

Thoughts from the Holy City – July 2025

“A nation that forgets its past can function no better than an individual with amnesia.”

~ David McCullough

As we close out the first half of 2025 and celebrate Independence Day, we look back on the year and glimpse into the remainder of 2025. It has been another violent start for the domestic markets with an intra-year decline of 18.9% for the S&P 500 in just 48 days, yet here we are with all three of the domestic market indices in positive territory as of the month's end. It's hard to believe given that there was a full-blown panic by many investors in March. This is the seventh such panic in the past 25 years with each one of these events having a sense of doom and demise, yet in every single one of them the markets have not only recovered their losses but continued to climb ever higher. As the saying goes, history doesn't repeat itself, but it does rhyme.

If you do look back at the history of the markets, it is littered with examples of times when things in the markets and/or the economy seemed to be so dire that there was no way out. We have had seven of those instances in the past 25 years. Let's look at these to help put things into context.

1) The Implosion of the Dot-Com Bubble

The S&P 500 peaked on March 24, 2000, and troughed in panic on October 9, 2002, down 49.1% in 929 days. At the time, this was the deepest bear market since the 1930s.

2) The Global Financial Crisis

The S&P 500 peaked in October 2007 and did not trough until March 2009, down 56.8% in 517 days. This was a new record decline since the Great Depression.

3) The European Debt Crisis

The S&P 500 hit a post-GFC high in April 2011 and troughed in October, down 19.4% on a closing basis in 157 days.

4) The Christmas Eve Government Shutdown

The S&P 500 topped out on September 20, 2018, and closed on its panic low for the day December 24, down 19.8% in 95 days.

5) COVID

The S&P 500 peaked on February 19, 2020, and crashed to a new panic low on the morning of March 23, down 33.9% in 33 days.

6) Inflation Spike and Fed Tightening

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The S&P 500 peaked on January 3, 2022, and bottomed on October 12, down 25.4% in 282 days.

7) The Tariff Barrage

The S&P 500 topped out on February 19, 2025, and bottomed (on a closing basis) on April 8, down 18.9% in 48 days.

All seven of the above “crises” occurred in just the last quarter century and all of them were very different from the others, but all had the same outcome. The crisis passed, the markets climbed higher, and the economy continued growing. Many of you (and I) may have forgotten some of the above “panics.” While they seemed terrifying in the depths of them, they ultimately proved to be buying opportunities and just another blip in the next leg higher.

If you looked at the equity market on the first trading day of this year, and not again until the end of June, you could be forgiven for concluding that not much — if anything — had happened. In fact, a great deal happened. The S&P 500 Index reached a new all-time high on February 19. By April 8, it had closed 18.9% lower. And even that doesn't express the degree of sheer panic that enveloped the markets upon President Trump's announcement (April 2) of a dramatically increased tariff protocol.

The panic ended just as abruptly after President Trump announced a 90-day postponement of most of the new tariffs. And in the seven weeks or so since then, buoyed by continued strength in the economy and signs that inflation may be continuing to moderate, the Index returned to the neighborhood of its early January levels.

As it virtually always is, the optimal course of action for long-term investors was simply to continue working your plan. That's what we encouraged you to do. And as the second half of the year begins, that recommendation stands. Please don't mistake this for an economic or market outlook. We have no such forecast for the next six months, any more than we did on January 1. Our only forecast is that excellent businesses of the kind we own will go on innovating overtime, increasing their earnings, raising their dividends, and supporting our clients' pursuit of their long-term goals.

Panic doesn't often seize the investing public as suddenly as it did in the first week of April, nor vanish as suddenly as it did the following week. Still, this episode can and should serve as a kind of tutorial. It's lesson: investors succeed over time by continuously working their plan regardless of the current “crisis”. Others fail by reacting to negative events and liquidating even the highest quality equities at panic prices. We believe that's always the fundamental choice in investing, and our mission is to help you continue to choose wisely.

It is these types of markets that help to reinforce our philosophy. We are goal-focused, plan-driven, long-term equity investors. Our portfolios are derived from, and driven by, your most important lifetime financial goals, not any view of the economy or the markets.

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We don't believe the economy can be consistently forecasted, or the markets consistently timed. Nor do we believe it is possible to gain any advantage by going in and out of the equity market, regardless of current conditions. Therefore, we believe that the most efficient method of capturing the full premium compound return of equities is by remaining fully invested all the time.

We are thus prepared to ride out the equity market's frequent, often significant but historically always temporary declines. We believe that even during such trying episodes, our reinvested dividends will be buying more lower-priced shares, and that the power of equity compounding will be continuing, to our long-term benefit.

The United States is an incredible country with bountiful resources and opportunities. I don't disagree that there is unrest, and things may not always seem rosy, but this is the land of abundant economic opportunity. The reality is that our country has always been restless. That is what makes it such an amazingly productive society. One in which we can disagree but still move on to achieve great things. We have freedom.

I hope you and your families have a great rest of your summer.

Be Well,

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