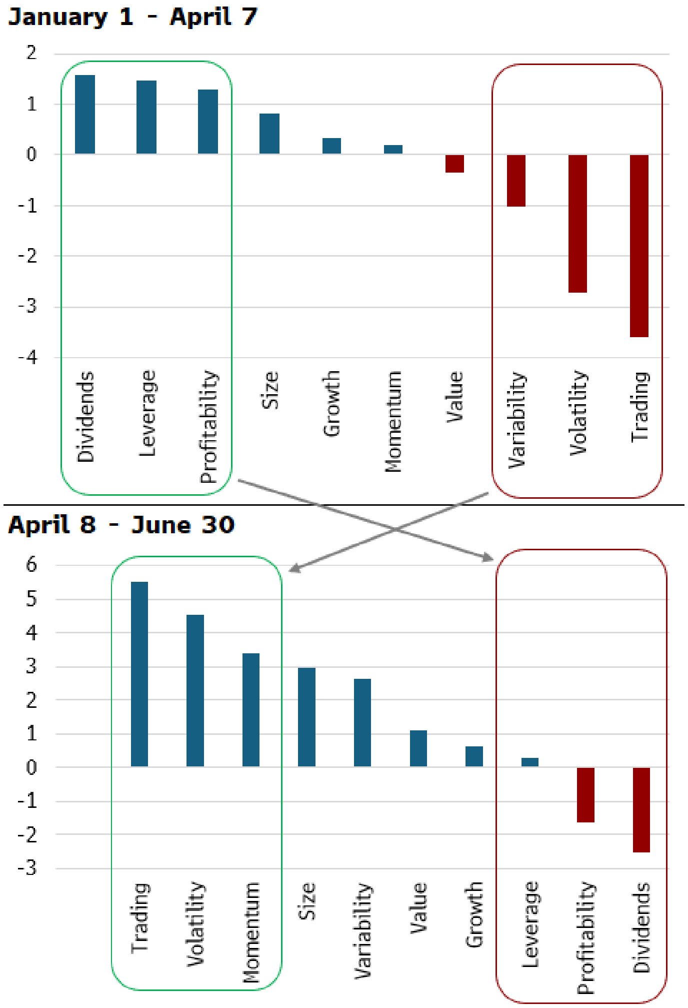


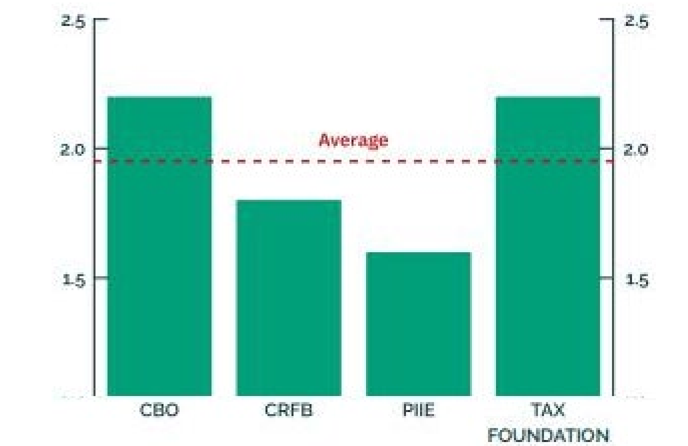
Chart Source: Access Financial Services using data from Bloomberg

Was I ever wrong about that. As President Trump has delayed and walked back his tariff threats, he has at any one time supported tariffs as a source of financing the government (raising revenue) or as a tool of negotiations to get "fair trade" – two opposing preferences. It has also become clear that the One Big Beautiful Bill Act (OBBBA) is unlikely to have the monumental impact on the US fiscal deficit that the Congressional Budget Office, the Budget Lab at Yale, mainstream media, etc. have claimed it will. US and global risk assets recovered just as fast as they sold off on the back of trade and policy news being less bad than initially reported during the second quarter.

Yes, the OBBBA does increase the US deficit. However, because Trump's tariffs are executive orders and not part of the OBBBA, the "experts" projecting a massive increase in the deficit over the next ten years do not incorporate any offsetting tariff revenue in their projections.

The most often quoted forecasting organizations peg the increase in the deficit over the next ten years at between $2.4 and $3.8 trillion. If the 10% tariffs actually do materialize, the change is the deficit could be somewhere between $900 billion and $2.3 trillion (Chart 4). To put this in context, Biden's "pandemic relief" stimulus amounted to $1.9 trillion in 2021 alone even as the pandemic was ending.

Chart 4: Impact On Revenue of 10% Universal Baseline Tariff ($ Trillion)



Source: BCA Research, Congressional Budget Office, Committee for a Responsible Federal Budget, Peterson Institution, Tax Foundation

What is important is that with the tariff revenue, the rate of change in the deficit (which is what market participants care most about) should decline. Regardless of what the budget experts claim, I think the markets understand this which has kept the bond market in check (Chart 5) and pushed stocks higher. Beyond the OBBBA induced deficit impact, investors' expectation of ever more fiscal profligacy – which President Trump has campaigned on – has collapsed (Chart 6).

Chart 5: 10 Year US Treasury Yield

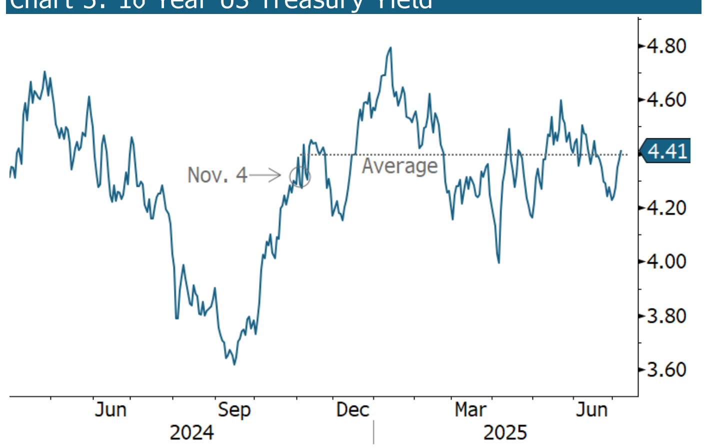


Chart source: Access Financial Services using Bloomberg Software & Data

According to the Bureau of Economic Analysis, the US is currently paying over 20% of every revenue dollar raised on servicing its debt interest payments (Chart 7). That is about four times what Europe pays to service its debt. Using data (as of 2023) from the World

Bank, US debt interest payments as a percent of revenue were 18% and the euro area's was just 3%.

Chart 6: Consensus Forecast for Real Government Spending Growth

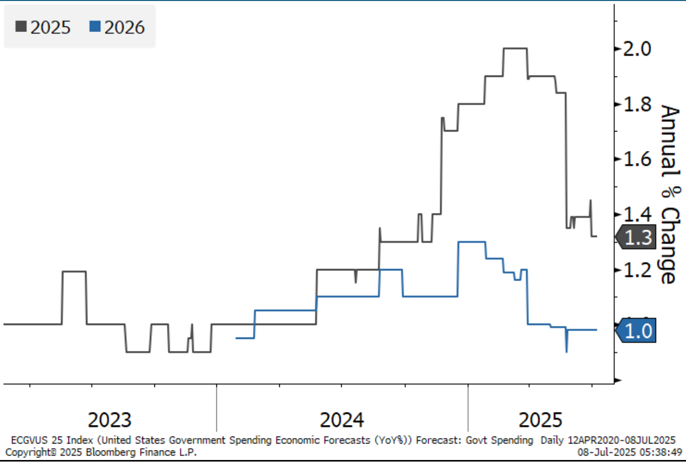


Chart source: Access Financial Services using Bloomberg Software & Data

Chart 7: US Interest Payments as % of Tax Revenue

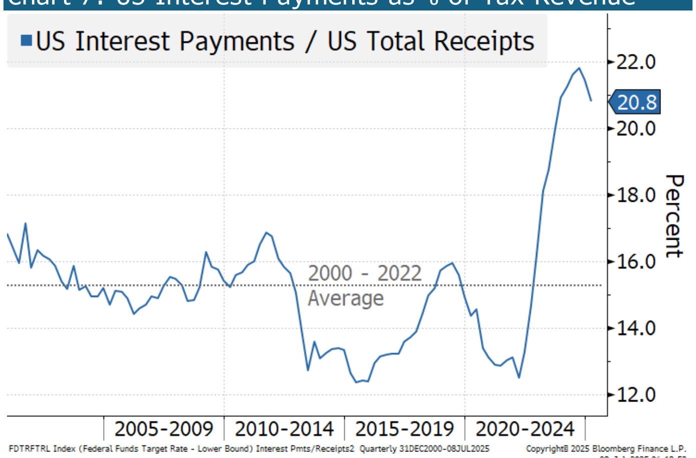


Chart source: Access Financial Services using Bloomberg Software & Data from the Bureau of Economic Analysis

Is US debt unsustainable? No, but it means that many other spending priorities would have to fall by the wayside. For the Trump administration, that has meant finding $1 trillion of entitlement cuts that nobody saw coming six months ago.

As I have written in the past, liquidity – both from fiscal stimulus and monetary policy – is one of the strongest influences on risk asset demand and therefore prices. While trade and fiscal policy have taken center stage recently, it is increasingly time to bring monetary policy back into the fold.

At this point, the market is pricing a decline in the fed funds rate from its current target rate of 4.38% to 3.21% over the next 12 months (Chart 8) for a decrease of 1.17%.

Chart 8: Expected 12 Month Change in the Fed Funds Rate as Priced by the Overnight Index Swap Curve

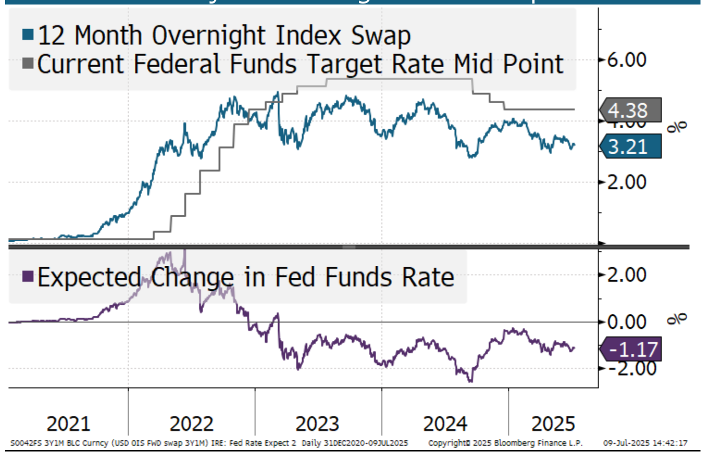


Chart source: Access Financial Services using Bloomberg Software & Data

While Fed Chair Powell recently admitted policy rates would have been lower already were it not for tariffs, the market's expectations have as much to do with politics as the economic outlook as President Trump is set to appoint the next Chair of the Federal Reserve in May 2026. And on July 9, President Trump called for the Fed to cut rates by 3%!

It seems probable that the next Fed Chair will be much more politically pliable even though it does not seem likely he or she will have to exert much pressure on the rest of the committee members to support the dovish line given the inflation and employment environment.

US inflation has cooled. The latest (May) core consumer price index (CPI) figure came in at just 0.13% month over month, meaning it is running at just 1.56% annualized (Chart 9). Importantly, shelter inflation, which makes up over 35% of CPI, has continued its steady downtrend and is now back to its average pre-pandemic level on an annualized three month rate of change basis (Chart 10). Non-housing services inflation, while still elevated relative to where it was before 2020, has also seen a meaningful decline (Chart 11). Based on consensus expectations, actual inflation data has surprised to the downside in most months since the end of 2022 (Chart 12).

Chart 9: Monthly Core Consumer Price Index Annualized (gray zone is Fed's inflation target)

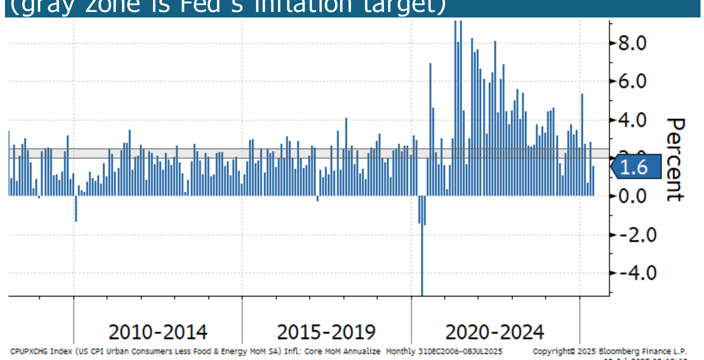


Chart source: Access Financial Services using Bloomberg Software & Data

Chart 10: Shelter Inflation – Annualized 3 Mo. Rate of Change (Solid Line) with 12 Mo. Moving Average

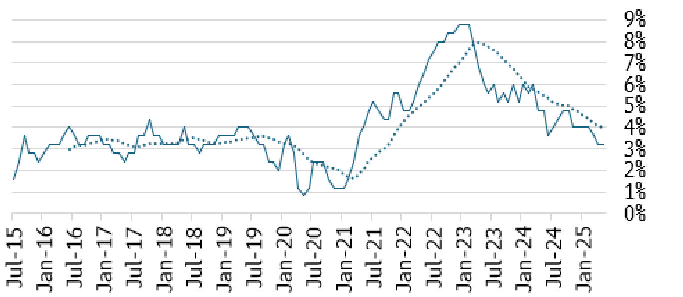


Chart Source: Access Financial Services using data from Bloomberg

Chart 11: CPI Services Less Rent of Shelter (dotted line denotes 2025 – 2019 average)

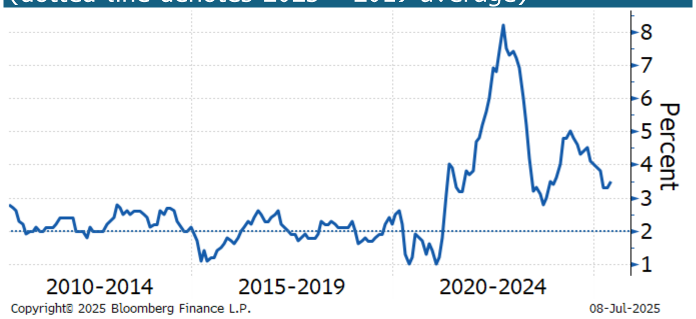


Chart source: Access Financial Services using Bloomberg Software & Data

Chart 12: Citi Inflation Surprise Index

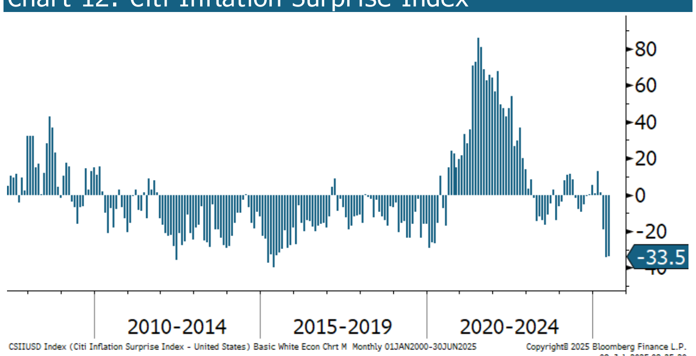


Chart source: Access Financial Services using Bloomberg Software & Data

The labor market is also softening based on slowing payrolls, the number of unemployed workers and job vacancies (Chart 13 and 14). The Kansas City Fed Labor Market Conditions Momentum Indicator does an excellent job combining all the moving employment data together and the current reading is weak (Chart 13, gray line). As further confirmation, the written notice to the state and affected workers of layoffs by employers with more than 100 full-time workers according to the WARN (Worker Adjustment and Retraining Notification) Act is up 94% year on year.

Consumer spending is also slowing (Chart 15), revolving debt levels and interest rates are high (Chart 16), and credit delinquencies are on the rise (Chart 17).

Fed Governor Waller used the May employment data to justify a call for cutting the fed funds rate as early as July. This looks a bit like a bid in the now public campaign to take over the Fed Chairmanship next year.

Chart 13: Nonfarm Payroll Growth (blue) and Kansas City Fed Labor Market Conditions Momentum Indicator

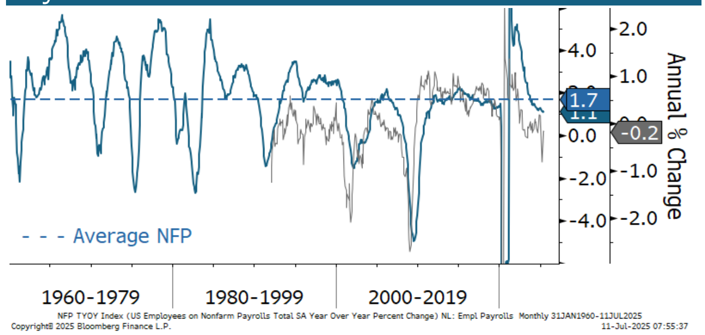


Chart source: Access Financial Services using Bloomberg Software & Data

Chart 14: Job Market Tightening

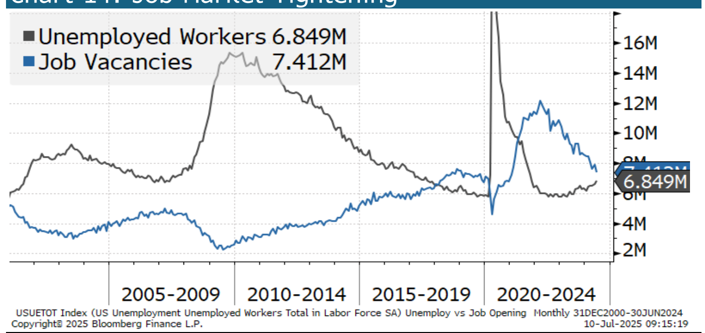
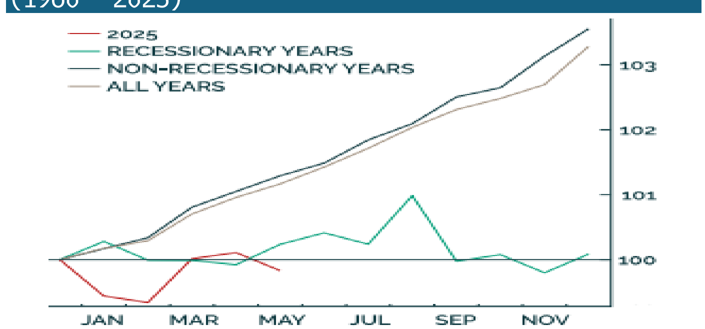


Chart Source: Access Financial Services using data from Bloomberg

Chart 15: US Real Personal Consumption Expenditure (1960 – 2025)



Source: BCA Research; BEA

Chart 16: Consumer Debt and Savings Rate

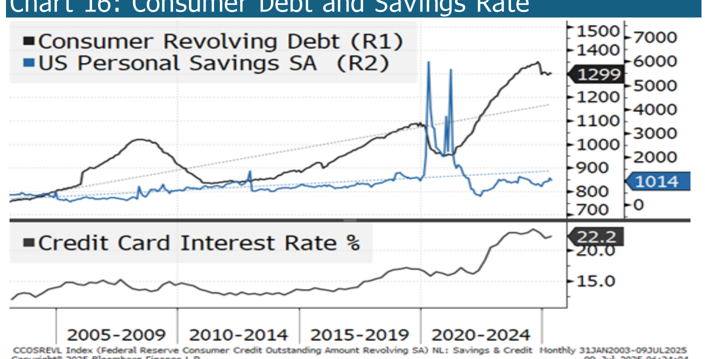


Chart source: Access Financial Services using Bloomberg Software & Data

Chart 17: Loan Delinquencies 90+ Days

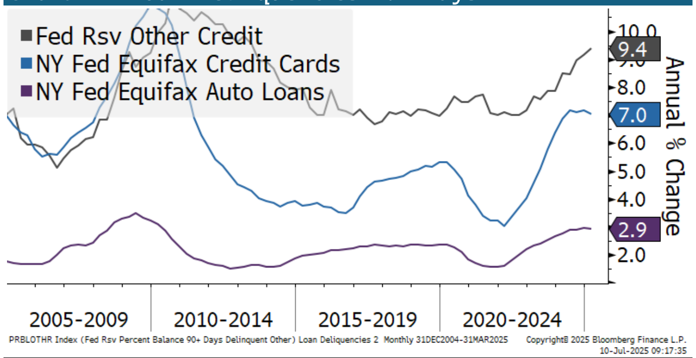


Chart source: Access Financial Services using Bloomberg Software & Data

Financial markets are usually driven by a lone narrative which persists until something comes along that subverts it in favor of another narrative. Since President Trump paused the Liberation Day tariffs, the narrative has been something like "the economy was fine before the trade war began; now that Trump is pivoting from tariffs to tax cuts, everything will be fine again." And besides, "Trump always chickens out" (the TACO trade) – the new mantra for traders.

President Trump has suggested that he will appoint a "shadow Fed Governor," (whatever that means) perhaps as early as this summer. The bottom line is that even if Powell were to keep short term interest rates steady, a dovish Chair-in-waiting is influencing market expectations of lower rates post-handover in 2026. With Fed Chair Powell in President Trump's crosshairs, he has his work cut out for him for the remainder of his term (which may come to an end sooner than scheduled if Trump has his way!).

It is true that inflation is trending in the right direction. It is also true that importers have largely absorbed the cost of tariffs. This state of affairs cannot persist indefinitely. The US effective tariff rate stands at 16%, the highest since the 1930s. As Walmart and other companies have noted, if the current tariff rate persists, they will have no choice but to raise prices. Some say this is a one-off price adjustment and not inflationary. Others disagree. Fed Chair Powell's opinion is that it is too early to tell. Collectively, investors do not seem to care for now. Caution has been thrown to the wind.

The resilience of risk asset prices in this environment has emboldened President Trump as the end of the 90 day tariff pause is here. He's also not thrilled with the perception that he always chickens out and may want to show investors that TACO is a Mexican dish and not a slur for his deal-making capabilities.

On July 8, Trump vowed to push forward with his aggressive tariff regime in the coming days, saying he would not offer additional extensions on the country-specific levies he says will be implemented on August 1 as investors shrugged off a series of letters and executive actions he issued on July 7:

"TARIFFS WILL START BEING PAID ON AUGUST 1, 2025. There has been no change to this date, and there will be no change," Trump wrote on his Truth Social platform on July 8. "In other words, all money will be due and payable starting AUGUST 1, 2025 – No extensions will be granted."

He also said he could announce substantial new tariff rates on copper imports (50%) and drug companies (up to 200% if they didn't move production to the US in the next year). Copper rallied on the news (Chart 18) while pharma company stock prices shrugged it off (Chart 19).

Chart 18: Bloomberg Copper Subindex

Chart source: Access Financial Services using Bloomberg Software & Data

Chart 19: S&P 500 Pharmaceuticals Industry GICS Level 3 Index

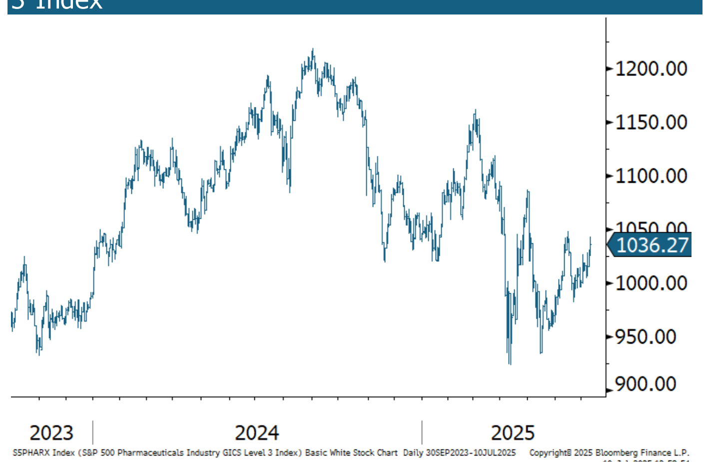


Chart source: Access Financial Services using Bloomberg Software & Data

This week and next are seasonally the best two-week period of the year for the SPX (Chart 20).

While I am not much of a fan of market seasonality analysis, it does give an idea of whether the wind is at our backs or not and supports the recent rally. That said, August and September are seasonally the worst months for the SPX (Chart 21).

Chart 20: Median Weekly S&P 500 Change vs. All Time Weekly Change Since 1990

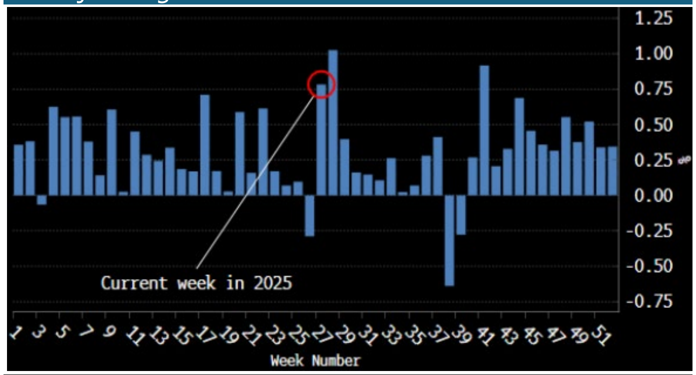


Chart source: Bloomberg Finance LP

Chart 21: 30 Year S&P 500 Average Monthly Returns

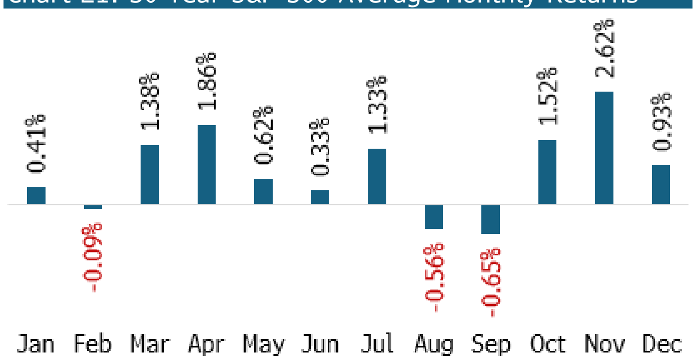


Chart Source: Access Financial Services using data from Bloomberg

Directionally at least, the return profile for the rest of the quarter implied by monthly seasonality data seems reasonable to me.

> Technically, the SPX is overbought. Examples include:
    > The SPX 14 day relative strength index is at a level that usually precedes weakness in stocks (Chart 22, panel 2)
    > Likewise for the percent of stocks trading at prices higher than their 20 day moving average (Chart 22, panel 3)
    > Barclays Plc measure of the market's "irrational exuberance" has moved back into the double-digits for the first time since February reaching levels that have signaled frothiness in the past (Chart 23)
    > The CNN Business Fear & Greed Index – which looks at a number of factors including momentum, market breadth, put and call option activity, and volatility – is at a one year high (Chart 24)
> Valuations have moved back to previous highs (Chart 25)
> Inflation data may surprise to the upside sending interest rates higher and pushing valuations lower
> We could see a rotation in the factors driving market returns move from trading, volatility and momentum back to more fundamental drivers that are were favored pre-Liberation Day
> Trump may try to restore his credibility by *actually* following through with his tariff threats
    > He has now threatened to double the baseline universal tariff to 20%, citing record stock gains to dispel fears that such a move would hammer the global economy
    > Trump told NBC News on July 10 he is considering a flat tariff of 15% to 20% on all trading partners, higher than the current 10% rate and analyst expectations
    > NBC quoted Trump as saying "I think the tariffs have been very well-received," "The stock market hit a new high today."

Chart 22: S&P 500 with Relative Strength Index and Percent of Members with Price > 20 Day Moving Average

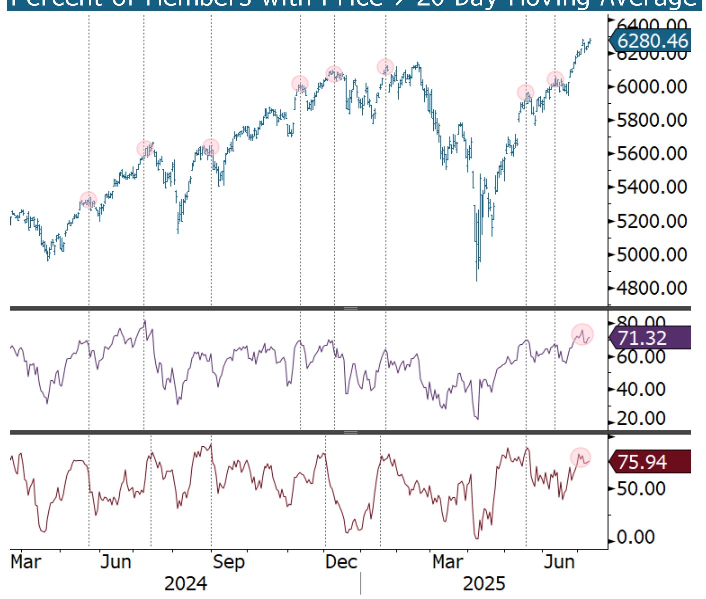


Chart source: Access Financial Services using Bloomberg Software & Data

Chart 23: Barclays 1 Month Moving Average of Equity Euphoria Indicator

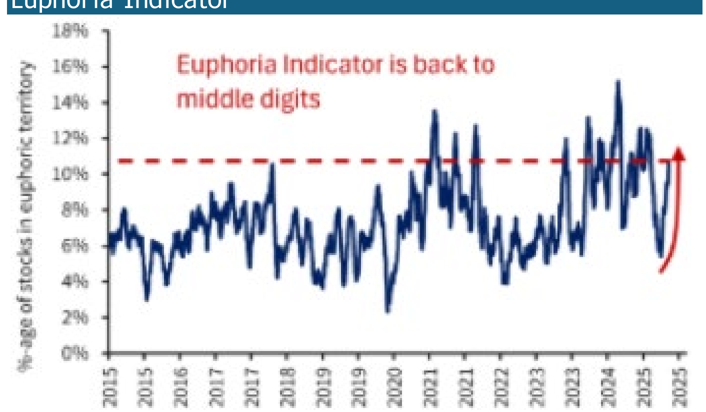


Chart Source: Barclays Derivatives Research; Bloomberg

As it stands, the character of global stock markets look more extended than it did in late February. They are rich, overbought and over owned. In other words, complacent about the risk of being wrong.

Chart 24: CNN Fear and Greed Index

Chart Source: CNN (https://www.cnn.com/markets/fear-and-greed)

Chart 25: S&P 500 Valuations Are Quite High

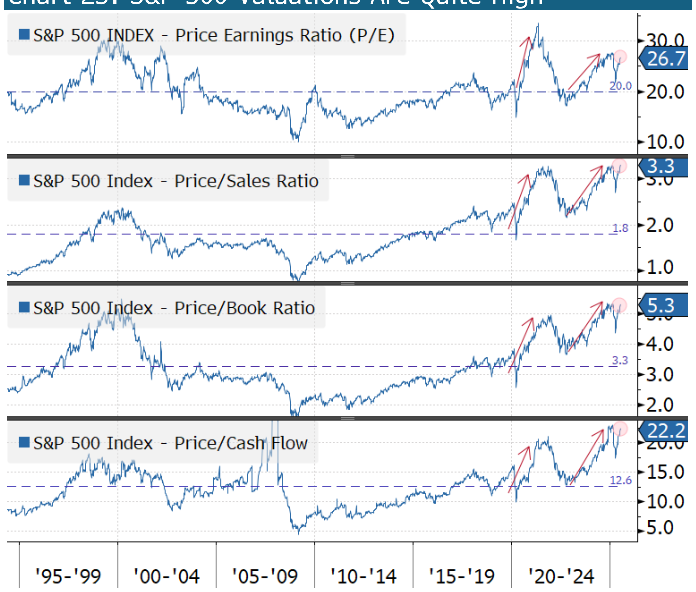


Chart source: Access Financial Services using Bloomberg Software & Data

This is not to say we expect another large drawdown in risk assets like we experienced between February 19 and April 7. A more moderate selloff would not surprise me in this environment though.

I was wrong in my outlook on the short term path for risk assets three months ago. I did not think Trump would walk back the tariff threats he laid out on April 4 to the degree he did or that his credibility with investors would fall so fast. As we know, Trump and his administration have no problem with changing policy (trade, economic, geopolitical, etc.) from one moment to the next and policy uncertainty – while having declined since its April highs – remains elevated (Chart 26). For now, none of it matters.

Our clients' portfolios held up well during the first quarter of the year as stocks sold off. Our US stock allocation outperformed the Russell 3000 total return index (down around -5%) by around 3%. This relative performance reversed during the second quarter with our US equity allocations returning around +6% verses the Russell 3000's +11%. Year to date, our clients' US stock allocations returned around 4.5% with the Russell 3000 coming in at 5.8%. The primary reason for outperforming when US capitalization weighted indices decline and vice versa is that the indices are far more concentrated in the very largest technology related stocks whereas our allocations have far less concentration in these companies.

Chart 26: Policy Uncertainty Has Receded, But Remains Elevated

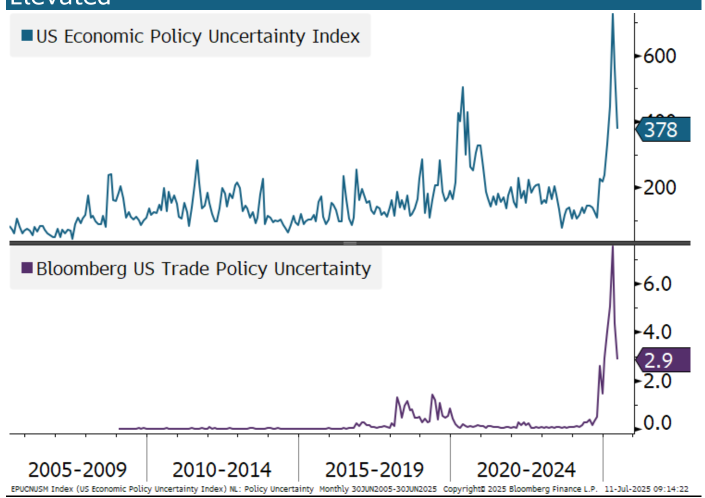


Chart source: Access Financial Services using Bloomberg Software & Data

As it stands, our stock allocations are lower than where they would be in a more attractive environment. Also, the majority of our clients' portfolios include investments that are hedged to limit losses should the stock market roll over again.

Turning to our clients' bond allocations, we are overweight shorter term bonds as this asset class tends to both perform well when the Fed begins an easing cycle and if longer term bonds react negatively to economic and policy news.

As always, we thank you for the confidence you have placed in us. Please do not hesitate to contact me if you would like to discuss any of this in more detail.

Brant Kairies
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