



WALKER, HIGGINS & ASSOCIATES
WEALTH MANAGEMENT, LLC

Third Quarter 2025 Review and Outlook

Data Points

Stock Market Data @ 6.30.25

DOW Jones Industrial (DIA)	14.77%	3-year average annual return ⁱ
S&P500 Index (SPY)	19.56%	3-year average annual return
NASDAQ Composite (ONEQ)	23.86%	3-year average annual return ⁱⁱ
S&P Small Cap (IJR)	7.57%	3-year average annual return ⁱⁱⁱ
MSCI EAFE (EFA)	15.84%	3-year average annual return ^{iv}
U.S. Market Valuation	21.76	S&P 500 Forward P/E Ratio ^v
	16.93	S&P 500 Forward P/E Ratio 30-YR average ^{vi}

Interest Rates, Bonds, Federal Reserve Data @ 6.30.25

U.S. Aggregate Bond (AGG)	2.54%	3-year average annual return ^{vii}
3 Month U.S. Treasury Bill Yield		4.41% ^{viii}
10 Year U.S. Treasury Bond Yield		4.24% ^{ix}
U.S. Federal Reserve Effective Federal Funds Rate		4.25-4.50% ^x

2025 Quarter 2 Review

After a substantial decline in the first quarter, the U.S. stock market began to experience a solid recovery in late April. In fact, the S&P 500 hit an all-time high on June 30, 2025, thereby more than erasing declines attributable to concerns over tariffs.^{xi} Had we panicked and reduced risk, we would have missed a quick, robust recovery. As we mentioned previously, it is important to maintain one's wits amid market volatility—we believe in data driven, fact-based decision making as opposed to emotional reactions.

We believed that President Trump's tariff talks were primarily a negotiating tool to improve trade agreements while also bringing in some revenue. As of this writing, at a minimum the full implementation of tariffs has been postponed as impacted nations either have reworked trade deals or are in active negotiations. This is not to say that tariffs are water over the dam, but it does not appear that tariffs by themselves are going to plunge the U.S. economy into an immediate recession or bring base hyperinflation.

2025 Economic and Market Outlook

Let's Talk About Good News

With a media mostly focused on bad news, we often overlook most of the good news

First, we are thankful that the Israel-Iran conflict has not spilled further into a broader Middle Eastern war. Additionally, we seemed to have threaded the needle with our bombing when it came to eliminating their nuclear ambitions (at least in the short term) without getting tangled in a protracted conflict. We should always keep in mind that 20% of the world's oil supply flows through the Strait of Hormuz.

Second, after a less than stellar Q1 GDP number, it appears that Q2 is going to be solidly positive.^{xii} Part of this should be attributed to the anomaly in the 1st Quarter of frontrunning foreign purchases in anticipation of tariffs.^{xiii} Again, U.S. economic growth is not perfect, but it appears to be on solid ground.

Finally, stocks beyond the Magnificent 7 have joined the rally.^{xiv} This is a positive indicator as concentrated index performance can provide a false sense of security. If most stocks and sectors are performing well, generally, we expect a lower probability of a single event disrupting the entire momentum of markets.

Shot Across Powell's Bow?

Federal Reserve Chair Jerome Powell's 2nd term ends in May, 2026. The Chair of the Fed is the most watched and listened to person on the U.S. economy. Often single words or phrases stated by Powell are dissected, scrutinized and move markets.

President Trump has been very vocal in expressing displeasure with the Federal Reserve's and Powell's actions (or lack thereof) surrounding interest rate reductions.^{xv} Generally, Trump can't fire Powell. He can, however, ramp up public pressure for Powell to step aside before his term expires. We think it's likely Powell will serve out his remaining time.

One of the names being thrown around for the next Chair is Treasury Secretary Scott Bessent. If Bessent is nominated that opens a significant void at the Treasury Department at a critical time for budgets and debt refinancing.

We will be watching this closely with an eye toward the mantra "the stock market doesn't like surprises."

Interest Rates, U.S. Government Refinancing & Tax Bill

Three key items will be in play over the balance of the year—

First, the U.S. Treasury Department has been and will continue to refinance ~\$9.2T worth of Treasuries in 2025.^{xvi} Unfortunately, most of these bonds will be reissued at interest rates higher than their maturity rates. The higher coupon rates will put even greater pressure on budgets. For example, currently bonds issued by the Treasury Department with 10-year maturities offer interest rates at 4.24%.^{xvii} Ten years ago, 10-year maturities offered interest rates at 2.35%.^{xviii} Anyway you slice it, the interest payments on our national debt is going up.

Second, President Trump's One Big Beautiful Bill Act (OBBBA) passed and was signed into law. This does many things, but importantly, preserves and implements lower tax rates for virtually all working Americans. Lower personal and corporate tax rates are wind to the back of a growing economy.

Last year, our federal budget deficit was \$1.8 trillion. Republicans critical of OBBBA were primarily concerned about additional deficit spending moving forward. That deficit will have to be financed through the issuance of additional U.S. Treasury debt—debt that we must pay interest on. That brings us to the third key item...interest rates.

Again, the Federal Reserve takes center stage. They have not cut rates this year because of concerns related to growth, inflation, and tariffs. At the last meeting, Powell seemed to say these factors look better in the second half of the year. We expect to have a reduction of 0.5% in interest rates by the end of 2025 with additional cuts in 2026 unless something significantly changes.

U.S. Stock Market

Thankfully we were able to take advantage of volatility in March and April by allocating some cash to stocks and by reallocating some of the stocks we held.

Currently, we'd suggest that overall large cap U.S. stocks are a bit expensive. There are pockets of value. U.S. small cap stocks appear to be cheap, but they have consistently underperformed larger stocks over several years and it is prudent to consider whether they represent a value trap.

As it is difficult to find compelling value in large indices, we continue to try to identify individual stocks that have the right combination of price and growth—we think it's definitely a "stock pickers" market as opposed to a broad indexed approach market.

We have also been using rules-based (also called factors based) ETFs for some time. In essence, these have a specific set of rules or factors that they utilize to make stock allocations. If we think it's good to allocate to high quality stocks, there are ETFs that screens for that. Additionally, they reallocate the holdings within the portfolio at set times (i.e., monthly, quarterly, etc.) throughout the year. We have found these to be very helpful in getting targeted, focused allocation while honoring good diversification as well.

With that being said, we suggest any stock allocation increases be executed via a dollar-cost-averaging strategy unless a sizeable pullback in stocks occurs.

Finishing Thoughts

The overall financial landscape is rarely as bad as we fear or as good as we hope. Most of the time reality lies somewhere in the middle. Such is the case now. If it is one's desire to find negative headlines, that job is easy to accomplish. If it is one's desire to find only positive headlines that is equally as easy. We want to remain as objective as possible.

Our objectivity leads us to the conclusion that clients that have a goal of capital appreciation need to maintain healthy allocations of stocks. Those that need growth and income need a healthy balance between stocks, especially dividend paying stocks, and bonds. Those that need capital protection need to focus on bonds and low volatility stocks.

Any solid strategy is reliant on a good overall financial plan. A significant part of a good plan is estate planning—where will your assets go when you die? Various legal documents like a will and trust help ensure your wishes are carried out as you intend. We have relationships with local attorneys who specialize in this area and can work with you and your family. Let us know if you need a referral.

Another significant tool in some estate plans is life insurance. We'd like to acknowledge a long-term relationship that has been recently rekindled. We have known and respected the folks at the Cason Group in Columbia, SC for some time. Through them, we access dozens of life insurance carriers. They have significant underwriting experience and have a medical doctor on their staff. They are true professionals with long ties to South Carolina and the Upstate.

If you want to review your life insurance or feel like this area of your planning needs attention, please don't hesitate to contact us. With the Cason Group's help, we have reviewed many older life insurance policies where clients were able to better their position for themselves and their family.

As always, we thank you for your continued trust and confidence!

We hope that you have a wonderful Summer!

ⁱ <https://www.morningstar.com/etfs/arcx/dia/performance>

ⁱⁱ <https://www.morningstar.com/etfs/xnas/oneq/performance>

ⁱⁱⁱ <https://www.morningstar.com/etfs/arcx/ijr/performance>

^{iv} <https://www.morningstar.com/etfs/arcx/efa/performance>

^v https://ycharts.com/indicators/sp_500_pe_ratio_forward_estimate

^{vi} J.P. Morgan Asset Management. "Market Insights: Guide to the Markets®". March 31, 2025.. Page 5.

^{vii} <https://www.morningstar.com/etfs/arcx/agg/performance>

^{viii} https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value_month=202503

^{ix} Ibid.

^x <https://www.newyorkfed.org/markets/reference-rates/effr>

^{xi} <https://ycharts.com/indices/%5ESPX>

^{xii} <https://www.atlantafed.org/cqer/research/gdpnow.aspx>

^{xiii} <https://www.bea.gov/news/2025/us-international-transactions-1st-quarter-2025-and-annual-update>

^{xiv} <https://www.ainvest.com/news/stocks-join-surge-signaling-upside-2507/>

^{xv} Saul, Derek. "How Soon Could Trump Replace Fed Chair? What To Know As He Reportedly Considers Powell Successor". Forbes.com. June 26, 2025.

^{xvi} <https://www.firstnational.ca/commercial/resources-insights/article/will-the--9-trillion-maturity-wall-in-2025-force-u.s.-treasury-yields-higher>

^{xvii} https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value=2025

^{xviii} https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value=2015

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Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. Stock investing includes risks, including fluctuating prices and loss of principal. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price. ETFs trade like stocks, are subject to investment risk, fluctuate in market value, and may trade at prices above or below the ETF's net asset value (NAV). Upon redemption, the value of fund shares may be worth more or less than their original cost. ETFs carry additional risks such as not being diversified, possible trading halts, and index tracking errors.