

Quarterly Newsletter: Ending June 2025

THE ECONOMY AND STOCK MARKET

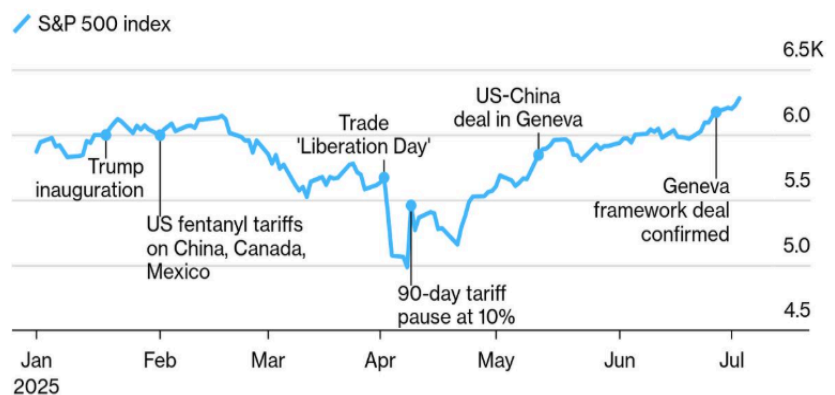
- The U.S. economy is not in a recession, though key economic data are beginning to soften.
- The S&P 500 and other stock market indexes are back at all-time highs.
- Both U.S. stocks (6.2%) and bonds were positive (5%) for the first 6 months of the year.
- Experts expect higher tariffs to eventually burden the consumer, leading to slower economic growth. The passage of the recent The One Big Beautiful Bill Act (OBBBA) could provide a short-term boost to the economy. Expect a return to slower growth, with 2025/2026 GDP estimated at 1.5%.
- Tariff revenue is up 110% (\$99 billion) from the same time last year.
 - Current rate 8-9%, with 20% expected August 1
- CPI reported a modest upward movement to 2.7.
 - Consumer electronics, furniture, appliances, toys, etc., are while housing and autos are down, mitigating the overall change
- CPI is projected at 3.5% by year's end, an increase from current levels.
- We can say 'Liberation Day' in early April lined us up at Desolate, but we have since returned to Elated.

The emotional cycle of the market



US Stocks Rebounded During 90-Day Tariff Pause

S&P 500 index surged back from Trump's April 2 reciprocal tariff plunge



Source: Bloomberg, White House

Bloomberg

LABOR MARKET

- The unemployment rate dropped to 4.15% from 4.3%, marked by fewer people looking for work. This figure does not reflect “fractional unemployment” and is likely not a true picture of reality.
- Recent reports show a decline in private sector jobs, expect weaker job growth, and higher unemployment.
- The Labor supply could tighten, particularly in agriculture and hospitality, due to draconian immigration policies.

INTEREST RATE / U.S. DOLLAR

- The Federal Reserve continues to hold interest rates steady, given continued trade & tariff uncertainty.
- The current Fed target rate is 4.25 to 4.5%.
- Consensus expects the next rate cut in September, with a few forecasters expecting a possible cut in July.
- Lower interest rates could cause an even weaker dollar as investors would look for higher yields outside of the US.
- Fed rate cuts may help the stock market but could have little effect on the economy and potentially drive up long-term interest rates.
- The U.S. dollar is down 10% since the start of the year relative to a basket of world currencies, its steepest decline since the early '70s.. The dollar remains the world's reserve currency. However, world central banks continue to diversify away from the dollar and into Gold and other haven assets. Other sovereign debt (Germany, Japan, etc.) offers opportunities as yields are no longer negative.
- The Big Beautiful Bill is estimated to increase the debt by over \$3.0 trillion in 10 years. Foreign ownership of U.S.debt peaked 10 years ago.
- Sustained rates above 5% on the 30-year bond could be problematic.

HOUSING

- 30-year fixed mortgage rate remains elevated at 6.7% compared to recent years.
- There's a limited housing supply pool for buyers. The housing market is expected to remain soft for a while.

CORPORATE EARNING

- The S&P 500 Index was trading at 22x forward price-to-earning (P/E), significantly above the historical average.

- Earnings were better than expected in the first quarter. Second quarter earnings season kicks into full swing this week with the big banks. Earnings and guidance could help give insights into the impact of tariffs on margins. A weaker dollar is a positive for earnings for companies with significant international exposure.
- 7% S&P 500 earnings in 2025, down from double digits in prior years
- AI participants continue to dominate the market and pose near-term concentration risk, with 10 stocks accounting for 74% of market gains.

GEOPOLITICAL CONSIDERATIONS

- There are many, from the Russian war against Ukraine, to Gaza, to the bombing of nuclear facilities in Iran. These events create market volatility, but are usually short-lived (for the markets), with little long-term impact.

BIG BEAUTIFUL BILL

- Individual 2017 tax cuts made permanent
 - Lower tax rates made permanent with top rate at 37%
 - Note: 10% and 12% brackets are indexed for inflation, not the other brackets (the poor could see an increased tax bill over the year).
- Temporary increase on the deductions for state and local taxes (SALT) from \$10,000 to \$40,000 for 2025, with 1% annual increases for 2026-2029
 - Phase out for \$500,000 income earners
 - Reverts to \$10,000 in 2030
- Prioritizes the standard deduction vs. itemized
 - \$15,750 (was \$15,000) for individuals and \$31,500 (was \$30,000) for married couples, indexed for inflation
- The child tax credit increased to \$2,200 (refundable portion to \$1,400) / enhanced adoption credit
- Between 2025 - 2028
 - A bonus deduction of \$6,000 for seniors over 65
 - This does not equate to no taxes on Social Security
 - Tax deduction for certain tips and overtime income (limited)
 - Up to \$10,000 deduction in interest on loans for domestic vehicle purchase, but must itemize
- Repeals clean energy car credits for purchases after 9.30.2025
- Home energy credits disallowed after 12.31.2025 service date
- Trump accounts with limits on investments
 - \$5,000 contribution per year
 - \$1,000 government contribution for children born between 2025-2028

- state, tribal gov., local gov., and non-profits can make contributions
 - Start date beginning 2026
 - Provision needs clarity
- Gambling losses, moving expenses, casualty losses, and business losses for non-corporate taxpayers continue to be non-deductible
- Extended deduction for qualified business income for owners of passthrough entities, employer tax credits for paid Family Medical Leave, and employer provided childcare
- Small business definition increased from \$50 to \$75 million, with increased tax exclusion on sale of the entity at 3 years vs. 5 years later
- 2026 Estate Tax exemption to \$15 million / \$30 million (individual/married couples). Indexed for inflation and no sunset
- Bonus depreciation and faster R&D expensing for businesses

INVESTMENT STRATEGIES

- Focus on diversification, valuation, and rebalance per your risk profile
- International developed and emerging markets are less overvalued vs. U.S. stocks.
- Dividend paying, quality growth, and value stocks; sectors including energy, and health care; alternatives with limited exposure to gold, Crypto, and commodities

ZOOM SEMINAR:

- **Monthly Zoom Info:** Educated Zoom every 2nd Thursday of each month at 4 PM PST.
 - July and August Break - resumes September 11, 2025

Zoom Archives - <https://www.labwealthmanagement.com/learning-center/>

Annual Summer BBQ / Open House

Saturday, August 9. More info will be sent soon.

My Travel Experiences: Pictured: mother and daughter taking a bath at a sanctuary in Thailand.



Thank you for your continued support.

Warm regards,

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