

FLAGSTONE

FINANCIAL ADVISORS, INC.

MARKET REVIEW SECOND QUARTER 2025

What Happened:

It was a tough start to the year with the S&P 500 Index falling 18.9% from its February peak through early April. The financial markets were rattled by the negative headlines of tariffs, recession fears and rising geopolitical tensions. The wall of worry was formidable. Then, in mid-April, we saw a dramatic shift in sentiment. Investors looked beyond the gloom and focused instead on positive factors such as advancements in artificial intelligence, upward revisions to corporate earnings projections and the prospect of improvements in geopolitical relations. Enthusiasm came roaring back. By the end of June, most market indices had recovered all of their previous losses and were chasing all-time highs.

While U.S. stocks struggled in early 2025, international stocks never showed signs of weakness. In fact, gains were 19.5% through the first half of 2025 and 11.8% for the quarter, handily beating U.S. stocks. This follows several years of underperformance in the international sector. Valuations had fallen to extremely low levels making stock prices very attractive. Even with the recent climb, valuations remain low and may support further advances.

It is an interesting time in Washington D.C. where things are happening at a frenetic pace. As of this writing, Congress is working on the One Big Beautiful Bill which, if passed, will have far-reaching impacts on taxes and the economy, immigration, Medicaid, and much more. We're purposely not taking a position on this bill, but based on recent market advances, the financial markets appear to support its key provisions.

Second Quarter 2025 Performance:

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| S&P 500 Index (large stocks) | 10.9% |
| Russell 2000 Index (small stocks) | 8.5% |
| MSCI EAFE Index (international stocks) | 11.8% |
| Bloomberg U.S. Aggregate Bond Index (bonds) | 1.2% |

Prognosis:

We live in a complicated world with both positive and negative influences at play. Investors in general are a sour bunch and they dwell too much on the negative. At Flagstone, we are more optimistic about the economy and the financial markets. We understand the long-term direction of the market is up and that well-run businesses find a way to make profits no matter what obstacles are thrown in their way. It's never a straight line, but the trend is upward.

As we approach corporate earnings season in the coming weeks, we expect actual earnings to beat analysts' projections. What's more, there is a consensus that the Federal Reserve will cut interest rates soon which will give the economy a boost. Momentum is building for further advances as we move into the second half of 2025.

Enjoy the summer! Our favorite season!

SCK