LPL Financial

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July 2, 2025

Dear Valued Investor,

As Americans get their grills and beach chairs ready for the July 4th holiday, the stock market and the weather across much of the country have both been on heaters. Stocks and bonds continue to effectively navigate a complex policy landscape shaped by evolving trade dynamics, geopolitical tensions, and fiscal stimulus. The market's resilience in the face of these crosscurrents has been impressive, proving yet again that the fundamentals of the U.S. economy and corporate America can withstand a lot.

In a volatile first half, the S&P 500 completed an impressive recovery from the April lows to end June at a fresh record high. The round trip from the February 19 high to the April 2 low and back, in slightly over four months, was one of the fastest recoveries on record from a 10–20% correction. Importantly, history tells us stocks tend to go higher after recovering correction losses, with average gains of 9.6% and 16.2% in the subsequent six and 12 months.

Several factors helped fuel this rally:

- Israel-Iran cease-fire and resulting lower oil prices and lower interest rates
- Progress on trade deals and, so far, little evidence of tariff-driven inflation
- Stimulus from the pending tax cuts and spending bill
- Firming expectations of Federal Reserve (Fed) rate cuts and related weakness in the U.S. dollar
- Resurgence in demand for artificial intelligence (AI) investments
- Buying by under-invested institutions trying to keep up with the rally

While history suggests achieving new highs may bode well for the rest of the year, we know stocks don't go up in a straight line. Several obstacles lie ahead. Perhaps the biggest one is the yet-to-be-felt effects of tariffs on companies' profit margins. With stock valuations elevated (as they've been for a while), earnings will be key to further upside. Potentially higher interest rates from additional deficit spending are another risk to monitor. And as always, geopolitics are a wild card.

We continue to monitor the macroeconomic backdrop, corporate fundamentals, policy developments, and technical indicators to guide our outlook. We believe the foundation for continued economic growth is intact, supported by resilient consumer spending, a healthy job market, modest earnings growth despite tariffs, the likely resumption of Fed rate cuts this fall, and the stimulus from the pending reconciliation bill. Staying invested and well-diversified while looking for opportunities to potentially add equities on weakness remains the prudent approach for this market environment.

As always, please reach out to your financial advisor with questions. Have a safe and enjoyable July 4!

Sincerely,



Jeffrey Buchbinder, CFA
Chief Equity Strategist
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All data is provided as of July 2, 2025.

All index data from FactSet.

The Standard & Poor's 500 Index (S&P500) is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

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There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

Past performance does not guarantee future results.

Asset allocation does not ensure a profit or protect against a loss.

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