

# WEALTH WATCH

## *2025 Second Quarter Review & Third Quarter Outlook*

When last quarter's edition of the Wealth Watch was published, the stock market had just experienced the dramatic waterfall-like drop that resulted from the so-called "Liberation Day" tariff announcement. Noting the potential for continued market weakness, we stated that "positive news on the tariff front might actually trigger a sustainable uptrend." An uptrend indeed materialized in record fashion upon the postponement of said tariffs.

### ***Know Pain, Know Gain!***

The S&P 500 Index dropped -10% over the two days following the announcement of the tariffs—a magnitude so sharp that it had theretofore only occurred three times since WWII. From peak to trough the market declined -19%. Just as incredible, however, was the swift rebound. Among historical market drops of at least 15%, the post-April rebound was the largest intra-quarter recovery since 1928 and was the quickest bounce-back to all-time highs in history!

In that same vein, international assets by far outperformed their US counterparts in the first half—International Stocks by the widest margin since 2002! This was due in part to their being extraordinarily inexpensive relative to US Stocks earlier this year but was magnified by the -10.7% drop in the value of the US dollar.

A declining dollar is among the main themes as we enter the second half of 2025. Will the dollar continue to weaken? Will inflation reignite amid continued erratic trade policy? Is the economy at risk of recession? We will explore these issues in the pages that follow.



### **William Brady, MBA, CFA**

SVP, Chief Investment Officer  
WestStar Wealth Management  
bill.brady@weststarbank.com  
915.747.4930

### ***What You Need To Know:***

- The market had dramatic swings in the first half of 2025 but has recouped early losses
- Volatility continues to be driven by erratic tariff policy uncertainty
- Tariffs have not yet had a material impact on inflation, but they will in the second half of the year
- The US dollar experienced its worst first-half decline in 50 years and may continue to weaken
- Economic growth figures have been distorted by tariffs; likely to weaken in second half of 2025, strengthen in first half of 2026
- Adhere to your long-term asset allocation strategy to best ensure the achievement of your investment objectives

# Asset Class Index Performance\* Year-To-Date As of June 30, 2025

STRONGEST

International Developed  
Market Stocks  
19.45%

International Emerging  
Market Stocks  
15.27%

International Bonds  
10.01%

Real Estate (REITs)  
6.66%

US Large Cap Stocks  
6.2%

Commodities  
5.53%

High Yield Bonds  
4.57%

US Investment-Grade  
Bonds  
4.02%

Alternative Investments  
2.59%

Money Market (Cash)  
2.11%

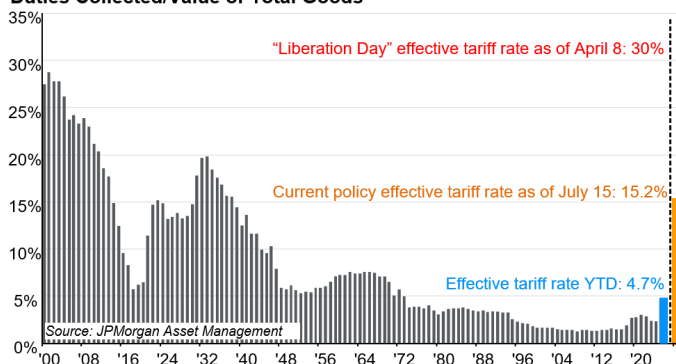
US Small Cap Stocks  
-1.79%

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## Days & Daze: Tariff Policy

It is a rare occurrence that we would reuse a chart in multiple editions of the Wealth Watch, yet the fact that trade policy has been so all over the map warrants the third consecutive use of the one below. Each tariff announcement is inevitably followed by a postponement for a set number of days subject to provisos, exclusions, exceptions, conditions, etc. Even these are seemingly meaningless, however, as they are effectively modified daily. Deals are announced as in process or in place only to be rescinded or summarily retracted. Most recently, the 90-day reprieve ending July 9th was extended to August 1st and the promise of "90 deals in 90 days" was replaced with unilateral letters. The utter uncertainty surrounding trade policy initially left markets reeling, but why have they recently rallied in record fashion? Markets seem to be betting on the Administration not actually going through with the most extreme of its tariff threats. That said, given the President's affinity for tariffs, they are likely to remain in some form. Should the current policy path ultimately be implemented, the tariff rate would be around 15%—a level not seen in nearly 100 years—and the near 5% year-to-date tariff rate is already at a 50 year high. Meanwhile, readings on inflation have not reflected any material impact—yet!

**Average Tariff Rate on US Goods Imports for Consumption  
Duties Collected/Value of Total Goods**

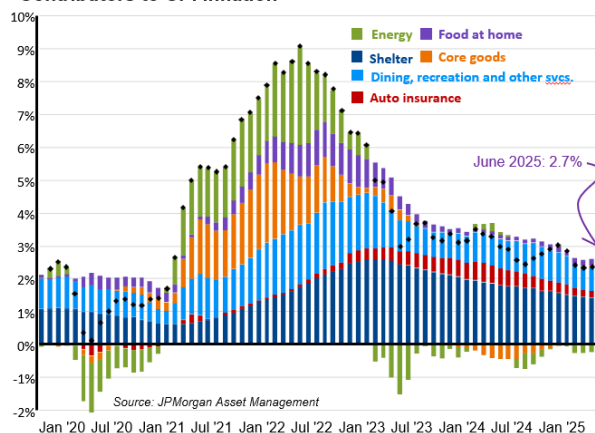


## Sense & Cents: Inflation & the Dollar

The chart at right shows that inflation has declined substantially over the past three years after peaking above 9% in June 2022 following the COVID recovery. It also indicates the primary sources of inflation—the largest being shelter (rent/housing) costs, though even that area has trended downward. As previously stated, observers may note that tariffs have not seemed to have had an impact on inflation to this point. While there was a slight uptick in June, results were in line with expectations. But despite tame readings to this point, pressure is building beneath the surface.

Sellers built up their inventories earlier this year in an attempt to get in front of anticipated tariffs. That pre-tariff inventory is what consumers have been purchasing to this point. Furthermore, retailers are loath to impulsively hike prices and arouse the ire of their customers when tariff policy backtracking seems likelier than not. Yet at some point in the near future, inventories will have to be restocked and at that time tariffs may well apply. Retailers will almost certainly pass higher costs of goods along to the end consumer. Indeed, the orange portion of the June inflation reading on the chart above indicates the return of the "Core Goods" component as a contributor. This is a reflection of tariffs making items we buy more expensive and will continue to expand. Accordingly, inflation is expected to continue to rise in the near future and may be above 3% by year-end.

**Contributors to CPI Inflation**

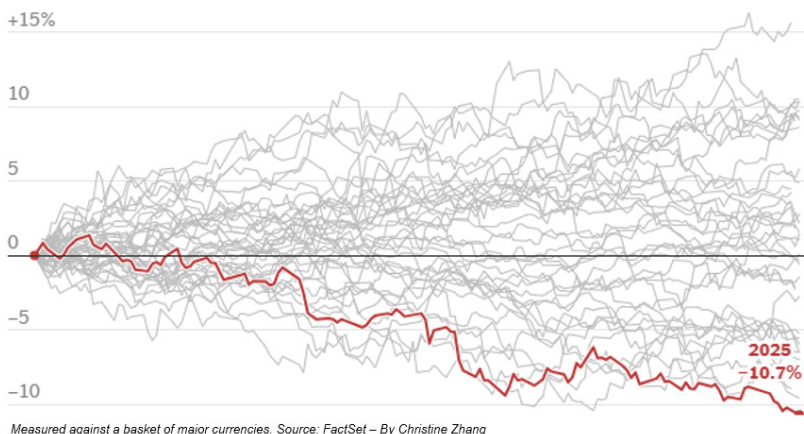


\*Large Cap: S&P 500 Index; Small Cap: Russell 2000 Index; Int'l Developed: MSCI EAFE Index; Int'l Emerging: MSCI Emerging Markets Index; US Inv-Grade Bonds: Bloomberg Aggregate Index; Int'l Bonds: Bloomberg Global Aggregate ex-USD Index; High Yield: Bloomberg US Corporate High Yield Index; Cash: BofA Merrill Lynch 3-Month US Treasury Index; Real Estate: FTSE EPRA/NAREIT Developed Index; Commodities: Bloomberg Commodity Index; Alternatives: Wilshire Liquid Alternatives Index

Further exacerbating the pocketbook pinch is the declining dollar. As shown on the chart below, the dollar experienced its worst first half of the year in decades, a phenomenon which Ned Davis Research attributes to seven factors:

- 1. Overvalued:** the dollar was expensive relative to other currencies post-COVID
- 2. Policy Upheaval:** lack of clarity and constantly changing administrative policies
- 3. Deficits/Debt:** large budget deficits and debt will only be exacerbated by the One Big Beautiful Bill Act; lack of fiscal discipline
- 4. Lower Financial Account Surplus:** a focus on decreasing the trade deficit means acceptance of lower financial investment
- 5. Weak Dollar Focus:** Administration's actions indicate a desire for a weaker dollar
- 6. Disengagement:** governments that are not Western-aligned are shifting from dollar reserves to gold
- 7. Erosion of Confidence:** funding cuts to education/science, rigid immigration policy, deteriorating trust in effective government functionality

Percentage Change in the US Dollar Index in the First Half of Every Year Since 1986



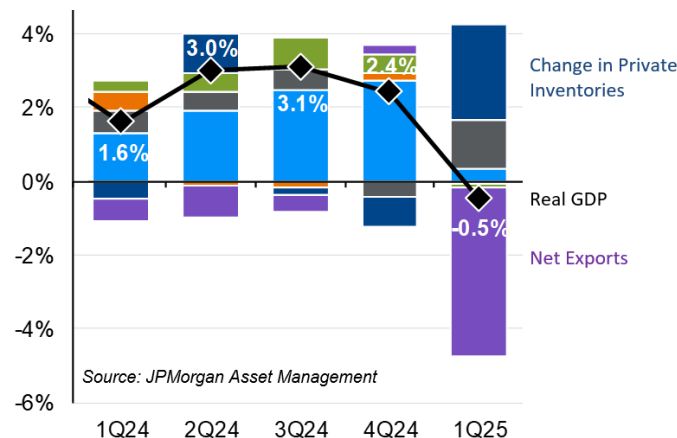
These factors suggest we might expect the dollar to remain weak over the next several years. Historically in such environments the best performing categories have been international stocks, international bonds, and gold.

## A Coarse Course: The Economy, OBBBA, & The Fed

The aforementioned erratic tariff policy has had a material impact on economic volatility. The chart at right shows that first quarter GDP was negative -0.5%—not an indication of a bad economy; rather a subtraction of the gargantuan goods imports by businesses attempting to get ahead of anticipated tariffs. This will not be a factor in the second quarter and GDP is expected to potentially jump to 3% or higher. Again, this does not indicate the economy has taken off, but that tariffs have artificially distorted results. Expect such distortion to persist for the remainder of the year.

Meanwhile, the “One Big Beautiful Bill Act,” or “OBBBA”, was signed into law on July 4. Its passage helps to reduce policy confusion, but it will have both short- and long-term impacts. Being that we are halfway through the year and tax withholding schedules are already in place, the Act’s tax cuts that are retroactively effective as of January 2025 will likely result in large tax refunds in the first half of next year, stimulating the economy. These effects will fade in the second half of 2026 and, assuming tariffs remain in place, the economy will slow again at that time. The tax cuts and spending elements of the Act will also add an estimated \$4 trillion to deficits and debt over the next decade. Moreover, many of said tax cuts are set to expire in 2028 and, as would be expected, their extension would add \$1.5 trillion to deficits on top of that. Accordingly, and despite tariff income, debt-to-GDP is projected to increase from 98% to 130%. This may push longer-term interest rates higher and continue to complicate the Fed’s next move. Based on current data, the Fed’s September meeting might be the earliest they would cut but all depends on growth and inflation data between now and then.

Contributors to Real GDP Growth  
Quarter-over-quarter, seasonally adjusted annualized rate



## Principle & Principal: Q3 Investment Strategy

In February we implemented a “neutral” asset allocation strategy for our actively managed clients; a posture that remains prudent given current circumstances. The stock market has had a solid first half of the year, which is consistent with historical trends. Examining typical market action in post-election years going back to the early 1900’s suggests that, while there may some volatility, the market may generally be flat between August and November, with a possible late year rally. As always, we will monitor developments as they arise and stand ready to proactively adjust our tactical strategy as warranted. In the meantime, the most effective way to ensure your portfolio achieves your long-term objectives is to remain principled in your asset allocation approach and not allow short-term noise to derail your strategy.



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**Joe Sayklay**  
President, Wealth Management  
[joe.sayklay@weststarbank.com](mailto:joe.sayklay@weststarbank.com)



**William Brady, MBA, CFA**  
SVP, Chief Investment Officer  
[bill.brady@weststarbank.com](mailto:bill.brady@weststarbank.com)



**Tamara Gladkowski**  
SVP, Senior Trust Officer  
[tamara.gladkowski@weststarbank.com](mailto:tamara.gladkowski@weststarbank.com)



**Colleen Marusich, CTFA**  
SVP, Senior Wealth Advisor  
[colleen.marusich@weststarbank.com](mailto:colleen.marusich@weststarbank.com)



**Thomas Gabriel, MBA**  
VP, Wealth Management Officer  
[thomas.gabriel@weststarbank.com](mailto:thomas.gabriel@weststarbank.com)



**Crystal Martin, MBA**  
VP, Wealth Management Officer  
[crystal.martin@weststarbank.com](mailto:crystal.martin@weststarbank.com)



**Jande Rodriguez**  
Wealth Management Officer  
[jande.rodriguez@weststarbank.com](mailto:jande.rodriguez@weststarbank.com)



**Anibal Roman**  
Portfolio Manager  
[anibal.roman@weststarbank.com](mailto:anibal.roman@weststarbank.com)