

BKS Select Investment Group

Navigating a Volatile Market: Reflecting on Recent Trends and Opportunities

Market Environment: From Short-Lived Panic to Recovery

Notwithstanding numerous challenges, the S&P 500 Index (the “S&P 500”) ended the second quarter of 2025 at record levels. The “Liberation Day” tariff announcement on April 2nd triggered a sharp decline of 12% in the subsequent four trading days. However, the subsequent announcement of a 90-day pause before the tariffs would take effect led to a rapid and robust rebound. Remarkably, the S&P 500 not only recovered its losses but also reached new highs by quarter-end, with total returns of 6.2% for the first half of the year. This episode stands out as one of the fastest recoveries from a significant market drawdown in the past 75 years, underscoring the resilience and adaptability of the market in the face of policy uncertainty.

Policy Developments: Tariff Uncertainty and Resolution on Taxes

The central source of uncertainty this year has been U.S. trade policy. The ever-changing nature of President Trump’s aggressive tariff agenda has made decision making difficult for many companies. On April 2nd, the President announced a 10% baseline tariff on most U.S. imports and much higher, country-specific tariffs to take effect beginning April 9th. Subsequently, the administration enacted a 90-day pause to July 9th to allow additional time for country-by-country negotiations. While preliminary agreements were announced with a few countries (including the United Kingdom and Vietnam), the administration yet again provided a temporary reprieve until August 1st. Fundamentally, the President appears committed to a baseline tariff of at least 10% for all countries, though the ultimate level of additional tariffs, including sector-specific tariffs, remains unclear. The stock market thus far has anticipated benign results for these negotiations, but we believe there may still be a substantial risk of more negative outcomes. The tariff impacts may also vary greatly among different countries and industry sectors.

While the tariffs create uncertainty, the recent enactment of the “One Big Beautiful Bill Act” is likely to be a near-term positive for the economy. Many of the policies in the bill are stimulative, including tax-saving provisions for immediate expensing of certain capital investments and research and development costs. The passage of the bill should help offset the anticipated drag from tariffs and promote business investment.

Market Fundamentals: Earnings Are Progressing, But Valuations Are Challenging

Economic conditions through the first half have been remarkably resilient despite the uncertainty. While earnings expectations for 2025 have moderated slightly, consensus forecasts for S&P 500 earnings still reflect growth of 7% this year to \$264 per share and an additional 14% next year to \$300 per share (source: FactSet). Achievement of these expectations will depend in large part on the ultimate level of tariffs and their impact on the economy.

The much-discussed “Magnificent 7” technology stocks, which drove the bulk of the gains for the S&P 500 in 2023 and 2024, have seen uneven performance year-to-date. Generally, larger companies continue to outperform smaller ones, and growth stocks continue to outperform value stocks. The healthcare sector, well-represented in our

portfolios, has been a laggard this year and appears especially attractive, trading at a historically low valuation level relative to the overall market.

The recent rise in the stock market has pushed valuations to 23x and 21x expected earnings for 2025 and 2026, respectively, which is at the upper end of historical valuation levels. We believe that this elevated valuation could present challenges for the equity market, unless earnings growth expectations continue to support heightened multiples.

Macroeconomic Outlook: Growth and Resilience to Date, Though Uncertainties Remain

Economic conditions continue to be supportive of growth apart from tariff headwinds. Interest rates have declined modestly from highs reached earlier in the year, making borrowing somewhat more accessible for both consumers and businesses. The labor market remains mostly stable, with unemployment at historically low levels, contributing to steady consumer spending and overall economic resilience. Crude oil prices have recently fallen to four-year lows and have been in a steady downtrend for fifteen months.

While inflation persists above the Federal Reserve's (the "Fed") long-term target, it has moderated compared to recent peaks. The Fed, at its June policy meeting, chose to keep the federal funds rate steady in the range of 4.25% to 4.50%. Policymakers noted the ongoing uncertainty around the trajectory of both inflation and economic growth, citing tariffs as a source of near-term upward price pressure, but likely not an ongoing inflation stimulant. Market participants are now anticipating the Fed will implement two rate cuts before year-end, reflecting expectations that moderating inflation and potentially slowing growth could prompt more accommodative monetary policy in the coming months.

Geopolitical Landscape: Risks and Potential Calming

Geopolitical risk remains ever present. Middle East tensions have quieted in recent days following coordinated Israeli and U.S. actions in Iran, culminating with the U.S. bombing of Iranian nuclear sites. Markets have responded positively to the prospect of an improving regional environment, particularly given diminishing Iranian influence. Nonetheless, the global picture remains complex, including the ongoing war in Ukraine, mounting Administration pressure on Russia, and increasingly vindictive trade threats.

Portfolio Positioning: Discipline and Long-Term Perspective

Our investment strategy remains rooted in discipline and a focus on quality. We continue to favor companies with strong balance sheets, defensible business models, sustainable competitive advantages, and pricing power. Stocks with these characteristics have historically performed strongly over long-term market cycles.

Throughout the recent volatility, we have implemented modest risk reduction and engaged in tax loss harvesting where appropriate in taxable accounts, while remaining patient and opportunistic. The events of 2025 have reinforced several enduring lessons: volatility is inevitable, policy and geopolitical risks are a constant, and the U.S. stock market (as measured by the S&P 500) has always recovered and reached new highs after periods of adversity.

We are grateful for your continued trust and partnership. Please do not hesitate to reach out if you have questions or wish to discuss your investment strategy. Our team is committed to helping you achieve your long-term financial goals, regardless of the headlines.

This material is presented solely for informational purposes and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. This material is general in nature and is not directed to any category of investors and should not be regarded as individualized, a recommendation, investment advice or a suggestion to engage in or refrain from any investment-related course of action. Investment decisions and the appropriateness of this material should be made based on an investor's individual objectives and circumstances and in consultation with his or her advisors. No recommendation or advice is being given as to whether any investment or strategy is suitable for a particular investor. Information is obtained from sources deemed reliable, but there is no representation or warranty as to its accuracy, completeness or reliability. Third-party economic or market estimates discussed herein may or may not be realized and no opinion or representation is being given regarding such estimates. All information is current as of the date of this material and is subject to change without notice. Any views or opinions expressed may not reflect those of the firm as a whole. Indexes are unmanaged and are not available for direct investment. Investing entails risks, including possible loss of principal. Past performance is no guarantee of future results.

The information in this material may contain projections, market outlooks or other forward-looking statements regarding future events, including economic, asset class and market outlooks or expectations, and is only current as of the date indicated. There is no assurance that such events, outlook and expectations will be achieved, and actual results may be significantly different than that shown here. Information is based on current views and market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons.

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value. The "500" is one of the most widely used benchmarks of U.S. equity performance. As of September 16, 2005, S&P switched to a float-adjusted format, which weighs only those shares that are available to investors, not all of a company's outstanding shares. The value of the index now reflects the value available in the public markets.

No further distribution of this material is permitted without the prior written consent of Neuberger Berman.

For additional information regarding the advisory services provided by Neuberger Berman Investment Advisers LLC ("NBIA"), please see NBIA's Form ADV Part 2A and Form CRS. For additional information and required disclosure regarding the brokerage services provided by Neuberger Berman BD LLC ("NBBD"), please see NBBD's Regulation Best Interest Disclosure Statement, Fiduciary Recommendation Disclosure for Covered ERISA and IRA Accounts, and Form CRS. All of the above disclosure documents are available at <https://www.nbprivatewealth.com/en/disclosures/regulatory-disclosures>.

Neuberger Berman Investment Advisers LLC is a registered investment adviser and an affiliate of Neuberger Berman BD LLC, a registered broker-dealer and member FINRA/SIPC.

The "Neuberger Berman" name and logo are registered service marks of Neuberger Berman Group LLC.

©2025 Neuberger Berman Group LLC. All rights reserved.