

Raymond Capital Advisors, LLC

July 22, 2025

Stock & Bond Benchmark Total Returns (%)					
For Periods Ending June 30, 2025					
	QTR	1-Year	3-Years	5-Years	10-Years
Standard & Poor's 500	10.94	15.16	19.71	16.64	13.65
Bloomberg Barclays U.S. Aggregate Bond	1.22	6.06	2.54	-0.73	1.76
60% Stocks / 40% Bonds TAA Composite Index	7.02	11.61	12.74	9.61	9.01
3-month Treasury Bills	0.89	3.86	4.16	2.56	1.83
Inflation (CPI)	0.86	2.67	2.87	4.58	3.06

Returns (%) include capital gains, dividends and interest. All data **annualized** for periods greater than one year.
60% Stocks / 40% Bonds TAA Composite Index is rebalanced monthly. Sources: S&P Dow Jones Indices, Morningstar, Federal Reserve.

Review: Hard to Derail a Determined Bull

The second quarter of 2025 reminded investors just how hard it is to derail a determined bull market. After a sharp sell-off early in the quarter followed by a rapid rebound, the S&P 500 (with dividends) closed the quarter with a strong **+10.94%** return. Bonds posted a more modest **+1.22%**, reflecting lingering uncertainty around inflation and fiscal spending.

The volatility was driven by **policy surprise**. On April 2 ("Liberation Day"), President Trump announced sweeping tariffs on all U.S. imports—far more aggressive than expected—triggering fears of a global trade war. The S&P 500 plunged **15% intraday in just four sessions**, erasing nearly \$6 trillion of value and marking one of the fastest drawdowns from a record high in modern history.

But almost as quickly, markets reversed. On April 9, Trump announced a **90-day pause on the tariffs**—suggesting concern about the declines in the financial markets and a willingness to negotiate. Investors recalibrated, viewing the tariffs as a **negotiating tactic** in his America First agenda (as we had surmised). This shift helped drive the **fastest recovery to new all-time stock market highs** from a 15%+ drawdown on record (89 days), even as geopolitical risks flared with Israel's tactical strike on Iran's nuclear infrastructure. Markets effectively shrugged off what, in other contexts, might have triggered panic.

Ultra mega-cap tech stocks (market caps over \$1 trillion) once again led the recovery, buoyed by strong balance sheets, AI-driven growth, and global scale. With more than **\$7 trillion in money market funds**, ample liquidity supported the rotation back into equities.

During the quarter, RCA rebalanced portfolios **weekly** to stay aligned with risk targets and capitalize on emerging opportunities. Growth allocations shifted further toward ultra mega-cap names, reducing mid- and large-cap exposure. In Value, exposure increased to mega- and large-caps, while mid-caps were trimmed. At the sector level, allocations to **Technology and Industrials** were increased, primarily at the expense of **Financials**.

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Outlook: Navigating the Road Ahead

Q: What's the outlook for markets, earnings, and Fed policy?

A: The Q2:2025 rebound was impressive, but **continued volatility is likely**. Market leadership remains narrowly concentrated in AI-driven mega-cap tech stocks, while participation from mid-cap and Value names has been sporadic. Analysts project **8–10% S&P 500 earnings growth** over the next year, led by technology and communications stocks. Valuations are elevated but not extreme—**assuming AI delivers on productivity gains**. Still, profit margins may face pressure from **rising tariffs and input costs**, especially in manufacturing and consumer discretionary sectors, depending on how much of these tariffs U.S. importers absorb versus pass on to consumers through higher prices.

On the policy front, the **Federal Reserve is holding rates steady** in restrictive territory, citing the possibility of inflation risks tied to new tariff policies and expanding federal deficits. While markets currently expect one or more rate cuts later this year, the Fed remains clear: **decisions will be data-driven**.

Macro risks that could complicate the outlook:

- **Tariff Escalation:** In addition to recently enacted tariffs—including 50% on steel and aluminum, 25% on autos and auto parts, 30% on Chinese imports, 25% on non-USMCA-compliant goods from Canada and Mexico, and a 10% universal tariff—**new duties ranging from 19% to 50% are scheduled to take effect on August 1 unless new trade agreements are reached**. Affected countries include the EU, Mexico, Indonesia, Japan, Brazil, and others. Further complicating the outlook are a newly imposed 50% tariff on copper and a proposed 200% tariff on certain pharmaceuticals. The U.S. has now enacted the largest one-year increase in average tariffs in modern history, with rates rising from approximately 2% to over 16%. **While we expect the average tariff rate to ultimately settle in the 10%–15% range, the longer-term economic impacts remain uncertain**. The initial inflationary impact **may be largely a one-time adjustment in price levels**, but if tariffs remain elevated or continue to rise, they risk undermining productivity, disrupting supply chains, and placing a sustained drag on long-term economic output.
- **Dollar Credibility:** While the U.S. dollar still dominates global trade and reserves, its share is **slowly shrinking**. Mounting debt, persistent deficits, and political polarization are fueling global skepticism. **Record-high gold prices**—driven by central bank buying—reflect growing concerns about long-term U.S. monetary discipline and global policies.

Together, these forces suggest a **continued uncertain backdrop**, reinforcing the importance of **diversified positioning**.

Policy Spotlight: Trump's "One Big Beautiful Bill"

Q: What's in the bill?

A: Signed into law on July 4, 2025, the bill's provisions are wide ranging, but among the key provisions:

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- **Extends 2017 individual tax cuts** and preserves existing low marginal rates, with inflation-adjusted tax brackets
- **Higher standard deductions for 90% of seniors over age 65**
- **Expanded funding for defense, law enforcement, and border spending**
- **More disciplined application of eligibility requirements for Medicaid and food programs**

The Trump administration argues that the bill will raise annual real GDP growth to around 3% or more, generating enough new tax revenue to help contain future debt. However, independent analyses—including those by the CBO, Penn Wharton Budget Model, and Tax Foundation—project much more modest growth (1.8%–2.0%) and estimate the bill will increase the federal debt by \$3.2 to \$3.8 trillion over the next decade. These independent projections generally do **not** incorporate potential deficit offsets from future tariff revenues or any assumed productivity surge, both of which remain **uncertain and contingent on favorable economic developments**.

Q: Any planning opportunities for retirees?

A: Yes—broadly, there are several potential tax advantages (list below not meant to be exhaustive):

- **Lower income tax rates extended:** Ideal for strategic **Roth conversions** during low-tax years.
- **Expanded standard deduction for those 65+:** Includes a new “Senior Bonus” of \$6,000 per person (2025–2028).

New Standard Deduction (Over Age 65) – 2025				
Filing Status	Base SD	Extra 65+	Senior Bonus	Total Deduction
Single (65+)	\$15,750	\$2,000	\$6,000	\$23,750
Joint (both 65+)	\$31,500	\$3,200	\$12,000	\$46,700

Note: Phases out at \$75k (single) and \$150k (joint); fully gone at \$175k / \$250k MAGI.

- **Capital gains and qualified dividends rates unchanged, but new inflation-adjusted brackets**
- **QBI deduction extended:** Up to 20% for eligible business/rental income—useful for retirees with side ventures or LLC-held property

Final Thoughts: Stay Disciplined

Stocks may moderate their recent upside momentum and could face **moderate corrective action** in the coming months. High levels of optimism, elevated valuations, fiscal risk, geopolitical uncertainty, and shifting policy must be resolved by continued corporate earnings growth. But **volatility creates opportunity**, and equities remain the **preferred vehicle for long-term growth**.

Stay invested, stay tax-aware, and stay diversified.

As always, we're here to guide you. Please reach out if you'd like to review your strategy.

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Thank you for your continued support,

Geoff & Lance

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