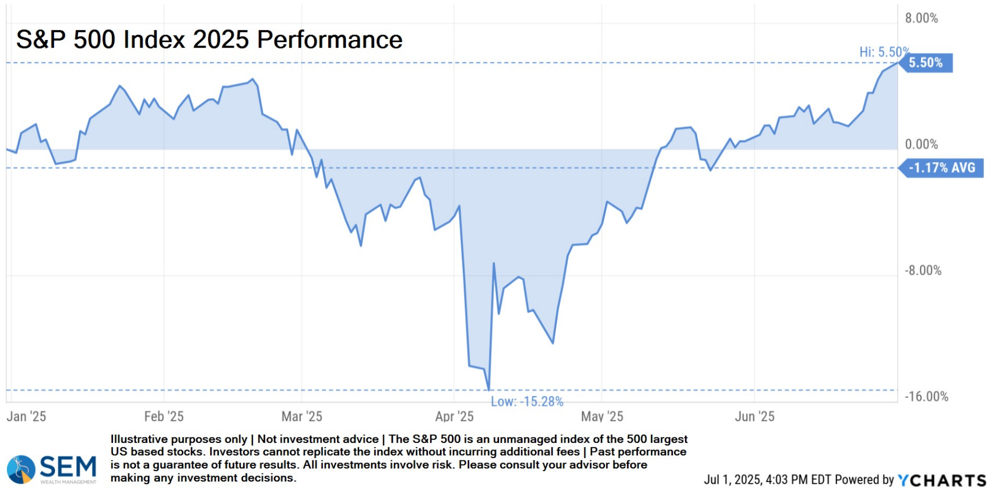
SEM's Quarterly Newsletter

ENCORE

Summer 2025

Full Speed Ahead



After a bruising start to the year, 2025 is turning into a lesson in market whiplash. Stocks sprinted out of the gate in January, only to skid nearly 19 % from the mid-February peak to the April 8 low—just shy of a technical bear market.

Then came the slingshot: a nine-week rally powered by cooling tariff fears, solid earnings, and the still-resilient U.S. consumer. By quarter-end the S&P 500 closed at a new all-time high, rewarding investors who stayed buckled-in for the ride.

Yet the "all clear" sign hasn't been shown for every corner of the market:

- **Health check**. The equal-weight S&P 500—our proxy for the "average" stock—is still about 4 % below its record, a reminder that the megacaps are doing the heavy lifting.

- **Small-caps lag**. The small cap Russell 2000 ended June roughly 11 % under its November 2021 peak and is negative in 2025, even after a respectable second-quarter bounce.

Those under-the-surface gaps don't have to spell trouble, but they deserve our attention, especially considering some of the headlines the market seems to be ignoring.

For the latest market updates go to TradersBlog.SEMWealth.com

How fast do you need to go?

Summer road-trip season always seems to bring out the lead-foot crowd. Speed limits feel like suggestions, and every few miles someone rockets past as if shaving two minutes off their ETA is worth flirting with a ticket—or worse.

Whenever that happens I can't help but wonder, "How fast do you really need to go? Is the extra risk worth arriving only a little bit sooner?"

The same question applies to investments. With stocks hitting fresh records, it's tempting to "keep up with traffic" by piling into whatever is racing ahead. For some investors, that extra speed may fit the plan. For others—especially those nearing retirement or depending on steady withdrawals—the consequences of a market "speeding ticket" could be costly.

A smarter approach is to drive at a pace that matches your destination and conditions: a well-diversified mix that balances growth with steadier assets like bonds. That way, you're more likely to reach your goals without white-knuckling every market twist and turn.

Remember: the journey matters as much as the arrival—choose a speed that lets you enjoy both.

If you would like a personalized review of your portfolio, go to Risk.SEMWealth.com

Potential Road Blocks Ahead

The stock market has overcome some negative headlines and events the first half of 2025. Does this mean the worst is over or are there potential problems ahead? Here are 4 areas which could cause some delays the back half of the year.

Roadblock 1: The Trade War

Consensus view: The President often talks tough on tariffs but eventually prioritizes market stability—hence the term which started in the 2nd quarter—TACO ("Trump Always Chickens Out").

Risk: The rhetoric becomes policy as our trading partners take a stand. Broad-based tariffs stick, margins compress, and global supply-chain inflation returns.

Roadblock 2: Economic Slowdown

Consensus view: The U.S. economy has already dodged two recession scares in three years—resilience is the base-case.

Risk: "Soft" survey data bleeds into "hard" spending and hiring numbers, revealing that resilience was overstated.

Note: SEM's Economic Model went "bearish" at the beginning of June. See the details here:

TradersBlog.SEMWealth.com/mmm6-23

Roadblock 3: US Debt & Deficit

Consensus view: Congress passes the debt ceiling extension and the expanded tax cuts without an issue. Demand for Treasuries remains robust; the bond market appears comfortable funding larger deficits.

Risk: A buyers' strike drives the 10-year yield decisively above 5%, forcing a messy repricing across risk assets.

Note: This is more likely a "long-term" problem, but could flare up at any time.

Roadblock 4: Middle East (and other) Conflicts

Consensus View: Iran's direct military capacity is very limited, and oil markets have largely priced in regional instability. The US involvement is expected to be a one-time attack to quickly end the Iranian threat.

Risk: A broader conflict could disrupt global energy flows—especially through the Strait of Hormuz—and lead to a sustained spike in oil prices, increased market volatility, and heightened global security concerns.

We hope the consensus view is the final outcome. One thing we have always said, "hope is not a strategy". Sometimes headlines don't matter……until they do. When that happens, SEM is here, ready to deploy our time-tested risk management strategies.

For more, check out our bonus content at TradersBlog.SEMWealth.com/Newsletter_Q22025

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