

2ND QUARTER 2025 MARKET OVERVIEW

THE STOCK MARKET IS THE FINAL ARBITER?

It took the entire quarter, but the market did it. The penultimate day yielded a record, eclipsing the previous high from February 19. There was a 15% drop in the S&P in the first seven days of the quarter. The 81 day recovery from the low on April 7 was the swiftest recovery in history, following a drop of at least 15%.

Despite the breakneck pace of the rebound, the S&P 500 is now only 2.8% above the post election high from November. We hope for more gains ahead.

Sentiment swung drastically as investors exuberance over new government policies following the election, gave way to fears over economic damage from tariffs. Stocks fell precipitously and even gave up much of their 2024 gains during this firestorm. President Trump, mercifully, walked back his earlier disregard for the market. He called for a 90 day moratorium to the tariffs and declared, "...time to buy".

It was enough to shift the mood entirely. Stocks moved higher throughout the rest of the quarter, to their eventual record.

Opinions range over the impact of the tariffs on the economy. Some think the final treaties will be diluted and have a minimal drag. Others worry that tariffs will hold more damaging consequences that will slow the economy, force intolerable prices, and cause job losses.

The pause in the Trump tariffs is set to end in early July but we are seeing steady progress, albeit with a few exclusive disruptions, being made on reducing their impact with our major trading partners. Continued encouraging talks with China are a primary example.

In the meantime, corporate earnings remain strong, unemployment is steadily low, and inflation remains in check, between 2% and 3%.

It was reassuring to see that the stock market regain its seat as the final arbiter for government policy. This means the government has been tempered, and is unlikely to do anything that would upset the bulls. We certainly had doubts about this during the early days, following Liberation Day.

INDUSTRIAL RENAISSANCE AND AI

While integral companies in AI development grab the attention, companies that adopt and implement AI in their businesses will be the chief beneficiaries of this transformational technology. This is coming to early fruition in the manufacturing sector.

...CONTINUED ON PAGE 2

...CONTINUED INDUSTRIAL RENAISSANCE AND AI

AI serves industrial manufacturing by streamlining operations so that these companies gain efficiency. Industrial companies aren't faced with large cap ex expenses to build data capacity like Microsoft and Meta and other tech providers. They just buy the software. Many manufacturers also face less competitive pressures and enjoy greater barriers to competition than the highly recognized tech firms. Even Nvidia could succumb to price competition from competitors.

The market is bearing this out. The industrial sector was the top performer for the first half of 2025, with a gain of 11.1% versus the S&P gain of 5%. The vaunted tech sector is up 8% over this stretch.

It is intriguing to compare Microsoft stock vs Caterpillar stock over a five year period, for example. Microsoft, a leading Mag 7 stock, is up 137% over the period. However, investors in Caterpillar stock have enjoyed a 203% gain over the same time. Furthermore, CAT is still 6% from its best level, this year, while Microsoft has extended to a record high. CAT might have a better runway than Microsoft, from here.

A closer look at the performance of the Mag Seven leads us to wonder why they aren't collectively doing better, this year. So far, only Microsoft and Nvidia achieved record levels in Q2. Apple stock, for certain, and perhaps even Alphabet stock, have been relegated as ordinary. Meta and Amazon shares are still below their February highs. Tesla stock has been downright woeful.

Meanwhile, how is it possible that AI won't be a major contributor to the vast turnaround that is essential for a company like Boeing. Boeing has a huge back log of orders. It also has to resolve a vast and complex supply chain. Numerous manufacturing headwinds challenge the delivery of these planes and AI stands to provide solutions.

Infrastructure companies and industrial manufactures look certain to have their fortunes improve via AI implementation.

PEREGRINE STRATEGY

At the outset of the second quarter, we were fully engaged to "Bend but not break," as we are during any time of market duress.

Easing of the White House rhetoric and possible relief from threatening tariffs provided the impetus to redeploy assets to the stock market.

The current momentum in the market seems likely to continue. Historically, the market tends to perform well following back to back 4% gains like we saw in May and June. We would continue to position for this outcome.

Compared to the broad indices, we view the individual names on our watch list as "the mother's milk for investors", as I've fondly heard Jim Cramer, of CNBC, say on TV.

DAN BOTTI

Investment Adviser

June 30, 2025



PEREGRINE ASSET ADVISERS

9755 SW BARNES ROAD, SUITE 610 • PORTLAND, OREGON 97225

503.459.4651

PEREGRINEAA.COM