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REVIEW & COMMENTARY

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CHASE INVESTMENT COUNSEL CORPORATION
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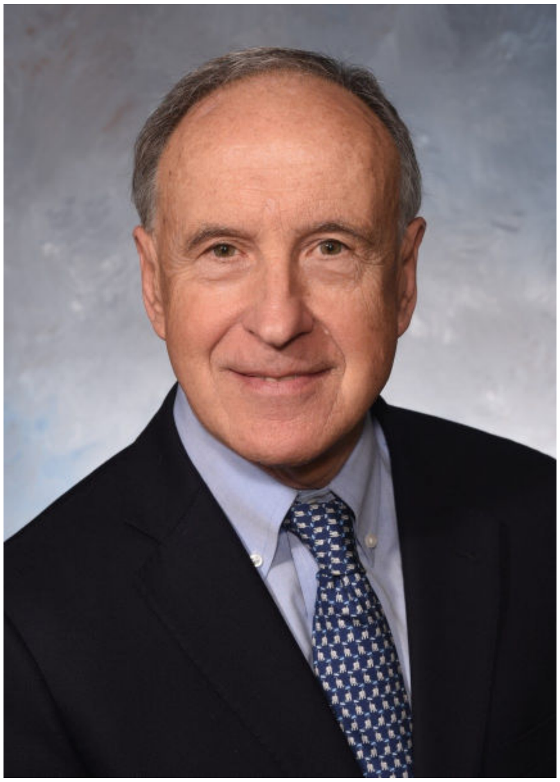

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A Tale of Two Quarters

Say you went to sleep on January 1 and woke up on June 30th. Upon waking you checked markets. You saw that most major indices in the United States were up modestly except for small cap stocks which were down modestly. It was largely a tale of two quarters for many indices, with the first quarter modestly to sharply down only to be followed by a modest to very strong second quarter as the table below shows:

	Q125	Q225	YTD 6/30/25
S&P 500 Index	-4.27%	10.94%	6.20%
S&P Midcap 400 Index	-6.10%	6.71%	0.20%
S&P SmallCap 600 Index	-8.93%	4.90%	-4.46%
S&P 500 Equal Weight Index	-0.61%	5.46%	4.82%
Dow Jones Industrial Average	-0.87	5.46%	4.55%
Roundhill Mag 7 ETF (MAGS)	-15.73%	20.95%	1.93%
Defiance Large Cap (XMAG)	0.36%	7.81%	8.20%

However, you missed a lot of action by your six-month nap! If you recast the data to show performance from year-end 2024 to the April 7, 2025 low for the S&P 500 Index (so far, we hope) and then performance from the low to June 30th a radically different picture emerges:

	1/1/25 to low	Low to 6/30/25	YTD 6/30/25
S&P 500 Index	-17.76%	28.28%	6.20%
S&P Midcap 400 Index	-19.55%	23.59%	0.20%
S&P SmallCap 600 Index	-22.58%	22.31%	-4.46%
S&P 500 Equal Weight Index	-14.14%	20.93%	4.82%
Dow Jones Industrial Average	-13.94	20.44%	3.64%
Roundhill Mag 7 ETF (MAGS)	-28.34%	42.23%	1.93%
Defiance Large Cap (XMAG)	-13.00%	24.25%	8.20%

The biggest drop – and recovery – came from the "Mag 7" big tech-related names (Amazon, Alphabet, Apple, Meta Systems, Microsoft, NVIDIA and Tesla) while the performance of the S&P 500 ex the Mag 7 was much more muted, and much stronger for the six-month period.

(OVER)

So, you ask your friends who were awake for the whole period what happened. You hear things like this: Uncertainty over the direction of the economy and earnings as a new president takes over, uncertainty over the imposition of tariffs and their impact on the economy, inflation and interest rates. Uncertainty over global politics, etc. Markets hate uncertainty and they did.

The reasons for the rise from the lows to June 30th are a bit more opaque: Tariffs came and were delayed, came again and were delayed again. Economic statistics were not that bad. Earnings in the first quarter were ok. Inflation did not spike up due to tariffs and did not take interest rates up either (yet). Global politics looked bleak a few weeks ago but did not get worse. Markets breathed a sigh of relief, and the rally began.

The obvious big question is where do we go from here?

There are, as always, both positives and negatives to consider

The positives:

- Interest rates have fallen from 4.58% at year-end 2024 to 4.29% today (July 2).
- Inflation has fallen from an annualized rate of 2.9% in December 2024 to 2.4% for the 12 months ending May 30th.
- The “war” between Israel (with U.S. help) and Iran did not continue or spread.
- Technical indicators on the market are positive with the most recent data point being a “golden cross” where the 50-day moving average of stocks moves above the 200-day moving average. This generally portends positive markets going forward.

The negatives:

- S&P 500 earnings estimates for 2025 have fallen from about $269 per share to $265.
- Employment growth in the U.S. seems to be slowing, but the picture is mixed.
- The U.S. dollar has weakened considerably versus foreign currencies.
- Valuation of stocks is above long-term averages with the current (July 2) p/e (price/earnings) ratio on 2025 estimated earnings for the S&P 500 at 22.0X versus a 5-year average of 19.9x and 10-year average of 18.3x.
- Whether the “big, beautiful bill” adds to Federal deficits in coming years is the subject of disagreement. However, not subject to disagreement is the need to fund and refund current government debt and some hiccup in the process is possible and would be bad for both debt and equity markets.

The upshot of all this is that the path ahead for markets looks even less clear than usual. We will begin getting a better picture of the future in coming weeks as the second quarter corporate earnings season starts. There are already companies, especially in the healthcare sector, that say guidance is difficult to provide due to today’s many uncertainties.

So, after last year’s big gains, and this year’s more modest gains, you may want to revisit your asset allocation and bring it to a level you are comfortable with. As always, we are here to help.