HILGER
WEALTH STEWARDSHIP OF
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Dear Friends,

The second quarter of 2025 continued the narrative that began in Q1, and was marked by volatility, geopolitical uncertainty, and shifting investor sentiment. The markets have been attempting to absorb and interpret the implications of new trade policies, evolving global competition, concerns of a US economic slowdown, as well as the ongoing conflicts between Ukraine and Russia, as well as Israel and Iran.

Surprisingly, the equity markets have rebounded with significant strength ever since Liberation Day, when President Trump announced his global tariff plan. Since then, the markets have rebounded and now sit with year-to-date performance on the S&P 500 up 5.50% as of quarter end. The Nasdaq Composite, heavily weighted toward technology, is up 5.4% on a year-to-date basis and the Dow Jones Industrial Average, more diversified and less tech-heavy, ended the quarter up 3.64% for the year.

Tariffs and their impact on earnings continue to be a dominant theme for investors, weighing heavily on market sentiment and economic forecasts. Following the announcement of the Trump administration's tariff policy in early April, investors reacted with heightened caution. The scope and scale of the tariffs have raised concerns about rising input costs, supply chain disruptions, and retaliatory measures. These developments have not only increased expectations for inflationary pressures but also introduced significant uncertainty into corporate planning and capital expenditures. While some investors are hopeful that ongoing negotiations may lead to a softening of these measures, the current environment reflects a broader shift toward protectionism, which could dampen global trade and create upward pressure on domestic prices, if prolonged.

Corporate earnings reflected their own uncertainties. While some companies managed to beat lowered expectations, forward guidance was broadly cautious. Many executives cited the unpredictability of trade policy and input costs as reasons for delaying capital expenditures and hiring plans. This hesitancy is likely to weigh on economic growth in the second half of the year.

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Interest rates were also a central focus for investors during the second quarter, as the Federal Reserve maintained a cautious stance amid conflicting economic signals. The Fed has continued to hold rates steady, signaling a data-dependent approach moving into the second half of the year. The yield curve remains inverted, reflecting market expectations of future rate cuts, but the timing and magnitude of those cuts remain unclear. For investors, this environment highlights the importance of maintaining flexibility to adapt to shifting monetary policy.

The global geopolitical landscape remains highly volatile. In a major escalation, the United States entered the Israel-Iran conflict, launching strikes on three Iranian nuclear sites. The situation has raised fears of a broader regional war, especially as Iran's allies, including Hezbollah and other proxy groups, threaten to target U.S. assets. Meanwhile, the Ukraine – Russia conflict drags on with no resolution in sight, and tensions between China and Taiwan continue, posing another potential conflict. A China- Taiwan conflict could impact transshipping through the South China Sea. Escalation of these conflicts could negatively impact global economic activity, increasing costs and slowing economies.

While risks remain elevated, investors are actively adapting to the evolving landscape, as demonstrated by the market's resilience. Despite these challenges, we continue to believe that the long-term outlook for the U.S. economy remains constructive. The "technology revolution" is still in its early stages. Companies that are involved in the development and support of artificial intelligence (AI) have experienced significant growth. Companies that can effectively integrate AI to drive productivity and reduce costs will emerge stronger and should be the next set of beneficiaries of this technology.

We also expect that political considerations, particularly with the upcoming midterm elections, will lead to policy measures aimed at supporting growth and consumer confidence. The passing of the "One Big Beautiful Bill" if accomplished, is one such potential catalyst. Looking ahead, we expect volatility to remain elevated. Trade negotiations, inflation data, and political developments will all contribute to market swings. Our base case remains that a deep recession is unlikely, but the risk of a mild downturn remains. In this environment, we continue to advocate for a balanced and diversified portfolio.

In equity markets, we continue to look at high-quality U.S. large-cap companies with strong balance sheets and pricing power. We are also looking at developed international markets. The European Central Bank has cut interest rates several times this year which can lead to lower borrowing costs and stimulating economic activity.

Thank you for your trust!

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The S&P 500 is an unmanaged index of 500 widely held stocks. The NASDAQ-100 is a stock index made up of equity securities issued by 100 of the largest non-financial companies listed on the NASDAQ. It is a modified capitalization weighted index. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investors' results will vary. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices rise. Investing in stocks involves risk, including the possibility of losing one's entire investment.

Dividends are not guaranteed, will fluctuate and must be authorized by the company's board of directors. U.S. Treasury securities are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value.

Alternative investments involve substantial risks that may be greater than those associated with traditional investments and are not suitable for all investors. These risks include, but are not limited to: limited liquidity, tax considerations, incentive fee structure, potentially speculative investment strategies and different regulatory requirements. Investors should only invest in alternative investments if they do not require a liquid investment and can bear the risk of substantial losses.

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