J.W. Burns & Company
Investment Counsel
Quarterly Update - July 2025

Remaining Constructive As The Bull Marches On

"The most important quality for an investor is temperament, not intellect." - Warren Buffett

Dear Clients and Friends,

Stocks closed out the second quarter of 2025 essentially at all-time highs, showing remarkable resilience in the face of numerous headwinds. The equity market's strength can be attributed to five key areas where investors hold an optimistic outlook: strong economic data, pro-growth

policies, moderate tariffs, continued earnings growth and advancements in artificial intelligence.[1] These secular tailwinds have, so far, more than offset significant risks, such as the Israel-Iran conflict and the continued economic uncertainty surrounding President Trump's tariff policies. Indeed, barring a recession – always a possibility, but one we view as a low probability event – we believe the trend in stocks is up and we remain fully invested for growth.

In the second quarter, stocks rebounded sharply following President Trump's "Liberation Day" tariff announcement. At the midway point of 2025, both the S&P 500 index and the Dow Jones Industrial Average are up around mid-single digits, an impressive showing following 2023/2024's robust equity market returns.

The sharp rebound in equities that began in mid-April can be attributed to the Trump administration's 90-day tariff extensions, most of which will end on August 1. Our best guess – and it is a guess – is that when all is said and done, tariff rates with our trading partners will likely be implemented around the current 10% aggregate rate (with some exceptions, notably China). These negotiations will most likely continue for some time beyond August 1 and trying to forecast how they will play out is a fool's errand, and as focused long-term growth investors, we don't put a lot of stock in this kind of short-term noise, anyways.

"The global economy has digested the expected current tariff rates, and so far, it has not hurt consumer spending, job growth or the inflation outlook."

What I can say is the global economy has digested the expected current tariff rates, and so far, it has not hurt consumer spending, job growth or the inflation outlook. Obviously, if more aggressive tariff rates ***actually get enacted***, markets would respond quite negatively. Indeed, as I write this, President Trump's rhetoric around tariffs has become more confrontational, and he has been known to surprise investors in the past.

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That said, if President Trump believes that Federal Reserve Chairman Jerome Powell should already be lowering interest rates, implementing steep inflationary tariffs are not the way to do it.

So, we'll just have to see how this plays out.

In our view, the economic data remains pretty healthy. Real consumer spending rose 2.2% year-over-year in May, with goods up nearly 3% and services up around 1.8%. June saw 147,000 jobs added, with unemployment steady at 4.1%, signaling the job market remains resilient, fueling economic optimism. Consumer sentiment bounced back from a sharp drop in April and May to reach 60.7 in June. Per a Wall Street Journal survey, recession risk has been downgraded to 33% from 45% in April, as GDP and job growth outlooks have improved.[2]

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Earnings season for S&P 500 companies has begun and will continue until early August. We are expecting solid results from our portfolio companies and the market overall. FactSet Research is projecting 9% earnings growth for S&P 500 companies in 2025 and around 14% in 2026. ***Overall, profit margins remain solid and investment in AI infrastructure will continue for years to come, significantly improving productivity and profitability.***

We remain constructive for the second half of 2025.

Now, let's get to some of your questions.

Q. How will President Trump's "One Big Beautiful Bill Act" (OBBBA) impact my portfolio?

A: President Trump and Congressional Republican's tax legislation passed into law earlier this month along party lines. While wide ranging in substance, the Bill essentially modifies and extends many of the core provisions of the 2017 Tax Cuts and Jobs ACT, such as a higher standard deduction, lower tax brackets, doubling of the Child Tax Credit, and higher gift and estate tax exemptions. It also loosens certain regulations and expands allowances for business deduction.[3]

A welcome improvement for those of us here in New York, the bill raises the state and local tax (SALT) deduction cap to $40,000 from $10,000 previously.

The passage of this Bill will very likely be stimulating for markets and the economy in the short to medium term. Lower taxes and regulations should support consumer and business confidence and help boost the economy heading into next year. It also gives investors certainty on a more favorable tax and regulatory landscape – at least for the foreseeable future.

Long term, however, it is obvious that almost all of our elected officials are not serious about addressing our nation's rapidly mounting debt and deficits. In fact, this bill is expected to add a whopping $3-4 trillion to the national debt over the next decade, which could lead to slower economic growth and higher interest rates down the road.

Overall, however, our view is that the passage of the One Big Beautiful Bill is a net positive for investors for the foreseeable future.

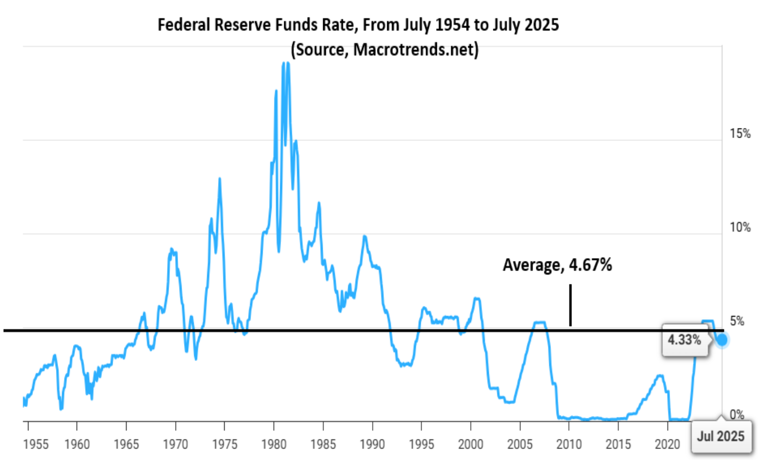
Q. How important are lower interest rates to your bullish outlook?

A: Not that important. The U.S. economy is healthy and inflation is coming down, so a stable interest rate policy that is slowly trending lower is not bad at all, in our view.

The consensus is that we will see one or two 25 basis point cuts by the end of this year. And I'm comfortable with that.

Our upbeat outlook is predicated more on a resilient economy, strong earnings growth, and the continued long-term productivity gains from the AI build out. ***Furthermore, as the chart below illustrates, interest rates – from a historical perspective – are not elevated, and are basically in line with their historical average***.

And stocks have done pretty darn well over this time frame.



In summary, we remain cautiously bullish on the outlook for markets in the second half of 2025. Keep in mind, tariff policy, relatively high equity valuations, and geopolitical turmoil remain real concerns that could spark a sudden and sharp market decline for equity prices. Stock market corrections of 10-20% are possible at any time, for any and no reason.[4] As such we encourage our clients to be emotionally prepared for these inevitable market drawdowns.

That said, barring a major exogenous event, we believe the path of least resistance is up.

Enjoy the summertime.

Best wishes,

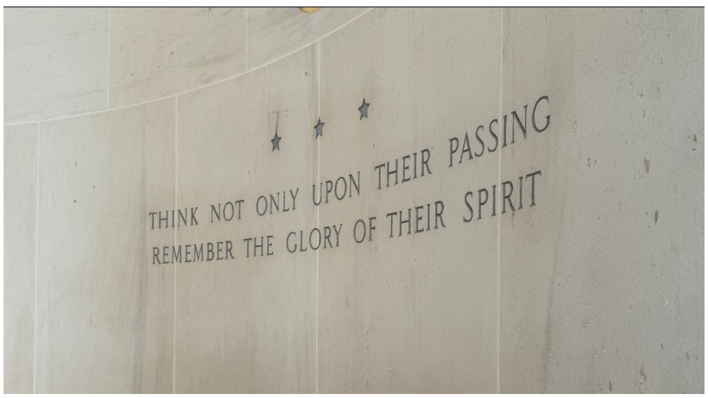
Jim

James C. Burns, CFA
President

P.S. In mid-June, I went on a 10-day trip to France. We had a wonderful time.

One of our stops was Normandy, and specifically Omaha and Utah beaches. The American cemetery there – the final resting place for 9,939 American soldiers that died for freedom and our country – was somber for me. Below are a few pictures of my time there.

Over →



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1 Haverford *2025 Midsummer Outlook,* 2 July 2025.

2 The Wall Street Journal*, Economists See Lower Recession Risk and Stronger Job Growth: WSJ Survey,* July 12 2025.

3 Fidelity Viewpoints, *What's inside the new tax act?,* 10 July 2025.

4 Fisher Investments, *Stock Market Outlook*, April 2025.