

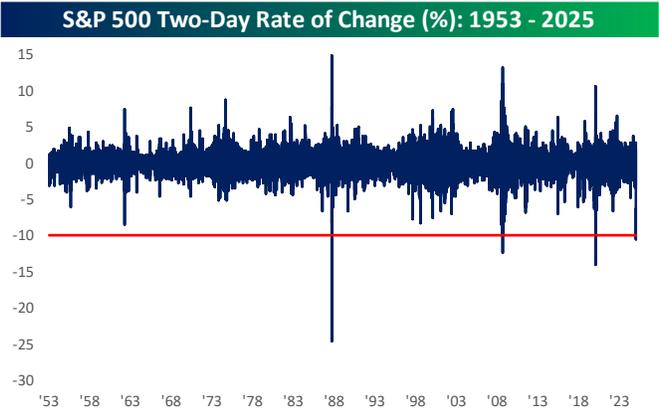


Wealth Management Report

Dear Investors:

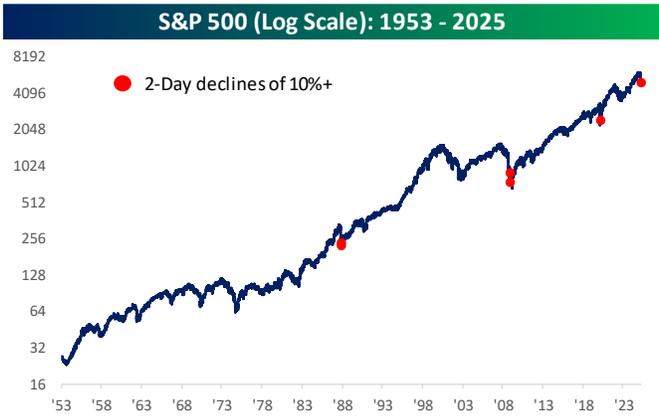
Where we were. When we published our last quarterly letter on April 1st, the market was already on edge and looking ahead to what the President had hailed as “Liberation Day” for the US economy. The hope of investors was that the Rose Garden ceremony would instill a sense of clarity regarding tariffs. We said back then that more certainty was unlikely, but never in our wildest dreams could we have imagined what would play out.

President Trump’s first term was rampant with leaks, but Trump 2.0 has been much more tight-lipped. While terms like “forward-looking” and “efficient” are often associated with financial markets, when it came to Liberation Day, everyone was completely blindsided by the level of tariffs announced. Therefore, little of it could be priced into the market beforehand. In the two days after the Rose Garden tariff announcement, the S&P 500 experienced just its fourth two-day decline of more than 10% in the last 70+ years. The other three came in October 1987, November 2008, and March 2020. A stock market crash, a financial crisis, and a global pandemic!



The full economic implications of the tariffs unveiled on April 2nd were impossible to calculate, but if implemented, they weren’t going to be good. Global trade would have ground to a halt with the tariff rates announced on the Rose Garden placards, and mainstream media was predicting empty store shelves by the summer. With the first quarter just wrapping up and Q1 earnings season getting ready to kick off, investors were bracing for a bloodbath. While Q1 results were unlikely to be a disaster as the new tariffs had yet to be implemented, the commentary on conference calls was more likely to sound like a eulogy than the optimistic tone that management teams typically try and take. How could you blame them? Who in their right mind would dare give a positive outlook when faced with such uncertainty?

In our [Bespoke Report](#) from April 4th, we discussed the prior two-day double-digit declines of the S&P 500 mentioned above and noted that, “Not all three of these periods marked absolute bottoms in the market, but they came very close to long-term lows. That doesn’t mean that this occurrence will end up being some fantastic buying opportunity, but it wouldn’t take much at this point to get the market to experience at least a short-term bounce.”





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Where we went. As investors held on tight and prepared for the worst heading into the second quarter, the worst didn't happen. Within a week of Liberation Day and after a 15% market drop, the President delayed the full implementation of tariffs, pushing them off to early July and promising lots of eventual deals. That allowed the market to breathe a huge sigh of relief, but the biggest surprise was earnings season. Not only were earnings results better than expected, but the despondency the market expected to hear from management teams didn't materialize.

From the start of April through the end of May, nearly 2,000 companies reported earnings. 70% reported better than expected EPS and 65% reported better than expected revenues. The most surprising part, though, was that more companies raised guidance (7%) than lowered guidance (6%). It was a slim margin, but it was the opposite of the more negative tone we heard from management in the months leading up to Liberation Day.

After falling 18.9% from its February high and having one of its worst ever two-day declines on record, the S&P 500 completely reversed course and rallied more than 20% off the April 8th closing low in less than two months. Then, within days of that 20% gain, the S&P 500 was back at new highs again. If you had asked anyone in April where the S&P 500 would be trading by July 4th, new highs would not have been part of the conversation.



The 20%+ rally from the April low through early June was just the 11th time since WWII that the S&P 500 rallied more than 20% in under two months. The table to the right shows each of those periods, and while there was sometimes short-term weakness following these surges, a year later the S&P 500 was always positive. The market doesn't just rally more than 20% unless there is real money behind the buying.

S&P 500 20%+ Rallies in Two Months Or Less: 1945 - 2025

Date	Calendar Days Since 50-Day Low	S&P 500 Performance (%)				
		One Week	One Month	Three Months	Six Months	One Year
11/5/74	33	-1.92	-11.96	5.11	19.93	18.69
2/5/75	61	1.23	5.00	14.10	9.22	27.16
9/14/82	33	1.45	9.32	11.61	22.53	34.33
3/5/91	55	-1.78	-0.36	2.22	3.30	7.91
11/19/98	42	2.97	3.07	7.51	16.62	23.37
8/22/02	30	-4.66	-12.19	-3.34	-11.90	3.15
11/21/02	43	0.55	-4.07	-9.17	-1.11	10.87
12/8/08	18	-4.52	0.00	-24.88	3.24	20.03
3/23/09	14	-4.30	3.52	8.77	28.92	42.68
4/8/20	16	1.21	6.54	15.27	25.34	48.99
6/6/25	59					
Average		-0.98	-0.11	2.72	11.61	23.72
Median		-0.61	1.54	6.31	12.92	21.70
Percent of Time Positive		50	60	70	80	100



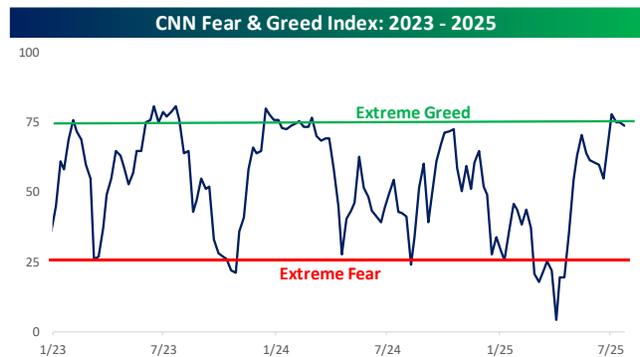
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Where we are. The lesson of early April was that the worst time to panic is when everyone else is doing the same, so what will the lesson of July be? The market backdrop of late July feels like the opposite of where we were in April.

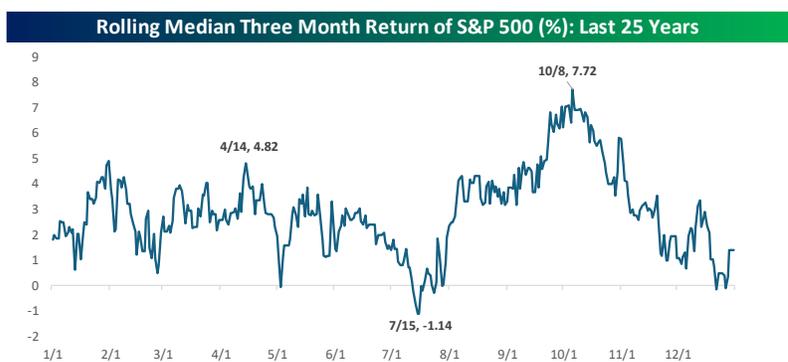
Back then, we were in the early stages of an earnings season expecting the worst, whereas sentiment heading into this earnings season has been decidedly different. Analyst sentiment is just one example. In the month leading up to the start of last earnings season in April, Wall Street analysts were cutting their earnings estimates for companies dramatically. Heading into this earnings season in early July, analysts were actually raising EPS estimates on a net basis, which is not common and usually precedes stock market weakness.

The economy and sentiment towards it are a similar story. On April 6th, the betting site Polymarket had the odds of a US recession in 2025 at 66%, and everyone in DC was bracing for one based on Google search trends in the area. Today, market pricing for a recession this year has plummeted to 17% (which is still too high in our view).

Investor sentiment has made a recovery almost as quickly as the market itself. The chart at right shows historical readings in the *CNN Fear & Greed Index* since the start of 2023. In April, this index dropped to “Extreme Fear” territory to one of its lowest levels ever recorded, but by early July, it had fully reversed and was in “Extreme Greed” territory.



Even the impact of the calendar is now working in the opposite direction. Based on data from the last 25 years, mid-July marks the start of what has historically been the worst three-month period of the year where the S&P 500’s average change in the three-months following the close on 7/15 has been a decline of 1.14%.



Dates shown are start of three-month period (63 trading days). For example, the median forward 3-month performance of the S&P 500 on 7/15 has been -1.14% over the last 25 years.

Back in mid-April, we were just starting one of the best three-month periods of the year where the S&P 500 averaged a gain of 4.82%. But while the market typically experiences weakness between now and the end of September, it has also historically seen some of its biggest gains in the final three months of the year.



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Where we're going. With the market now at record highs instead of 52-week lows, analyst sentiment firmly in positive territory as opposed to deeply negative, investor sentiment more bullish than bearish, and seasonals acting as a headwind rather than a tailwind, we aren't expecting much from the stock market for the next couple of months. That doesn't mean we're outright bearish, but where appropriate, we'll look to lighten up on positions that look extended, and we've set a higher bar for adding new names to our portfolio in the near term.

At the same time, we'll continue to scour the market like we always do for long-term growth opportunities as they present themselves. The best entry points often come during market pullbacks, so if one comes soon, we'll once again look to pounce like we did in April and May where we ended up finding a number of new holdings. Our work on market cycles shows that bull markets backed by major themes like AI typically last much longer than most investors anticipate. We expect to see a broadening in the stock market the longer the AI Boom lasts, meaning less-widely followed mid and small-caps are a good place to look for ideas rather than in the mega-cap space. We remain positive on the economy, driven by a less burdensome regulatory environment and an increase in US manufacturing.

As always, please reach out any time if you'd like to discuss your portfolio or if you have any questions.

Justin + Paul

If you'd like to speak with us about our wealth management services, please email us at client@bespokeinvest.com or give us a call any time at 914-315-1248. You can also learn more about Bespoke Wealth Management at our [website here](#).