

LORI L. LIFFRING, CFA ♦ MICHAEL L. BRIDGMAN, ChFC ♦ JUSTIN S. ANDERSON, MBA AAMS ♦ JON M. SPANGLER, RICP
 GAYLAN C. ABOOD, CHAIRMAN EMERITUS

MARKET COMMENTARY

After a decline in April, US stock indices rallied during May and June. The S&P 500, representing large-cap stocks, reached a new high rising 10.94% in the quarter resulting in a year-to-date return of 6.20%. Small cap stocks in the Russell 2000 Index rose 8.50% in the quarter but still remained in negative territory with a year-to-date return of -1.79%. International stocks continued to thrive as developed market stocks had gains of 11.78% for the quarter and 19.45% year-to-date. Emerging market stocks were up 11.99% this quarter and 15.27% year-to-date. The Barclays U.S. Aggregate Bond Index had a return of 1.21% for the quarter and 4.02% for the year so far.

In the last 15 years, US stocks have outperformed international stocks significantly. This year the tables have turned. Part of the outperformance has been because the US dollar has weakened considerably. The currency conversion increases returns for US investors of international stocks. Tariffs are yet to fully go into effect so their impact is unknown. Tariffs could hurt foreign company earnings. However, foreign stock prices have haven't had the same run up the last 15 years as US stocks so are still trading at more attractive valuations. In addition, foreign investors have been investing in US stocks because of the trade deficit; if that decreases and foreign investors invest in their own countries instead, that could also support international stock prices.

We have seen significant sector rotation in performance. In the first quarter, Energy and Healthcare were the top performing sectors while Consumer Discretionary, Technology, and Communication Services struggled. In the second quarter, the Industrial sector emerged as the leader with a year-to-date return at 12.7% followed by Communication Services at 11.1%. The Energy and Healthcare sectors experienced losses in the quarter resulting in year-to-date returns of 0.8% and -1.1%,

respectively. Despite a strong quarterly surge of 11.5%, the Consumer Discretionary sector continues to lag with a year-to-date return of -3.9%.

The S&P 500 reported robust first quarter earnings growth of 13.7%. Communication Services earnings grew 31% bolstering its stock performance. Surprisingly, Healthcare earnings grew 47% yet the sector's stock returns turned negative. Energy earnings contracted -16%. Second quarter is projected to slow to about 5-6% earnings growth. Zacks projects the S&P 500 as a whole to have earnings growth of 7.2% in 2025, down from last quarter's 9.6% projection.

GDP growth was negative in the first quarter at -0.5%, largely due to increased imports ahead of anticipated tariffs. Strategas Research projects a second quarter rebound with 2.5% growth. However, this projection has been lowered from 3.5% as they note weaker data has begun to emerge in vehicle sales, consumer spending, payrolls, personal income and new home sales. The Fed currently expects full-year 2025 GDP growth of 1.4% which is lower than its prior forecast.

The new administration's rapid policy changes have kept uncertainty levels high which has been frustrating and perplexing to investors as well as analysts. Markets have been quick to react in response. At first, tariffs, immigration policies and DOGE cost cutting were creating volatility in markets. Then unrest and US involvement in the Middle East spooked markets. The tax bill was also in play. So far, earnings projections have fallen some while inflation and unemployment have been contained. Recession worries had receded by the end of June. Strategas Research has reduced its recession odds for 2025 from 45% to 35%. They recognize that tariffs and a liquidity drain increase risks for stocks in the second half but expect the US economy to avoid recession since corporate profits are still positive. They also note that 2026 has some considerable cushions in place.

The unemployment rate is 4.1%. Not all the government downsizing and tariffs may be included yet. The Fed's projection for year end is 4.5%.

2025 BENCHMARK RATES of RETURN

INDEX	SECOND QUARTER	YTD
S&P 500	10.94%	6.20%
Russell 2000	8.50%	-1.79%
International	11.78%	19.45%
Fixed Income	1.21%	4.02%
JPMorgan Diversified*	6.40%	6.54%

*25% S&P 500 large cap stocks, 10% Russell 2000 small cap stocks, 15% MSCI EAFE international stocks, 5% MSCI EME emerging market stocks, 5% REITs, 25% Barclays US aggregate bonds, and 5% each in short term Treasuries, high yield global bonds, and commodities.

We value our relationship with you, and we are always available to meet with you in person, virtually or by phone. Please do not hesitate to call or email us with any questions that you may have. Also, if your situation has changed, please contact your advisor so we can determine if any changes are needed in your account. A copy of our proxy voting policy and how proxies have been voted is available on request.

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17330 WRIGHT ST, STE 205 | OMAHA, NE 68130 | P: (402) 697-1166 | F: (402) 697-9271
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Inflation has held steady the last few months and the Fed's favorite measure—the Core PCE deflator—was down slightly at 2.7% in May. The tariffs could be inflationary initially but may be muted longer term depending on which costs trickle down to consumers. The Fed isn't expecting to reach its 2% target until 2027.

Gold has had an exceptional run and is up more than 25% year-to-date. Gold is often seen as a safe haven in times of geopolitical and/or economic uncertainty and as a store of value or inflation hedge when higher inflation is expected. Gold-backed ETF inflows reached \$38 billion in the first half of 2025. According to the World Gold Council, this was the largest semi-annual inflow since 2020.

Bitcoin and crypto currencies also had strong performance. Bitcoin was up 42% between its low and high in the quarter. Bitwise Asset Management has been predicting Bitcoin will reach \$200,000 by the end of 2025 (currently around \$100,000). They further suggest it could reach \$500,000 if the US adopts a 1 million Bitcoin reserve. In addition to the Federal government wanting to build a Bitcoin reserve, 26 states are also pursuing it. Institutional investor adoption is still in the early stages which could also add to future growth. Please note that even with attractive growth potential, digital assets are not without risk and do have much higher levels of volatility.

The Fed kept rates unchanged again this quarter. The current rate is between 4.25% and 4.50%. Fed Chairman Powell had indicated the Fed would be data dependent regarding future rate cuts. Currently, the Fed is projecting to cut rates twice in 2025. Further cuts are expected in 2026 and 2027 with a projected ending rate around 3.0%.

Money markets are still yielding around 4.2%. The 10-year Treasury bond yield was 4.25% at the end of March and is 4.23% at the end of June.

Diversification continues to be prudent in times of uncertainty. Bonds can provide stability and income when stocks are volatile. "Target outcome" or "buffer" ETFs can also add protection to portfolios and provide upside potential if stock prices rise. Dividend income is also attractive in equity and premium income funds. In these funds, managers own dividend paying stocks and sell out-of-the-money call options to collect extra income. The dividends help with total returns or with income needs depending on the account.

Measuring risk tolerance and investing accordingly is important in this environment. Timing the market or chasing returns may work in the short-term but is more difficult over longer periods. The goal is to be invested appropriately so that you don't panic and sell when the market goes down. Strategas points out "big spikes of policy uncertainty usually foreshadow strong equity market returns" especially twelve months later. Selling out when markets are volatile, can be detrimental. We use Nitrogen software to help us measure your risk tolerance and make sure you have the appropriate risk in your accounts. Want to check your risk tolerance? Scan this QR code and you will be directed to a risk survey. We'll receive your results and compare it to your current risk score.



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We are committed to remaining independent as we believe that is best for our clients. Mike and Lori are not planning to retire in the near future, but we want you to know we have people in place to be able to continue to serve our clients. You may have already met Justin and/or Jon - if you haven't, we would love to introduce you. Justin is a vice president and owner of the firm already and Jon is our newest advisor. We appreciate the trust you place in us. If you have friends or family who would benefit from a relationship with Cambridge, please do not hesitate to share our contact info and our website. We are accepting new clients right now and want to help the people who are important to you. We waive our \$500,000 minimum for these referrals or offer the financial planning services on a stand alone basis. Thank you for your referrals!

SCAM ALERT

Each quarter we want to highlight a scam we've seen in hopes it helps prevent it from happening to you. Recently, we've been inundated with text messages alerting us that we have unpaid tolls or outstanding traffic tickets that need to be paid immediately or we'll be at risk to suffer steep fines or license suspension. The text will include a link to make the payment or to verify information. When clicked, the link will look like an official website but it is actually fake and designed to collect your personal information, credit card number, or bank information. Be aware that toll operators and the DMV do not use text messages to collect tolls or pay tickets, and they do not use threatening language meant to rush customers into action.

If you receive a text, you can ignore it, block the number, delete it and report it by forwarding the suspicious text to 7726 (SPAM). Do not reply to it, do not click on any links. If you think it could be legitimate, you can visit the toll agency's or DMV's official website directly (not by clicking a link provided).

If you have accidentally compromised your information and are the victim of identity theft, you can visit identitytheft.gov for help. They have steps and checklists of what to do to. Also, let your advisor know so we can help you as well.

Be aware and be cautious and let us know if you have seen other scams we should alert our clients to in future newsletters.



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