

Quarterly Economic Commentary

July 2025

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Market Returns

	12/31/2024	06/30/2025	% Gain/Loss
Dow	42,544	44,389	4.34%*
S&P 500	5,882	6,204	5.47%*
NASDAQ	19,311	20,393	5.60%*

**Total Return Including Dividends*

With the way the end of June and July 4th fell this year, I decided to wait until July 7th to write this quarter's Commentary. We made a round-trip in the second quarter, going from yearly lows to new annual highs. As of Thursday's (July 2nd) close, the markets were as follows: Dow up 6.3%; S&P 500 up 7.5%; NASDAQ up 7.1% year-to-date. Over the past 12 months, the markets have seen gains: the Dow is up 16.1%, the S&P 500 is up 14.9%, and the NASDAQ is up 14.1%. All three major indices are within a fairly narrow range.

Since the S&P 500 bottomed early on the morning of April 9th, when the Trump administration paused a large portion of their reciprocal tariff policy, Q1 earnings surprised to the upside with over 13% year-over-year earnings growth, economic data continued to show a resilient US economy, and investor sentiment swung from negative to positive. The result was a strong snap-back and, by early June, the S&P 500 had gained over 20% in just two months. Remember, during that time, I was quoting Walter Deemer, "When the time comes to buy, you won't want to."

It is hard to believe that we are halfway through 2025. However, it is hard to imagine that in those six short months, we have experienced such a wide range of geopolitical, political, and economic challenges. Russia and Ukraine are still at war, Israel has gone from a war against Hamas to war against Iran, the US bombed three Iranian nuclear enrichment sights, tariffs, illegal immigrant deportations, the One Big, Beautiful Bill Act, no FOMC interest rate cuts, and a host of many other things during the "quiet times." The first half of the year was anything but normal.

At their June Federal Open Market Committee (FOMC) meeting, the Federal Reserve held interest rates steady and noted that it desired to see the extent to which the new tariff policy affected core inflation prices before making any further adjustments to US monetary policy. Although they maintained a "wait and see" attitude, they continued to project two rate cuts by year-end. The message here is

that they desire to lower the Fed Funds rate, but they are in no rush until the economic data supports such a response. However, the Fed Governors have been making the rounds lately, strongly suggesting that they are embracing the thought process that a rate cut is imminent. The consensus is that we will have three cuts this year. The next FOMC meeting is late July. Given June's strong employment report, I am not so sure that they will cut at this meeting, but they will most likely begin the process in September.

While interest rates have risen, currently at 4.383% on the 10-year Treasury, I expect that rates will trend lower over the remaining six months, with the 10-year rate settling at around 4.0% by year-end. CD rates have trended lower over the past two months, and the best current 12-month CD, non-callable, is 4.0%. There are numerous ones in the 3.85% to 3.95% range. I expect them to be 3.75% or less at year-end.

While AI has performed exceptionally well over the past couple of years and rebounded in the May-June rally, I believe this is the ideal position to be in for the next several years. The Trump administration is developing new restrictions on the export of AI chips. This could act as a short-term overhang on these companies' stock prices, but longer-term AI expansion will prevail. The UBS Report below shared some additional insight about this.

UBS Daily House View: July 7th, 2025

Regulatory signals leading up to this have been relatively accommodative, with the White House reining in the Biden-era tiered AI diffusion rules. The recent rally in global tech was driven more by price-to-earnings multiple expansion than by positive earnings revisions, which suggests less room for any misses in second-quarter results. The upcoming earnings season also means the market is now in its peak blackout period for share buybacks, where companies are unable to step in and support share prices in the event of any declines.

US hyper-scalers, data center operators could be shielded. The proposal reportedly includes a key concession: American data center operators will still

be allowed to import US AI chips. This suggests major US hyper-scalers, such as Google and Microsoft, can continue their regional data center expansions without significant disruption. We believe Malaysian companies primarily serving US-backed projects should remain relatively insulated from the new export restrictions. In contrast, data center operators building facilities speculatively or targeting Chinese demand may be more exposed to order cancellations or project delays.

We think AI capex demand, outlook remains solid. Our analysis shows that AI compute, including GPUs and custom AI chips, has attracted the strongest capital investment so far in 2025. This is reflected in robust spending commitments from the Big 4, sovereign buyers (including those in the Middle East), neo-clouds, but also likely some China-linked demand. That said, the early April ban on H20 AI chip exports to China has already done much of the heavy lifting. We expect AI compute's share of total AI capex to rise from approximately 53% in 2024 to about 59% in 2025. As investment broadens into areas like high-bandwidth memory, networking, and industrial AI infrastructure, we anticipate AI compute's share will later normalize toward 50-55% from 2026 onward. Beyond near-term risks, we believe the robust secular trends in AI will continue to drive long-term gains in the tech sector.

I suppose we need a mid-year update on my 10 expectations for 2025:

1. The US stock market will end the year with a high, single-digit or low, double-digit return: So far intact
2. Oil prices will remain in the \$70 - \$85 range: Upper \$60's right now
3. By 12/31/2025, the yield on the 10-year US Treasury will be between 4.0% and 4.25%: Currently 4.38%
4. The US economy will continue to grow between 2.0% and 2.5%: Not there yet!
5. Inflation concerns increase, but does not mean ingfully re-accelerate: Time will tell

6. Russia / Ukraine conflict is resolved: Not yet
7. Iran crawls back into the dark corner: Seems to be there now
8. North Korea goes quiet: Pretty quiet so far
9. Relations with China get more tenuous as the US moves to limit / repurchase US land currently owned by China: Tensions are elevated, but more by tariffs than real estate
10. There will be another attempt on Trump's life: No

We just crossed the 10-year mark for the Trust department at KS Bank. On June 1, 2015, we started the Trust Department with \$0 assets, five employees, and a dream. On June 1, 2025, the Trust Department had just under \$275 million in assets, five employees, and a new and improved vision. A lot has changed over that time, and we have been very blessed to grow. However, it is all because of you, our wonderful clients.

Part of our new and improved dream is growing depth in the department. We have a great team in place here. Given our past growth and future expected growth, we realized that we will need new talent. Noah Holt joined our team late last year. He has been working closely with me to gain a better understanding of how Investment Management operates at KS Trust. He is new to this and young, but a highly intelligent guy. He will be working with me over the next few years to gain more insight and depth, learning how economic, political, geopolitical, and sentiment moves markets. While "book learning" helps establish a foundation, there is no better teacher than experience. Hopefully, with his knowledge and my experience, he will become a great backup for me. Heidi, who is the backbone of our operation, touches everything. She is currently at capacity, and we are looking to provide her with a backup, someone to help handle the additional growth.

It seems that I am questioned about retirement almost daily. Earl, Roger, and I have discussed this, but there is no definite date in mind. We have discussed me "cutting back" at some point, but again, there is no definite date in mind. I anticipate cutting back at some point in the future. I have been

doing this type of work for going on 33 years now. Some of my clients have been with me for more than 20 years. They are like family to me. I really enjoy what I do and the people that I work with through KS Trust, so retirement is not a destination. Now, what would cutting back look like? I anticipate retaining a select group of clients and continuing to work with them, just as I have in the past. I may even get to spend more time visiting them and working more closely with them, which would be wonderful.

We believe we are well-positioned to participate in the expected move higher. However, we are always looking to strengthen your portfolio(s) as opportunities arise. We always welcome your comments, concerns, and questions. This is your money, and we are the stewards. We appreciate the opportunity to work with you and your family.

We are committed to maintaining a clear focus on building and preserving client's wealth and enhancing their quality of life, both now and in the future. Working in a fiduciary capacity, the KS Trust team provides a single point of contact for a full array of investment services.

Our team's collective knowledge and experience forges our ability to serve our clients more extensively and develop a clear path. It allows us to address the increasingly complex challenges of today's landscape and provide comprehensive financial advice with a clear vision for the future.

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