

## PCG 2025 Second Quarter Letter

### A Wild Ride

If you have ever visited Disneyland and went on the historic Space Mountain roller coaster ride, you know exactly how investors felt as markets played out in the second quarter of 2025. As we all waited for the details of the administration's long anticipated "Liberation Day" tariff policies to be revealed, markets were both apprehensive and excited at the same time (just like boarding the coaster car after a long wait in line). But clearly, the markets underestimated the thrills that lay ahead.

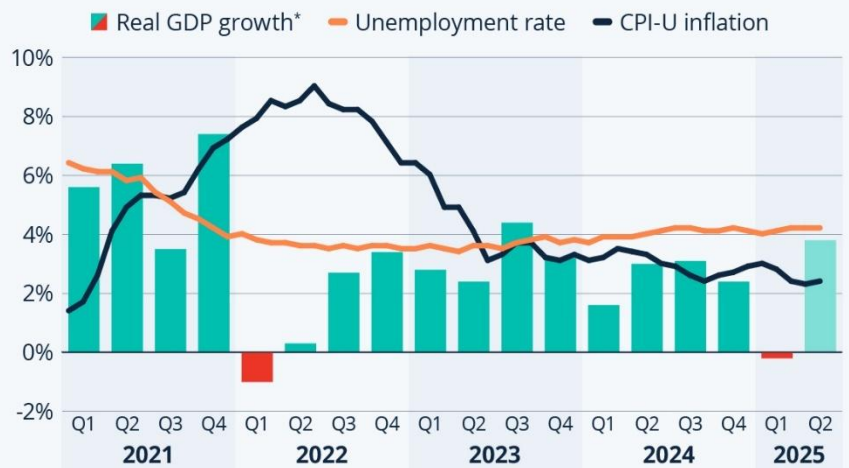
When the administration revealed the reciprocal tariff levels on April 2, it quickly became clear that the impacts were significantly higher than market expectations. Instead of 10-20% levels on some trade partners, we were going to be implementing anywhere from 10-80% tariffs. We immediately fell in the span of three days nearly 15%. By April 6, we were near bear market territory, just shy of a 20% decline from the mid-February highs.

Nearly all the pundits were convinced that we were headed to not just a U.S. recession, but a calamitous global economic meltdown. Supply chains would be obliterated, shelves would be barren, and unemployment would skyrocket. So, what happened next? The administration announced a 90 day pause on the reciprocal tariffs, and the roller coaster rose again. The S&P 500 and NASDAQ indexes closed the day on April 7 with the largest single day gains on record.

Through April the administration embarked on an effort to negotiate better terms with our country's major trade partners. And while there probably were some negative impacts on the economy, as corporate leaders regained their balance and caught their breath, the fundamentals of our underlying economy have remained strong.

## Economic Data Suggests the Fed Will Continue to Wait and See

Real GDP growth, inflation and unemployment rate in the United States (seasonally adjusted)



\* Quarterly at annual rates; Q2 2025 GDP growth is a model-based projection from the Atlanta Fed as of Jun. 9, 2025.

Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics



Earnings for Q1 2025 continued to beat expectations, as year-over-year earnings growth exceeded expectations. Guidance was mixed, but under the circumstances it was surprising that corporate executives were willing to provide forecasts at all. Companies that tried to mitigate the range of potential outcomes (based on the impacts of tariffs and economic slowdowns) were mostly rewarded for their honesty.

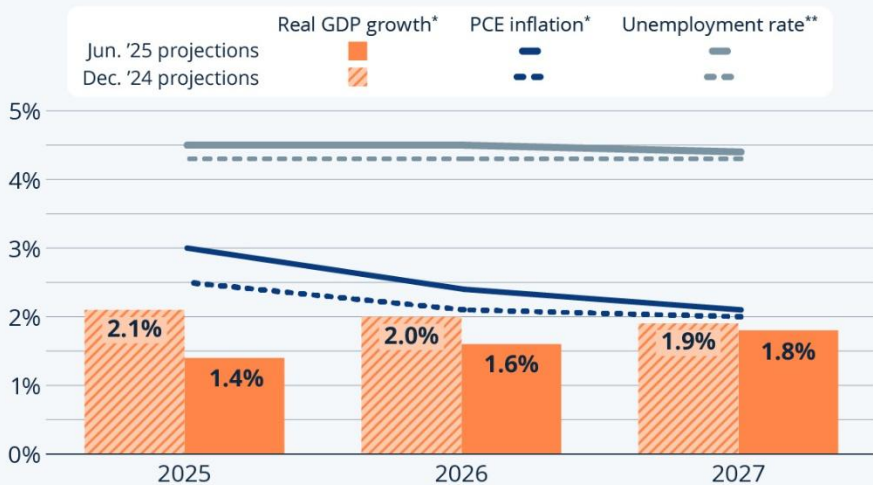
The most positive outcome from the earnings season was the affirmation of the capital spending outlook for artificial intelligence (AI) investment by the mega-cap technology companies. There had been concerns that the AI investment boom might be derailed either by the low-cost Chinese AI start-up Deep Seek or just the economic uncertainty. That fear was shown to be overblown, as one company after another confirmed their commitment to the future of AI.

Interest rates have also fluctuated widely within a range of 4.25% to 4.85% over the last several months, as bond investors fluctuate between concerns about potential recession to larger than hoped for budget deficits. Despite the administration's anger, overall there is relatively tame inflation data and Federal Reserve Chairman Powell seems to be dead set on holding rates steady until he sees how the final tariff levels impact inflation. We believe long-term interest rates should most likely stay around current levels and may even drift higher over debt concerns and potential

inflation (which we believe will stay contained). And we expect the Fed to finally move the overnight rate lower, probably in September once the impacts of tariffs on the overall price levels become clearer.

## Fed Projections: Higher Inflation, Slower Growth Ahead

Median projections for PCE inflation, real GDP growth and unemployment in the U.S.



\* Percent changes from Q4 of the previous year to Q4 of the year indicated

\*\* Average civilian unemployment rate in Q4 of the year indicated

Source: U.S. Federal Reserve



## A Small World

After the thrilling dives, turns and climbs of the last couple of months, that leaves the question of what thrills await us now? Well to extend the Disneyland analogy further, we are hoping that our next ride will be devoid of excitement – something calm like “It’s a Small World”. Just like the theme of global harmony as you float your way through the Small World ride, we hope that the “tariff-turmoil” going forward will be much more subdued this summer and fall.

However, we do expect that the uncertainty around the final tariff policy has negatively impacted corporate investment. Consequently, GDP will likely dip below the longer-term trend in the next couple of quarters, but we see very little to make us believe that a recession is in the cards. Despite a slight upward trend in unemployment claims, the overall job market remains strong. While companies have slowed their hiring pace as they wait to see how events played out, most seem unwilling to lay people off given how difficult it has been to find qualified workers.

Equity markets have generally been remarkably resilient in 2025, shrugging off the tariff uncertainty and war in the Middle East. We could see some volatility during the upcoming Q2 earnings season but would expect any small correction to be quickly bought by investors who have missed the move since April. Given the historically high multiple on the overall S&P 500 index, we will look for further market gains to match earnings growth going forward (roughly 5-10%).

Going into 2025, it was our initial expectation that market gains would broaden out from the big tech giants that have dominated the last few years. However, given our outlook for a cyclical slower economy now, it looks like secular growth stocks may continue to lead the market. Consequently, we are more constructive in both the Technology and Communication Services sectors. We also like Financials under a favorable regulatory environment, as well as Industrial companies benefiting from defense and reshoring trends. We also have increased our allocation to International Equities, primarily in areas that benefit from the recent decline in the dollar vs other currencies.

In our Fixed Income holdings, we remain focused on short to intermediate maturity bond funds. The additional yield from long-term bonds isn't sufficient in our opinion to outweigh the risks from potentially higher rates. We also have limited exposure to credit risk via corporate bonds, as the spread between risk-free treasuries and corporate debt is near all-time low levels.

While the markets, much like a roller coaster, can create several emotions during the ride we are honored to help guide you through the ups and downs keeping your specific goals in mind. We at Pinnacle Consulting Group appreciate your confidence and trust in us to lead you; and are very grateful for continuing to remain buckled in together on the ride this year!

**Don Garcia**

Securities and investment advisory services are offered through the firms: Osaic Wealth, Inc. and Osaic Institutions, Inc., broker-dealers, registered investment advisers, and members of FINRA and SIPC. Securities are offered through Osaic Services, Inc. and Ladenburg Thalmann & Co., broker-dealers and members of FINRA and SIPC. Advisory services are offered through Ladenburg Thalmann Asset Management, Inc., and Osaic Advisory Services, LLC., registered investment advisers. Advisory programs offered by Osaic Wealth, Inc. are sponsored by VISION2020 Wealth Management Corp., an affiliated registered investment adviser.

See **Osaic Wealth's** Form CRS Customer Relationship Summary, available [here](#), for succinct information about the relationships and services **Osaic Wealth** offers to retail investors, related fees and costs, specified conflicts of interest, standards of conduct, and disciplinary history, among other things. **Osaic Wealth's** Forms ADV, Part 2A, which describe **Osaic Wealth's** investment advisory services, Regulation Best Interest Disclosure Document, which describes **Osaic Wealth's** broker-dealer services, and other client disclosure documents can be found [here](#).

Chart Sources: U.S. Federal Reserve, U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis, Statista

Richter, F. (2025a, June 16). *Infographic: Economic data suggests the Fed will continue to wait and see*. Statista Daily Data.  
<https://www.statista.com/chart/33494/us-gdp-growth-inflation-and-unemployment/>

Richter, F. (2025b, June 19). *Infographic: Fed Projections: Higher inflation, slower growth ahead*. Statista Daily Data.  
<https://www.statista.com/chart/31437/fed-projections-of-inflation-interest-rates-gdp-growth-and-unemployment/>

© Osaic, Inc. • [osaic.com](https://osaic.com)