the serious investor

SUMMER 2025

THE SERIOUS INVESTOR: SUMMER 2025

Welcome to the summer edition of LVW's *The Serious Investor*.

Navigating a Narrow Path: Resilience Amid Uncertainty
The numbers tell the story: The S&P 500 gained 10.9% in the second quarter of 2025, bumping the year-to-date return to 6.2% for the index. International markets were up 11.8% at the end of the quarter, aided by a 9% U.S. Dollar decline, and the Nasdaq gained nearly 18% as AI names roared back.

April delivered significant market stress. Trade policy uncertainty sent the S&P 500 down nearly 20% from its February peak—the steepest drawdown since 2022. The inflection came April 8th when the administration announced a 90-day pause on new trade measures. Markets responded decisively: April 9th produced the third-best S&P 500 performance since 1952, up 9.5%.[1]

How We Think About Markets

Growth: Modest but Sustainable
Economic growth remains on track at 1.4%[2]—measured but consistent. Corporate earnings demonstrate resilience, with S&P 500 forward earnings advancing 2.9% through operational efficiency rather than revenue acceleration. Trade policy uncertainty persists, yet businesses continue adapting their strategies effectively.

Valuation: Elevated with Selective Opportunities
The S&P 500 is currently trading at 23.6 times forward earnings—a valuation level reached only 10% of the time historically.[3] While elevated valuations don't constitute an immediate sell signal, they do constrain long-term return expectations and underscore the importance of looking beyond U.S. large caps for relative value.

Liquidity: The Fed's Got Your Back
Rate cuts are coming—markets are betting on at least two by year-end.[4] Money supply, as measured by M2, is once again growing after contracting for most of 2023 and part of 2024.[5] Bond markets aren't screaming about deficits or inflation. Translation: conditions remain supportive for risk assets.

The AI Revolution Is Real (And Really Expensive)
We are experiencing a fundamental technological transformation across industries. AI adoption is accelerating beyond the technology sector, creating genuine disruption and opportunity. Microsoft, Nvidia, and Meta contributed over 50% of the S&P 500's gains this year.

However, selectivity remains crucial. DeepSeek's breakthrough demonstrated that competitive moats in AI may be narrower than initially assumed. The "Magnificent 7" no longer move in lockstep, and significant optimism is already reflected in valuations. We maintain measured exposure to AI transformation while emphasizing valuation discipline and diversification across beneficiaries.

Where We Stand

We maintain a cautiously optimistic outlook entering the second half of 2025. While the Q2 recovery was encouraging, its speed and magnitude warrant measured assessment—this marked only the tenth instance since World War II of the S&P 500 advancing 20% or more within two months.[6]

Our current approach:

- Stay diversified across U.S. stocks, international markets, bonds, and private investments
- Maintain international exposure for both valuation and currency diversification benefits
- Keep bond duration short while the Fed sorts out rate policy
- Play AI themes carefully—seek exposure without overpaying

Key considerations:

- The primary risk to the current bull market remains an escalated trade war—a probability we view as low but no longer zero.
- Market direction will likely track the trajectory of tariff negotiations closely.
- Both equity and bond markets appear to have fully discounted worst-case trade scenarios during the April bear market. We would be surprised to see markets react to news on tariffs and trade in the same way again.
- Geopolitical tensions and their potential market impact
- The gap between current market optimism and underlying economic fundamentals

The Big Picture

Even in good years, markets fall hard and fast. This year's 20% correction reminded everyone why steady hands usually win. Missing the big up days can kill long-term returns. That 9.5% rally on April 9th? If you weren't there for it, you missed a huge chunk of the year's gains. Headlines are distracting. Every day brings new worries about deficits, tariffs, or the latest political drama. We tune out the chatter and focus on what actually moves markets over time.

Bottom Line

Innovation is accelerating, and global opportunities abound. But risks are real, and valuations are stretched. AI will change everything, but that doesn't mean every AI company will make you money. We've navigated plenty of market storms before. Each one reinforces the same lesson: stay disciplined, stay diversified, and don't let emotions drive decisions. Uncertainty creates opportunities for those who are patient enough to capitalize on them.

Thanks for Your Trust

Markets are noisy. Politics are noisier. We're here to help you cut through the chaos and stay focused on what matters for your financial future. Got questions? Let's talk.

1 Bespoke Investment Group, April 9, 2025
2 Goldman Sachs Investment Research, July 7, 2025
3 Bloomberg, July 7, 2025 4 Bloomberg, April 14, 2025
4 CME FedWatch, June 30, 2025
5 Federal Reserve Bank of St. Louis, May 1, 2025
6 Bespoke Investment Research, June 30, 2025

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