

# SC Capital Advisors Investor Insights



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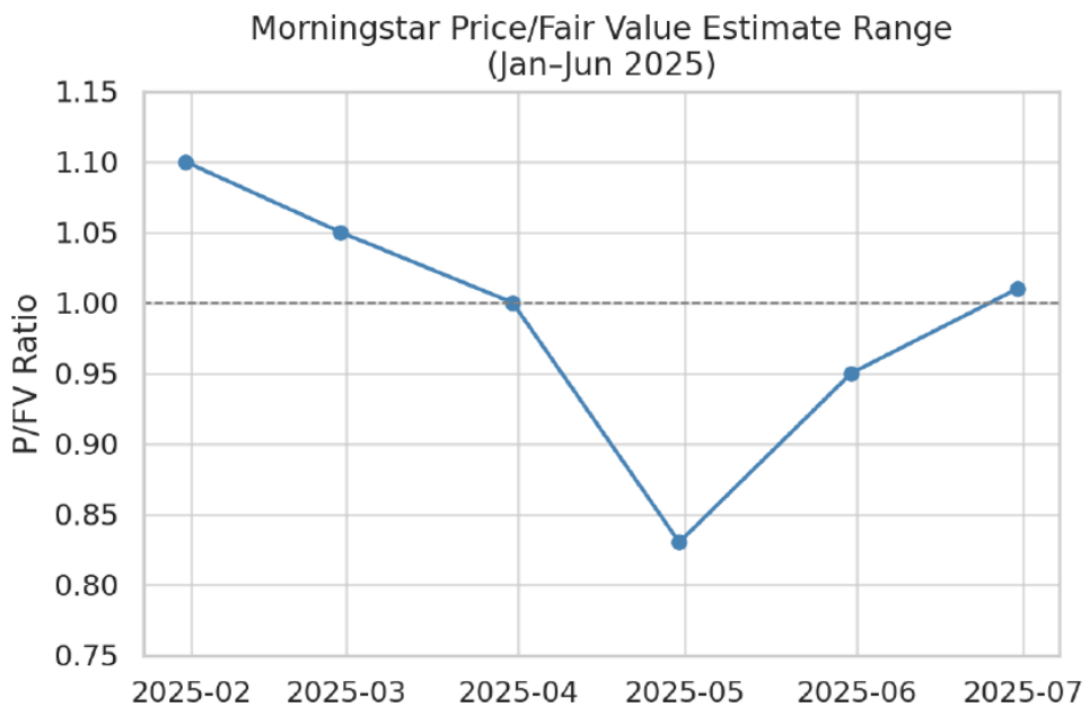
**2nd Quarter 2025**

## 2025 2nd Quarter in Review & Outlook

"The stock market is a device for transferring money from the impatient to the patient." — *Warren Buffett*

### A Volatile but Rewarding Quarter

The second quarter of 2025 delivered one of the more dramatic valuation “round trips” in recent memory. U.S. equities began the year slightly overvalued, fell sharply in April following new tariff announcements, and then rebounded just as quickly once those policies were paused. According to Morningstar, the U.S. market moved from a 17% discount to a 1% premium to fair value—all within three months.



This rebound was largely powered by a handful of mega-cap technology stocks, according to Morningstar. Nvidia, Microsoft, Meta Platforms, and Amazon accounted for roughly 40% of the total return of growth stocks during Q2. However, gains were less broad-based across the rest of the market, with small-cap and value stocks continuing to lag.

On a year-to-date basis through June 30, a sampling of index returns are as follows: S&P 500, 6.2%; NASDAQ Composite, 5.9%; Russell 2000 (US Small Cap), -1.8%; MSCI EAFE (International Large Cap), 19.5%; MSCI EAFE Small Cap, 20.9%; Bloomberg US Agg Bond, 4%. (Morningstar)

The normally staid utilities sector was the best-performing sector in the first half. Utility stocks benefited from both being considered a second derivative play on artificial intelligence, as well as declining interest rates.

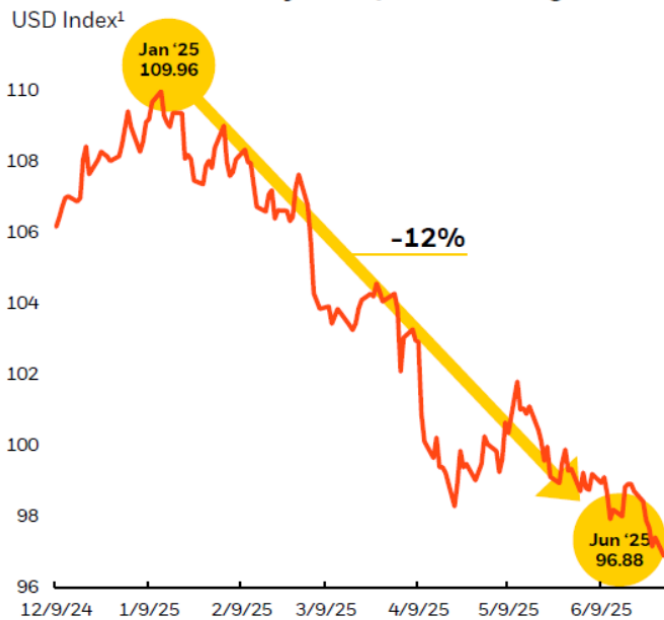
## International Assets Benefit from a Weak Dollar

While U.S. growth led the charge, international equities quietly outperformed over the first half of 2025, aided by a significant decline in the U.S. dollar. According to BlackRock, the dollar has fallen 12% peak-to-trough year-to-date, providing a tailwind for U.S. investors holding international stocks and bonds.

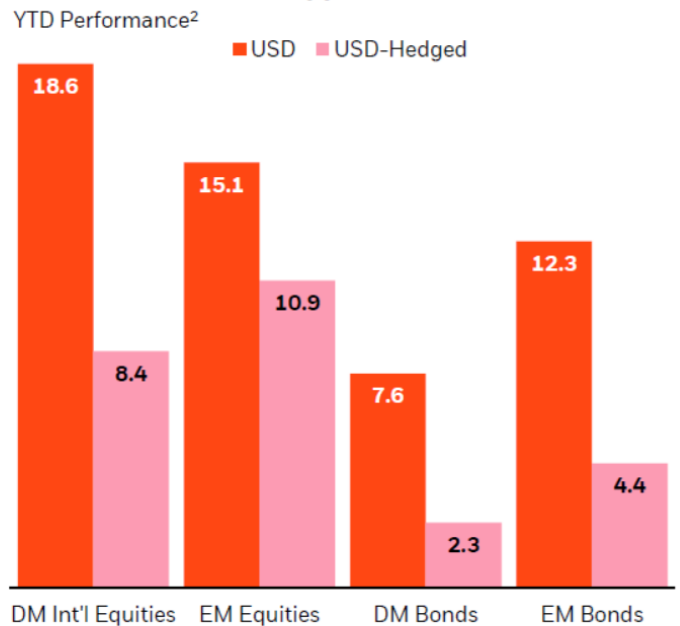
## A weaker USD has supported int'l assets

The USD has weakened this year on trade policy changes, rising national debt, and shifts in international demand. This weakening has supported international stocks and bonds purchased in USD.

### The USD has fallen by 12% peak-to-trough



### A weaker dollar has supported int'l assets



1: Source: Bloomberg as of 6/30/25. 2: Source: Bloomberg as of 6/30/25. DM Int'l Equities refers to the MSCI EAFE Index, EM Equities refers to the MSCI EM Index, DM Bonds refers to the FTSE WGBI, and EM Bonds refers to the JPM GBI-EM GD Index.

Emerging and developed market equities, as well as international fixed income, benefited from this currency dynamic—highlighting the value of global diversification in a dollar-weakening environment.

## Economic Conditions: Slowing, Not Stalling

Despite strong equity returns, underlying economic data shows a softening trend. GDP growth remains positive but is decelerating, and inflation is proving persistent. The Federal Reserve now projects just 100 basis points of rate cuts through 2027. Markets appear optimistic, but key risks—especially related to tariff policy—have not yet fully materialized in the data.

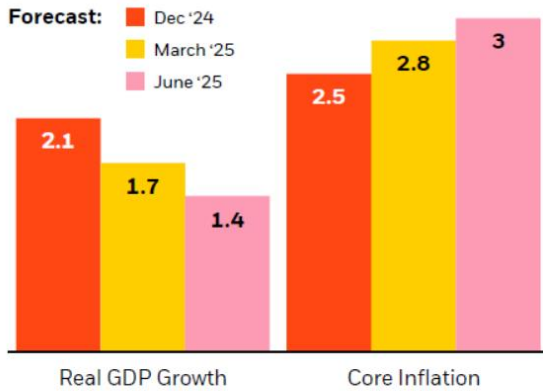
RATES REMAIN RESTRICTIVE AS FED ACKNOWLEDGES FUTURE TARIFF IMPACTS

## FOMC suggests high rates through 2027

The Federal Reserve revised growth lower and inflation higher in June. Most notably, revised interest rate projections suggest just 100 bps of cuts between today and the end of 2027.

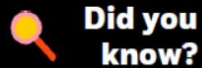
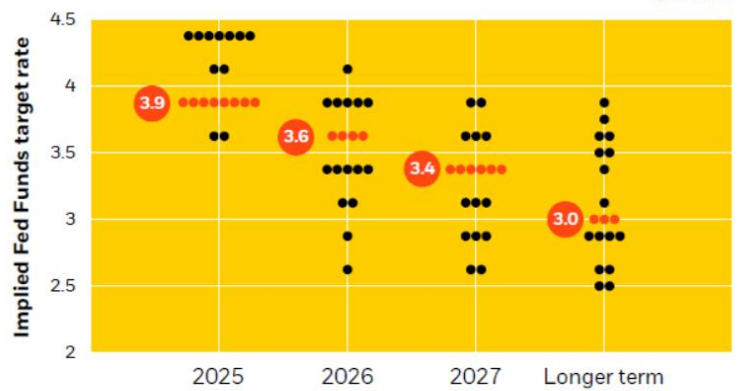
### Fed revised growth lower, inflation higher

2025 Summary of Economic Projections<sup>1</sup>



### Higher rate expectations, but lots of dispersion

2025 Summary of Economic Projections<sup>2</sup>



**Did you know?**

**Inflation expectations and deficit concerns have weighed on longer-dated treasuries: 30Y treasury yields have risen by 6bps YTD, even as shorter-term yields have dropped.<sup>3</sup>**

1, 2 Source: Bloomberg, Federal Reserve. Data from the Federal Reserve's Summary of Economic Projections. As of 6/18/2025.

3: Bloomberg. As of 6/30/2025.

## Outlook & Portfolio Strategy

Looking ahead to the second half of 2025, we believe caution is warranted:

- **Tariff Risks:** While not yet evident in economic indicators, tariffs could negatively impact growth, margins, and consumer prices in the coming quarters.
- **Valuation Risk:** Large-cap growth stocks are now trading at significant premiums, while small-cap and value-oriented names remain attractively priced.
- **Policy Shifts:** Markets may be underpricing the potential for fiscal tightening or geopolitical disruptions.

### Our Positioning:

We are selectively rebalancing portfolios to reduce exposure in overvalued areas and increase allocations to:

- High-quality fixed income and cash, which may benefit if rate cuts materialize.
- International equities, which may continue to benefit from a weakening dollar.
- Select value and small-cap stocks, where valuations remain compelling.

## Final Thoughts

Despite the recent rally, we remain focused on risk management and long-term fundamentals. The market's rapid shifts are a reminder of the importance of staying diversified and disciplined.

Please don't hesitate to contact us with any questions or if you'd like to review your portfolio positioning in more detail.

—Dana L. Crosby, CFA, CFP®

### ETF Returns

For the period ending 6-30-2025

Name	Ticker	YTD	1 Month	3 Months	12 Months	3 Year	5 Year	10 Year
<b>U.S. Large Cap</b>								
iShares Russell 1000	IWB	5.96	5.05	10.98	15.47	19.41	16.15	13.20
iShares Edge MSCI USA Momentum Factor	MTUM	16.68	4.00	19.14	24.60	22.45	14.15	14.27
iShares Edge MSCI USA Quality Factor	QUAL	3.12	3.48	7.21	8.19	19.32	15.26	12.97
PowerShares S&P 500 Low Volatility ETF	SPLV	4.99	-0.71	-2.06	14.15	7.80	10.15	9.41
Vanguard High Dividend Yield ETF	VYM	5.87	4.01	4.06	15.53	12.80	14.53	10.47
VanEck Vectors Morningstar Wide Moat ETF	MOAT	1.15	4.64	6.58	9.75	15.06	13.78	13.34
<b>U.S. Mid Cap</b>								
SPDR® S&P MidCap 400 ETF	MDY	0.02	3.57	6.53	7.17	12.51	13.17	8.98
PowerShares S&P MidCap Low Volatil ETF	XMLV	2.91	0.23	0.57	14.69	8.90	10.54	8.62
PowerShares DWA Momentum ETF	PDP	1.00	2.99	8.66	11.99	17.28	10.28	10.02
PowerShares High Yld Eq Div Achiev™ ETF	PEY	-1.81	1.17	-3.76	8.71	4.50	12.06	8.89
<b>U.S Small Cap</b>								
iShares Russell 2000	IWM	-1.85	5.51	8.47	7.58	9.92	9.92	7.06
PowerShares S&P SmallCap Low Volatil ETF	XSLV	-2.86	0.15	-0.69	6.86	3.23	8.43	5.65
<b>REITs</b>								
iShares US Real Estate	IYR	2.75	0.77	-0.51	10.66	3.88	6.45	6.15
<b>International Large Cap</b>								
iShares MSCI EAFE	EFA	20.27	2.39	11.26	17.67	15.84	11.23	6.54
iShares Edge MSCI Intl Momentum Factor	IMTM	23.63	3.46	15.77	21.31	18.07	11.04	7.78
PowerShares DWA Developed Mkts Mom ETF	PIZ	28.10	4.54	21.70	31.41	20.85	12.51	8.36
iShares Edge MSCI Intl Quality Factor	IQLT	18.09	2.37	10.44	13.54	14.60	10.74	7.57
PowerShares S&P Intl Dev Quality ETF	IDHQ	18.36	2.79	11.03	11.09	14.33	8.84	7.38
iShares Edge MSCI Min Vol EAFE	EFAV	21.15	1.45	9.94	25.00	13.27	7.75	5.62
iShares International Select Dividend	IDV	29.73	4.34	13.83	31.98	15.75	13.35	6.72
<b>International Small Cap</b>								
iShares MSCI EAFE Small-Cap	SCZ	21.43	4.45	16.12	22.07	12.97	9.19	6.43
WisdomTree International SmallCp Div ETF	DLS	22.16	5.34	16.03	23.66	13.70	10.69	6.04
<b>Emerging Markets</b>								
iShares MSCI Emerging Markets	EEM	16.45	6.99	11.44	16.29	9.05	6.21	4.29
PowerShares S&P Em Mkts Low Volatil ETF	EELV	14.39	3.49	9.06	16.64	8.52	10.52	4.34
PowerShares DWA Emerging Markets Mom	PIE	10.11	9.61	16.36	0.02	6.46	5.54	3.60

Data source: Morningstar

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