TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

July 2025

Quarterly Insights

EXECUTIVE SUMMARY

Domestic & Foreign Stocks Perform Similarly Well In Q2

In the Second Quarter, the domestic S&P 500 Index was up 10.94%, in line with all major regions. As tariff fears were alleviated for at least 90 days after the first week in April, market stability ensued through the rest of Q2. There was a reversal of leading and lagging sectors. The negative sector performers in Q1 - Technology, Communication Services, Consumer Discretionary, and Industrials - were the leading positive sector performers in Q2. In its June 18 meeting, the Fed announced no rate cut and indicated a future possible two 0.25% rate cuts. In Q2, the Bloomberg US Aggregate Bond Total Return USD Index (AGG) rose 1.21%.

Climbing The Wall Of Worry

You were likely very concerned about the headline news in the Second Quarter, yet the markets ascended. "Climbing The Wall Of Worry" highlights the market's ability to advance in the face of persistent skepticism and negative sentiment.

The four concerns that the market overcame in Q2 were:

1. Tariffs
2. Fed Actions
3. Recession Fears
4. U.S. Attack on Iran

Markets can be resilient and bad news does not always translate into declining prices.

Second Quarter 2025

In This Issue

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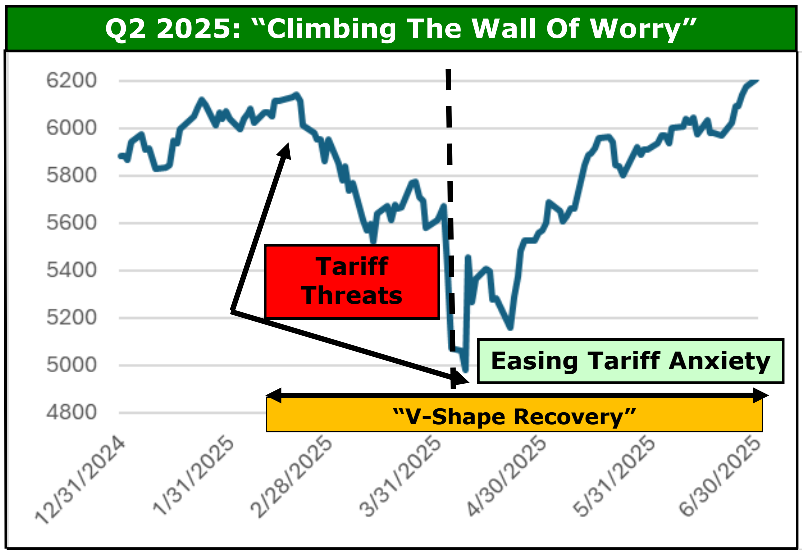
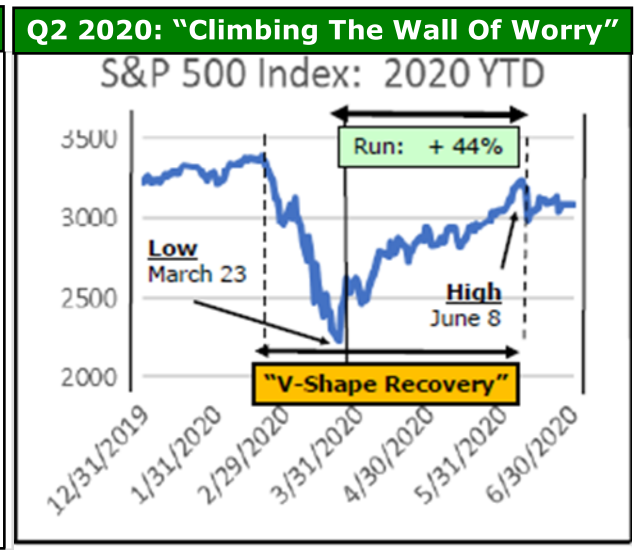
Headline News In Q2 Did Not Deter The Markets

You were likely very concerned about the news in the Second Quarter which included the potential actions of the Administration regarding tariffs, interest rate policy from the Fed, the prospect of a recession, and a major global event (the US attack on Iran). Despite the headline news, markets ascended. “Climbing The Wall Of Worry” highlights the market’s ability to advance in the face of persistent skepticism and negative sentiment. It is a reminder that markets can be resilient and that bad news does not always translate into declining prices. This phenomenon reinforces the importance of having discipline and patience for successful long-term investing. Many people get scared out of the market with the first hint of adversity.

The S&P 500 Index Had A V-Shape Recovery

There was a V-Shape recovery in Q2 2025, similar to what happened in Q2 2020 after the pandemic shock.





Four Concerns That The Market Overcame

1. Tariffs

Leading up to Q2, tariff threats negatively impacted the market. On April 2 (“Liberation Day”), the U.S. implemented a 10% tariff on all imports with plans for even higher country-specific tariffs. On April 9, after a stock market plunge and intense economic pressure, the Administration paused most of the additional tariffs for 90 days. There was relief and optimism in financial markets, although tariff concerns past July 8 remain.

2. Fed Actions

The Fed maintained its target interest rate at 4.25%-4.50%, citing ongoing economic uncertainty and inflation concerns related to tariffs. They stated that tariffs could simultaneously raise inflation and dampen economic growth (stagflation). However, the market downplayed these concerns and instead shifted to optimism about future Fed rate cuts. The odds of a 0.25% cut by September recently surged to 92%. This propelled the market.

3. Recession Fears

Forecasts for economic growth turned more pessimistic. Q1 GDP fell 0.5%. The probability of a negative GDP quarter in Q2 jumped to 37% (from 15% the previous quarter) and the risk remained elevated for subsequent quarters. While 63% of traders predicted a recession, many viewed the market as a buying opportunity.

4. U.S. Attack on Iran

On June 21, the U.S. launched a surprise large-scale airstrike against three major Iranian nuclear facilities and the stock market yawned. As concerning as“Operation Midnight Hammer” was, it was a market non-event.

Looking Ahead To More Potential Momentum: We Are Excited About Financial Reforms

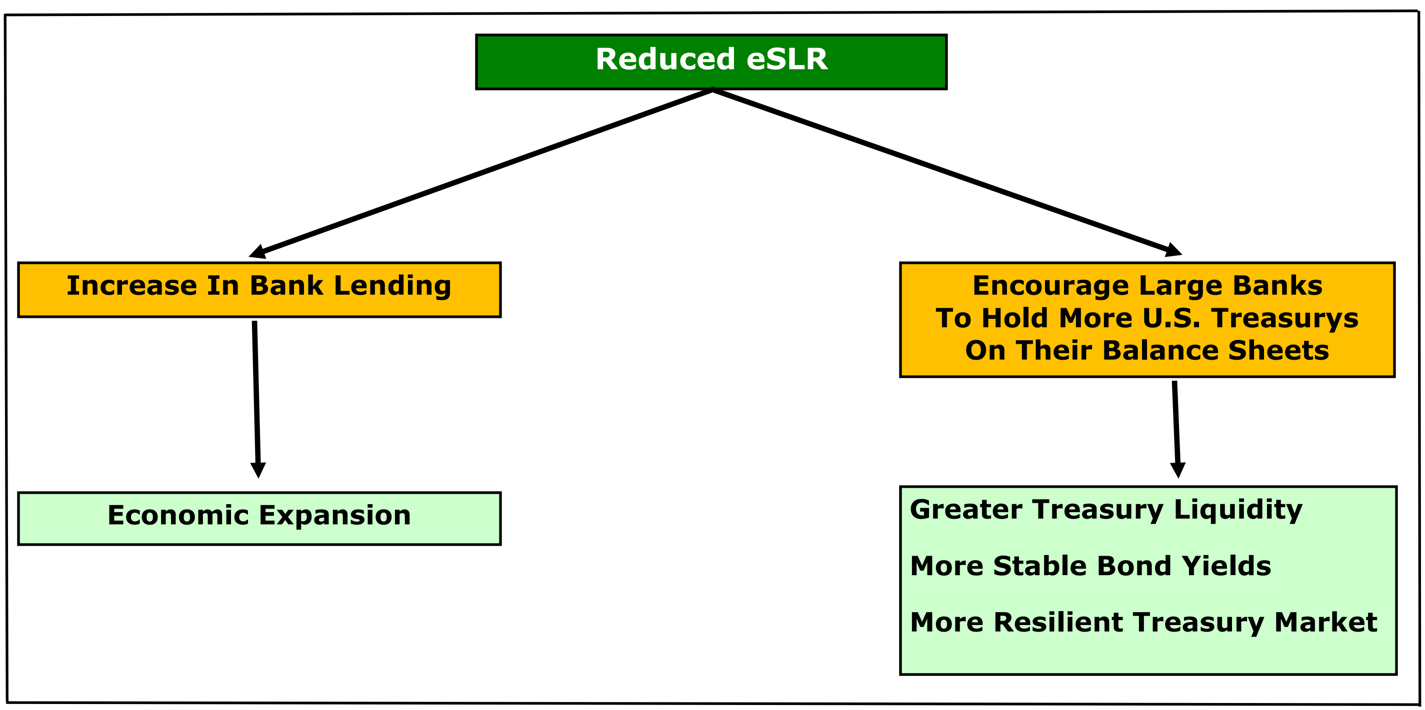
As part of a broader deregulatory push by the Trump Administration, big banks are closer to getting one of the biggest regulatory rollbacks since 2008.

On June 25, U.S. regulators proposed a rule change that would alter the **"enhanced supplementary leverage ratio" (eSLR),** a rule that calls for the largest U.S. banks to hold additional minimum capital based solely on their size. The largest and most important U.S. lenders (such as JP Morgan Chase, Bank of America, Goldman Sachs Group, Morgan Stanley) currently must keep their eSLR at 5%.

The proposal would lower the eSLR by 1.4% (a revised eSLR of 3.6%), which translates to a reduction of roughly $200 billion in minimum capital requirements for the big banks. Reforms could unlock nearly $6 trillion in balance sheet capacity for the big banks (source: Morgan Stanley). The lower capital ratio should make it easier for banks to lend more freely and help create an even bigger pool of buyers for US Treasurys.

Banks have complained that the current eSLR penalizes them for holding lower-risk assets such as Treasury bonds. A reduced eSLR should encourage banks to hold more Treasurys on their balance sheets, which should improve Treasury market functioning. There would be a lower chance that the Fed would need to intervene in Treasury markets during chaotic periods. Banks could help stabilize the bond market. As far back in February, Fed Chair Jerome Powell has voiced his concern about Treasury market liquidity, pointing to reducing the eSLR as an "obvious thing to do".

The Fed will soon vote on the proposal. Two other regulatory agencies (the Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency) have also collaborated on the proposal. On July 22, the Fed will host a conference to bring together leaders to discuss the capital framework for U.S. banks.



Domestic & Foreign Stocks Perform Similarly Well In Q2

In the Second Quarter, the domestic S&P 500 Index was up 10.94%, in line with all major regions. As tariff fears were alleviated for at least 90 days after the first week in April, market stability ensued through the rest of Q2. Recall in Q1 that tariff fears hit the domestic S&P 500 hard while catapulting Europe and China. In Q2, China (+2.01%) cooled off from a torrid Q1 (China is +17.33% year-to-date).

Equity Index Performance

Index	Q2 2025	2025 YTD
S&P 500 (Domestic)	**10.94%**	**6.20%**
MSCI EAFE (Foreign) *	**11.78%**	**19.45%**
MSCI Emerging Markets	**11.99%**	**15.27%**
MSCI EMU (European Monetary Union)	**14.05%**	**27.93%**
MSCI Japan	**11.36%**	**11.73%**

* Europe, Australia and the Far East

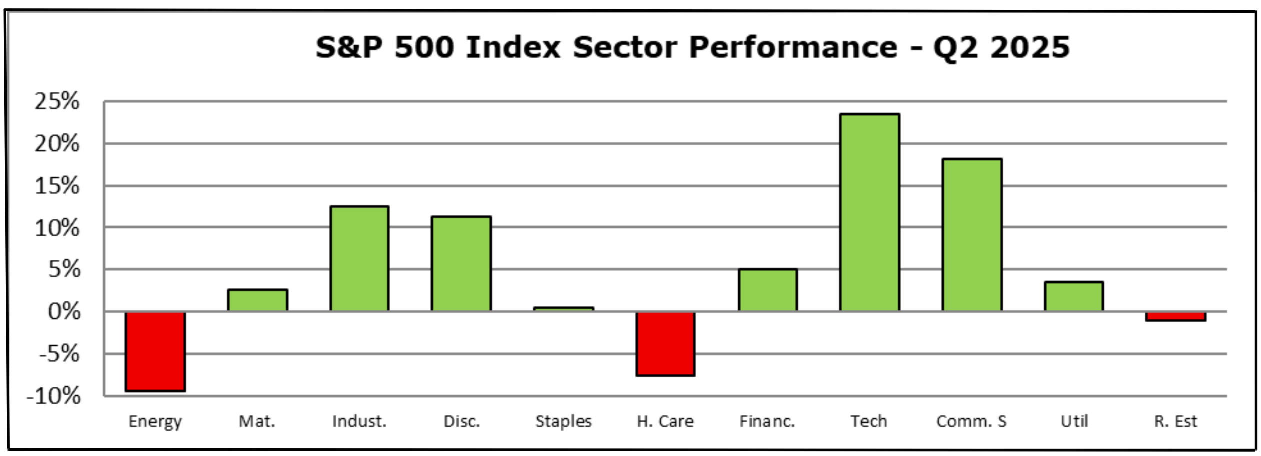
"Climbing The Wall Of Worry" In Q2: A Reversal Of Leading & Lagging Sectors

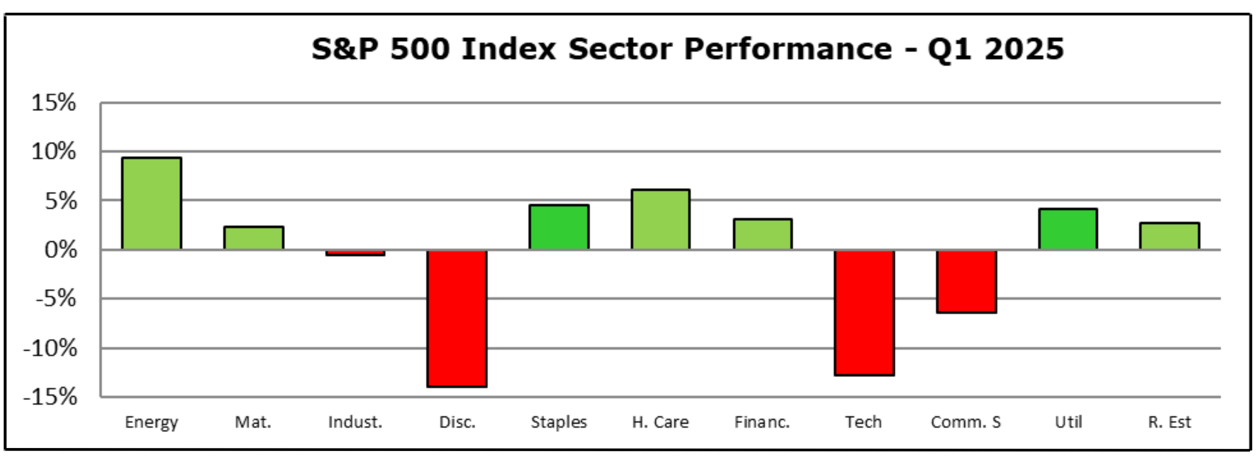
The negative sector performers in Q1 - Technology, Communication Services, Consumer Discretionary, and Industrials - were the leading positive sector performers in Q2 as the market "climbed the wall of worry".

The leading positive sector performers in Q1 - Health Care and Energy - were the negative performers in Q2.

Please see "Outside The Box" (page 8) for comments regarding this performance reversal.

Sector out-performers year-to-date: Industrials, Financials, Technology, Communication Services, Utilities





Bonds Rise In Q2

The Bloomberg US Aggregate Bond Total Return USD Index (AGG), a broad-based representation of bond performance, rose 1.21% in the Second Quarter and is up 4.02% year-to-date. The Fed's preferred inflation gauge, the core Personal Consumption Expenditures Index, rose 2.7% in May. In its June 18 meeting, the Fed announced no rate cut and indicated a future possible two 0.25% rate cuts.

Key US Interest Rates	June 30, 2025	March 31, 2025	Change
Federal Reserve Board Funds Target Rate	4.25% - 4.50%	4.25% - 4.50%	No Change
2-Year Treasury (Constant Maturity)	3.72%	3.89%	- 17 basis points
5-Year Treasury (Constant Maturity)	3.79%	3.96%	- 17 basis points
10-Year Treasury (Constant Maturity)	4.24%	4.23%	+ 1 basis points

Why Have Bonds And The S&P 500 Index Performed Closely So Far In 2025?

Bond and stock correlations tend to decline in difficult periods - as one moves in a given direction, the other moves in the opposite direction. This is the safety rationale for a balanced portfolio. Why have bonds (+4.02%) and the S&P 500 Index (+6.20%) performed closely so far in an unusually eventful 2025?

While their aggregate performance is close year-to-date, it is important to break down the net results into time intervals. In short, we have seen a "tale of two quarters" so far in 2025 that have brought together stock and bond performance year to date. Indeed there has been negative performance correlation.

In the First Quarter, tariff uncertainty was the driving force. The combination of tariff anxiety, declining consumer confidence, and negative U.S. stock momentum caused bond prices to rise because there was a "flight of safety" to bonds.

In the Second Quarter, "climbing the wall of worry" was the driving force. Easing tariff anxiety catapulted U.S. stock momentum and there was a less-pronounced "flight of safety" to bonds.

U.S. Stock & Bond Performance: 2025 Year-To-Date			
	Q2 2025 "Climbing The Wall Of Worry"	**Q1 2025 Tariff Uncertainty**	**2025 YTD "A Tale Of Two Quarters"**
S&P 500 Index	+10.94%	- 4.27%	+6.20%
Bond Index (AGG)	+ 1.21%	+ 2.78%	+4.02%

Bonds Continued To Buffer Stocks In Q2

Bonds performed reasonably in Q2, both appreciating in price and paying interest. For portfolios with a mixed target asset allocation, bonds provided a nice buffer to a U.S. stock market still challenged by potential tariffs. Q2 illustrated the importance of portfolio risk control via a component of bond exposure.

No-risk short term US Government Treasurys (duration one year or less) continue to offer in the range of a 4.0% - 4.25% yield (not bad!).

What Is The Right Portfolio Withdrawal Rate In Retirement?

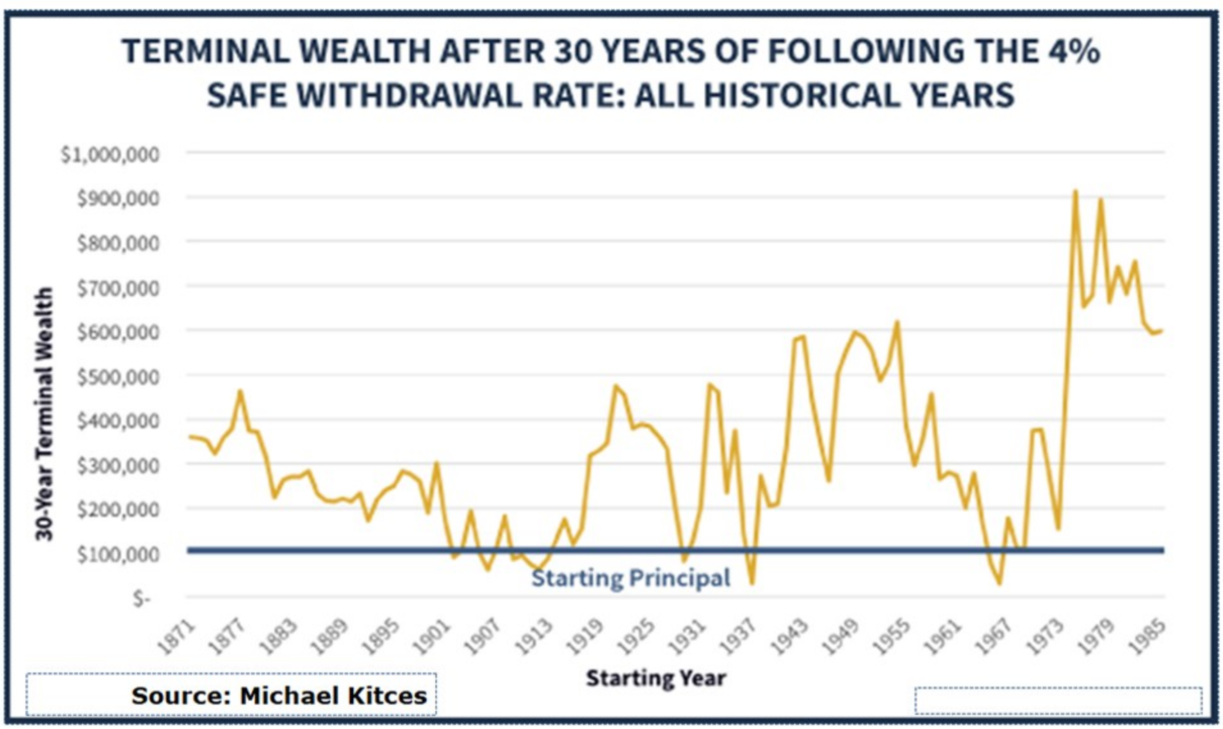
A successful retirement might be defined as not outliving one's assets. Today, the most important question we hear is not "How much will I earn on my portfolio?" but rather, "Am I going to have sufficient funds to take care of myself in my retirement?" Investors have other concerns, of course - leaving a legacy to children, charitable giving - but for most, the fundamental concern is being able to take care of themselves in their retirement.

A Sustainable Portfolio Withdrawal Rate Is The Key Factor For Retirement Success

TriVant devotes tremendous time and technology towards the retirement safety of our clients. We advocate a minimum standard 80% probability of success. Our detailed financial planning approach starts with pinpointing the needed withdrawal from a portfolio to meet income needs - this is inevitably a moving target. Once we know the required withdrawal in terms of dollars, we can calculate the percentage withdrawal rate (required annual withdrawal divided by portfolio asset value). We assess whether the withdrawal rate, in the context of the investment time horizon (expected lifespan) of the investor, is sustainable.

We Disagree With The Consensus View Of A 4% Withdrawal Rate For Safe Retirement

Michael Kitces published some interesting statistics regarding taking out inflation-adjusted withdrawals starting at "the 4% safe withdrawal rate". In only 12 of the 115 rolling 30-year time periods did the retiree finish with anything less than the original principal (and not much less). Put another way, 90%+ of retirees finished with more than the starting point. Over two-thirds of the time, the retiree finished with more than double their initial wealth. Half the time, wealth nearly tripled by the end of retirement.



From our standpoint, the consensus view of a 4% safe withdrawal rate for retirement produces a too-high probability of excess terminal wealth. Retirees can afford to spend more! The question is how much more.

Conditional Life Expectancy Suggests A Sustainable Withdrawal Rate Well Above 4%

As age increases, the median age at death also increases. In other words, the probability of survival is conditional, not constant. This uncertainty should be a vital component of retirement planning. Our safe withdrawal framework is influenced by the IRS, who use conditional life expectancies to derive Required Minimum Distributions (RMDs) from tax-deferred accounts. As age increases, the distribution period (life expectancy, also known as the factor) decreases, but the median age of expected survival increases. The IRS is effectively trying to "force" sustainable withdrawals - they need you to take withdrawals that are taxed, but they do not want you to run out of money in your lifetime. In fact, the IRS is being ultra conservative in their life expectancy assumptions, over-estimating life expectancies to ensure a 100% safe withdrawal rate. We (TriVant) target an 80%+ probability of success for a safe withdrawal rate, lower than the 100% target rate of the IRS. Hence our safe withdrawal rates exceed those of the IRS prior to age 90.

Selected Data From Uniform Lifetime Table (Source: Internal Revenue Service)

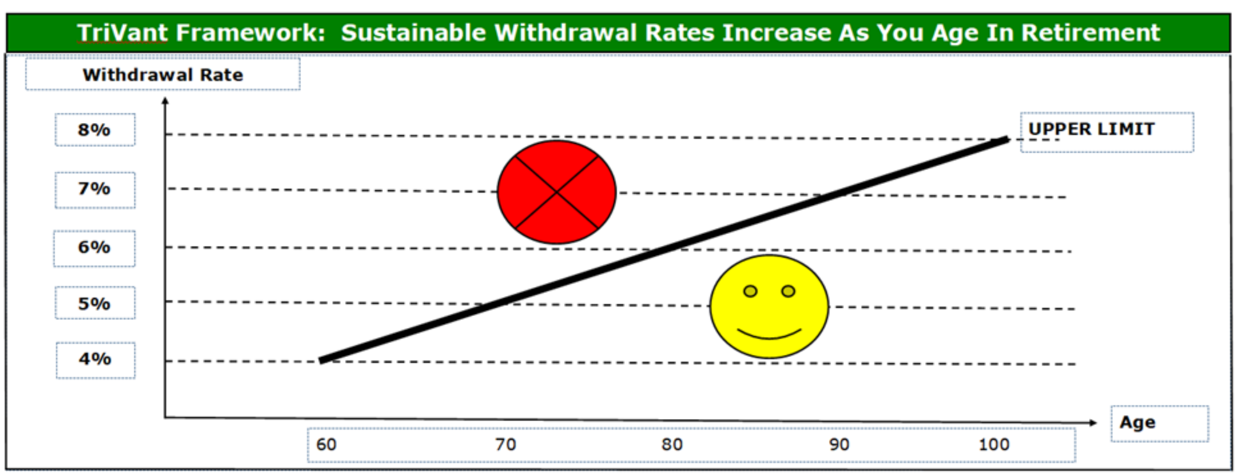
Age	Distribution Period ("Factor")	Implied Life Expectancy (Years)*	Withdrawal Rate For RMD **
73	26.5	97.5	3.8%
80	20.2	100.2	4.9%
90	12.2	102.2	8.2%
100	6.4	106.4	15.6%
110	3.5	113.5	28.6%

* Implied Life Expectancy = Age + Distribution Period ("Factor")

** Withdrawal Rate For RMD = 1 / Factor

It is reasonable to assume your portfolio will have some degree of positive returns over longer-term investment time frames. We assessed stock market returns since 1926 and the average annual return is roughly 10%. The worst 10-year rolling return was only –1.40% (this was measured in an historically bad 2008). All 20 and 30-year rolling returns were positive. The worst 30-year rolling return was 8.48% (1957).

A "safe withdrawal rate" (80%+ probability of success) should for the most part exceed the rates used by the IRS. We suggest the following "sliding scale framework" for sustainable portfolio withdrawal rates:



Our framework is simple. Sustainable withdrawal rates increase with age and represent an "upper limit" of what is safe to do to have an 80%+ probability of retirement success. Withdrawal rates should be monitored and lowered if over the limit. If the rate of withdrawal is below the limit, this is fine - legacy will be enhanced.

On April 2, President Donald Trump announced a comprehensive tariff policy during an event he called "Liberation Day". A baseline 10% tariff was imposed on all U.S. trading partners (Mexico and Canada were exempt, as they already had a 25% tariff applied). Reciprocal tariffs were also announced. A reciprocal tariff is an additional tariff above the baseline where the U.S. imposes a level of tariffs on imports from another country because that country imposes tariffs on the U.S. for the U.S. exports to that country.

On April 9, after an immediate stock market plunge following April 2 and intense economic pressure, the Administration paused most of the additional tariffs for 90 days. There was relief and optimism in markets through the rest of Q2 as we "climbed the wall of worry", although tariff concerns past July 8 remain.

In an eventful Q2, we adjusted the portfolio more than usual but did not take any abrupt actions: we have long-term faith in the market. Two strategic considerations were foreign exposure and sector weightings.

1. Foreign Exposure

As discussed in our Quarterly Insights April 2025 report (page 3), we continued to increase our foreign stock exposure in Q2. Our rationale for the increased exposure - U.S. companies are uncertain about the economy, U.S. consumers are uncertain about the economy, and Europe is increasing its spending - remains valid.

2. Sector Weightings

As the market "climbed the wall of worry", the alleviation of tariff concerns helped Technology. However, federal policies hurt Health Care. We shifted accordingly - raising Technology and reducing Health Care.

We will continue to closely monitor the market and adjust your portfolio as needed. Please feel free to contact us anytime to discuss questions or comments you may have. We will keep you informed of portfolio progress.

Respectfully submitted,

TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

Disclaimer

The information presented herein is intended for informational purposes only. All views are subject to change based on updated indicators. The recommendations made in this publication are made without regard to individual suitability. Investors should consider their own needs and objectives before making any investment decision.

Commentary in this review reflects our portfolio strategy. Many of our clients have different objectives and circumstances which are reflected in unique portfolio considerations. Please note that accounts may not contain all elements of the strategy discussed here. Additionally, individual client customizations and start dates may preclude certain elements of this strategy from being implemented.

Past performance is no guarantee of future results. A risk of loss is involved with investments in stock markets.