

Hughes Investment Advisory Service LLC

July 1, 2025

Dear Clients and Investors,

In the second quarter most asset classes recovered strongly, reversing first quarter losses. Markets turned upward following the April 8th softening of the tariff rhetoric. Here is how major asset classes have done YTD 2025:

DJM - Dow Jones Moderate U.S. Portfolio Index:	+	5.3%
IVV - S&P 500 Equity Index:	+	5.4%
RSP - S&P 500 Equal Market Cap Weight Index:	+	3.7%
EFA - Europe, Australasian and Far Eastern Equity markets:	+	18.2%
AOM - S&P Target Risk Moderate Index (Stock/Bond mix):	+	6.0%
AGG - I-Shares US Investment Grade Bond Index:	-	2.3%
GLD - Gold:	+	25.9%
FBTC - Fidelity Bitcoin Index ETF:	+	15.2%

So where do we stand as we head into Q3 2025? Investor anxiety has reversed and now the mood on Wall Street is quite optimistic. Why the optimism and reversal of direction in such a short period of time?

The ongoing developments in the Middle East have taken a positive turn. After the US completed a surgical strike on Iran's nuclear weapons capabilities, President Trump was able to broker a cease fire between Israel and the militarily compromised Iran. To date, that truce has held reducing concerns about a major disruption to global oil supplies. The price of oil subsequently fell sharply which is a positive development on the inflation front. Lower oil prices is good news for the US consumer freeing up more funds for discretionary purchases across the economy.

On interest rates, the Federal Reserve remains slightly hawkish as they continue to pause on any rate cuts holding the Fed Funds rate at 4.25-4.50% despite President Trumps aggressive urging to cut rates. The good news is that a rate cut or two looks more likely as we head into the second half of 2025 thanks to continued good news on the inflation outlook. It appears that tariffs have not contributed to inflation as some economists feared.

The S&P 500 earnings outlook for 2025 looks stable. Yardeni Research has slightly lowered their January 1, 2025, full year S&P 500 estimate from \$280 to \$260 but this still represents 6% growth over 2024 full year earnings.

As I wrote in January, Treasury Secretary Bessent and President Trump see a “Global Economic Reordering” occurring, and their plan is for the US to lead the way and direct that path forward. There are many moving parts to this “Plan,” but the focus is on 3% GDP Growth, 3-million-barrel increase per day of US oil production and stabilizing annual budget debt to GDP at 3%. There are reasons for optimism regarding progress on the 333 Plan.

Some positive change has occurred on this potential “Global Economic Reordering.” So far in 2025 the dollar has lost value relative to the other major world currencies, which helps the trade imbalance. Tariffs are bringing in significant amounts of money for the US Treasury. The Senate and House are on the verge of passing the Administrations massive spending and tax bill.

Stocks have rallied anew on the positive developments between Israel and Iran. The continued buying has the major equity averages approaching their all-time highs. I expect more good news on the conflict in Gaza and continued positive momentum in Syria, Turkey, and the Kurdish regions because of Iran’s diminished role across the region.

So, in the second half of 2025 we could see stable inflation, lower interest rates, modest corporate earnings growth, more trade progress, and a markets friendly US Budget deal.

In the meantime, as always, we will continue monitoring the US economy and company profits to determine the best allocations for our portfolios. Given this backdrop, we will continue to focus on the stocks of high-quality companies that have a long history of generating steady profit and cash-flow growth.

Where am I particularly optimistic and see opportunities in 2025 and beyond?

- US Markets – in general over foreign options.
- Record Household net worth. Total American household net worth stands at a record-high 169 trillion.
- Onshoring with increased factory construction, jobs, and foreign direct investment coming into the US.
- Strong corporate earnings and cash flows enhancing investments and shareholder returns via dividend increases and stock buybacks.
- Productivity enhancement because of AI and its growing dominance in the technology space by US firms. We seem to have entered a new era of technological advancement and productivity growth resulting in a new technology productivity boom mostly dominated by US corporations.
- Record US energy production. Record liquified natural gas and oil exports to our allies overseas.
- A nuclear power renaissance and re-building the US power grid.

- The Utility Industry will benefit from increased energy demand and infrastructure buildout.
- Gold as an inflation hedge
- Leading global Defense firms

Overall, we continue to favor high-quality, large-cap, dividend paying, US based multi-national companies with strong balance sheets. We love businesses with irreplaceable brand names, wide moats, high margins, grow their dividends, and have modest debt. Risk/reward now seems equal between equities and fixed income. T-Bills, select REIT's, MLP's, and specialized bond/income funds look good as income producers. I believe that our portfolios are well positioned to produce consistently attractive long-term risk adjusted returns while preserving capital. We will remain vigilant, assume little, and continue to follow the investment guidelines that we know, through experience, work in the medium to long-term. Please do not hesitate to give me a call to discuss the above analysis.

Sincerely,

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