

HUDSON ADVISOR SERVICES, INC

OUR VIEW OF THE MARKET

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Often headline writers capture the message of the moment. Thus it was with a recent *Financial Times* headline: “Wall Street turns more bullish on U.S. stocks despite Donald Trump’s tariff threats.”

For us, at Hudson Advisor Services, this year has been the most unpredictable and head spinning period since the Covid turmoil of 2020. We began 2025 expecting moderate stock market growth after the two previous gangbuster years. But the President’s announcements on aggressive tariff policies drove stocks into a bear market slump. Then the market staged a remarkable comeback as the President delayed the harshest tariffs and the basics of the U.S. economy remained strong. The S&P 500 is up over 25% from its low point on April 8.

What happens now? The predominant view of the Wall Street forecasters is moderately bullish. Most analysts predict the S&P 500 to end 2025 in the 6,300 to 6,600 range – representing several points of gain from current levels. This view assumes that ultimate tariff policies will be reasonable and not extreme. It assumes positive economic expansion and solid earnings growth.

We share this predominant viewpoint at Hudson Advisors. We prefer to be optimistic. But we also always are filled with caveats and cautions. We understand that tariff policies may unfold in ways that harm the economy. We have deep concerns over market disruption from geopolitical events. Our priority is to protect client assets while also seeking pockets of opportunity.

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Equity Market: The equity markets were positive in the early weeks of the year. The market turned negative in February as President Trump intensified his statement about tariffs and then formally announced his plans on April 2. The S&P 500 fell over 10% in the next two days and was in bear market territory. Within a week, however, the market began its recovery as the President modified his tariff deadlines and investors took perspective.

As of June 30, the S&P 500 was ahead 10.94% for the quarter and 6.2% for the year-to-date. Much of the gain was driven by renewed confidence in technology. The Nasdaq Composite index was up 17.96% for the quarter and 5.85% for the year. The Dow Jones Industrial Average gained 5.46% for the second quarter and 4.55% for the year. The Russell 2000 index of small stocks went up 8.5% for the quarter but still down 1.79% for the year. Small companies are the most vulnerable to tariff charges on imported goods.

One interesting note is the comparison of U.S. stocks to European and Japanese stocks. Historically U.S. equities have outperformed other developed nations. For a period in the spring of this year, that situation changed with the European STOXX index 10 % ahead of the S&P 500. Given the resurgence of U.S. stocks, however, the S&P 500 now once again has a better outlook than the European index.

Fixed Income Market: Considerable money flowed from equities into bonds during the first quarter. Bond prices were flatter in the second quarter as stocks recovered. The benchmark 10-Year Treasury note ended March with a yield of 4.26% versus 4.58% at the start of the year. It was 4.22% at the end of June. (Yields move inversely to prices.)

MARKET TRENDS

The accompanying chart summarizes stock and bond market trends for the second quarter and year-to date of 2025. Stock prices were volatile but resilient. Bond prices also vacillated.

MAJOR MARKET INDEXES

	2Q25 Return	YTD Return
Dow Jones Industrial Average TR	5.46	4.55
S&P 500 Index TR	10.94	6.20
Russell 2000 Index TR	8.50	-1.79
NASDAQ Composite TR	17.96	5.85
EAFE Index NR	11.78	19.45
Bloomberg Aggregate Bond Treasury TR	0.85	3.79

Source: Morningstar® as of June 30, 2025

THE OUTLOOK

The Economy: Much of the investor confidence is rooted in the resilience of the U.S. economy. Forecasts for GDP growth in 2025 range from 1.6% to 2.1% -- not as strong as 2024 – but still healthy. Jobs have grown steadily every month, and the unemployment rate remains low at between 4.1% to 4.5%. Most analysts expect some stimulative effect from the tax cuts in the “Big Beautiful Bill” and from reduced regulation in the Trump Administration. We also note that a weaker dollar could spark growth in exports. The problem in the economy is that inflation remains sticky at about 2.5% -- above the Federal Reserve target of 2.0%. The impact of tariffs is likely to drive consumer prices higher, although no one can forecast the extent of that impact. As result, the Federal Reserve has taken a “wait and see” position. Most analysts expect some further cuts in interest rates by the end of the year. But the Fed is being highly circumspect in stating the timeframe or depth of those cuts. Lower interest rates would obviously assist economic growth.

The Market: Investor confidence is also boosted by forecast earnings in the S&P 500 companies. Analysts polled by FactSet expect companies to report earnings of 9.3% this year – down from 14% in January. Tariffs are already affecting companies in the consumer staples and consumer discretionary categories. Still, analysts expect earnings will rise 13.7% next year. Many remain hopeful that the economy can dodge the worst of the trade fight. And despite stocks looking pricy – with the S&P 500 trading at 22 times its expected earnings over the next 12 months, above its 10-year average of 18.7 times – analysts still think stocks can move higher. All that said, at Hudson Advisors we took note of the UBS analyst who described the market as acting “suspiciously optimistic”. There is a real risk that tariff negotiations will flounder and we could fall into some kind of higher prices and slower growth – the dreaded stagflation scenario. We also have huge concern that ongoing conflicts in Ukraine and the Middle East could disrupt global supply chains. On balance, we will be pleased to see the stock market grow another 5% before year-end. But we will manage client portfolios with a defensive posture.

OUR STRATEGIES

Asset Allocation: Most clients should stick to portfolio strategies previously identified. Diversification is our friend in this market environment. For new clients, we recommend a 60% allocation to equities to be phased in over a 12- to -18- month period. The other 40% of assets will be short to intermediate-term bonds, cash, and alternative investments. We will talk with clients who have special investment situations that may require alternate asset allocations.

Preferred Equities: As always, despite market conditions, we look for long-term equity opportunities. Our focus is on companies that can weather both the short-term period and flourish in a longer time frame. We want fundamentally sound companies with reasonable valuations and that pay dividends. We especially like the following sectors because they have some protection from tariff-related volatility:

HEALTH CARE: This sector has lagged, but there is good core value. It has comeback potential with its continuous evolution and response to global health needs.

INDUSTRIALS: Federal government investment in infrastructure, much of it already underway, should work in favor of basic materials and construction companies. There are also tailwinds from government-backed reshoring of industrial activity.

TECHNOLOGY: Despite the downturn in the first quarter, these stocks have rebounded nicely with AI and robotics as the key catalysts. Big Tech represents one-third of the S&P 500 value.

UTILITIES: Demand for energy is growing – in part because of AI – and utilities are challenged to expand transmission capabilities for both traditional and new clean energies. These stocks will become more interesting opportunities.

INTERNATIONAL: We like the current value we see in developed economies and with certain European and Japanese companies.

Other Assets: Our aversion to long-term bonds remains. But we explore various maturities through laddered investments with a mix of U.S. Government, municipal, and high- quality corporate bonds. We also like the current opportunities in money market funds.

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