

## Q2 2025 – MAIN MANAGEMENT MARKET RECAP

ASSET CLASS RETURNS	Q2 '25	YTD 2025
EMERGING MARKET EQUITY	12.2	15.6
FOREIGN DEVELOPED EQUITY	12.1	19.9
US EQUITY	10.9	6.2
FIXED INCOME	1.2	4.0
US EQUITY COMMODITIES	-2.8	1.9

SECTOR	Q2 '25	YTD 2025
INFO TECH	23.7	8.1
COMM SERVICES	18.5	11.1
INDUSTRIALS	12.9	12.7
CONS DISCRET	11.5	-3.9
FINANCIALS	5.5	9.2
UTILITIES	4.3	9.4
MATERIALS	3.1	6.0
CONS STAPLES	1.1	6.4
REAL ESTATE	-0.1	3.5
HEALTHCARE	-7.2	-1.1
ENERGY	-8.6	0.8

It's hard to believe that Liberation Day was roughly three months ago. The 2<sup>nd</sup> quarter got started on the wrong foot, with markets selling off markedly in the first week of the quarter before bottoming out on April 8, down around 20% from the peak back in February. Since then, we've regained positive territory YTD even with the short-lived turmoil in the Middle East, which is conceivably on the cusp of a historic peace agreement after almost 50 years of Iranian-sponsored terrorism. That's bullish for global markets and we saw it reflected as international equities again outperformed the U.S. in Q2, with Emerging Markets leading the way, trailed closely by Developed Markets, and then the S&P 500. Oil and commodities got a momentary boost from the (hopefully) short-lived Israel-Iran conflict before retreating through the end of the quarter. For the most part, risk on was back in action as Growth led the way within the U.S., handily outperforming Value as markets recovered from the Liberation Day-induced sell-off.

Following Liberation Day, markets responded positively to the announced trade deals with China and the United Kingdom. The S&P 500 posted new all-time highs in the last couple of trading days of the quarter, surviving the correction which a number of people felt was a crisis at the time. Historically, when the S&P 500 has rallied to a new all-time high within 3 months after a correction of around -18%, it has been higher 1 year later 100% of the time and by an average of over 20%! The tariffs that initiated the correction are bringing in more money than they have in decades, but they are hardly making a dent in the budget deficit as Washington continues to have a spending problem, not a revenue problem. The One Big Beautiful Bill is on track for a summer passage. It will likely bring lower taxes, less regulation, and a marginally increased work requirement for Medicare designed to reduce spending, but the problem simply remains that even with those changes, the government's spending problem remains basically unchecked.

Meanwhile, the economy continues to move ahead. The negative Q1 GDP reading is likely to be offset by a rebound in Q2, with forecasts ranging from 2-4%, as the trade imbalances unwind. The economic reality likely lies between the two quarters, with the cumulative average of 1.5-2.5% perhaps being a reasonable estimate. The inflation data continues to be moderate with the tariffs' impact having been manageable so far and the labor market remaining on solid ground. The FOMC kept rates unchanged in June, as expected, but the Summary of Economic Projections did get a little more pessimistic relative to March, with growth estimates moving lower and inflation estimates moving higher. As it stands now, two rate cuts are still expected in the 2<sup>nd</sup> half of the year, and the benign inflation data gives the Fed scope to cut as planned given how tight monetary policy appears at the moment. But, there appears to be a bifurcation in the voting members of the committee, with several forecasting zero cuts and a similar number forecasting two cuts. As always, they remain data dependent, so we will have to see if inflation picks



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up or the labor market starts to deteriorate meaningfully which could result in a policy shift, but for now, the data seems supportive of current policy.

Looking to the second half of the year, the outlook still feels a bit unclear. The macroeconomic data by and large indicates ongoing mediocre growth – nothing too inspiring or disappointing. As a result, we could very well see a continuation of international equity outperformance if the Dollar Index continues to weaken, as it has so far this year. Forward EPS for the S&P 500 is \$282, up over \$10 from the start of the year with profit margins also continuing higher. Our current price-target range on the S&P 500 is 5,800–6,500. That range is based on the \$300 EPS estimate for 2026 and P/E multiples of 19.3× and 21.7×, respectively, which seem reasonable given the S&P 500 started the year at 21.7×. While the correction that we anticipated did transpire and the equity market has since returned to new all-time highs, we would caution against getting complacent and thinking we are in the clear. As we've seen with the turmoil in the Middle East, risks remain. Other headwinds to our forecasts include a continued decline in the U.S. Dollar, which has been declining for the last few months to a 3+ year low, as well as commodity inflation. Despite the Dollar's selloff so far this year, it's still relatively expensive to history, indicating further declines wouldn't be out of the ordinary. M2 money supply is moving back higher, almost back to trendline, which historically has also been a headwind for the Dollar and bullish for international equities. (All valuation metrics per FactSet data).

Even with these potential risks, we would like to remind investors that time IN the market is what matters most, not timing the market. Here at Main Management, we firmly believe that our investors should keep more of their returns. We hope that you and your loved ones are healthy and safe and please let us know if we can answer any questions that you may have.

Sincerely,

Kim David Arthur

CEO and Portfolio Manager

Performance Data from Morningstar Direct and FactSet Financial Data and Analytics, and the following indices: Commodities – S&P GSCI TR USD, US Equity – S&P 500 TR USD, Fixed Income – Bloomberg US Agg Bond TR USD, Foreign Developed Equity – MSCI EAFE GR USD, Emerging Market Equity – MSCI EM GR USD, Communication Services – S&P 500 Sec/Commun Services TR USD, Cons Discret – S&P 500 Sec/Cons Disc TR USD, Cons Staples – S&P 500 Sec/Cons Staples TR USD, Energy – S&P 500 Sec/Energy TR USD, Financials – S&P 500 Sec/Financials TR USD, Healthcare – S&P 500 Sec/Healthcare TR USD, Industrials – S&P 500 Sec/Industrials TR USD, Info Tech – S&P 500 Sec/Information Technology TR USD, Materials – S&P 500 Sec/Materials TR USD, Real Estate – S&P 500 Sec/Real Estate TR USD, Utilities – S&P 500 Sec/Utilities TR USD. Main Management, LLC (“Main Management”, or the “firm”) is an investment adviser registered under the Investment Advisers Act of 1940. The firm was founded in 2002 and provides investment management services primarily to high net worth, family groups, foundations/endowments, and serves as a sub-advisor to third-party investment advisors & broker-dealers. The information contained herein was prepared using sources that the firm believes are reliable, but the firm does not guarantee its accuracy. The information reflects subjective judgments, assumptions and the firm's opinion on the date made and may change without notice. The firm is not obligated to update this information. Nothing herein should be construed as investment advice or a recommendation to purchase or sell securities. The information is not intended as an offer to provide advisory services in any state or jurisdiction where such offer would not be permitted under applicable registration requirements. All equity investing entails risk of loss. The firm cannot assure any potential client that it will achieve the investment objectives discussed in these materials. In addition, potential clients should not assume that their returns, if any, will be comparable to returns that the firm earned in the past. The firm and its clients, affiliates and employees may, from time to time, have long or short positions in, and buy or sell, the securities or derivatives (including options) thereof, of the ETFs mentioned in these materials and may increase or decrease their positions. Upon request, Main Management will furnish additional information regarding the firm's policies for calculating and reporting returns. Past performance does not guarantee future results. Indices are unmanaged and do not take transaction costs or fees into consideration. It is not possible to invest directly in an Index. Performance figures assume reinvestment of dividends and capital gains.