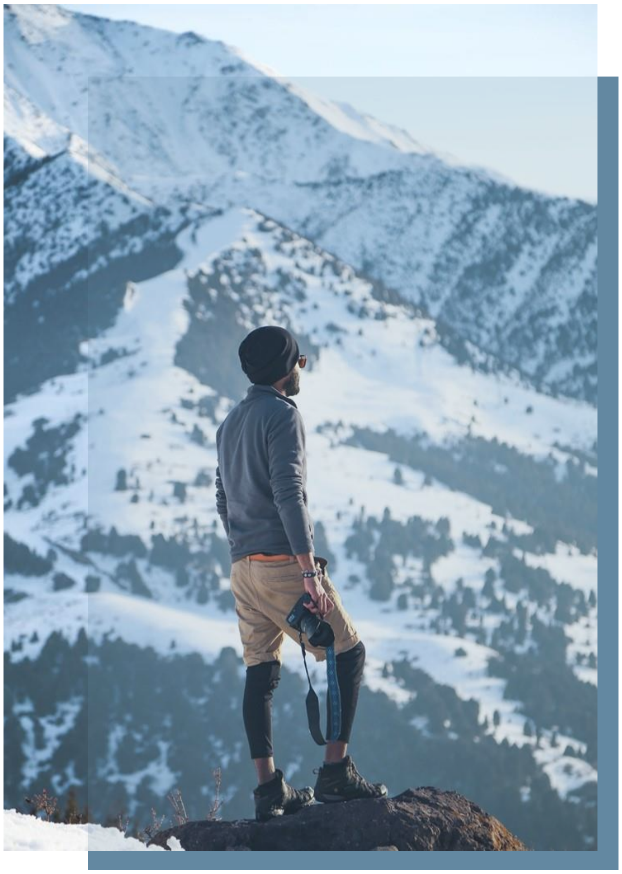
PERSPECTIVES

Benefit Financial Services Group Newsletter

Quarter Ending June 30, 2025



What's New

Market Recap

Brent Miller, CFA® (Senior Portfolio Manager)

After a challenging start to the quarter, marred by a tariff-induced sell-off in the first part of April, equity markets staged a remarkable turnaround in Q2 2025. After bottoming out on April 7th, both the S&P 500 Index[1] and Nasdaq Composite Index[2] rebounded strongly, surging by 28.3% and 37.8%, respectively, to close out the quarter, reaching new all-time highs in the process. This largely V-shaped recovery was aided by positive trade developments, easing inflation pressures, and resilient corporate earnings. In addition, investors' risk appetite returned as economic data softened just enough to revive hopes for rate cuts later this year without triggering fears of an imminent recession.

The S&P 500 gained 10.6% in Q2 2025 while the Nasdaq Composite climbed 17.7%, erasing all the first quarter's losses in the process. Importantly, market leadership reverted back to growth and large-cap technology stocks, with the tech-heavy Nasdaq-100 Index[3] posting a 17.6% return during the quarter. In contrast, the Dow Jones Industrial Average[4], more value-oriented in its composition, underperformed with a 5.0% gain, highlighting a renewed tilt toward growth over defensiveness. The Russell 2000 Index[5], representing small-cap stocks, gained 8.1%, underperforming large-cap indices due to persistent concerns about tariff impacts and fears about a "higher for longer" interest rate environment adversely impacting highly levered small-cap companies.

Market breadth narrowed considerably during the quarter. After outperforming the S&P 500 by 3.5% in Q1 2025, the S&P 500 Equal Weight Index[6] underperformed the market cap-weighted version of the S&P 500 by 5.6% in Q2 2025. In addition, despite Apple Inc. (AAPL) declining by 7.6% in Q2 2025, the mega cap "Magnificent Seven"[7] stocks generated an average return of 21.5% in the quarter, eclipsing the return of both the S&P 500 and the S&P 500 Equal Weight Index. By contrast, the Magnificent Seven stocks significantly underperformed both indices in Q1 2025, declining by 15.8% compared to a 4.6% (1.1%) decline in the S&P 500 (S&P 500 Equal Weight Index).

International markets continued their strong relative performance in Q2 2025, though the pace of outperformance versus U.S. equities moderated. The MSCI World ex USA Index[8] appreciated by 10.9% in the quarter, driven by robust returns in Japan and continued strength in Europe.

After a flat start to the year, the MSCI Japan Index appreciated by 11.2% in Q2, driven by easing trade tensions, attractive relative valuations, a weaker Yen, and accommodative monetary policy. The MSCI Europe Index built on a robust Q1 (+9.9%) with another strong quarter in Q2 (+9.8%). Consequently, the index appreciated by 20.7% in the first half of 2025, easily eclipsing the 5.5% return in the S&P 500 over this same time frame. European outperformance continues to be driven by attractive valuations, a relatively dovish monetary policy, and a weak U.S. dollar (boosting dollar-denominated returns for U.S. investors). Emerging markets also performed well, with the MSCI Emerging Markets Index[9] up 11.0%, led by exceptionally strong performance from Korean equities.

Moving on to domestic monetary policy, the Federal Reserve ("the Fed") kept the federal funds rate unchanged at 4.25%–4.50% at both the May and June 2025 Federal Open Market Committee ("FOMC") meetings with Fed Chair Jerome Powell, emphasizing a cautious approach despite recent disinflation trends, citing uncertainties around tariffs and their potential inflationary impact. The June Summary of Economic Projections (SEP) showed a consensus expectation of two rate cuts in the second half of 2025.

In fixed income, the 10-year U.S. Treasury yield finished the quarter at 4.23%, at the same yield where it started at the beginning of the quarter. But this view obscures some significant intra period movements. From 3/31/25 to 4/4/25, the 10-year yield declined from 4.23% to 4.01% as President Trump's "liberation day" reciprocal tariff announcement and threat of a protracted trade war with China triggered a "flight to safety" rotation from equities to bonds.

After bottoming out in early April, the 10-year Treasury yield began a mostly upward ascent, reaching a zenith of 4.58% on 5/21/25. This ascendent trend was driven by a combination of factors, including the 90-day reciprocal tariff reprieve announced by President Trump on 4/9/25, resilient economic data, and a repricing of Fed rate cut expectations. The final move in the 10-year yield occurred between 5/21/25 and 6/30/25, a period that saw the yield decline from 4.58% to 4.23%, primarily driven by cooling inflation and slightly weaker economic indicators. This roller coaster ride in yields resulted in the Bloomberg U.S. Aggregate Bond Index[10] returning 1.3% in Q2 2025. While long duration bonds were pressured, as exemplified by the iShares 20+ Year Treasury Bond ETF (TLT) declining by 2.0% in Q2 2025, the iShares 1-3 Year Treasury Bond ETF (SHY) gained 1.2%.

On the commodity front, oil prices, which had posted modest gains in Q1 2025, faced new pressures in Q2 2025 related to trade policy uncertainty, new geopolitical risk factors (i.e., the conflict between Israel and Iran), and concerns about global economic growth and demand. All these factors combined to create significant volatility in Brent crude commodity pricing during the quarter.

As a case in point, consider that the price of Brent crude oil dropped by 21.9% to start the quarter, bottoming out at $60.31per barrel on 5/7/25. From there, the price of Brent crude reversed course, appreciating by 33.3% to close at $80.37 per barrel on 6/19/25. Brent crude finished the quarter on a weak note, closing at $68.15 per barrel on 6/30/25. Over the entire quarter, Brent crude posted an 11.8% decline despite significant intra-quarter movements. The S&P 500 Energy sector, which had been a top performer in Q1 (+9.1%), declined by 9.2% in the second quarter.

Looking ahead, we remain cautiously optimistic for the remainder of 2025. If tariff uncertainties continue to subside and economic growth stabilizes, the Federal Reserve may maintain a balanced monetary policy to address inflation without derailing the labor market. Strong corporate earnings and resilient economic fundamentals could support further equity market gains. However, risks remain, including potential trade disruptions and inflationary pressures, which could reintroduce volatility. Investors should stay vigilant as the economic and policy landscape evolves.

Forecast

Steven Yamshon, Ph.D. (Managing Principal)

As an annual tradition prior to joining BFSG, I hosted an investor luncheon on June 21st at the spectacular Balboa Bay Club where guest speakers joined us to share their insights. Here are some essential takeaways from the event that I would like to share with you:

Chen Zhao, from Alpine Macro, spoke about the macroeconomy. He thinks that if tariffs remain between 10% and 15%, then there will be a limited impact on the economy. If President Trump's "One, Big Beautiful Bill" passes into legislation (which it did on July 4th), the U.S. stock market will likely experience a "parabolic" rise. Note, BFSG's base case is that we believe we will have a good stock market this year, but not a parabolic one. Looking at the late 1990s, there are many similarities to the present that are conducive to good stock market returns. They include a lowering of interest rates, inflation falling faster than expected, a solid economy, cheap oil, and a significant productivity gain. The only difference now is that we are experiencing geopolitical events, and that could be a spoiler.

Dr. John Kardosh from UCLA gave an excellent talk centered around generative artificial intelligence (AI). You may know this as ChatGPT. He explained that it is essential to get the prompts right and suggested providing ChatGPT with the necessary information to write a good prompt ("meta prompting"), allowing it to generate the prompt on its own. This way, you will get better results. He also discussed how all the generative AI models, such as ChatGPT, Gemini, Claude, and Perplexity, utilize data that is approximately 3 months old. So don't expect a correct answer if you're looking for something that happened yesterday or the day before. Large Language Models (LLMs) build upon themselves, store this information, and then synthesize for the prompt user. Kardosh recommended not to put personal information into the LLMs because it will store and use that information for other tasks.

Michele Berk, President of Lotus Pictures, discussed the use of AI in the entertainment space. She believed it would enhance productivity, reduce expenses, and enhance a film's accuracy. Michele exemplified this by sharing how in the past, it might have cost a studio a million dollars and multiple months to do a film re-shoot, but it can now be done with AI at a fraction of that cost and time. She sees AI not replacing creative talent, but augmenting it and creating new jobs for those with good AI skills.

I spoke on using AI in the investment process. We are currently experimenting with using AI in asset allocation and parsing news, earnings releases, and other publicly available information to glean insights about some of the companies we follow. However, we are keenly aware of and sensitive to the use of any client's personal information, as John Kardosh pointed out, and we will not do so.

Artificial Intelligence is not new and has been in existence since the 1950s when researchers were trying to mimic the human brain. IBM's Watson can beat Garry Kasparov, the master chess champion, in chess, but AI is not yet sophisticated enough to replace human reasoning, creativity, and innovation. That will take a few more decades, and we are still pretty far off from that happening.

Portfolio Management

Michael Allbee, CFP® (Principal/Senior Portfolio Manager)

Speculation has once again taken center stage. Meme stocks and money-losing companies are fueling a rally that's pushed markets to new highs, while Bitcoin has surged past $100,000. Momentum investing — chasing what's already gone up — has been the best-performing strategy this year. It's easy to feel like the hot players are raking in chips at the casino tables. But as Warren Buffett reminds us, capitalism is a magnificent cathedral of productivity — with a casino attached. Our job is to make sure your wealth is built in the cathedral, not wagered in the casino.

At our firm, we reject the idea that popularity equals value. Investing without regard to business fundamentals runs counter to the very principles of capitalism. Rationality, a cornerstone of the efficient market hypothesis, is often absent in speculative frenzies. We believe in the power of patience, discipline, and a three-to-five-year view that helps us tune out the noise and avoid emotional decision-making. As Buffett also said, "The stock market is a device for transferring money from the impatient to the patient."

Rather than chasing trends, our research is rigorous, and our decisions are grounded in data — not emotion. While technical trends may dominate in the short term, valuations remain the true driver of long-term returns. We understand the temptation to chase complexity or excitement, but we believe that steady compounding, well-researched ideas often yield the best outcomes. Our diversified portfolios are built to weather volatility and capitalize on opportunities — whether the market climbs the proverbial "wall of worry" or takes a detour.

In this environment, bonds are not just a defensive play — they're a strategic tool for enhancing income, managing risk, and maintaining balance in portfolios. Our approach continues to emphasize high-quality issuers, duration management, and diversification across sectors to optimize risk-adjusted returns.

In a world increasingly driven by speculation, we remain committed to thoughtful, fundamentals-based investing that honors the cathedral of capitalism and safeguards your long-term wealth.

Talk With Us!

Arash Navi, CPA, CFP® (Wealth Manager)

On July 4, 2025, President Donald Trump signed the "One, Big, Beautiful Bill" (OBBB) into law, introducing major updates to the U.S. tax code for 2025 and 2026. Politicians on both sides of the aisle have developed a habit of bundling major legislation into large, complex bills to appeal to a wide range of constituents, from moderates to hardline conservatives. They then use budget reconciliation to pass these bills with a simple majority, bypassing the Senate's 60-vote filibuster threshold. This approach allows lawmakers to hide unpopular measures within broadly appealing packages. This is one of the main reasons we have witnessed that, regardless of which party is in charge, the deficit keeps climbing, and I believe our founders would certainly disapprove of how our Congress is managing the country today.

"When the people find that they can vote themselves money, that will herald the end of the republic."
— Benjamin Franklin

The "beautiful" bill includes over $1 trillion in Medicaid cuts and the repeal of clean energy credits, offset by numerous tax cuts that are likely to increase the federal deficit, complicate budget management, and potentially reduce benefits for future generations. In the short term, however, the OBBB offers several provisions that may benefit you. We are still uncovering what is included in this bill and how it will impact individuals and our economy in the long term, but for now, I've summarized the key perks you might find applicable[11]:

Permanent Extension of TCJA Provisions

The OBBB **makes permanent the 2017 Tax Cuts and Jobs Act (TCJA)** provisions, stabilizing tax planning. Individual income tax rates remain at 10%, 12%, 22%, 24%, 32%, 35%, and 37%, and the **2025 standard deduction** is **$15,750** for single filers and **$31,500** for joint filers, adjusted for inflation. This consistency benefits those managing retirement income or business earnings. The **estate and gift tax exemption** rises to **$15 million** (single) or **$30 million** (joint) in 2026, easing tax burdens for those with substantial assets. High-net-worth and ultra-high-net-worth individuals may need to reassess estate plans to optimize tax benefits and look at gifting to use up all the additional exemption amounts.

New Deduction for Older Taxpayers

A **$6,000 bonus deduction** ($12,000 for joint filers) is available for individuals aged 65 and older, effective 2025–2028, for incomes up to **$75,000** (single) or **$150,000** (joint), phasing out by **$175,000** (single) or **$250,000** (joint). For someone with $70,000 in income, combining this with the standard deduction ($15,750) and existing age-based deduction ($3,200) reduces taxable income by **$24,950**, potentially saving **$5,500** in taxes (22% bracket)!

Enhanced SALT Deduction

The **state and local tax (SALT) deduction cap** increases from **$10,000** to **$30,000** in 2025, rising 1% annually through 2029, before **reverting to $10,000 in 2030**. It phases down by 20% for incomes above **$200,000** (single) or **$400,000** (joint). This change benefits those in high-tax states like California, particularly property owners or business owners, by allowing greater deductions for state income and property taxes.

Business and Investment Opportunities

For those with pass-through businesses, the **Section 199A deduction** remains at **20%**, made permanent, with a **$400 minimum deduction** for those with at least $1,000 in qualified business income (QBI). This reduces taxable income, freeing up funds for reinvestment. The OBBB reinstates **100% bonus depreciation** for short-lived assets and R&D expenses (2025–2029), encouraging equipment purchases. The **Low-Income Housing Tax Credit** expands, appealing to real estate investors, and **qualified small business stock (QSBS)** exemptions increase to **$15 million** from $10 million, benefiting early-stage investors.

Education

The bill **terminates income-contingent repayment plans** beginning July 2026 and those student loan borrowers could choose from a standard repayment plan or the new "Repayment Assistance Plan" based on 1% to 10% of their Adjusted Gross Income (AGI). **Eliminates Grad PLUS Loans**, subsidized Stafford loans for graduate and professional students, starting July 2026. The bill also caps the maximum amount undergraduate, graduate, and professional students could borrow. Beginning in 2026, a **529 account** can also be used to pay up to **$20,000** of elementary or secondary tuition (up from $10,000 currently).

Autos

The **energy credits** ($7,500 for new, $4,000 for used) to purchase electric vehicles (EVs) and hybrid vehicles will **end on September 30**. Taxpayers can **deduct up to $10,000 in interest on a loan** used to purchase a qualifying vehicle. Certain rules apply, including: the car must be purchased (not leased) between 2025 and 2028, must be for personal use, and final assembly must have occurred in the United States.

Charitable Giving

The OBBB introduces several updates to charitable giving rules, offering new opportunities and limitations depending on how taxpayers file. **For those who claim the standard deduction** starting in 2026, taxpayers can claim a separate deduction of up to **$2,000 ($1,000 for all other filers)** for **cash gifts**, provided they are not made to a private foundation or donor advised fund. Beginning in 2026, only contributions exceeding 0.5% of adjusted gross income will be deductible **for those who itemize deductions**.

Additional Provisions

The **child tax credit** rises to **$2,200** per child (a $200 increase) in 2025, indexed for inflation, supporting those with dependents. **Tips and overtime** (up to $25,000 and $12,500, respectively) are tax-exempt from 2025–2028, aiding part-time workers. Creates new tax-advantaged **"Trump accounts"** strucutred like individual retirement accounts for children, including a **$1,000 tax refund** to Trump account contributions for citizens born from 2025 through 2028.

Planning Ahead

If you're interested in seeing how this bill may impact your financial and retirement plans or are curious about other provisions we didn't cover here, please don't hesitate to **Talk With Us!**

In the News

- BFSG named one of InvestmentNews "5-Star Wealth Management Teams" for 2025.*
- BFSG named one of Barron's "Top 100 Institutional Consulting Teams" for 2025.**
- Michael Allbee, Senior Portfolio Manager, ranked in AdvisorHub's "Advisors to Watch" 2025*** and Forbes/SHOOK "Best-in-State Wealth Advisor" 2025 List.****

** Investors across the country were invited to nominate their advisory teams by InvestmentNews — defined as groups consisting of four or more advisors — and highlight the standout services that distinguished these teams. The InvestmentNews team carefully reviewed all nominations, evaluating how each advisory team made a significant difference for their clients and within the broader financial services industry. Key areas of focus included:*

- *Meaningful contributions to clients and the financial industry*
- *Deep understanding of client needs*
- *Notable impact achieved over the past 12 months*
- *Standout performance based on AUM and team results*

*** This annual ranking is performed by Barron's. Registered Investment Advisors, Institutional Consultants, and Wealth Management Firms complete a 102-question survey about their practice. Barron's verifies the data with the advisors' firms and with regulatory databases and then they apply their rankings formula to the data to generate a ranking. The formula features three major categories of calculations: (1) Assets (2) Revenue (3) Quality of practice. In each of those categories they do multiple subcalculations. Barron's measures the growth of advisors' practices and their client retention. They also consider a wide range of qualitative factors, including the advisors' experience, their advanced degrees and industry designations, the size, shape, and diversity of their teams, their charitable and philanthropic work and, of course, their compliance records. More about the methodology can be found here.*

**** AdvisorHub collects data from advisory teams in three major categories as noted below. They also asked nominees to share something beyond the numbers about themselves or their teams and other qualitative questions.*

- *Scale of the business: including assets under management, profitability, average account size, and the ratio of team members to client households.*
- *Growth of the business: as measured by year-over-year increases in client households, assets, and profits.*
- *Professionalism: which evaluates an advisor's regulatory record, certifications, years of service, and community involvement.*

***** The Forbes ranking of America's Top Wealth Advisors and Best-In-State Wealth Advisors, developed by SHOOK Research, is based on an algorithm of qualitative criteria learned through telephone, virtual and in-person due diligence interviews, and quantitative data such as revenue trends and assets under management. The algorithm additionally weighs factors such as service models, compliance records and industry experience, and focuses on those that encompass best practices in their approach to working with clients. All advisors that are considered have a minimum of seven years' experience. Portfolio performance is not a criterion due to varying client objectives and lack of audited data. Based on time period from 6/30/23 - 6/30/24. More about the methodology can be found here.*

The Score Board

	06/30/2025	YTD Change
Dow Jones Industrial Average	44,094.77	4.54%
S&P 500*	6,204.95	5.49%
NASDAQ Composite*	20,369.23	5.48%
MSCI EAFE (USD)*	2,654.79	17.37%
Bloomberg Commodity Index	102.02	3.30%
U.S. Aggregate Bond Index	2,277.06	4.02%
10 Yr U.S. Treasury Bond Yield	4.23%	-35bps
30 Yr Fixed Mortgage Rate	6.80%	-48bps
Prime Rate	7.50%	UNCH
Crude Oil ($ / Barrel)	$65.11	-9.22%
Gold ($ / Oz.)	$3,303.14	25.86%
U.S. $ / Euro €	$0.84	-12.16%
Core Inflation (excluding food / energy)**		2.8%
Inflation (including food / energy)**		2.4%

**Without Dividends; **Unadjusted 12-Months ended May 2025; bps (1 Basis Point = 1/100%); UNCH (Unchanged)*
Sources for Score Board and quoted statistics: WSJ, US Dept. of Labor, Federal Reserve

Sources:

1. The S&P 500 Index is designed to be a leading indicator of U.S. equities and is commonly used as a proxy for the U.S. stock market.
2. The Nasdaq Composite is a stock market index that includes almost all stocks listed on the Nasdaq stock exchange. The composition of the NASDAQ Composite is heavily weighted towards companies in the information technology sector.
3. The Nasdaq-100 Index is U.S. stock market index comprised of the largest 100 non-financial companies listed on the Nasdaq stock exchange. The index is dominated by technology companies and is commonly used as proxy for U.S. large cap technology performance.
4. The Dow Jones Industrial Average is a widely followed, price weighted stock market index of 30 prominent companies listed on stock exchanges in the United States.
5. The Russell 2000 Index is a small-cap U.S. stock market index that makes up the smallest 2,000 stocks in the Russell Index. The index is commonly used as proxy for U.S. small cap stock market performance.
6. The S&P 500 Equal Weight Index (EWI) is the equal-weight version of the S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight of 0.2% of the index total at each quarterly rebalance.
7. The term "Magnificent Seven stocks" refers to a group of seven dominant and influential technology-focused companies in the U.S. stock market. The components of the Magnificent Seven are: Apple Inc. (AAPL), Microsoft Corporation (MSFT), Amazon.com, Inc. (AMZN), Alphabet Inc. (GOOG), Meta Platforms, Inc. (META), NVIDIA Corporation (NVDA), and Tesla, Inc. (TSLA).
8. The MSCI World ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets countries (excluding the U.S.) and 24 Emerging Markets countries.
9. The MSCI Emerging Markets Index captures large and mid-cap representation across 24 Emerging Markets countries.
10. The Bloomberg U.S. Aggregate Bond Index is a broad-based index that is commonly used as a proxy for the U.S. bond market.
11. Tax Foundation, Congressional Budget Office, Journal of Accountancy

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