MJM INVESTMENT ADVISORS, INC.

Third Quarter 2025 Investment Outlook

Right Back Where We Started From

"Do you remember that day? (that sunny day), when you first came my way, I said no one could take your place, and if you get hurt, by the little things I say, I can put that smile back on your face."

– Maxine Nightingale – Right Back Where We Started From

"April 2, 2025, will forever be remembered as the day American industry was reborn, the day America's destiny was reclaimed, and the day that we began to make America wealthy again."

– President Donald Trump

"THIS IS A GREAT TIME TO BUY!!!

– President Donald Trump – 4/9/25 9:37 AM

"People were getting yippy, you know, they were getting a little bit yippy, a little bit afraid."

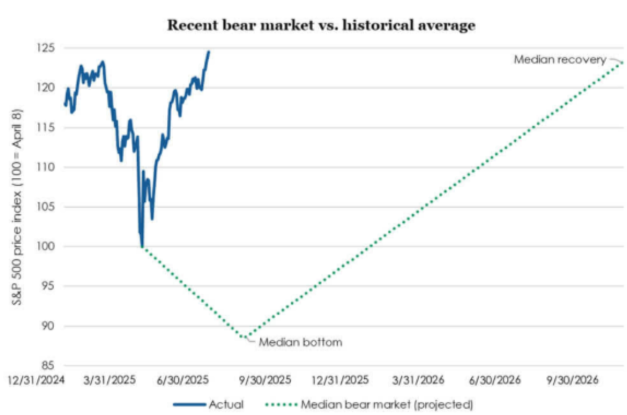
– President Donald Trump

Maxine Nightingale is a British singer and a member of the One Hit Wonder Club. She earned her vocal stripes in West End theaters in London in the early 1970s as a cast member of prestigious musicals including Jesus Christ Superstar, Hair, and Godspell. She achieved the pinnacle of her singing career in 1976 with the single, Right Back Where We Started From, which hit #2 on the Billboard Hot 100 in the U.S. that year. The song has a very danceable, upbeat sound with a great baritone saxophone weaved in throughout. It is about the ups and downs of a relationship and wanting to get back to how things were fresh and exciting when romance first bloomed.

It is pretty clear that co-songwriters Pierre Tubbs and J. Vincent Edwards were not thinking about tariffs when they wrote the lyrics of Right Back Where We Started From but maybe President Trump was thinking about the song when he announced a 90-day tariff moratorium on April 9, 2025, just seven days after he initiated his Liberation Day tariff policy on April 2, 2025. During that short time period, investors fell out of love with the Trump Administration as the U.S. stock market plunged 12% over four trading days in response to the new tariff policy. The President quickly figured out his relationship with financial markets was deteriorating and he needed to swiftly get things right back where they started from and put a smile back on investors' faces. The 90-day moratorium announcement took immediate pressure off of financial markets, and stocks went on to recover all the Liberation Day declines and finished with strong double-digit gains during the second quarter.

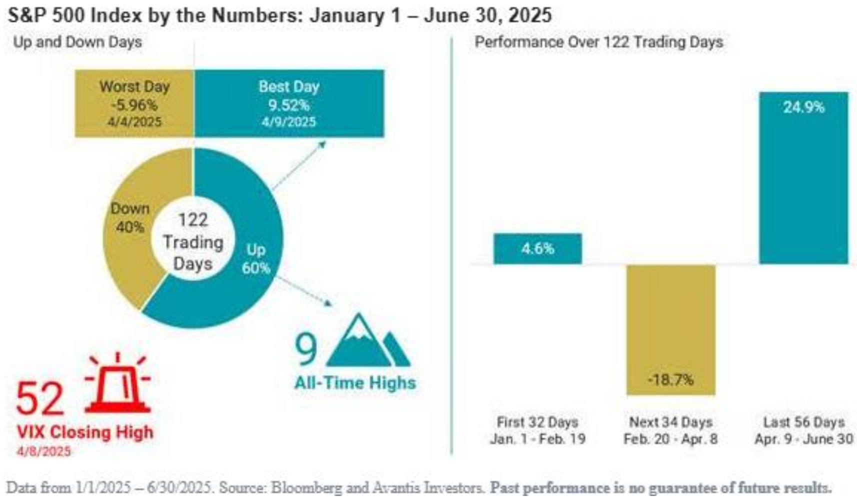
As shown in the next chart, the recovery from the April 8th market low was the largest return and fastest recovery in the past 50 years for an 80-day period following the stock market entering a 20% bear market decline. President's Trump's tweet on April 9th made it blatantly obvious that the 90-day tariff moratorium was designed to get markets right back to where they started from and in this regard it was quite successful. However, the tariff policy significantly increased financial markets volatility. Because the Trump Administration would announce aggressive tariff actions only to frequently reverse course, traders gave him his own acronym, TACO, for Trump Always Chickens Out. TACO referred to the fact that the Trump Administration would always talk a tough game on tariffs but when stocks fell apart in reaction to its latest pronouncements, the Administration would repeatedly delay tariffs or suggest that deadlines were soft targets if progress was being made in negotiations.

The next chart also shows how quickly stocks moved right back to where they started from and how rapid and large the recovery rally has been compared to the median profile of other bear market recoveries. The median bear market typically bottoms out nine months later but doesn't get back to the previous high until 18 months later. It took just 80 days this time.

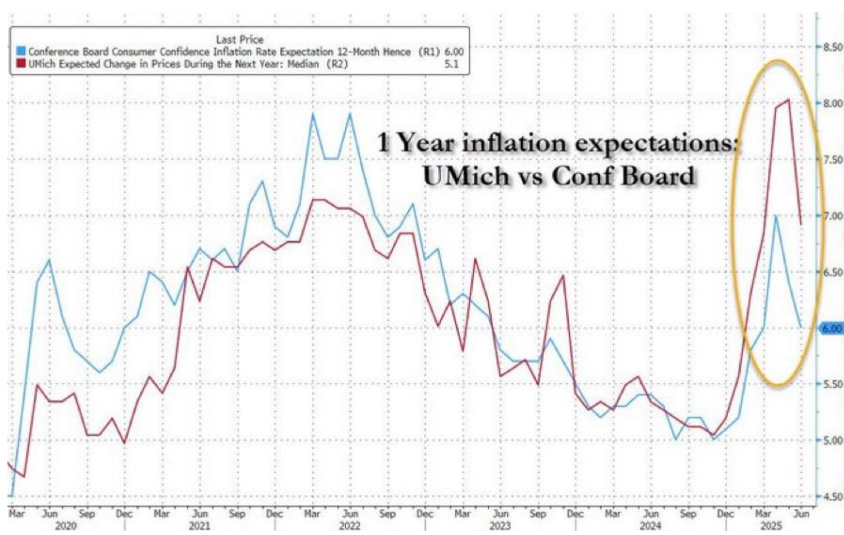


Source: FactSet as of 6/30/2025. Median bear market based on data from 12/31/1945-6/30/2025. ***Past performance is no guarantee of future results.***

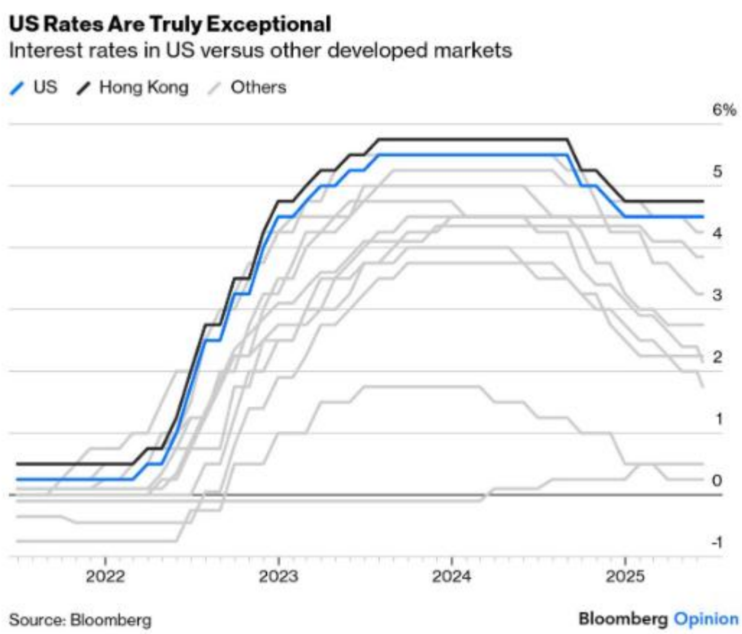
It was an increasingly difficult environment to manage through as policy announcements were followed by policy reversals or pushouts. The next graphic of S&P 500 return data shows just how much volatility investors had to deal with during the first half of 2025. While the S&P 500 Index return during the first six months of 2025 was +6.2%, the right side of the graphic shows the magnitude of return swings one had to endure in order to capture that mid-single digit gain including a nearly 19% plunge over a 34-day window.



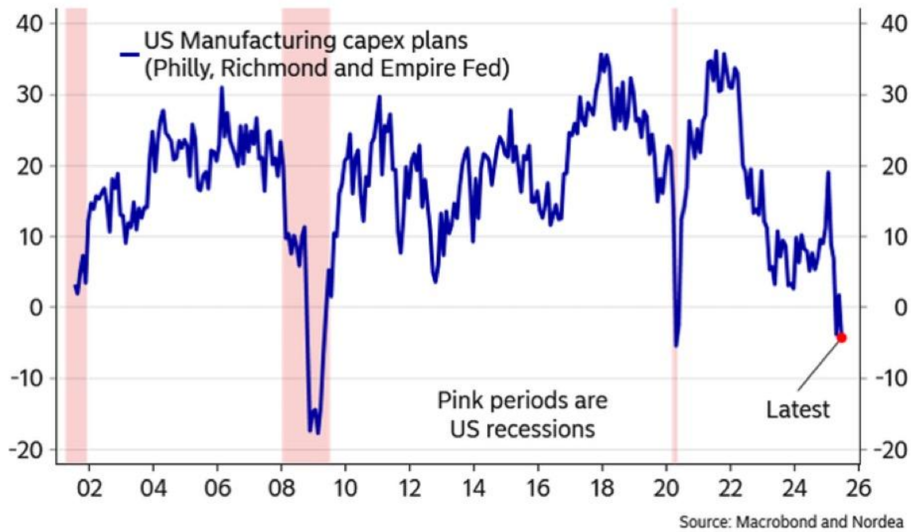
A major concern after the Liberation Day tariffs were announced was that these very aggressive tariffs, which included significant increases on imported goods, would eventually create higher inflation. The headlines on this topic were constant from mid-February through April and U.S. consumers took higher inflation to be a guaranteed fact. The next chart shows 1-year forward inflation expectations for two consumer surveys, the Conference Board and University of Michigan. The surveys show that in the early months of 2025, forward inflation expectations surged higher due to tariff fears that dominated the news cycle. After Trump announced his 90-day moratorium on April 9th, excessive inflation fears started to recede and was a factor in financial markets beginning to normalize and recover. These fears have not completely receded and are still elevated and higher than the forward inflation expectations readings from 2024.



The fear of tariffs causing higher inflationary pressures in the U.S. explains the reluctance of the U.S. Federal Reserve (Fed) to cut interest rates despite an economy generating low GDP growth or on the edge of a recession. Jobs gains have softened, continuing unemployment claims are rising, and consumer spending trends are weak. The Fed has become unusually out of step with the rest of the world's central banks in terms of interest rate policy. As shown in the next chart, many central banks have cut interest rates over the past six months as global economic activity has slowed and most certainly due to the economic uncertainty caused by U.S. tariff policies. The blue line represents the U.S. Fed Funds rate, which shows the Fed has held interest rates steady since its last 0.25% interest rate cut in December 2024 while many other central banks have been cutting interest rates more aggressively. For example, the European Central Bank has cut its Fed Funds equivalent interest rate four times during 2025 for a total of 1.0% of interest rate cuts. It now stands at 2.0% compared to the current Fed Funds target range of 4.25% to 4.50%. President Trump has called out Fed Chair Powell multiple times for not cutting interest rates and has indicated he may appoint Powell's successor in the near future even though Powell's term does not end until May 2026. Such a move could undermine Powell's authority. It may not be taken well by investors, especially the bond market, which strongly supports an independent central bank and desires a Federal Reserve Chairman not beholden to the President's economic agenda.

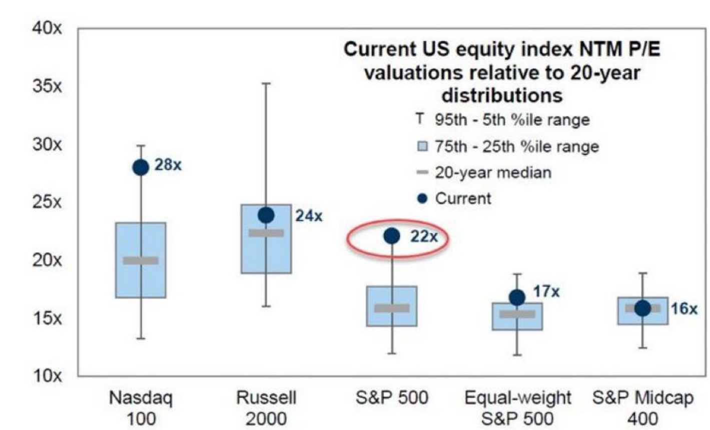


The noise and uncertainty surrounding tariffs and their potential impact on economic activity has made macroeconomic forecasting more difficult this year (when it is already difficult enough). Certainly, the Fed believes tariffs will have a negative impact on the U.S. economy because in its latest Summary of Economic Projections issued at its June meeting, the Fed lowered its 2025 U.S. economic growth forecast from 1.7% to 1.4% and raised its Core PCE inflation forecast from 2.8% to 3.1%. In addition, businesses are getting increasingly cautious and have pulled back on capital spending plans given the elevated uncertainty around tariffs, including unpredictable costs and market demand. The next chart shows the aggregated capital expenditures readings from three regional Fed surveys. Manufacturing spending intentions have fallen significantly in 2025 and are nearing levels reached during prior recessions (pink areas).



Even though stocks staged a strong recovery rally during the second quarter, earnings estimates from the beginning of the year have declined. It should be noted that it is typical as Wall Street research analysts are often optimistic at the start of every year and then trim their earnings estimates as the year progresses. At the start of the year, the 2025 earnings estimate for the S&P 500 Index was $277/share and today it is now appr. $255/share or a decline of 9% year to date. At the same time, the S&P 500 Index gained 6.2% during the first half of 2025 so investors were willing to pay 6% more for 9% less of earnings. As a result, the U.S. stock market valuation profile has become even more richly valued than it was at the start of the year. Using the latest earnings estimate, the S&P 500 Index as of 6/30/25 was trading at 22.0X price/earnings multiple compared to 21.5X at the start of the year when the S&P 500 Index level was 5,882. The next chart shows that the S&P 500 Index is trading in the top 5th percentile of its valuation history over the past 20 years. Small caps are expensive too but not to the same degree as the S&P 500 Index. For an equal weighted version of the S&P 500 Index instead of the normal capitalization weighted version, the average stock P/E valuation profile is 17X. Mid- caps look the most attractive at 16X, trading in the middle of their 20-year valuation history.

Exhibit 31: US equity index P/E valuations vs. history



Source: Compustat, FactSet, IBES, Goldman Sachs Global Investment Research

It is important to point out that the Magnificent 7 are the primary reason the S&P 500 Index (and Nasdaq) trades at such a rich valuation profile and because of the high weight this small group of stocks represent in the index. For example, the Magnificent 7 now comprise nearly 33% of the weight of the S&P 500 Index (the top 10 are 38%) with Nvidia the largest at 7.5%. The following table shows the 2025 P/E multiples of the Magnificent 7 from highest to lowest.

Tesla	175.0X
Nvidia	38.2X
Microsoft	37.5X
Amazon	36.3X
Apple	29.0X
Meta	28.1X
Google	18.9X

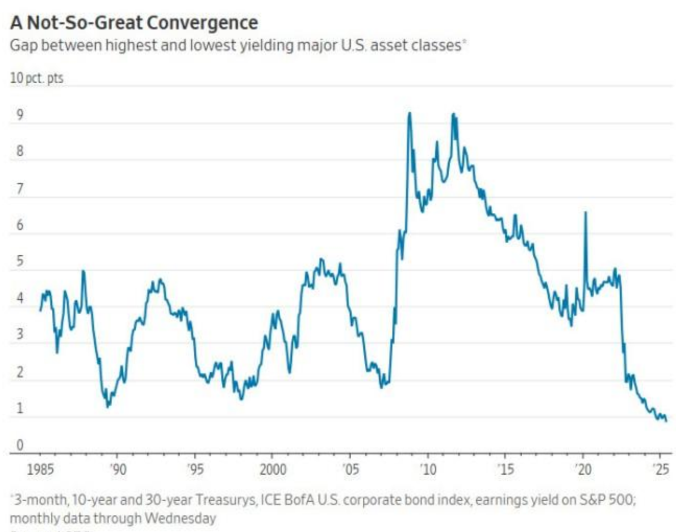
Some argue that Broadcom (AVGO) should replace Tesla as a member of the Magnificent 7 since its market capitalization is 30% bigger than Tesla's but AVGO also trades at a rich 2025 P/E multiple of 41.4X. To recap, the S&P 500 Index trades at 22.0X P/E multiple on forward 12-month earnings estimate but the Magnificent 7, which in aggregate represent nearly 33% of the S&P 500 Index, trade at much higher P/E level. The S&P 500 Index and other large/mega cap benchmarks like the Russell 1000 Index or the MSCI ACWI are more dependent upon the continued outperformance of a small group of U.S. mega cap stocks. In addition, concentration risk has increased as the weight of these stocks have grown substantially the past several years relative to all other stocks in the major benchmarks. Even for a global stock benchmark like the MSCI ACWI, Nvidia represents 4.7% of the index and has a market capitalization great than all of Japan, which is the world's second largest stock market. U.S. stocks now represent 65% of the weight in the MSCI ACWI.

The narrow returns market setup of the past few years is not unique to the large/mega cap stocks found in the S&P 500 Index. Mid-cap stocks are also going through a similar dynamic. For example, the Russell Mid-Cap Index is comprised of 810 stocks. Just four stocks (Coinbase, Robinhood, MicroStrategy, Palantir) accounted for 22% of the second quarter return and 31% of the year to date return of the Russell Mid-Cap Index. Bloomberg reports that crypto related stocks (+78%), quantum computing (+69%), and meme related stocks (+44%) were the performance standouts during the second quarter and many of those stocks fall into the mid-cap category. AI hype is causing investors to focus on a narrow set of stocks, boosting the returns of the technology and communication services sectors while neglecting many others. Growing risk appetite is also driving investor interest in speculative assets like digital assets, quantum computing, and meme stocks, which accounted for an outsized portion of market gains this year. These momentum-driven stocks have seen record outperformance during 2025, rivaled only by the 1999/2000 tech bubble era. There is no debate that AI is real and offers long-term productivity benefits, but current investment and valuation enthusiasm may be excessive. Like past tech revolutions, this AI cycle could lead to over-investment and excess capacity. It will be interesting to see if these outperforming groups can continue to lead the market during the second half of 2025.

2025 been one of the more difficult years to navigate and mostly due to the variability and difficulty in trying to forecast the impact of tariffs, not only on U.S. economic growth, but also on future inflation. According to Bloomberg, in December, strategists predicted the S&P 500 Index would rise 13% on average to 6,614 this year due to continued economic growth and strong corporate earnings. By May, the group had on average slashed their target price outlook by 9% — a faster pace of reduction than at the start of the C-19 pandemic in 2020. As June started, many had reverted back to being bulls again, mostly due to the assumption that the 90-day moratorium would allow for trade deals to be completed and at tariff levels much lower than were announced on Liberation Day. As just one example, Goldman Sachs changed its 2025 S&P 500 Index price target four times during the first half of 2025 when the normal change is only two times for the entire year.

The second quarter stock market recovery was as though a more benign tariff environment is the definitive outcome but is it? Inquiring minds want to know. While the S&P 500 Index is now up approximately 7% year to date through mid-July, it is hard to see how those initial strategist forecasts for 2025 will be accurate when tariff levels will be higher and the vast majority of trade deals with our most important trading partners, Mexico, Canada, EU, and China, have yet to be resolved. Clearly, the ongoing tariff drama is the biggest risk for the second half of 2025.

Looking ahead to the latter half of 2025 and after a large recovery rally, are investors getting paid adequately to assume investment risk? The next chart puts both bonds and stocks on the same playing field in order to assess their relative merits. For bonds, it reviews the yields on the 3-month, 10-year, and 30-year U.S. Treasuries and compares it to the earnings yield on the S&P 500 Index. The earnings yields is the inverse of the price/earnings ratio. For example, the next 12-month P/E multiple of the S&P 500 Index is 22.0X, which equates to an earnings yield of 1/22.0 = 4.55%, which compares to a 3-month Treasury bill yield at 4.35%, the 10-year Treasury yield at 4.45%, and the 30-year Treasury yield at 5.00%. When the line is high, it means investors are being well compensated for assuming the risk of owning stocks, as noted in the 2008/2009 Global Financial Crisis time period when the line surged higher. The chart also shows the brief pop higher in early 2020 when the C-19 pandemic hit and stocks became more attractive after the Fed cut interest rates to 0% and bond yields hit very low levels. Today, the line now sits at the lowest level of its 40-year history, which means that investors are not being well compensated to assume the higher risk inherent in stocks relative to bonds given current yield levels for both. This would be due to the fact that the stock market has had several years of +20% returns and has a much higher valuation profile today at the same time bond yields have moved from extremely low yield levels in early 2022 to now over double that yield level three years later. The relative risk setup today would suggest that balanced portfolios should be close to their asset allocation targets. This comes after a long period of time when it was more compelling to be overweight stocks relative to bonds.



Source: Charlie Bilello

Summary

Elevated volatility became the norm during the first half of 2025 as tariffs created increased uncertainty on the outlook for the U.S. economy, earnings, and inflation. The Fed would have cut interest rates by now given slowing macroeconomic data, but it has refrained due to worries about the inflationary impact of tariffs. President Trump's quick pivot to a 90-day tariff moratorium following the Liberation Day tariff announcement allowed for financial markets to recover and for stocks to have a strong second quarter rally. In effect, we are Right Back Where We Started From, as if nothing out of the ordinary has happened this year. However, despite the strong recovery in stocks, unresolved trade deals with our most important trading partners continue to pose risks for financial markets. The stock market remains vulnerable to further bouts of volatility because it has priced-in a benign outcome on tariffs, which is not a certainty. Prepare for more yippy markets and more yapping over tariff negotiations in the months ahead.

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July 17, 2025