APTUS CAPITAL ADVISORS

Quarterly Market Update

Q2 2025

Aptus Quarterly Market Update – Q2 2025

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Equity Markets Review

A Market in Review – Q2 2025

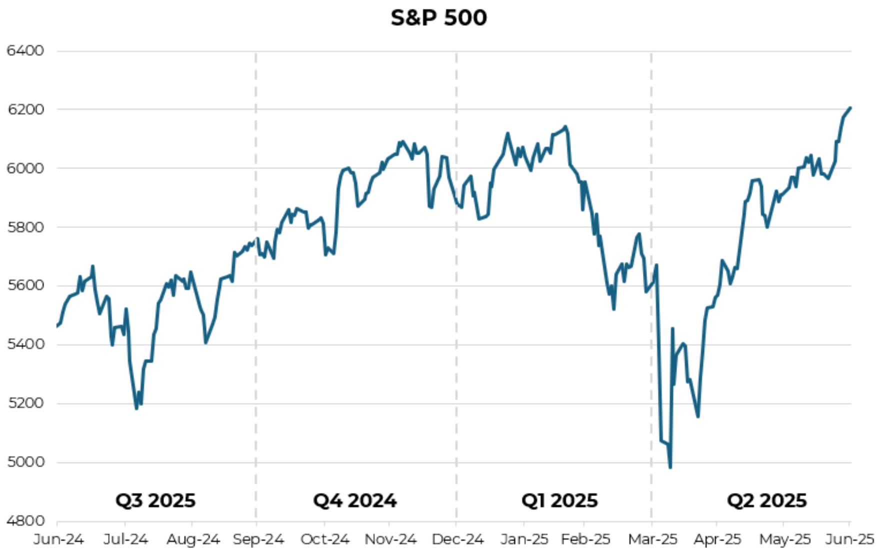
Bull Market, Don't Go Changin'!: The market has continued to exhibit that the faster it falls; the quicker it recovers, as Q2 2025 showed investors that the hard data remains to favor the bulls. In just eleven weeks, the market witnessed one of its strongest rallies on record, while volatility, as measured by the VIX, saw its sharpest collapse ever.

- Heading into this year, US stocks had outperformed International stocks for over 16 years, by far one of the longest runs of relative performance in history. So far, it appears that this trend has finally been bucked, with both the MSCI EAFE and MSCI Emerging Market Indices beating the local brethren by 13.74% and 9.32%, respectively. Much of this relative performance has come from currency translation and International valuation expansion
- Unlike the past few years, the Magnificent Seven names are not moving in tandem but are showing divergent performance thus far in 2025. Meta, Microsoft, and Nvidia are outperforming the S&P 500 while Amazon, Google, Apple, and Tesla are all down on the year.

Remember though, it pays to be nimble, as the market will need to navigate: 1) the end of the 90-day pause in tariffs, 2) Q2 earnings season where many suspect second half earnings expectations need to come down, and 3) Debt Ceiling.

Market Sentiment on Tariffs is Important: Understanding how tariffs could impact growth and inflation is very important, because the market's perception of those impacts has dramatically affected performance this year. In March and April, sentiment surveys plunged as investors were convinced tariffs would hurt economic growth and spike inflation. But neither have happened so far and that reality, combined with "TACO" (the administration reducing the impact of tariffs) has led to a substantial positive swing in sentiment, to the point where now the S&P 500 is not pricing in any chance of an economic slowdown. Point being, investors' perception of tariffs matters, a lot, to this market and if worries that tariffs could hurt growth or boost inflation resurface, that will pressure stocks.

Moving Forward: It appears that the market is entering a period where it can see a moderation of the hard economic data, but not enough to warrant a recession. If markets price in deeper rate cuts off the back of this - combined with seasonally supportive flows into bonds - then this will only serve to ease financial conditions further. Meanwhile, the forward-looking sentiment data should continue to improve with economic tail risks diminishing and expansionary fiscal policy on the horizon. This, combined with continued AI-driven investment and innovation should continue to support risk assets once we move beyond the current geopolitical tensions. We may be headed into a goldilocks summer with both bond and equity markets performing well.



Source: S&P, Aptus as of 6.30.25

	1M	QTD	YTD	1-YR	3-YR	5-YR	10-YR
S&P 500	5.08%	10.94%	6.20%	15.14%	19.69%	16.62%	13.30%
NASDAQ	6.34%	17.86%	8.35%	16.10%	26.44%	18.36%	18.57%
Dow Jones Industrial Average	4.47%	5.46%	4.55%	14.72%	14.99%	13.52%	11.73%
S&P 500 Average Stock	3.43%	5.34%	4.63%	12.43%	12.51%	14.16%	10.12%
MSCI EAFE	2.22%	12.04%	19.94%	18.42%	16.67%	11.82%	6.69%
MSCI EM	6.12%	12.17%	15.52%	15.89%	10.16%	7.21%	5.05%
Bloomberg US Agg Index	1.54%	1.21%	4.02%	6.08%	2.55%	-0.73%	1.79%
U.S. Small Caps	5.51%	8.47%	-1.85%	7.58%	9.92%	9.92%	6.71%
Investment Grade Bonds	2.17%	1.98%	4.52%	7.01%	4.28%	-0.38%	3.09%
High Yield Bonds	1.85%	3.68%	4.87%	10.68%	9.80%	5.64%	4.81%

Source: Bloomberg. Data as of 06/30/2025. Returns include Dividends. Returns over 1YR are Annualized.

Composition of Returns

The Known: Dividend Yield **+ The Unknown:** Growth Rate **+/- Market Sentiment:** Valuation Change **= TOTAL RETURN**

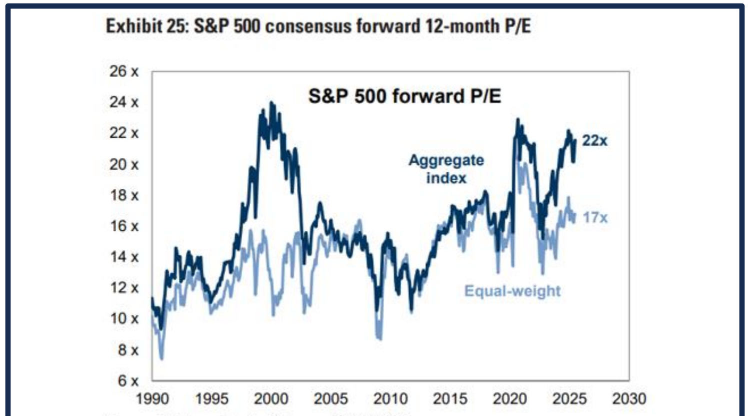
S&P 500 Dividend Yield: 1.27%

+

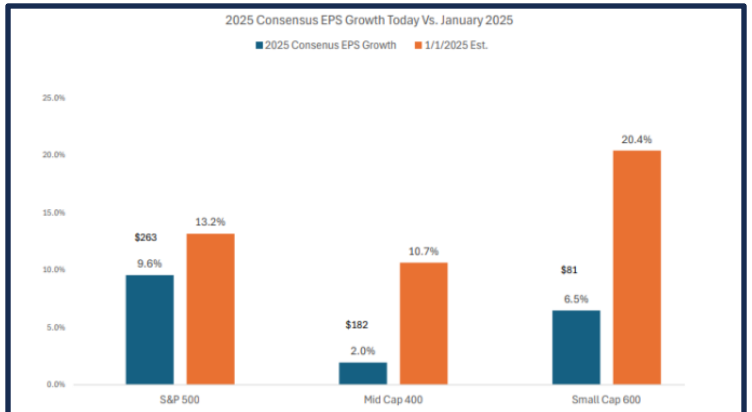
S&P 500 '24 EPS Growth: 11.0%

+/-

S&P 500 Forward Valuation: 23.5x



Source: Goldman Sachs, Data as of 6/30/2025



Source: Raymond James, Data as of 6/30/2025

Source: Raymond James, Data as of 6/30/2025

Why Did the Market Hit New All-Time Highs?

The Market Has Continued to Witness Stable Economic Data, a Slightly Dovish Shift from the Fed, a Decline in Geopolitical Risks Combined With Market Momentum to Push the S&P 500 to New All-Time Highs in the Last Week of Q2

Why Did the S&P 500 Hit a New High?

- *The Administration*: This may come to a surprise to many, given the administration's chaotic and aggressive tariff policy. And, undoubtedly, the way the administration operates is going to keep this market more volatile than it has been in recent years. But, while the reciprocal tariff announcement rightly shocked markets, since early April the administration has taken a series of actions to "step back" from the brink and the most important part of that is the market believes the administration will not pursue any policies that will materially hurt the economy. The markets have called this "TACO" – Trump Always Chickens Out - but that's an oversimplification. Instead, we believe Trump employs a negotiating strategy that involves threatening a near absurdity and then getting people to move in his direction (so the worst case doesn't happen, but he still exacts gains). In the end, the No. 1 reason the S&P 500 has returned to the February highs is because the market has confidence that the administration won't do anything to materially hurt the economy and that belief is the foundation upon which the Q2 rebound was built.

- *No Evidence of Stagflation:* One of the reasons for the quick declines in stocks in April was the idea that tariffs would cause *stagflation*. Stagflation has three components: !) Slowing Growth, 2) High Inflation, and 3) Increasing Unemployment. But, none of these have occurred as, once again, the economy has proven much more resilient than many analysts feared. While there are small signs of softening, the economy is holding up well and more importantly, there has been no sizeable increase in inflation. The market now believes that any inflationary effects of the tariffs will be more than offset in the data by cooling housing and energy prices and as a result, neither CPI nor the PCE Price Index will rise materially. Meanwhile, the market still expects two Fed rate cuts in 2H '25 to support growth, reducing the chances of a slowdown. Bottom line, the market is not afraid of tariff-driven stagflation anymore.

Why Did the S&P 500 Hit a New High (Cont.)?

- *Continued Artificial Intelligence ("AI") Enthusiasm*: In a repeat of 2023 and the majority of 2024, AI enthusiasm has again propelled the Tech sector to substantially outperform the rest of the market and that's pulled the S&P 500 to new highs. The DeepSeek drama from January created a buying opportunity in AI names, and in April as tariff reduction/exemption followed, it only benefitted those tech names more. So, once again, AI enthusiasm is a powerful force behind the new highs and tech and tech-aligned sectors have done the heavy lifting in the Q2 rebound.

Number of Trading Days to Make it Back to the Highs Following a -15% Drawdown in the S&P 500					
Date of Low	Date of New High	Trading Days	Date of Low	Date of New High	Trading Days
10/22/1957	9/24/1958	233	10/9/2002	5/30/2007	1166
6/26/1962	9/3/1963	299	3/9/2009	3/28/2013	1021
10/7/1966	5/4/1967	143	7/2/2010	11/4/2010	87
5/26/1970	3/6/1972	451	10/3/2011	2/24/2012	99
10/3/1974	7/17/1980	1462	12/24/2018	4/23/2019	81
8/12/1982	11/3/1982	58	3/23/2020	8/18/2020	103
12/4/1987	7/26/1989	414	10/12/2022	1/19/2024	318
10/11/1990	2/13/1991	86	4/8/2025	6/27/2025	55
8/31/1998	11/23/1998	59			
				Average	361
				Median	143

Source: Strategas, Data as of 6/30/2025

Pullback Happened; Pullback Forgotten

Pullbacks are Normal...and Healthy. Markets Do Not Move in a Straight Line.

Perspective on This Year's Pullback – The Faster the Fall; the Faster the Rebound

- *Consumer Behavior is Simple* – people hate losses and have little patience for D.C. policies that might not contribute positively to stock market returns immediately.
- The almost 20% drop in the S&P 500 fits squarely within the range of typical market behavior, though painful; the market averages three pullbacks of 5% or more each year. These corrections are healthy, not alarming, and Q2 2025 showed that.
- Since 1928, the average annual drawdown has been 16%, yet year-end returns often remain positive. Volatility creates opportunity, and staying patient typically pays off.
- The last six times the S&P 500 experienced a 10% or greater decline, the index was higher one year later in every case. That historical pattern reinforces the value of discipline during temporary setbacks.

S&P 500 Index (1942 - Today)			
Type of Decline	Avg. Frequency	Avg. Length	Last Occurance
-5% of More	About 3x Per Year	39 Days	April 2025
-10% of More	About Every 16x Months	128 Days	April 2025
-15% of More	About Every 3x Years	230 Days	April 2025
-20% of More	About Every 5.5x Years	330 Days	April 2025

Source: Aptus, Data as of 06/30/2025

All Bear Markets Start with a Correction, But Not all Corrections Turn into Bear Markets

- Since World War II, 40% of the time when the S&P 500 had a peak-to-trough decline greater than 20%, the economy went into a recession. **Let me say this differently, that means that 60% of the time, it did not.**
- It is also worth noting that the market has already endured three bear markets in the past few years. These were the two (plus a third) closest bear markets on record, based on the number of days between them:
  - ➢ February 19, 2020 to March 23, 2020: -33.79%
  - ➢ January 22, 2022 to October 12, 2022: -24.02%
  - ➢ February 19, 2025 to April 8th, 2025: -21.35%
- We believe that more left tails (bad) and right tails (good) will occur in the market moving forward; which will continue to test investors on a regular basis.

S&P 500 Index: Max Intra-Year Drawdown v. End of Year Total Return (1928 - 2025)														
Year	Drawdown	Total Return	Year	Drawdown	Total Return	Year	Drawdown	Total Return	Year	Drawdown	Total Return	Year	Drawdown	Total Return
1928	-10.3%	43.8%	1948	-13.5%	5.7%	1968	-9.3%	10.8%	1988	-7.6%	16.6%	2008	-48.8%	-37.0%
1929	-44.6%	-8.3%	1949	-13.2%	18.3%	1969	-16.0%	-8.2%	1989	-7.6%	31.7%	2009	-27.6%	26.5%
1930	-44.3%	-25.1%	1950	-14.0%	30.8%	1970	-25.9%	3.6%	1990	-19.9%	-3.1%	2010	-16.0%	15.1%
1931	-57.5%	-43.8%	1951	-8.1%	23.7%	1971	-13.9%	14.2%	1991	-5.7%	30.5%	2011	-19.4%	2.1%
1932	-51.0%	-8.6%	1952	-6.8%	18.2%	1972	-5.1%	18.8%	1992	-6.2%	7.6%	2012	-9.9%	16.0%
1933	-29.4%	50.0%	1953	-14.8%	-1.2%	1973	-23.4%	-14.3%	1993	-5.0%	10.1%	2013	-5.8%	32.4%
1934	-29.3%	-1.2%	1954	-4.4%	52.6%	1974	-37.6%	-25.9%	1994	-8.9%	1.3%	2014	-7.4%	13.7%
1935	-15.9%	46.7%	1955	-10.6%	32.6%	1975	-14.1%	37.0%	1995	-2.5%	37.6%	2015	-12.4%	1.4%
1936	-12.8%	31.9%	1956	-10.8%	7.4%	1976	-8.4%	23.8%	1996	-7.6%	23.0%	2016	-10.5%	12.0%
1937	-45.5%	-35.3%	1957	-20.7%	-10.5%	1977	-15.6%	-7.0%	1997	-10.8%	33.4%	2017	-2.8%	21.8%
1938	-28.9%	29.3%	1958	-4.4%	43.7%	1978	-13.6%	6.5%	1998	-19.3%	28.6%	2018	-19.8%	-4.4%
1939	-21.2%	-1.1%	1959	-9.2%	12.1%	1979	-10.2%	18.5%	1999	-12.1%	21.0%	2019	-6.8%	31.8%
1940	-29.6%	-10.7%	1960	-13.4%	0.3%	1980	-17.1%	31.7%	2000	-17.2%	-9.1%	2020	-33.9%	18.4%
1941	-22.9%	-12.8%	1961	-4.4%	26.6%	1981	-18.4%	-4.7%	2001	-29.7%	-11.9%	2021	-5.2%	28.7%
1942	-17.8%	19.2%	1962	-26.9%	-8.8%	1982	-16.6%	20.4%	2002	-33.8%	-22.1%	2022	-25.4%	-18.1%
1943	-13.1%	25.1%	1963	-6.5%	22.6%	1983	-6.9%	22.3%	2003	-14.1%	28.7%	2023	-10.3%	26.3%
1944	-6.9%	19.0%	1964	-3.5%	16.4%	1984	12.7%	6.1%	2004	-8.2%	10.9%	2024	-8.5%	25.0%
1945	-6.9%	35.8%	1965	-9.6%	12.4%	1985	-7.7%	31.2%	2005	-7.2%	4.9%	2025	-19.0%	6.2%
1946	-26.6%	-8.4%	1966	-22.2%	-10.0%	1986	-9.4%	18.5%	2006	-7.7%	15.8%			
1947	-14.7%	5.2%	1967	-6.6%	23.8%	1987	-33.5%	5.8%	2007	-10.1%	5.5%			

Source: Creative Planning, Aptus, Data as of 06/30/2025

Underneath the Market's Hood

The Academically Bearish Investors Continue to be Wrong

Volatility in Emotions; Volatility in Headlines:

- The first half encountered a lot of volatility, including a 20%+ intraday collapse from 2/19/2025 – 04/08/2025. The intense market volatility was accompanied by scary headlines:
    - Recession predictions;
    - Stagflation fears stemming from tariffs;
    - War between Israel and Iran;
    - A potential fight between the Fed and the U.S. President;
    - No rate cuts; and
    - 145% Chinese tariffs.
- This has weighed on investors as sentiment metrics and consumer confidence levels plunged in the first half of 2025 and while they've recovered somewhat, these measures are still reflecting a nervous and anxious investor base. Coincidentally, this is actually a bullish signal, as the market hit new highs at the end of the quarter, with lower optimistic sentiment.

Major Indices & Maximum Drawdown

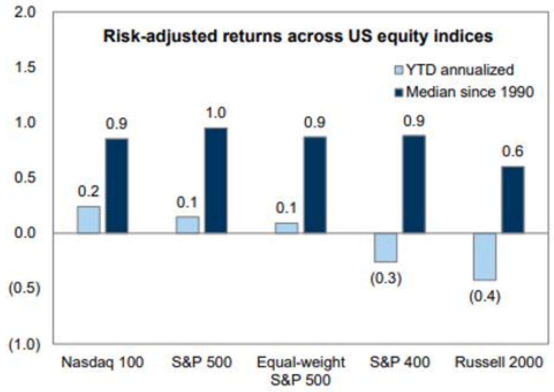
Index	YTD Return	Index Return Since 4/8/2025 Low	Index Maximum Drawdown from YTD High	Average Member Maximum Drawdown from YTD High
S&P 500	6.2%	24.9%	-16.0%	-24.0%
NASDAQ	8.4%	32.9%	-24.0%	-45.0%
Russell 2000	-1.9%	24.0%	-24.0%	-38.0%
Dow Jones	4.6%	17.6%	-16.0%	-23.0%

Source: Charles Schwab, Bloomberg, Data as of 6/30/2025

Round of Applause for the Market:

- Considering how strong returns had been coming into 2025 (recall that S&P generated back-to-back years of a Sharpe ratio > 2.0 for the first time since the mid-1970s) and considering how much has been thrown at market participants so far, investors should give the market a round of applause for bring positive year-to-date. The S&P 500 has returned 6.20% year-to-date.
- Risk-adjusted returns have been lower than normal across other major U.S. equity Indices, specifically in the smaller-cap spectrum, as these equities tend to exhibit weaker balance sheets and lower profit margins relative to large cap peers.
- Over the long run, nearly all the returns of stocks have been driven by earnings, despite the (sometimes reasonable) handwringing about valuation. Market participants should note that the S&P 500 grew earnings by a full 14% in Q1 2025, which helps explain the last part of the first paragraph.

Exhibit 2: The Nasdaq 100 has posted the highest annualized risk-adjusted return YTD
Median over annual periods since 1990



Source: Goldman Sachs, Data as of 6/30/2025

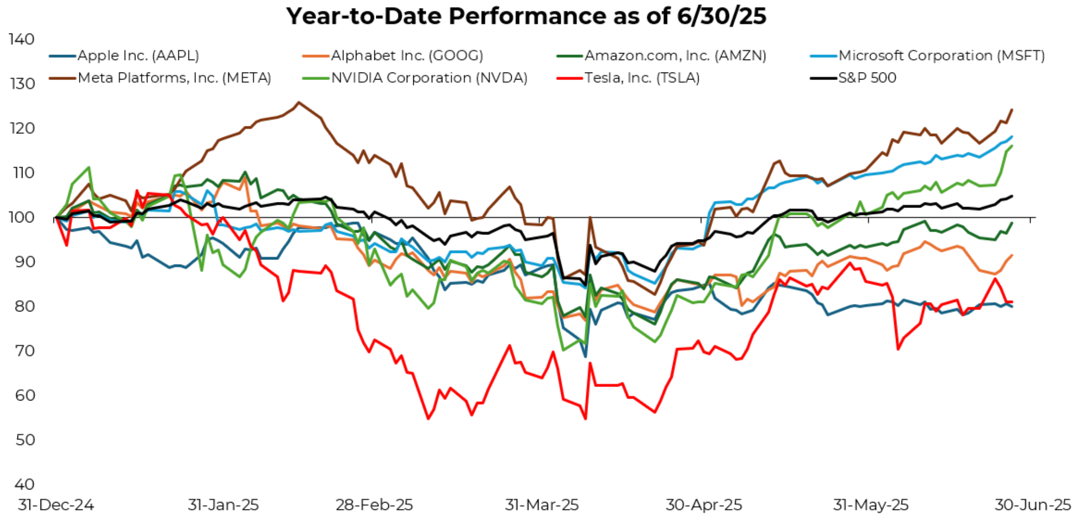
Underneath the Market's Hood

Performance Was Very Narrow During the Quarter With Tech and Growth Leading

The "Mag 7" Took Umbridge Being Called the "Lag 7" Last Quarter

- After only outperforming during one week in Q1 2025, the Magnificent 7 ("Mag 7") roared back during Q2. It appears that rapidly accelerating innovation in artificial intelligence ("AI") over the next 12-18 months will not only serve the valuations of the big tech hyper-scalers who are investing hundreds of billions of dollars in this space, but it will vastly allow old companies to improve their operational efficiencies. Even new companies should emerge, delivering margin expansion across sectors and dramatically magnifying economic growth. This is the expectations and the largest of the large are the current beneficiaries.

- As we witnessed during Q1 earnings season, the hyperscalers and their respective capital expenditures ("Capex") continue to be the cornerstone of growth for the S&P 500. In the face of potential tariffs impacting consumer spending, the AI narrative may be one of the only idiosyncratic areas of growth for the market in the near-term.



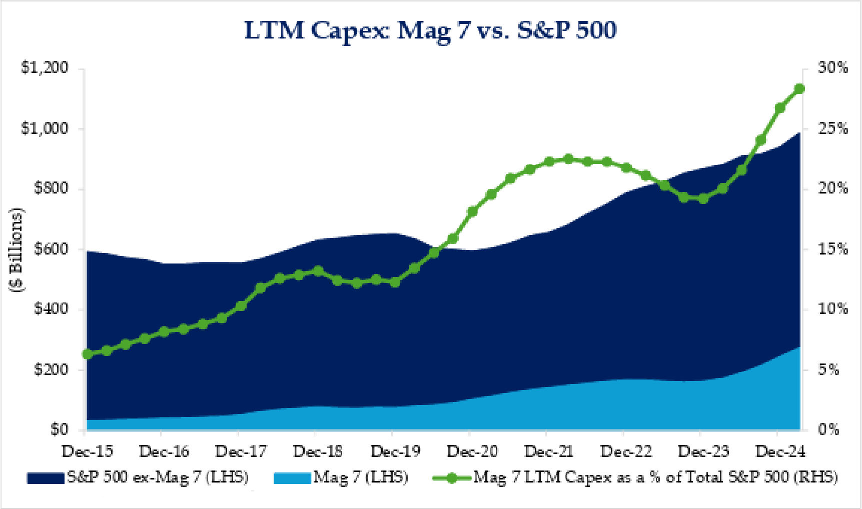
Source: Bloomberg, Aptus

...But the Increase in Market Breadth Didn't Buoy Small Caps > Large

- *The "R" Word is Very Bad for Small Caps:* Whether it's regional bank stress, meme stock volatility, or rising rates, something always seems to hold back small caps. With recession concerns resurfacing, small and mid-caps have taken a hit more than you'd typically see in the early stages of a slowdown.

- Fundamentally, it's also been a tough stretch. As of Q2 2025, small cap earnings growth and the opportunity to surpass the growth of Large Caps continues to get pushed out further and further. This is a key thesis for there to be a rotation into the lower market-cap stocks. Said another way, unless growth reaccelerates meaningfully, that potential leadership shift may never materialize.

- One reason investors are eyeing small caps is valuation. They remain historically cheap, trading roughly one standard deviation below large caps for three straight years, making them look attractive if the macro picture improves.



Source: Strategas, Data as of 6/30/2025

Underneath the Market’s Hood

It’s All About Earnings, Earnings, and More Earnings

Lessons from Q1 2025 Earnings Season

- Overall, earnings had a party this past quarter - 78% of companies beat, which is much higher than the historical average. Heading into this earnings season the market was pricing in ~8% year-over-year ("YoY") growth. It came in at 14.0%, led by strong revenues (last quarter, i.e., Q4 2024, witnessed growth of 16.0%).
- The critics would say that attention needs to be turning to the second quarter, where the impact of tariffs is expected to play a more significant role. Many investors thesis for this quarter and (likely) the next few would be that the AI narrative and the capital expenditures ("CapEx") will continue to drive earnings. While the durability of this trend came under scrutiny at the start of earnings season, the largest companies have shown little indication of scaling back investment. Said another way, a lot of the contribution to earnings for the S&P 500 seems quite stable.
- Over the next twelve months, S&P 500 earnings are expected to grow by 12.98%, though revisions have been trending slightly lower.

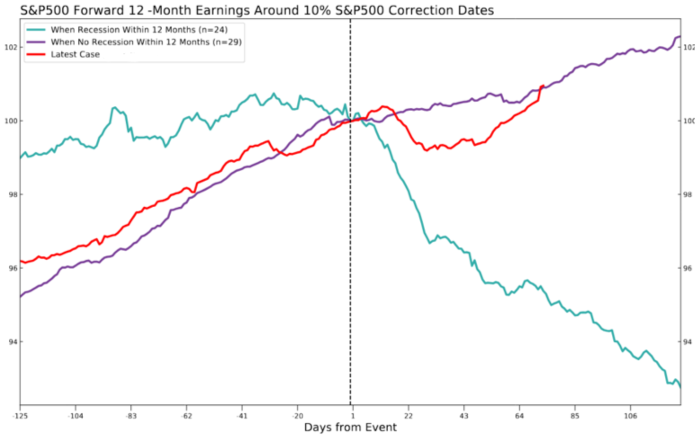
Ignore the Soft Data; Focus on the Hard

- At the end of the day, and this can’t be said enough, ***ignore the soft data***. Recent consumer behavior, which tends to drive the majority of GDP, continues to show strength in overall consumer spending. Consumer spending is sustaining at 5%+ YoY despite soft data saying otherwise. This is no change in any trend. Although soft data is apocalyptic, you could build just as good of a case of consumer “over-heating” as you could “slowing” right now. As long as consumers have jobs, which they do, it's difficult for this trend to materially slow down.
- This was even apparent during earnings season, as management commentary did not point to a coordinated slowdown, nor are we in an environment where the soft consumer sentiment numbers are hindering market share winners from continuing to win.

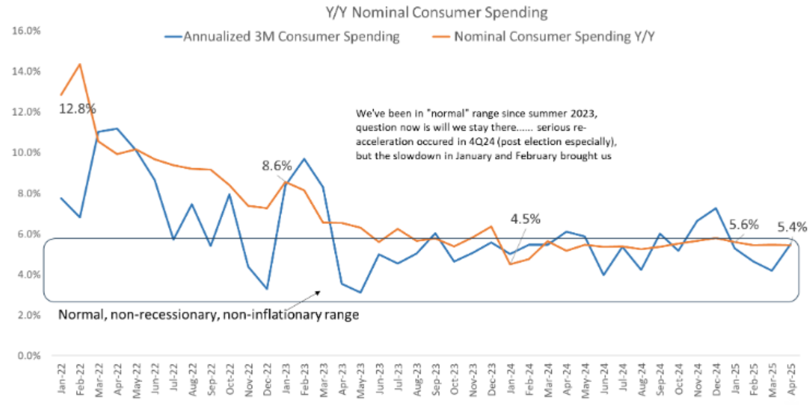
S&P 500 Q1 2025 Earnings Scorecard

	Sales Growth YoY			Earnings Growth YoY		
	Jan 1st	April 1st	Today	Jan 1st	April 1st	Today
S&P 500	4.9%	4.2%	5.0%	12.0%	8.0%	14.0%
Cons. Discretionary	5.8%	2.8%	2.9%	10.9%	2.4%	9.8%
Cons. Staples	2.6%	1.6%	-0.1%	0.2%	-7.1%	-5.7%
Energy	-1.2%	0.1%	0.3%	-11.7%	-15.2%	-16.6%
Financials	1.1%	1.2%	3.0%	6.0%	2.1%	5.2%
Health Care	7.3%	7.9%	9.0%	42.1%	38.3%	46.4%
Industrials	3.1%	1.5%	1.8%	12.3%	4.1%	11.1%
Materials	0.3%	-2.4%	-1.5%	10.2%	-7.2%	0.9%
Real Estate	5.8%	4.0%	5.2%	1.8%	-3.0%	-7.0%
Technology	12.6%	11.3%	12.9%	17.5%	16.1%	19.6%
Communications	6.4%	5.3%	6.1%	9.8%	6.2%	31.1%
Utilities	4.7%	6.1%	11.5%	6.5%	7.5%	6.1%

Source: Bloomberg, Data as of 6/30/2025



Source: 3Fourteen Research, Data as of 6/30/2025



Source: Raymond James, Data as of 6/30/2025

A Secular Shift or Another Head Fake?

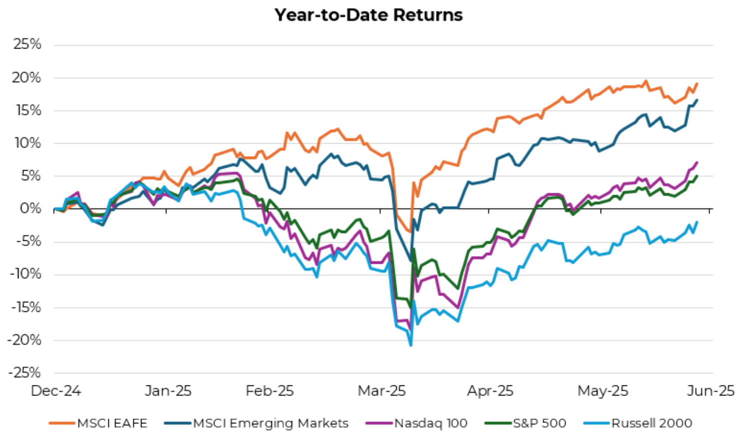
The International Debate: It Seems That Donald Trump Has Started to Make International Equities Great Again.

For the past 16 years, it's all been about ***U.S. Exceptionalism***, which is a construct of reserve currency status, which allows for lower financing costs (used to fund deficits), global leadership in tech innovation, deep capital markets, and a flexible labor force.

What Has Been Driving the International Outperformance?

U.S. equities have underperformed International due to the following reasons:

- Europe is still easing monetary policy, even as inflation remains above 2%, while the U.S. appears to have finished its tightening cycle.
- Germany and other European nations are expected to expand fiscal stimulus, increase defense budgets, and reduce reliance on long-standing EU constraints; in contrast, the U.S. is beginning to cut its fiscal deficit, which may act as a drag on domestic growth while Europe is still in expansion mode.
- After years of overweighting U.S. equities, global investors are beginning to reallocate into international markets, seeking broader exposure.
- Earnings growth has become more evenly distributed across global markets. While the Magnificent 7 posted outsized earnings over the past two years, many international markets saw modest or even negative growth, setting the stage for potential catch-up.
- The valuation gap between recent outperformers and underperformers had become extreme. The consistent dominance of specific sectors and styles was unlikely to persist, and we may now be seeing the beginning of mean reversion.



Source: Bloomberg, Aptus, as of 6.30.25

Do We Chase International?

- We believe it is perfectly reasonable to wait for more confirmation before chasing international exposure. If structural changes take hold, there will be time to participate, and patience may help avoid rotating based on hopes rather than evidence. Especially that the majority of the relative outperformance has come from valuation expansion and currency translation.
- Everyone likes to hate on the U.S. market due to its high concentration and highly valued companies at the top of the market capitalization spectrum. But, International has the same exact problem through its individual country exposures. But these exposures come with less growth and lower profitability.
- With International trading at a substantial discount to the U.S., and it exhibiting the same top-end concentration and valuation problems, makes you wonder about the rest of the constituents in the International benchmark – they must be extremely cheap and lower in profitability and growth.

Country	Top 5 Weight in Country Index	MSCI Index Weight (By Country)	P/E Ratio Forward	Operating Margin	Five Year Sales Growth %
Japan	17.68%	21.94%	21.13	10.82%	4.44%
United Kingdom	33.73%	14.90%	16.96	12.56%	5.72%
Germany	43.88%	10.35%	21.65	6.82%	2.65%
France	34.67%	11.43%	18.05	11.78%	5.26%
Switerland	51.43%	9.94%	15.23	12.62%	3.38%
AVERAGE	36.28%	-	18.61	10.92%	4.29%
U.S.	**24.88%**	**0.00%**	**26.34**	**38.80%**	**24.38%**

Source: Aptus Capital, Bloomberg, Data as of 6/30/2025

Is the Market Expensive?

For the Last Decade, It's Either You Owned Domestic Large Caps or You Underperformed.

U.S. Large Cap Stocks

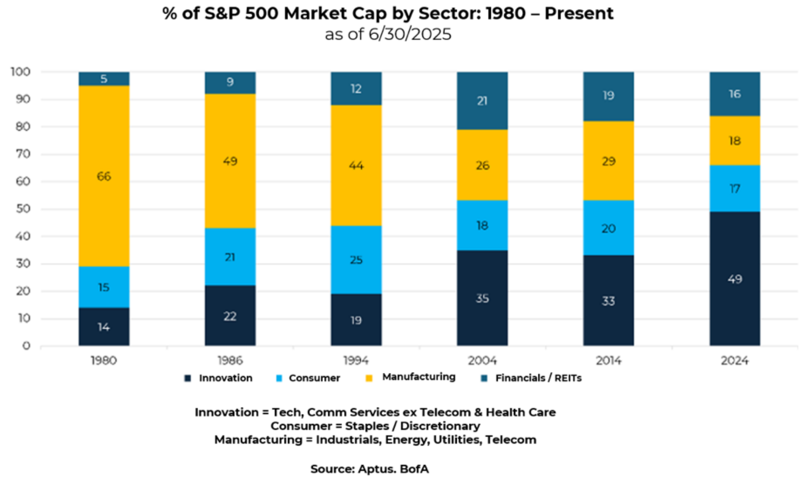
There's rarely a time when investors believe the market is cheap relative to history, but maybe they are improperly comparing it to the past:

Question: Which stock should warrant a higher valuation – all things considered equal (i.e. what the company does, their growth, etc.)

- Stock A: 8% Profitability, or
- Stock B: 17% Profitability.

Answer: Most people would argue that "Stock B" should warrant a higher valuation, given its higher profitability. This concept can be applied to the U.S. Market (i.e., S&P 500). Why compare the valuation of the S&P 500 in 1980 (which had ~8% operating margin) to the S&P 500 of today (17.5% next twelve-month operating margin)? It's clear that the S&P 500 should warrant a higher valuation today relative to the past, especially because its constituents are more asset-light (better profitability) and more innovative (higher long-term growth).

U.S. Large Caps embody the characteristic of "operating leverage", which warrant a higher valuation.

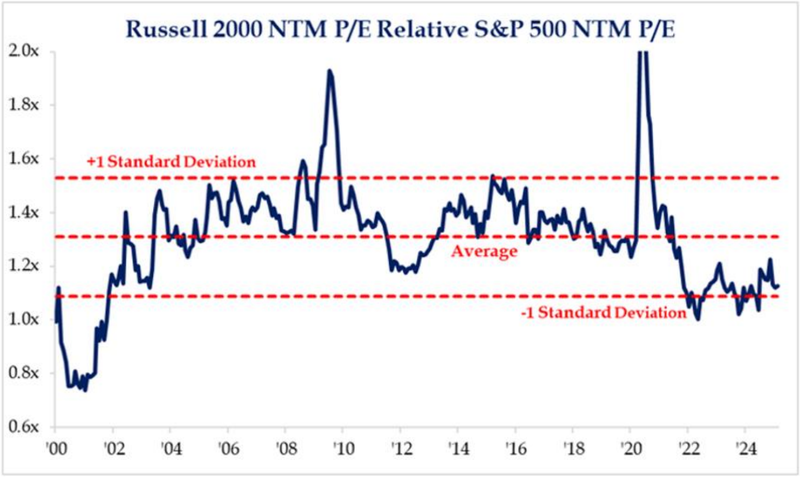


Small Caps Continue to Trade at a Discount

Over the past decade, the investment landscape has been fairly binary; investors who owned U.S. Large Caps generally outperformed, while those overweight Small Caps largely underperformed. Historically, U.S. Small Caps have traded at a modest premium to their large-cap counterparts. Today, however, that relationship has reversed, with Small Caps trading at a nearly 30% discount. This shift has prompted many to question when a mean reversion trade might emerge.

Why the Discount?

- U.S. small caps lack the same level of exposure to technology proxies as the S&P 500, meaning that they have an underweight to the artificial intelligence narrative.
- Over the past few years, U.S. Large Caps have garnered the characteristic of operating leverage. U.S. Small Caps are more of a service-based asset class, which does not have this characteristic.
- From an earnings perspective, Small Caps have consistently lagged their larger peers. After 18 consecutive months of negative earnings growth, Small Cap earnings have finally turned positive. If growth begins to reaccelerate meaningfully, we would expect fundamentals to follow, along with renewed investor interest.



Source: Strategas, Data as of 6/30/2025

Is Market Concentration an Issue?

The Top 10 Stocks in the S&P 500 Account for ~36% of the Index

What is the Current Landscape?

- S&P 500 returns last year were nothing short of spectacular, with the index rising an impressive 25%. However, it's no secret that this strong performance is largely driven by a handful of technology stocks — the so-called Magnificent 7 — which returned 64% year-to-date versus only 13% for the remaining 493 stocks, accounting for a substantial amount of the index's return. This has let the concentration of the top 10 stocks to ~39%. While the concertation helped last year, it's hurt this year.

- *What Are the Arguments?*

Negative: Investors do not need to be concerned about high market concentration over the short run; research has found no relationship between market concentration and S&P 500 returns over the subsequent week, month, six months, or year — when factors such as valuation, near-term economic and earnings growth, money flow, share buybacks/dividend policy, etc. drive returns

However, over the longer term—especially across 10-year horizons—market concentration has shown a more meaningful relationship with forward returns. Historically, high levels of concentration have been associated with lower returns when valuations are stretched.

Exhibit 16: Concentration of S&P 500 market cap and earnings in the 10 largest index constituents

Source: Goldman Sachs, Data as of 6/30/2025

Positive: Others argue that fears around market concentration are overstated. Concentrated markets are not inherently more risky, nor do they guarantee weaker performance. In many cases, valuation is the more relevant factor. In a global context, today's U.S. stock market is not uniquely concentrated. There have been more concentrated periods in U.S. history, such as in the 1950s and 1960s, and many international markets today show even greater levels of concentration.

Market concentration in and of itself should not be a source of investor concern, as it often reflects a natural outcome of profit growth becoming increasingly concentrated in the largest companies, which are then rewarded with higher valuations.

iShares Country ETFs			
Country	**Ticker**	**Top 10% Weight**	**MSCI ACWI Weight**
Spain	EWP	75.4%	0.72%
Hong Kong	EWH	74.1%	0.44%
Italy	EWI	68.5%	0.61%
Switzerland	EWL	66.1%	2.36%
Norway	ENOR	62.6%	0.15%
Netherlands	EWN	62.0%	1.22%
Germany	EWG	62.0%	2.30%
Australia	EWA	60.8%	1.55%
Mexico	EWW	60.3%	0.21%
Brazil	EWZ	55.9%	0.60%
Sweden	EWD	55.5%	0.73%
France	EWQ	55.0%	2.29%
South Korea	EWY	50.7%	1.12%
China	MCHI	49.5%	2.96%
United Kingdom	EWU	48.1%	3.27%
Taiwan	EWT	46.2%	2.00%
Canada	EWC	40.8%	2.94%
India	INDA	38.5%	1.89%
S&P 500	IVV	36.1%	64.16%
Japan	EWJ	25.0%	4.83%

Source: YCharts, iShares, Data as of 6/30/2025

Keeping Things in Perspective

Macro News Can Seem Overwhelming, Just Remember, It's Still All About Stocks, Which Are All About Underlying Businesses:

What are the Big Questions for 2025?

- What is the State of the U.S. Consumer? Arguably, the most important story in the U.S. economy over the past two years has been the durability of the consumer. Strong labor markets have led to accelerating real disposable income, which in turn has fueled robust household spending. Add to that significant wealth creation since 2019, and the U.S. consumer has been empowered to do what it does best—spend.

- What is the Character and Sequence of Trump 2.0 Policy? The first 160 days were jam-packed. Markets reacted strongly to policy headlines, especially around immigration and tariffs. Despite this, we continue to believe the overarching bias will be pro-growth, pro-business, and pro-markets. Moving forward, it will continue to be noisy and uneasy at times, but the broad thrust of policy will be net positive for US equities, particularly around de-regulation.

- Will Fiscal Concerns Come to Roost in 2025? Last year, one of the surprises in 2024 was the lack of market stress over debt and deficits. Though bond markets showed signs of concern late last year, there was no major reckoning. This theme has a way of fading in and out of focus, but it is reasonable to expect renewed attention at some point in 2025, and we've witnessed that lately with the volatility in rates during Q2 2025.

What are the Big Questions for 2025 Continued

- Does the Equity Investor Market Need to Worry about the Recent Tightening of U.S. Financial Conditions? Since the recent Fed tightening, the broad set of market moves would constitute a headwind to growth (a stronger dollar, lower stocks and wider credit spreads, and, most notably, higher US rates). The main driver has been the tone of the Fed, some renewed concerns on the trajectory of US inflation, and the flow of capital.

- Does the Market Remain Priced for Perfection? Over the course of time, investors have arguably become too focused on valuation and may have been hurt more than helped by this obsession. It's important to distinguish between a fairly valued market and an overvalued one. By nearly any measure, today's market does screen as expensive relative to history.

- How Dependent is the Market on the AI Theme? The Magnificent Seven added $6B of market cap in 2024, and the AI story was as powerful as any in that mix. At times, it felt like the entire market revolved around one theme. The question now is, what happens if one of those key stocks falters? Historically, the S&P 500 has often rallied after periods of extreme concentration, with the rest of the market catching up. If that happens again, it could be a more benign outcome than a broad correction.

What is Going on In the Current Market:
There's a soft patch developing in the U.S. data to start 2025 due to trade policy uncertainty
There have been some cracks in the U.S. employment situation, as the under-employment rose sharply to 8.0%
Domestically, we are watching credit spreads, which have been benign, as a great signal for the economy
There's likely a floor in growth if the new U.S. gov't creates cushions wih tax policy & cheap energy
The Fed has paused their rate cutting cycle. Given uncertainty on other policies (trade, fiscal & regulatory), the policy makes sense
Inflation is likely not a large problem in 2025, as rents continue to moderate, but it remains a Fed focus, specifically for Fed Chair Powell.
Tariffs would likely be a quick one-time move in the price level, but inflationary pressures could build over time
Individual tariffs may be a level shift in prices, but a retaliatory trade war also threatens continues price hikes
How the US. tax code will shape up at the end of 2025 should matter, especially for small businesses
Wage growth data is key for measuring balance in the labor market. Increased productivity could help unit labor costs moderate

Source: Aptus' PM's Brains, Thoughts as of 6/30/2025

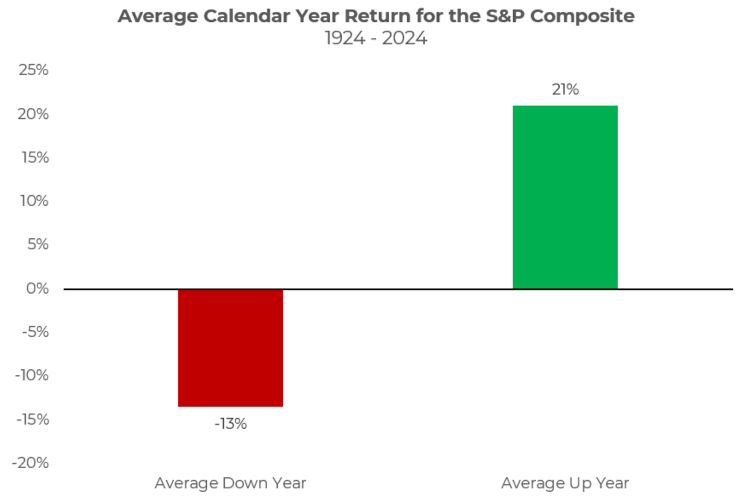
FY 2025 Market Outlook – Airplane!

For the time being, it looks like the prospects for continued monetary accommodation, relatively easy fiscal policy, and regulatory easing should continue to keep animal spirits alive for both investors and dealmakers.

This is why we believe that investors need to own stocks for the long haul… *Surely You Can't Be Serious. I Am, and Don't Call Me Shirley.*

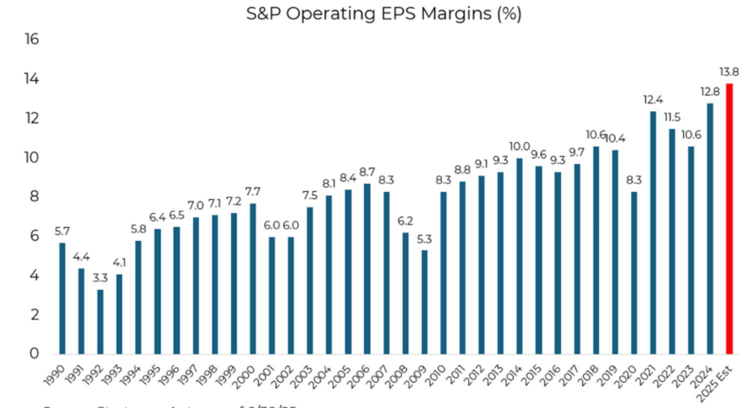
The S&P 500 has Evolved Over the Past Few Decades … For the Better

- A byproduct of the S&P 500 becoming a more asset-light, innovative market is that it now embodies the characteristic of operating leverage, which benefits margins. Operating leverage can be an investor's best friend or their worst enemy.
- And next year's estimated growth is a perfect example of why operating leverage can be the S&P 500's best friend. In 2025, the index is expected to grow its revenue by 5%, which equates to an earnings expansion of ~15%. *But operating leverage can cut both ways…*
- This should be the focal point – the potential ramifications to market return activity. If the index is characterized by operating leverage, then the market should incur more tails. The good years are great, and the bad years are tough. This plays right into one of Aptus' main investment methodology: *Doing Better in the Tails.*
- Historically, the S&P 500 has posted returns above 25% in 26 of the last 96 years. That's 27% of the time—proof that big upside years are not unusual.



The Hurdle Rate for Investors May Be Higher, Necessitating Ownership in Risk Assets

- When it comes to managing the debt, there are three basic paths: 1) default, 2) inflate it away, or 3) grow out of it. Given recent stimulus, we believe inflation and growth are the most likely outcomes.
- With ample liquidity still in the system and valuations relatively fair, many investors are underestimating the risk of being too defensive. Avoiding risk assets could mean missing out on growth and ending up in tough conversations with clients about lagging returns. Because if you do underweight risk assets, you may end up having more of an awkward conversation with your clients about sub-par returns than little Joey did with Clarence Oveur about Turkish prisons.
- If nominal growth outpaces the increase in the deficit, the market can digest the debt problem. If not, the bar for returns will rise. This reinforces the importance of owning a full plate of risk assets—especially stocks—while using hedges as insurance in case rates stay elevated or volatility returns.
- In times of turbulence, volatility becomes an asset class in itself. Think of it like salt: not very appealing on its own, but it makes the full meal better. You can't eat salt alone, but you'd miss it if it weren't in the mix.



Source: Strategas, Aptus as of 6/30/25

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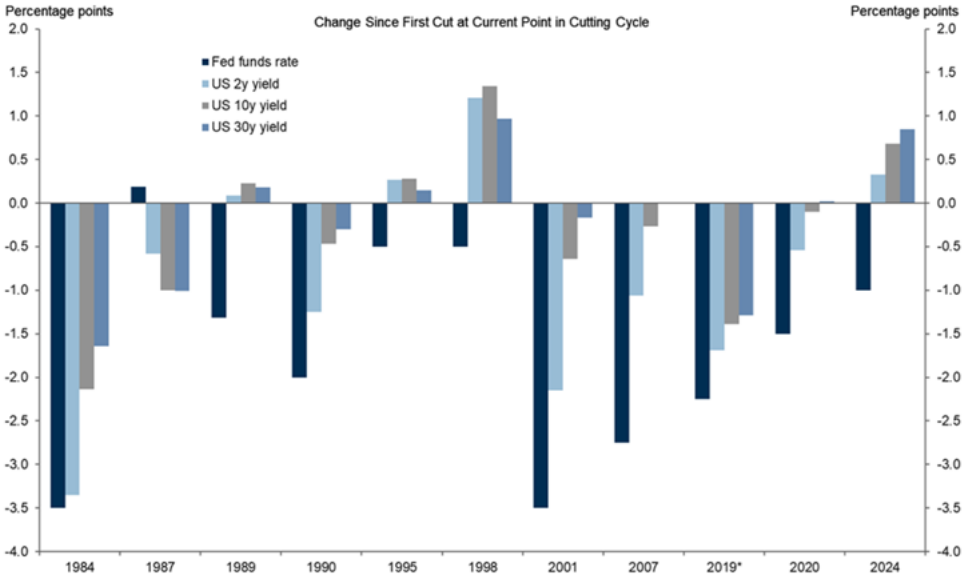
Fixed Income Markets Review

A Bond Market Review – Q2 2025

Bonds and Stocks Get Back on the Correlation Trend: The Aggregate Bond Index returned +1.21% in Q2 and 4.02% YTD. Fixed Income investors have witnessed the best start to the first half of '25 since Covid (2020) when the Fed cuts rates to 0% and eased aggressively. Relatively high nominal yields (higher interest payments) in addition to a mild decline in interest rates and firm credit spreads have resulted in solid total returns for fixed income investors. Yields drifted slightly lower to finish the quarter although volatility at the start of the quarter was magnified by Liberation Day's market chaos.

The Fed and Rate Expectations: The market is pricing in ~2.6 interest rate cuts in 2025 (vs ~2 for the Fed). The market is pricing the terminal interest rate at ~3.0% in late 2026, the same terminal level, but much earlier than the Fed. Given the degree to which interest rates rose post the Fed cuts in '24, it appears the market does not think there is a huge urgency to lower rates. The economy has slowed but is still growing (real GDP over 1% YoY), labor markets have weakened, however the unemployment rate remains in the low 4% range and equity markets are making new highs. All-in-all, it doesn't seem like policy rates are highly restrictive on the economy.

The Yield Curve: Over the course of the year, the yield curve has continued to steepen. The long-end of the curve has pushed higher as the intermediate part of the curve has adjusted lower. The hedging property of bonds, as well as the "run it hot" mentality of the Trump administration has pressured the long end while the hope for near-term rate cuts has contained the front end. The market is sniffing for any indication that cuts could come earlier than expected. The last week before the quarter end, as Fed officials Waller and Bowman suggested, July cuts could be in play. This would allow the front end of the curve to significantly rally.



Source: Goldman Sachs, Data as of 6/30/2025

	1M	QTD	YTD	1-YR	2-YR	3-YR	5-YR	10-YR
Bloomberg US Agg Index	1.54%	1.21%	4.02%	6.08%	4.34%	2.55%	-0.73%	1.76%
U.S. Investment Grade Bonds	2.17%	1.98%	4.52%	7.01%	5.47%	4.28%	-0.38%	3.05%
U.S. High Yield Bonds	1.85%	3.68%	4.87%	10.68%	10.37%	9.80%	5.64%	4.91%
iShares 20+ Year Treasury Bond	2.67%	-1.98%	2.85%	0.22%	-3.67%	-5.08%	-9.18%	-0.27%
International Bond Index	0.45%	2.20%	2.34%	6.72%	5.82%	4.24%	0.67%	
U.S. Treasury TIPS	0.52%	0.95%	4.02%	6.49%	5.93%	3.95%	3.76%	2.87%

Source: Bloomberg. Data as of 06/30/2025. Returns include Dividends. Returns over 1YR are Annualized.

The Fundamental Bond Backdrop

The Bad Math of Drawdowns – Fixed Income Edition

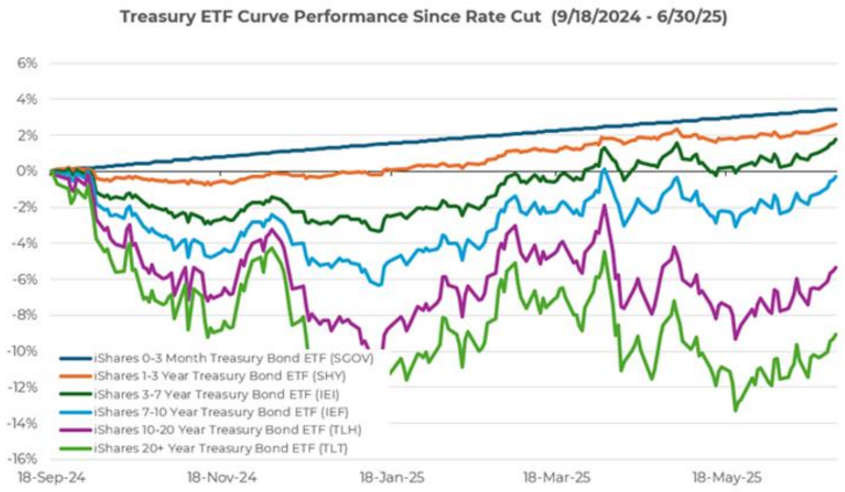
It Has Been the Worst Environment for Fixed Income…Ever

While stock market corrections are well studied, fixed income drawdowns are less explored, mostly because they've historically been rare. Bonds are generally considered safe and less volatile than stocks… until recently.

As interest rates rise, bond prices fall. When rates rise quickly, bond prices fall quickly. The latter is what has occurred over the past five years as the Fed did its best to keep inflation anchored by raising rates.

The Bloomberg Aggregate Bond Index is currently experiencing its largest and longest drawdown since its inception in 1976, both in terms of magnitude and duration.

Said differently, long duration bond funds are more than 9 years away from breaking even from yield…in nominal terms.



Source: YCharts, Data from 9/18/2024 – 06/30/2025

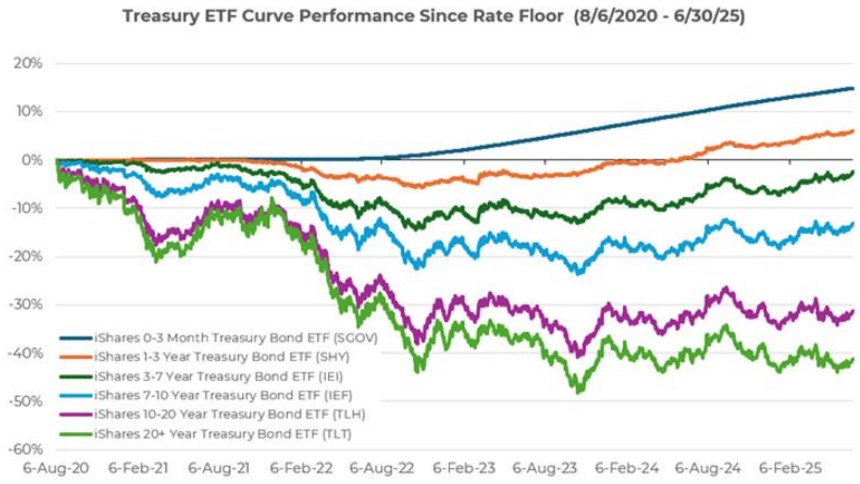
The Long Duration Puzzle: Bond Like Returns With Equity-Like Risk

Here are three stats we think you should know about long duration Treasuries:

1) Performance is negative since the 1st rate cut over 6-months ago (an outlier),
2) Long Treasury ETFs are still mired in a -40% drawdown since 2020 (multiples beyond any comparison), and
3) It's been over 1,100 trading days since their last all-time high (longest in history).

Volatility within bonds with duration has mirrored the volatility in equity markets. High yield and other riskier segments of the bond market have led performance, as they benefited from spread compression and the softening in interest rates.

Wild Statistic: Long duration exposure has come with equity-like volatility, with 10 of the last 13-years seeing long duration Treasuries with larger intra-year declines.



Source: YCharts, Data from 8/6/2020 – 06/30/2025

Let’s Talk Credit Spreads

Even With All of the Recent Noise, It’s All Quiet on the Credit Front

Why Do Investors Focus on Credit Spreads?

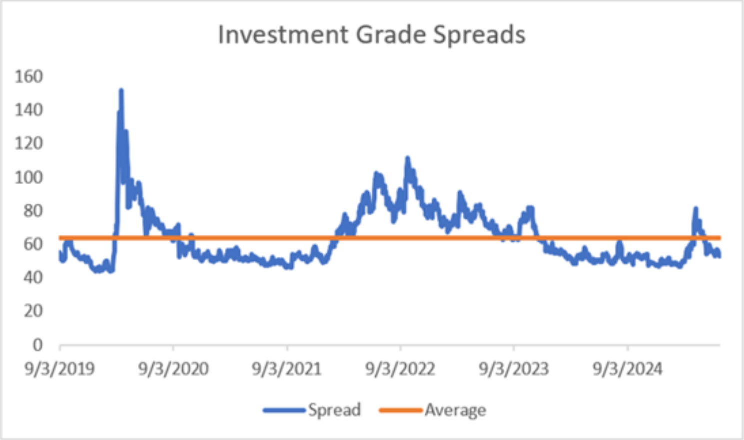
What Are They: If the bond market is the “smart market” (as it’s often described) then credit spreads, which are a part of the bond market, are the “graduate school” of the global asset markets.

Credit spreads are the difference in yields between two bonds with the same (or similar) maturities but different credit qualities. For instance, the difference between the yield on a 10-year Treasury bond (which is still viewed in corporate finance as the “risk-free” rate) and the yield on a 10-year corporate bond, or more realistically, an index of corporate bonds with a maturity around 10 years.

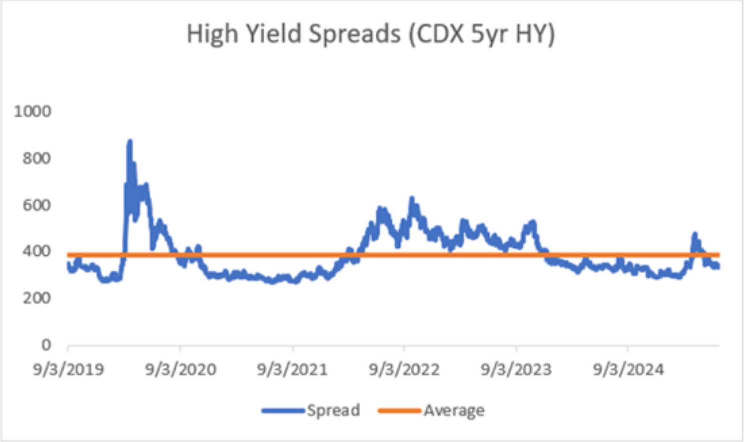
What Do They Tell Us?: Credit spreads offer insight into investors’ view of the economic cycle. If recession fears rise, spreads tend to widen as investors anticipate higher default risks in corporate bonds. In that scenario, investors often sell riskier corporate bonds (driving their yields up) and buy safer Treasuries (driving their yields down). That divergence increases the credit spread—a signal of market stress or slowing growth.

Where Do We Currently Stand?: Despite recent headlines and market volatility, credit spreads remain well-behaved. The market saw a quick uptick in spreads during the volatile year of 2022, alongside the instability in the banking sector in March 2023. Since then, it’s been all quiet on the credit front spread.

Even though we are overall optimistic about the economy, credit spreads for both Investment Grade and High Yield have remained resilient.



Source: Aptus Capital, Bloomberg, Data as of 6/30/2025



Source: Aptus Capital, Bloomberg, Data as of 6/30/2025

Bond Outlook – FY 2025

What Worries Us?

Treasury Supply: A significant concern remains regarding the growing supply of Treasuries, which will be entering the market at increasingly higher rates over the next several months, particularly as the duration profile shifts longer.

We believe that issuance will continue to put a floor under yields. With demand remaining neutral, the potential for a rally in rates, even now that the Fed has begun cutting rates, is limited.

What Does This Mean? Treasury supply will likely keep rising as the government's budget deficit persists. The increase in deficits has been driving term premiums across the curve higher. Though term premiums for 10-year Treasuries are currently around 53 basis points (per Bloomberg) and remain in a secular uptrend, they are still not far off their 10-year average. In fact, during 2023, term premiums increased to over 1.0%, suggesting that rates may stay higher for longer.

Keep an eye on Treasury issuance, as that will likely be the main driver of rates.

Time Required to Reach Total U.S. Debt Levels	
Of:	
$10 Trillion	232 Years
$20 Trillion	9 Years
$30 Trillion	4.5 Years
$31 Trillion	8 Months
$32 Trillion	8 Months
$33 Trillion	3 Months
$34 Trillion	3 Months
$35 Trillion	7 Months
$36 Trillion	4 Months
Latest Level	***$36.25 Trillion***

Source: Strategas, Data as of 06/30/2025

Rate Volatility in the Future

The focus for bondholders will continue to be around how the new tax bill might expand the deficit and its implications for yields. It's been our view that we have likely entered a secular uptrend in yields, but the upside is also constrained. Interest expense is a binding constraint not just for the government, but also corporations and consumers.

If rates continue to rise meaningfully, growth will likely slow, putting downward pressure on rates once again.

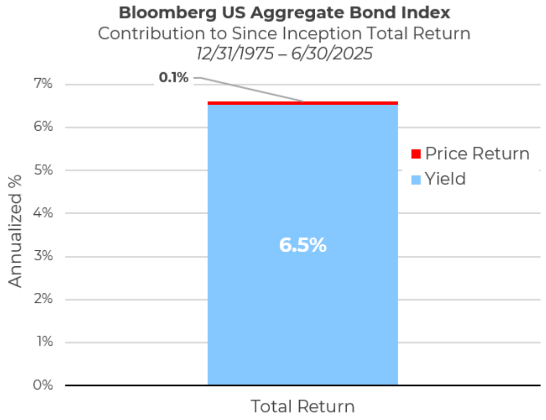
It's also important to frame the deficit impact of the tax bill in the context of tariff revenues. The two roughly offset, making the policy stance deficit neutral, but its certainty doesn't imply a shrinking deficit.

Source: Strategas, Data as of 6/30/2025

Remember Where the Bulk of Returns Come From

When investing in investment-grade bonds, many investors are often surprised to discover that the majority of returns come from coupon payments rather than price appreciation. Historically, 99.9% of the return for the Bloomberg Aggregate Bond Index comes from the coupon, with only 0.1% coming from price returns.

Bond investors need to pay close attention to the yield of their investments. With the Bloomberg Aggregate Bond Index currently yielding less than 4%, the real return after accounting for taxes and inflation may approach 0%. For those seeking a safe store of value, this yield might suffice. However, for investors looking to grow their capital for retirement or other long-term financial goals, this return will likely prove inadequate.



Source: Bloomberg, Aptus as of 6/30/25

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Important Topics of Discussion

Market’s Key Focus: *The Debt Problem*

Three Ways to Beat the Debt Problem

Austerity — *Spending Cuts*

Grow Out of It — *Productivity*

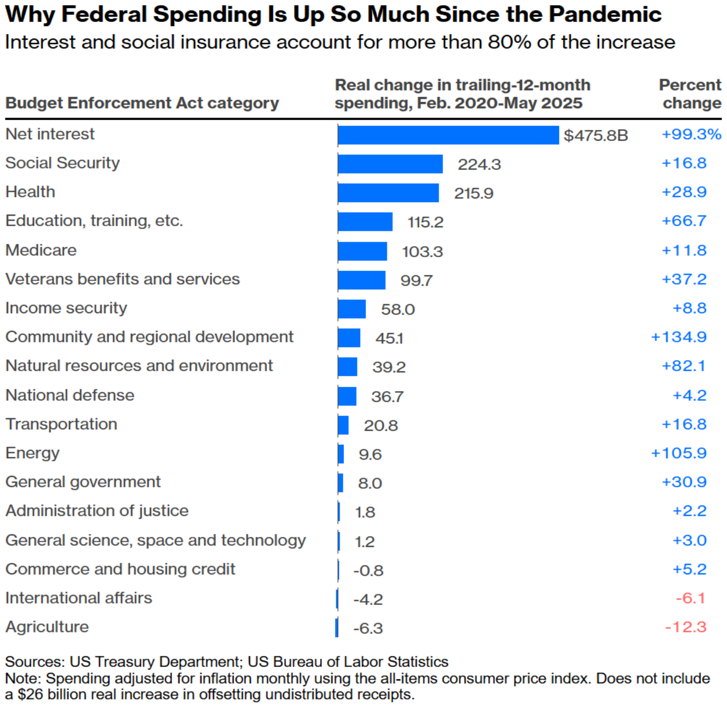
Inflate Out of It — *Debases Wealth*

Understanding the Debt Situation

- The U.S. government is spending 53% more today than it was before COVID. While the all-important Debt-to-GDP ratio hasn’t moved as much (only up 17% from 2019), it’s the trajectory of spending at higher interest rates is what the market is focusing on. This means that the forward projections for debt-to-GDP are also increasing – creating worry amongst market participants, as D.C. looks to pass a tax-cut bill during the Summer.

- *Random Facts*:
  - The best way to look at debt from an actionable standpoint is from an overall interest expense as a percent of expenditures. When this ratio is above 14%, Washington, D.C. tends to exhibit some aspect of austerity. We are currently closing in on 18% → this is why the market is focusing on the overall debt and the *One, Big, Beautiful Bill*.
  - The overall interest rate that the government pays has doubled from the 2021 low; currently sitting around 3.5%.
  - Over half of the U.S. Treasury Debt set to reprice next 3 years (+ deficits)
  - We are witnessing record deficits, when the market is at full-employment. The government ascertains a lot of its revenue for payroll tax.

Actionable Items: Own Risk Assets, or Risk Debasement



“We can Grow Both the Economy and Control the Debt. What is Important is That the Economy Grows Faster than the Debt”
-Treasury Secretary Scott Bessent

The Markets and Geopolitics

It Doesn't Appear that Ayatollah Will Issue a Fatwa on the U.S.

What's Happening?

- Many investors have been surprised by the limited impact on the markets from the Iran/Israel conflict, and most recently, the direct U.S. strikes on Iranian nuclear facilities.
  - *Why?* It's because the markets don't think the conflict will materially disrupt oil production from the Middle East or flow of oil through that region. That is the only reason the markets haven't "cared" about this situation and why the market reaction (which has been muted) is so disjointed from the media headlines (which are scary and worrisome).
  - *What Would Cause this Conflict to Move the Markets?* A key short-term risk to the global economy would be any broadening of this conflict that would limit the ability to move oil through the Strait of Hormuz, a chokepoint for roughly 20% of the world's oil consumption.

Lessons to be Learned About Escalations in Geopolitics

- While tragic and frightening, past American experiences with such events has taught us that such actions would have little if any meaningful long-term impact on the behemoth that is the U.S. economy.
- Experience teaches us as investors, however, to be careful in drawing too many conclusions at this stage about the implications of the event. For example:
  - Who can forget US Treasury yields falling in response to the initial downgrade in 2011?
  - In the wake of the U.S. bombing Iran, Oil actually fell by 7% that day.

S&P 500 Performance Prior To & Following Start of Major U.S. Military Actions

	Date	Prior 65 Trading Days	Prior 20 Trading Days	Prior 5 Trading Days	Trading Day	+5 Trading Days	+20 Trading Days	+65 Trading Days	+125 Trading Days	+250 Trading Days
Pearl Harbor	12/7/1941	-9.9%	-2.7%	2.8%	-3.8%	-2.7%	0.3%	-10.5%	-5.6%	3.7%
Korean War	6/25/1950	9.0%	2.5%	1.2%	-5.4%	-2.6%	-4.9%	7.2%	10.0%	17.6%
Bay of Pigs	4/17/1961	11.9%	2.7%	-0.2%	0.5%	-3.4%	0.2%	-3.0%	2.0%	1.8%
Vietnam War	3/8/1965	3.6%	-0.6%	-0.5%	0.0%	0.5%	-0.3%	-2.1%	0.9%	3.0%
Panama	12/20/1989	-1.2%	0.8%	-2.9%	0.1%	2.3%	-1.1%	-1.5%	4.7%	-4.9%
Gulf War	1/17/1991	4.3%	-4.2%	0.5%	3.7%	2.1%	11.1%	16.2%	16.2%	28.2%
Kosovo	3/24/1999	7.0%	0.7%	-2.7%	0.5%	1.4%	7.1%	3.7%	3.1%	14.8%
Afghanistan	10/7/2001	-12.5%	-5.4%	3.2%	-0.8%	2.6%	3.8%	8.9%	5.2%	-24.6%
Iraq War	3/20/2003	-1.7%	4.4%	5.1%	0.2%	-0.8%	2.0%	12.1%	17.2%	28.3%
Libya	3/19/2011	3.6%	-4.8%	-1.3%	1.5%	0.9%	0.5%	-0.9%	-6.3%	8.1%

Source: Strategas, Data as of 6/30/2025

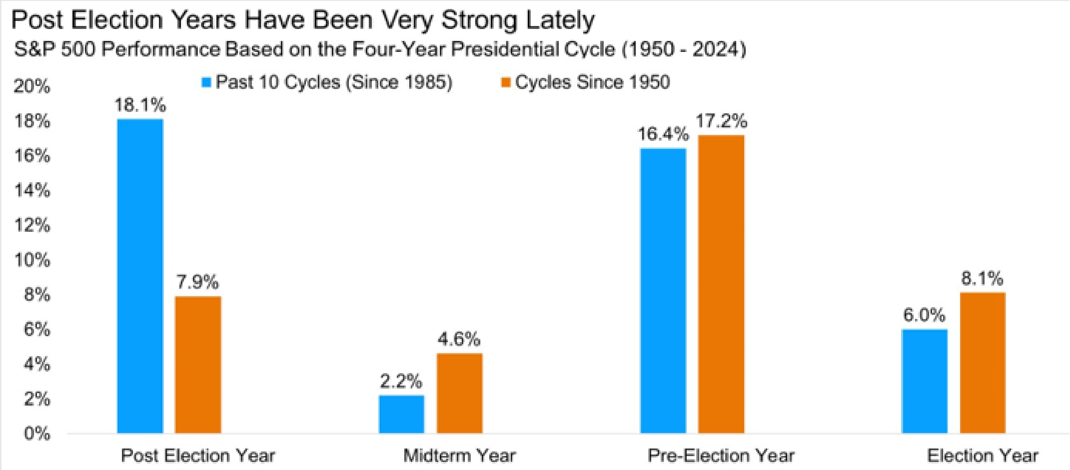
Volatility of Emotions; Not the Market

Washington, D.C. Has a Lot to Navigate in 2025, e.g., Tariffs, Corporate and Individual Taxes, Geopolitics, Debt Ceilings, etc.

Stocks Gain in the 1st Year of a New President...Unless there is a Recession

- The uncertainty over a new president's agenda is normal and we remember similar conversations happening with Obama, Trump, and Biden entering the presidency. Yet all three went on to produce +20% S&P 500 total returns during their first year. In fact, over the past two decades, the first year of a new presidency has historically been the strongest of the four-year term, with positive returns in 9 of the past 10 cycles.

- Not coincidentally, the biggest risk factor for stocks in the first year of a presidency is whether the US enters a recession, which was the last time the S&P 500 declined during the first year of a new president's term (2001). Nine of the past 15 recessions have occurred in the first year of a president's term. Interestingly, seven of these nine recessions occurred under Republican presidents. Trump broke that trend in 2017. He was the first Republican to follow a Democrat without a first-year recession since Harding in 1921.



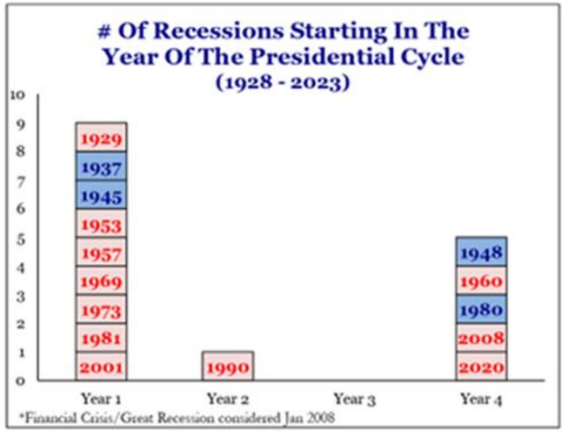
Source: Carson Group, Data as of 6/30/2025

Will Growth Slow Enough to Trigger a Recession?

- The key question for markets is how significant and lasting the drag on growth will be from today's high level of policy uncertainty. In other words:
  - Will tariffs continue to weigh on sentiment and act as a drag on economic momentum?
  - With tariffs potentially capped, tax rates likely stable or lower, and regulatory policy possibly easing, will these factors provide a more meaningful boost to markets going forward?

- The critical judgment investors need to make is whether or not they think a recession is coming.

- Recessions Tend to Begin When Earnings Growth is Closer to 2%: One of the reasons we believe the bar for a recession is still high is that next twelve months ("NTM") earnings per share ("EPS") growth remains at around ~11%.



Recession Began During Presidency?	
Hoover	Yes (1st Year)
FDR	Yes
Truman	Yes
Eisenhower	Yes (1st Year)
Kennedy	-
Johnson	-
Nixon	Yes (1st Year)
Ford	-
Carter	Yes
Reagan	Yes (1st Year)
HW Bush	Yes
Clinton	-
W Bush	Yes (1st Year)
Obama	-
Trump	Yes
Biden	-

Source: Strategas, Data as of 6/30/2025

Are Tariffs Not “Tariffic” to the Economy?

We Invest in the World That We Have; Not The One We Want.

Explaining Tariffs to Clients

Tariff Analogy # 1: *How Tariffs Impact the Economy*
It’s like the economy put on a weighted vest. The weight of the vest has to be light enough that the person can still complete the exercises but also heavy enough that it makes those exercises substantially more difficult. Tariffs are essentially a weight vest on the economy. They are, at current levels, light enough so they aren’t preventing the economy from continuing to hum along. But just like with a real weight vest, the longer it stays on, the more difficult the exercises become. The longer tariffs stay in place, the harder it will be for the economy to maintain the pace of growth.

Tariff Analogy # 2: *How Tariffs Impact Inflation*
Holding a beach ball underwater. It’s easy at first, but the constant pressure of air trying to rise almost always leads to the beach ball slipping out of one’s grip and breaching the surface. Tariffs have a similar effect on inflation. They are the equivalent of inflating the beach ball. Initially, vendors and retailers eating price increases, consumers value shopping and statistical offsets (like slowing home price
increases) can keep the inflation beach ball under the surface. But the longer the tariffs stay in place, the more inflation has the ability to escape, just like how that beach ball finds the weakest point of resistance to surge to the surface.

Overall:
The Fed believes we are still early enough in the tariff regime that 1) The tariff weight vest isn’t dramatically weighing on the economy (yet) and that 2) The aforementioned offset of reduced margins, value shopping and statistical offsets are keeping that inflation beach ball submerged. But the longer the tariffs stay in place, the inevitable will ultimately occur, in that the weight vest will exhaust the economy (slowdown?) and/or the inflation beachball will escape to the surface. That’s why the Fed is warning about an inflation pop in the coming months and why it is still focused on any impacts to growth.

Focus Less on D.C.; More on Economics

- An old macro wisdom states that economics (and earnings) supersede politics (and geopolitics). *It always has and always will*.
- How Can We Prove This to You? In the short term, markets often react to headlines with volatility, but it’s nearly impossible to determine any lasting impact without knowing whether policies will be implemented, enforced, or reversed. That’s why short-term noise rarely translates into long-term significance.
- The table below compares sector performance during Trump’s first term to that of Obama’s two terms. Despite stark differences in policy agendas and governing philosophies, the leaders and laggards among sectors were strikingly similar

Annualized Return by Sectors W/ in S&P 500		
	Trump 1.0	Obama
Sector	Jan '17 - Jan '21	Jan '09 - Jan '17
Information Technology	31.0%	20.0%
Cons. Discretionary	21.0%	22.0%
Health Care	16.0%	16.0%
Materials	13.0%	15.0%
Industrials	11.0%	17.0%
Utilities	10.0%	11.0%
Financials	10.0%	19.0%
Comm. Services	10.0%	13.0%
Cons. Staples	9.0%	14.0%
Real Estate	8.0%	19.0%
Energy	-8.0%	8.0%

Source: Raymond James, Data as of 6/30/2025

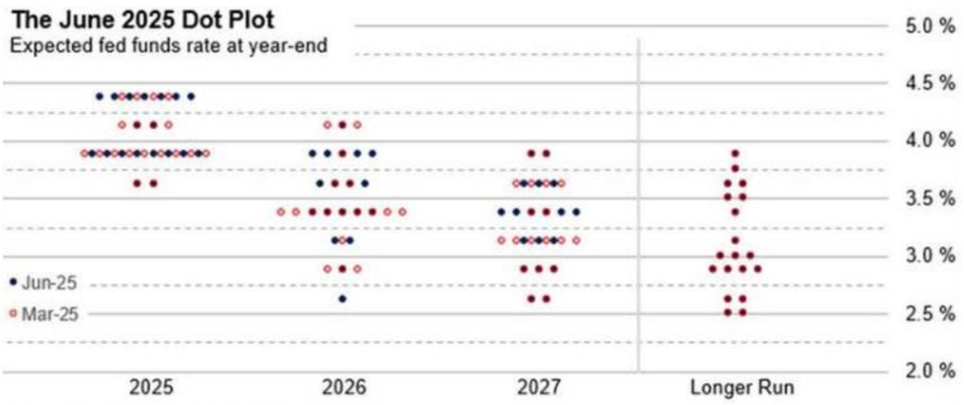
The Recent Federal Reserve Meeting

Monetary Policy Remains in the Passenger Seat Whilst Government Policy (Fiscal Policy) is the Driving Force For Markets.

June 2025 Fed Meeting Recap

- The FOMC left interest rates unchanged again today, marking four consecutive meetings YTD with no change in rates since the quarter-point cut in December. The fed funds median projected at the end of this year did not change. The median continues to look for two cuts this year, but a remarkable seven of 19 FOMC participants are calling for no cuts this year, which is almost as many as the eight calling for two cuts. Two expect just one, while the remaining two foresee three. The median last September was for four cuts this year.

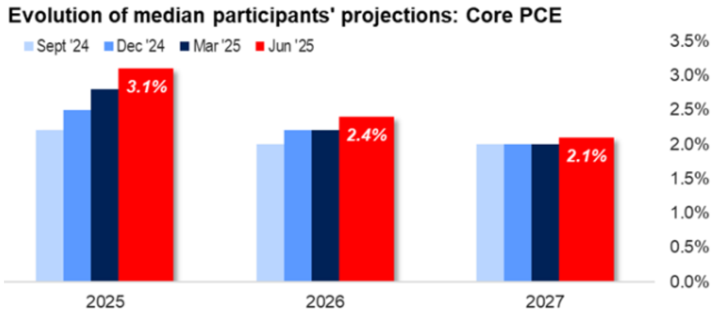
- The bottom line is that the FOMC saw three rounds of lower-than-expected inflation data in March, April, and May and responded by digging in. They are more concerned about future inflation and less inclined to cut rates than in April. There was no mention of tariffs or war in the statement, but the most likely catalyst for these changes is the snail's pace progress the Trump Administration has made toward trade deals alongside the new energy-price risk implied by Israel's shift in focus from the Iranian proxies they have fought for two years to attacking the source of their misery.



Source: FHN Financial, Data as of 6/30/2025

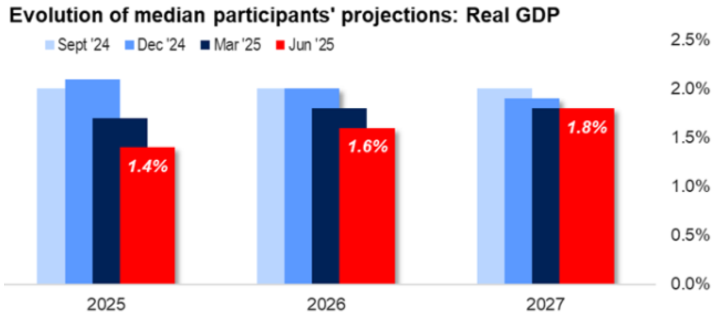
The Updated Numbers

- *Core PCE Inflation (The Fed's Preferred Measure of Inflation)*: The FOMC sees higher inflation this year and inflation remaining a little higher through 2027. Note, core inflation is currently 2.5% year-on-year, but the median forecast for 2025 is now 3.1% - implying a remarkable pickup in the second half.



Source: FHN Financial, Data as of 6/30/2025

- *Gross Domestic Product:* The GDP forecast is equally startling. GDP growth in the first half is averaging 1.6% if the Atlanta GDPNow holds to the end of the quarter. The FOMC sees a further slowdown in the second half, and only a very small acceleration next year.



Source: FHN Financial, Data as of 6/30/2025

Overall: The Fed believes we are still early enough in the tariff regime that 1) The tariff weight vest isn't dramatically weighing on the economy (yet) and that 2) The aforementioned offset of reduced margins, value shopping and statistical offsets are keeping that inflation beach ball submerged. But the longer the tariffs stay in place, the inevitable will ultimately occur, in that the weight vest will exhaust the economy (slowdown?) and/or the inflation beachball will escape to the surface. That's why the Fed is warning about an inflation pop in the coming months and why it is still focused on any impacts to growth.

An Update on the Fed's Dual Mandate

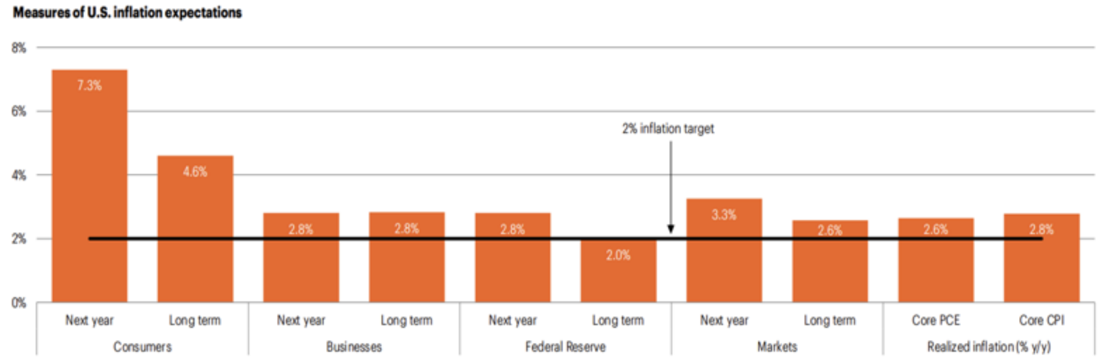
With Monetary & Fiscal Policy Being Restrictive, Consumers May Balk at the Higher Prices. We're More Worried About Growth vs. Inflation Over Time.

Expectations on Future Inflation Remain Stubbornly Higher

- Recent data shows that inflation, which surged in early 2024, has moderated to 2.8% year-over-year while being impacted by seasonal effects. More recently, inflation has proven stubbornly sticky. And future expectation remain even more stubborn.

- However, markets aren't interpreting the recent CPI reports that inflation is bouncing back. The main contributor to inflation continues to be shelter costs, which include tenants' rents and "owners' equivalent rent." These are believed to overstate true inflation due to modeling inaccuracies. This could be the lifeline, if inflation does pick up slightly due to tariffs.

- The PCE price index, the Fed's preferred measure of inflation, continues to be stubbornly sticky, making no progress this year and remaining between 2.5% and 3%. The question of 2025 continues to be: Is ~2.5%-3% "good enough", or how stubborn will the Fed be, even if it risks recession, to get inflation all the way down to 2%?



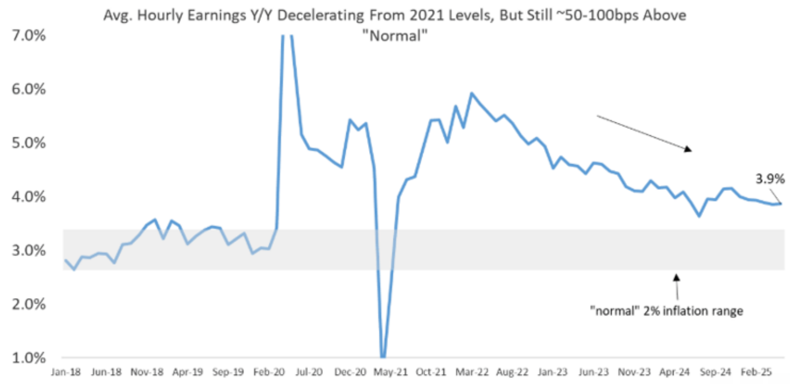
Source: FS Investments, Data as of 6/30/2025

Labor Market Softening. But So Slowly it's Basically Imperceptible

- The BLS (Establishment) continues to be volatile in Q1 2025, especially relative to the Household survey data. It does highlight the slowing growth of the labor market and the increasing softness of the labor market, but truth be told, it remains at full employment.

- The market has experienced four years of "full employment" in the U.S., approaching the historical duration when full employment (<5%) has ended for various reasons. The bull case is that just like post-WWII, fiscal support during COVID will elongate the economic cycle longer as private sector balance sheets were, in effect, recapitalized during COVID (in aggregate). The bear case is that this time is no different, and we're in the late innings of an economy with full employment. Of note, in all of these periods except for the GFC and COVID, the equity market peaked one year+ before a 5% unemployment rate was reached.

- Our focal point continues to be on wage growth, which continues to be strong and ~ 1% above trend.



Source: Raymond James, Data as of 6/30/2025

Fed Up With Real Rates

A Summary of the Fed and their Outlook

What is the Terminal Fed Funds Rate for this Cutting Cycle?

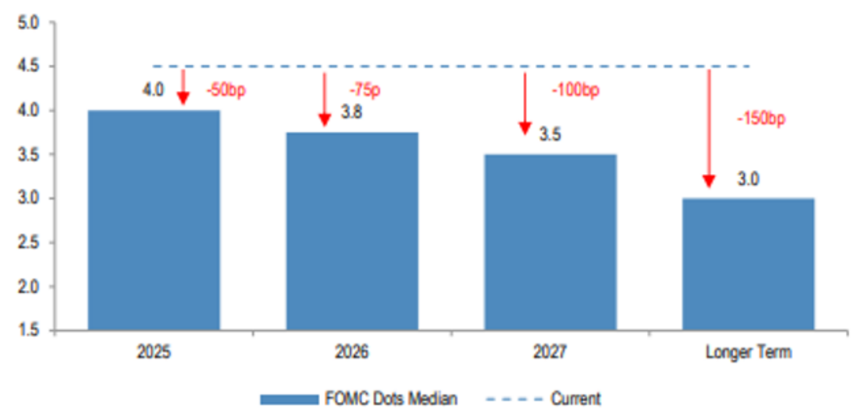
At the start of last year, the terminal rate was projected to be around 3.0%. But with inflation proving stickier and the potential for reacceleration still present, that target has shifted higher.

Why Does the Market Not Like This?

1. Lower Rate Cuts Next Year: This implies the Fed may not provide as strong a tailwind for markets, potentially weighing on growth expectations.
2. Recent Change in Fed Language: There was a change in language that some view as signaling it may be done with rate cuts for the time being.

Put differently, while fewer-than-expected rate cuts are a disappointment in the near term compared to market expectations, the facts seem to show that the rate-cutting cycle is still in place, and, as a result, Fed policy remains supportive for stocks—just less so than before.

Figure 5: FOMC Dots



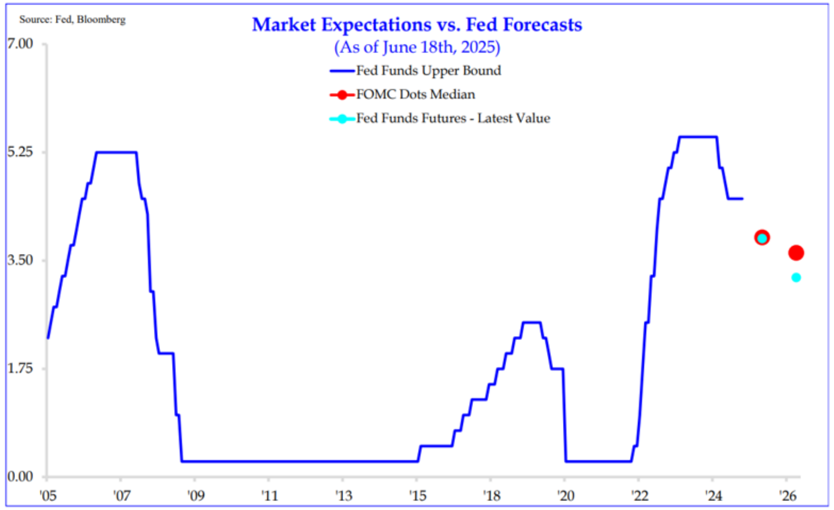
Source: Goldman Sachs, Data as of 6/30/2025

The Economy May Slow, But it Won't Stop

Economic growth has been impressive since the middle of 2023, despite high interest rates and price-level fatigue among consumers. We see some signs that growth will moderate in 2025 and perhaps into early 2026 but are optimistic about the potential for growth to accelerate later and beyond to around 2 1/2% on trend (GDP) given recent Fed action.

"It's a Myth That Expansions Die of Old Age"

As Janet Yellen said in 2016, the U.S. economy doesn't enter a recession without an outside catalyst. We had expected that the "catalyst" would be tight monetary policy, leading to a change in consumer behavior. However, the data suggests that monetary policy isn't as tight or restrictive as we anticipated at these interest rate levels. Even more importantly, U.S. consumer behavior has not changed much—they still love to spend.



Source: Strategas, Data as of 6/30/2025

Impact of the Fed Rate Cut on Markets

With Inflation Now Easing, Though Sticky, Can the Fed Lower Rates Quickly Enough to Support a Slowing Economy?

Implications for Fixed Income Markets

There are three reasons the Fed would cut rates:

1) **The Economy is at Risk of Recession:** This is not a significant risk in the current environment with recent Atlanta Fed GDP projections at 3.1%… about as unrecessionary as it gets.
2) **Inflation Falling at a Rate Likely to Drop Below 2%:** This too is unlikely, as inflation seems to be edging down, but not quickly.
3) **The Economy no Longer Supports Maximum Employment:** This is the likely reason for the recent cut.

AGG Returns After Fed Cuts within 2% of All-Time High				
Date of Cut	1M	3M	6M	1YR
7/25/1980	-2.07%	-6.56%	-5.29%	-5.15%
1/11/1983	0.17%	3.31%	4.91%	8.36%
2/28/1983	0.26%	3.06%	-0.59%	7.33%
1/15/1985	2.28%	2.23%	10.95%	22.10%
5/20/1985	5.23%	5.97%	10.89%	26.78%
3/7/1986	3.11%	1.67%	7.87%	12.61%
4/21/1986	0.53%	1.19%	3.59%	8.73%
8/26/1986	2.49%	2.94%	6.25%	4.52%
7/31/1989	-1.42%	1.32%	1.07%	7.07%
7/13/1990	-0.06%	0.21%	5.11%	10.71%
3/8/1991	1.48%	2.05%	6.53%	12.36%
8/6/1991	0.83%	3.90%	6.51%	13.68%
10/31/1991	0.92%	2.53%	3.43%	9.83%
7/2/1992	1.02%	3.25%	3.53%	10.97%
9/4/1992	0.54%	-0.80%	4.87%	10.49%
7/6/1995	-1.26%	1.41%	5.28%	2.56%
1/31/1996	-1.15%	-2.97%	-2.18%	2.87%
7/31/2019	2.59%	1.63%	3.83%	10.07%
9/18/2019	0.51%	0.76%	4.14%	7.95%
10/30/2019	0.48%	1.85%	5.12%	6.83%
9/18/2024	-1.67%	-3.20%	-1.09%	?
Average	0.70%	1.23%	4.29%	9.53%
Median	0.53%	1.67%	4.89%	9.28%
% Higher	71.4%	81.0%	81.0%	95.0%

Source: Aptus, Bloomberg, Data as of 6/30/2025

Strong Equity Markets Post Cuts at All-Time Highs

- The last twenty times that the FOMC cut policy rates when the S&P 500 was within 2% of all-time-highs, the index performed well over the following twelve months. During Q3 '24, the Fed cut rates when the market was at all-time highs, marking the 21st time this occurrence has happened.
- Historically, the market has been higher on every single occasion, resulting in an average return of 13.9% during the period. Though shorter periods, after the first rate cut tend to be more volatile. This probably shows the dichotomy between the reason why the Fed cut before a Fed Put was enacted

S&P 500 Returns After Fed Cuts within 2% of All-Time High				
Date of Cut	1M	3M	6M	1YR
7/25/1980	3.60%	7.20%	7.50%	7.60%
1/11/1983	-0.50%	6.90%	13.50%	15.20%
2/28/1983	2.40%	11.10%	9.50%	7.60%
1/15/1985	7.30%	6.10%	14.00%	21.90%
5/20/1985	-1.60%	-1.80%	4.70%	24.50%
3/7/1986	3.50%	8.90%	11.00%	28.90%
4/21/1986	-3.50%	-3.50%	-2.40%	16.90%
8/26/1986	-8.30%	-2.10%	12.30%	33.20%
7/31/1989	1.10%	-3.20%	-6.00%	2.60%
7/13/1990	-8.10%	-19.80%	-14.20%	3.50%
3/8/1991	-0.30%	1.30%	4.10%	8.10%
8/6/1991	-0.10%	0.20%	6.10%	8.80%
10/31/1991	-2.80%	4.30%	5.20%	7.40%
7/2/1992	3.20%	1.10%	5.80%	9.00%
9/4/1992	-2.40%	3.60%	9.00%	10.60%
7/6/1995	0.90%	5.00%	11.50%	21.40%
1/31/1996	1.30%	2.90%	0.60%	21.50%
7/31/2019	-1.90%	1.90%	10.20%	8.90%
9/18/2019	-0.30%	6.20%	-19.90%	11.60%
10/30/2019	3.10%	5.90%	-7.10%	8.60%
9/18/2024	4.47%	4.85%	0.57%	?
Average	0.05%	2.24%	3.77%	13.89%
Median	-0.10%	3.60%	5.95%	9.80%
% Higher	47.6%	76.2%	76.2%	100.0%

Source: Aptus, Bloomberg, Data as of 06/30/2025

Can Monetary Policy Throw a Lifeline to D.C.?

Recent Fed Actions Has Tossed D.C. and U.S. Treasury Janet Yellen a Lifeline via the Opportunity to Refinance at Lower Rates

Monetary Policy (Still Restrictive): Can the Gov't Strong Arm the Fed?

- The Fed has managed to keep rates higher for about 10 months on average after a pause. However, there appears to be a timing difference depending on the Treasury's debt servicing cost. Interestingly, with low debt servicing costs, the Fed was able to keep rates higher for longer. But when debt servicing costs were high, like they are today, the Fed's ability to keep rates higher lasted just a couple of months. The market just witnessed a string of rate cuts over the past 4 months (-1%).

- Yet; the recent Fed pause was only ~13 months. Janet Yellen, Head of the U.S. Treasury Department, has been issuing debt on the short end of the curve. With the recent 100 basis points in cuts and the expectation of more to come in June '25, the Fed is giving D.C. a lifeline to lower interest expense, opening capital to be utilized elsewhere, i.e., different ways to stimulate the economy.

- At the end of the day, it remains difficult to short stocks given the supportive liquidity environment from D.C.

FOMC Meeting Date	Rate Change (bps)	Federal Funds Rate
12/19/2024	-25	4.25% - 4.50%
11/8/2024	-25	4.50% - 4.75%
9/18/2024	-50	4.75% - 5.00%
7/25/2023	+25	5.25% - 5.50%
5/3/2023	+25	5.00% - 5.25%
3/22/2023	+25	4.75% - 5.00%
2/1/2023	+25	4.50% - 4.75%
12/14/2022	+50	4.25% - 4.50%
11/2/2022	+75	3.75% - 4.00%
9/21/2022	+75	3.00% - 3.25%
7/27/2022	+75	2.25% - 2.50%
6/17/2022	+75	1.50% - 1.75%
5/5/2022	+50	0.75% - 1.00%
3/17/2022	+25	0.25% - 0.50%

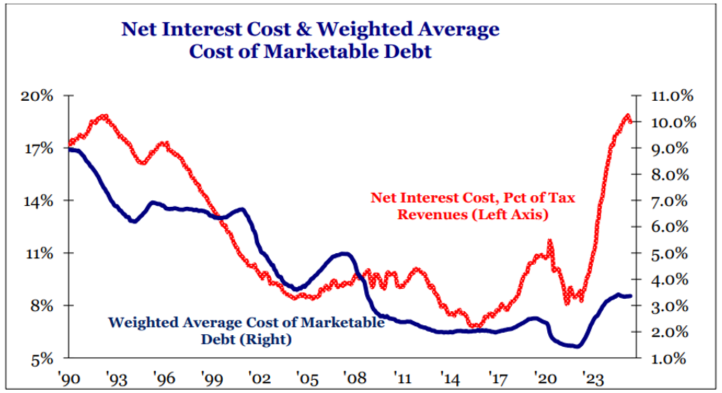
Source: FOMC, Aptus, Data as of 06/30/2025

Fiscal Policy (Expansionary): D.C. Will Continue to Spend

- Over the next 12 months, the U.S. government will have to refinance over 1/3rd of its debt, making lower rates preferable to keep interest expense more palatable, though this rhetoric flies in the face of what Jerome Powell and the Fed have been conveying to the market, especially after the recent Summary of Economic Projections.

- Additionally, Washington, D.C. continues to spend – once the water spigot has been turned on, it's difficult to turn off. Thus, the overall debt load continues to increase, even after a great season of tax collections. Coincidentally, when the market does well, D.C. gets increased tax revenue – a self-fulfilling prophecy to prop up the market, as it has the reverse effect if the market goes down. A common theme is that the rapid increase in the deficit is helping to prevent a recession, with the recent rise in discretionary federal spending contributing to the U.S. real growth rate over the past few years.

- The weighted average **coupon rate of over 3.362% will likely increase.**



Source: Strategas, Data as of 06/30/2025

"Government is like a baby. An alimentary canal with a big appetite at one end and no sense of responsibility at the other." – Ronald Reagan

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The Good, The Bad, The Ugly

The GOOD / The BAD / The UGLY

The Good

The U.S. Consumer Continues to be Resilient

Despite tighter financial conditions, U.S. consumer strength continues to buoy the economy. Employment remains high, wages have held up, and the consumer has absorbed inflationary pressures better than expected. This resilience has been crucial in supporting ongoing economic growth in 2025.

Resilient S&P 500 Earnings

Despite some evidence of slowing growth, corporate earnings have remained robust. We believe that will continue in 2025 because A) growth won’t become a structural headwind on earnings, and B) corporations still have ample room to increase productivity and reduce costs.

The market is expecting annual earnings growth of ~11% in 2025.

The Bad

Fed Policy Error

The Fed paused rate cuts after a historic tightening cycle. While bonds have responded more favorably to the pause this year, the longer the Fed stays on hold, the more uncertainty builds around the timing and strength of economic reacceleration.

The Labor Market is Seeing some “Cracks”

The balance of risks has shifted more towards failing on the employment side of the dual mandate than the inflation side

There has never been a recession that did not witness a material increase in the unemployment rate, which remains “full employment.” But cracks have started to form over the past few quarters. Simply said, if employment and wage growth slows, so should the growth rate of the economy.

The Ugly

Slowing Economic Growth

When it comes to the economy, it’s all about growth. We believe that investors don't need to see a significant increase in recession risk to cause a substantial pullback in stocks; genuine growth concerns can be enough, given current market valuations. The bottom line is to focus on growth, as slowing growth is likely to halt any rally.

Tariffs & Policy Uncertainty Add to Market Jitters

With trade tensions heating up and the 2024 election cycle still casting a shadow, renewed tariffs and unclear policy direction have emerged as headwinds. Business confidence and capital spending could be at risk if policy noise escalates further.

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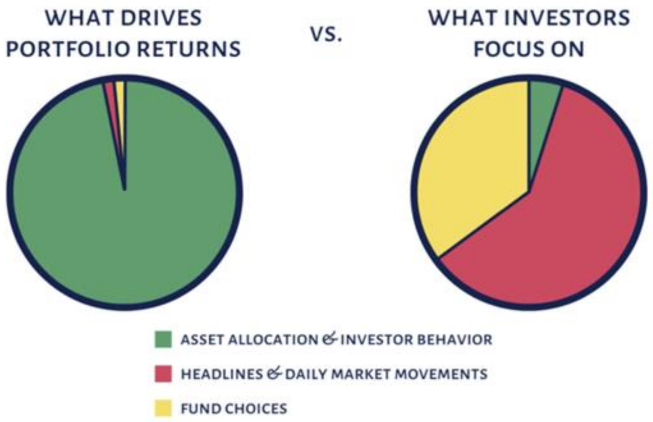
Asset Allocation

The Importance of Allocation Structure

Many Allocators Believe that Conviction of Exposures Drives Long-Term Results, But Research Shows That Structure is the Key to Success, Especially in Today's Environment

Why the Structure of the Asset Allocation is So Important

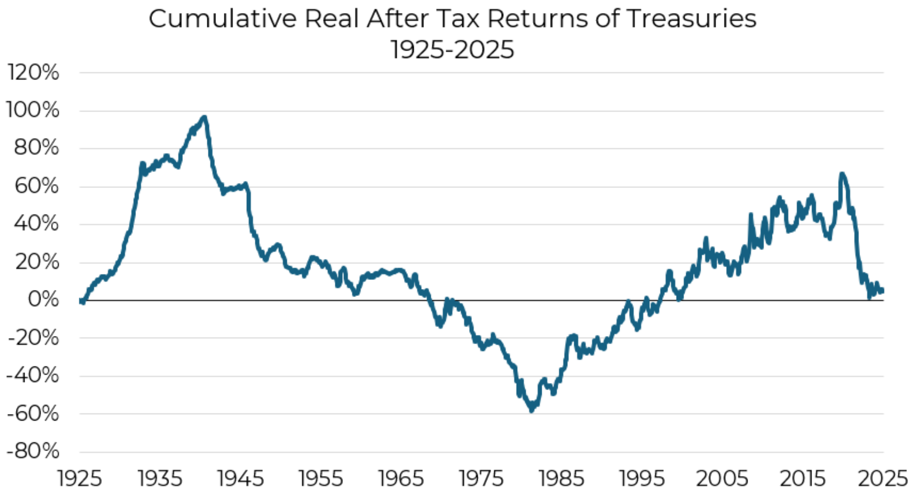
- When building a portfolio to meet specific objectives within investor constraints, it is critical to select a combination of assets that maximizes the likelihood of meeting that objective. The asset mix will ultimately dictate both returns and the variability of returns for the entire portfolio.
- The idea that structure outweighs exposures in importance is well-supported by research. The landmark 1986 study by Brinson, Hood, and Beebower found that asset allocation decisions account for 91.1% of a diversified portfolio's long-term return.
- Focus less on tilts and let your stocks act like stocks.



Source: Money Visuals

The 1980's-00's Experience of a 40% Bond Allocation is Unlikely to Repeat

- Investors often view fixed income through the lens of safety. However, an overemphasis on it in an allocation will likely erode purchasing power.
- After accounting for taxes and inflation, long-term Fixed Income returns is nearly 0.00%, which can silently inject longevity risk into a portfolio by not contributing to compounded growth.
- Investors should rethink traditional wisdom and heed to Yoda for investment advice: "You must unlearn what you have learned," as an over-reliance on the "40%" fixed income allocation may be doing your portfolio a disservice.



Source: Aptus Capital Advisors, Data as of 6.30.25

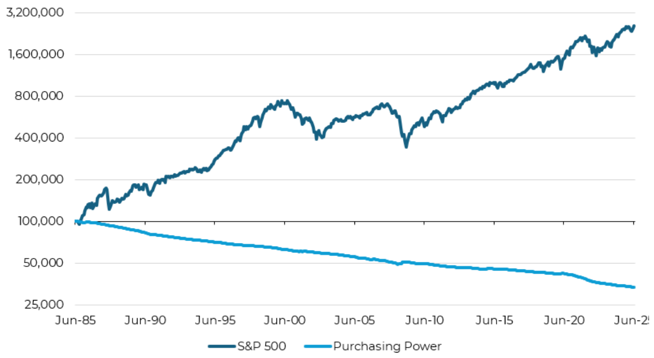
Asset Allocation Woes

Navigating the Increasing Complexity of Future Asset Allocation Decisions

The Hurdle Rate for Investors is Higher Than They Think

- Investors face a choice between owning risk assets that can appreciate or holding a currency that can debase – there is no middle ground. While 'real returns' (nominal returns minus inflation) are often seen as a benchmark for wealth growth, we believe this view underestimates the actual hurdle rate required for long-term financial stability.
- We assert that the hurdle rate will align more closely with the increase in the money supply (M2) in the future. As the U.S. government continues to run a deficit, funding this debt through Treasury bond issuances leads to money supply growth, which in turn drives inflation.
- With money supply growth approaching 7%, we believe owning a significant allocation of risk assets (such as stocks) is essential to preserve and grow wealth.

Real Growth of S&P 500 and Purchasing Power
Starting with $100,000 in June 1985

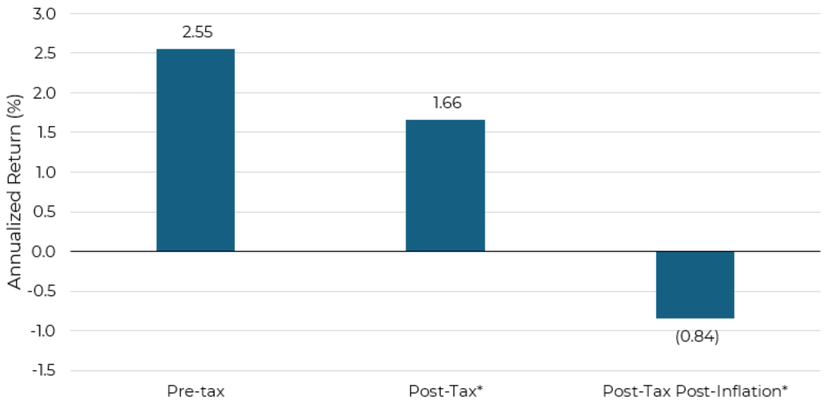


Source: Bloomberg, BLS, Aptus as of 6/30/25

Bonds Haven't Kept Up with Inflation

- Over the past decade, bonds have consistently lagged behind inflation, eroding real returns for investors relying on fixed-income assets.
- In contrast, stocks have materially outperformed inflation, delivering substantial gains and demonstrating the value of holding risk assets.
- This disparity highlights the importance of a diversified portfolio that leans toward equities, especially in an environment where inflation diminishes the purchasing power of bond returns.

Bloomberg 1-3 Year Treasury Index Annualized Return
25 Years Ending 6/30/25



* assumes 35% tax rate on coupon

Source: Bloomberg, Aptus as of 6/30/25

Historically, our government has been a beneficiary of inflation, as it has effectively reduced the real burden of large levels of debt. Funding initiatives through the erosion of purchasing power has proven to be less transparent and potentially less politically contentious compared to explicit taxation.

Don’t Overweight Cash, Unless You’re a Genius

While short term rates may appear attractive relative to equity valuations, history tells us that equity markets rarely are near their long-term averages.

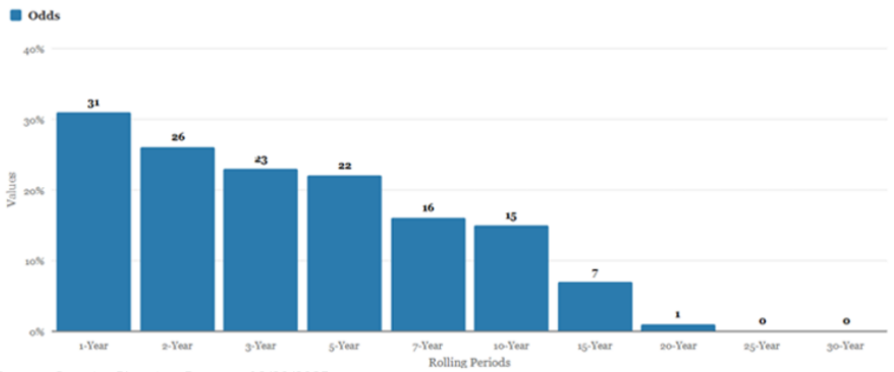
Odds of Cash Outperforming Equities

- The average yield on cash since 1928 has been 3.3% (using 3-month Treasury bills as a proxy), but yields have fluctuated considerably over time, from 0% on the low end all the way up to 14% on the high end.

- Historically, the longer an investor holds cash, the lower their odds of beating the market. Over a five-year period, those odds dropped to 22%, and after 10 years, they fell to 16%. In every 25-year period (including for those who invested at the peak in 1929), an investment in the S&P 500 has outperformed cash.

- *What Does Sitting on Cash Cost an Investor?* Sometimes nothing, when markets are going down. This is particularly true during long bear markets. But much more often, it’s costing you something, with that something increasing as the years go by. Over one-year periods, the average cost of holding cash has been roughly 8%. But over 30-year periods, this grows to more than 2,000%.

Odds of Cash Outperforming the S&P 500 (Total Returns, 1928 - 2023)



Source: Creative Planning, Data as of 6/30/2025

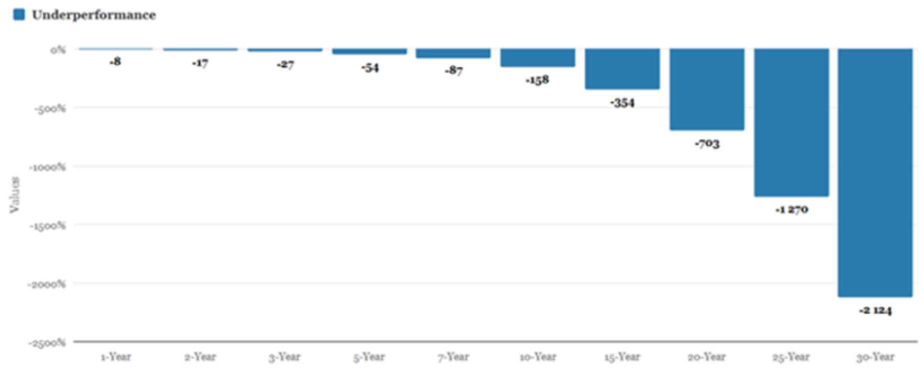
Will Waiting for a Bear Market Allow an Investor to Buy in at a Better Time?

- One of the main reasons that an investor holds onto cash is that they are waiting for a better entry point. For example, an investor is waiting for a 20% pullback in the market to put cash on the sidelines to work.

- *Looking at the Data:* How often would waiting for such a drawdown (i.e., 20%) allow you to buy in at a lower level than today? Going back to 1928, only 20% of the time. That means 80% of the time, even if an investor has the discipline to wait for a 20% decline before investing), when it finally comes, the market will likely be at a higher level than today.

- The lesson here is clear: If an investor is waiting for a large decline to get invested, one must be prepared to wait a very long time with the understanding that when the decline eventually comes, it could very well leave stocks at a higher level than today.

Average Underperformance: Cash vs. S&P 500 (1928 - 2023)



Source: Creative Planning, Data as of 6/30/2025

Cash Does Not Rule Everything Around Me (C.D.N.R.E.A.M.)

Effectively Timing the Market Requires Exceptional Skill.
Fortunately, Diversification Allows Investors to Reap Comparable Performance Benefits.

Assets Historically Outperform Cash with High Frequency and Magnitude

- In 2022, cash had a rare year in which it outperformed almost every asset class as most investments experienced drawdowns, delivering positive nominal returns. In today's environment, investors may feel further encouraged to sit out of the market given the view that there is not a big yield penalty to sit on cash. While investors may be torn between holding cash and taking on risk, history tells a clearer story: market timing requires an exceptional level of skill to improve returns.

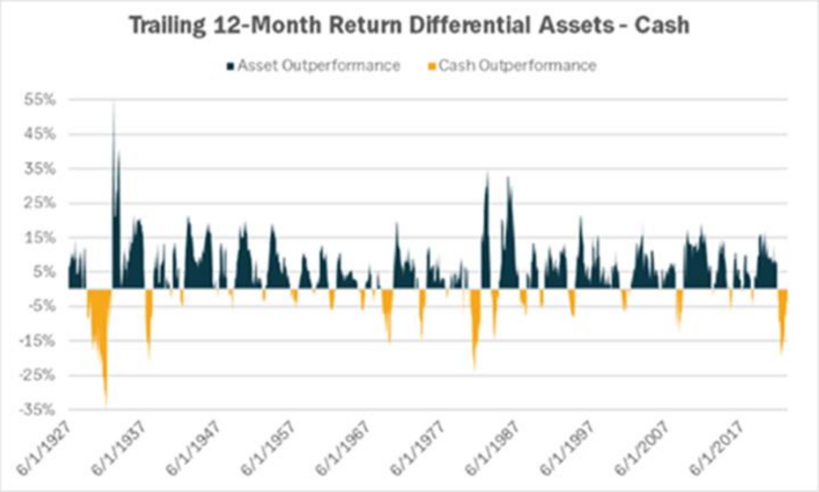
- Cash rarely outperforms a diversified basket of assets, as shown by the figure below showing trailing 12-month return differentials. A basket that includes stocks (30%), bonds (55%), and broad commodities (15%) outperformed cash in 65% of the months.

How Skilled at Market-Timing Do You Have to Be?

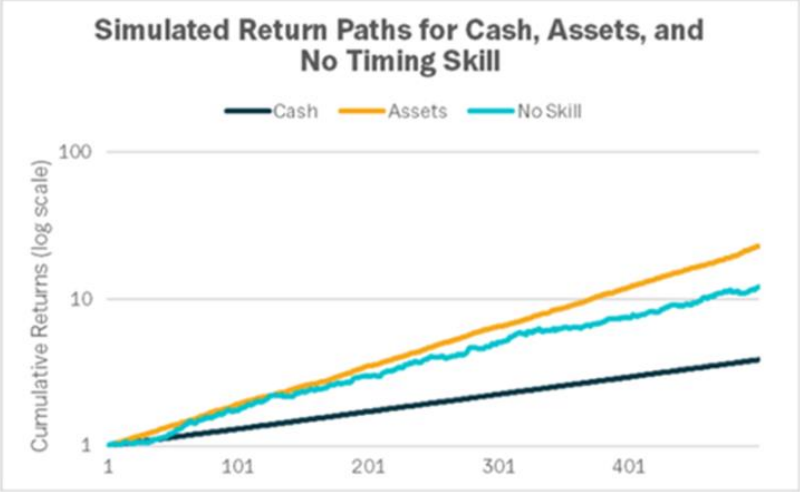
- The chart below illustrates a random selection between cash and assets each month, simulating an investor with a 50% success rate (i.e. no skill) in market timing. The results show that such random market timing yields significantly lower returns compared to staying fully invested. Consistent exposure to assets It pays to remain invested.

- Even a 67.5% accuracy (i.e. better in a bit more than 2 of 3 months) only achieves a similar gross return as a consistent asset allocation over the course of 500 months aligned with how often a diversified allocation outperforms cash.

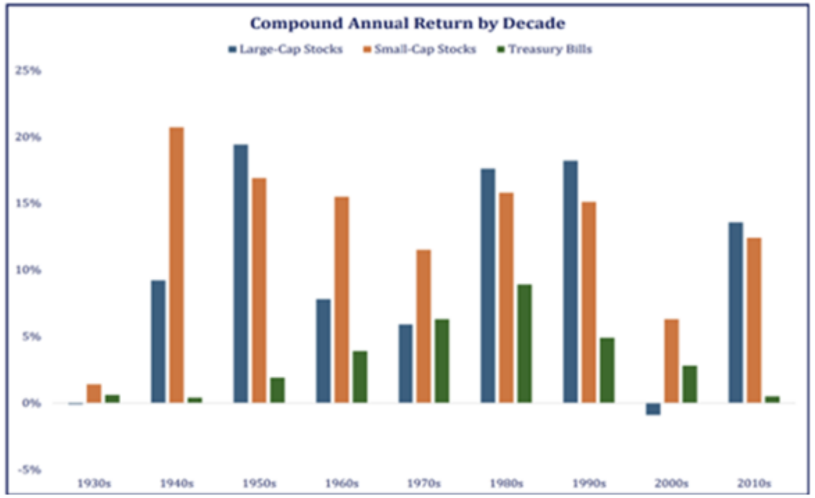
- Diversification is the primary strength of any portfolio. Timing is hard.



Source: Unlimited Analysis, FRED, Data as of 6/30/2025



Source: Unlimited Analysis, FRED, Data as of 6/30/2025



Source: Strategas, Data as of 6/30/2025

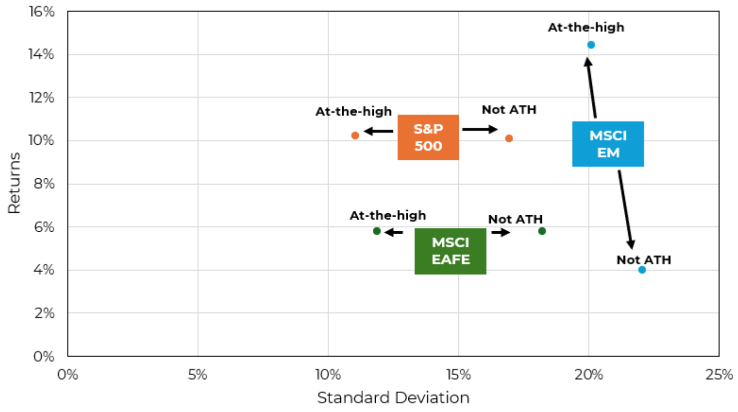
Don't Fight the Market

Strong Performance Tends to Beget Stronger Performance – Don't Sell at All-Time Highs - *Stay Invested*

It Pays More to be Patient than Clever

- Contrary to common belief, approaching or hitting new all-time highs in the equity markets may not be the harbinger of impending downturns that some perceive. In fact, historical data reveals an intriguing trend: stock markets around the globe have generally exhibited stronger risk-adjusted performance (often similar or higher returns with lower risk) when scaling new heights.
- This empirical evidence challenges the notion that market peaks should evoke caution or push investors out of return-seeking investment strategies. Instead, it suggests an opportunity for investors to reassess their perspectives of all-time highs, viewing them not as warning signs but as potential indicators of continued growth and stability in the markets.

Returns At-the-High (vs Not At-the High)
(12/31/1993 - 6/30/2025)



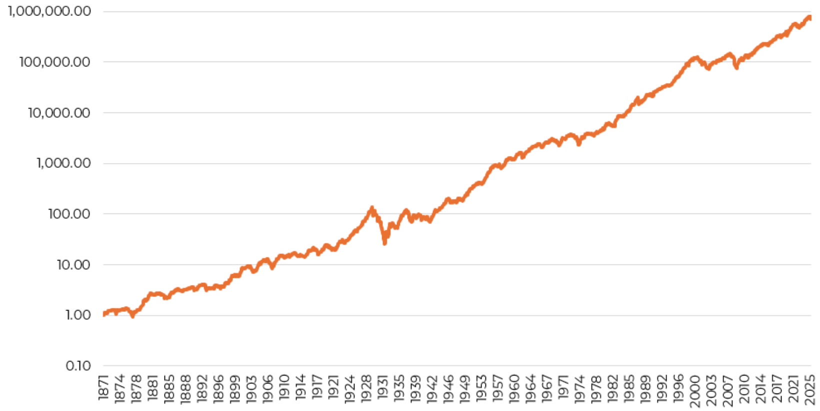
Source: Bloomberg, Aptus as of 6/30/25

At Every Point on this Chart, Investors Could Have Made a Plausible Case That:

- The S&P 500 is overvalued,
- The future was dim,
- That two world wars would cause a market collapse,
- The young generation was lazy, and
- Politicians were going to screw something up.

....And they've been wrong.

S&P 500 Total Return (Growth of $1)



Source: Bloomberg, Aptus as of 6/30/25

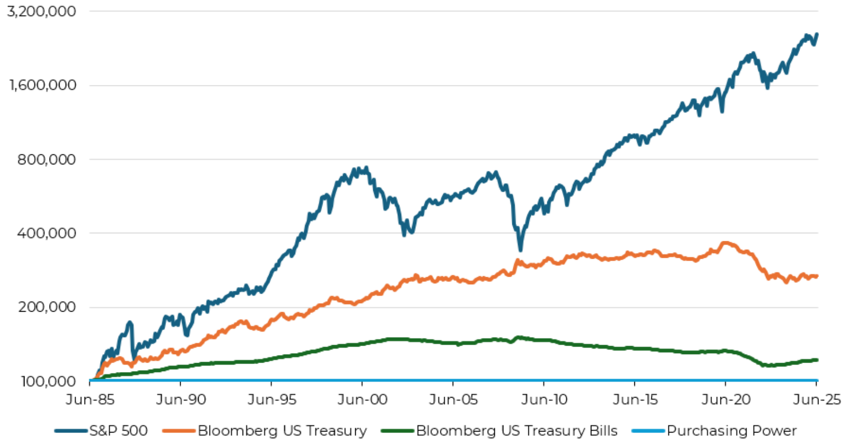
Asset Allocation Hot Spots

Time to Retire the Phrase: *T-Bill and Chill*

Though Investors May Feel "Safe", *T-Bill and Chill* Has Not Worked

- Historically, stocks have outpaced other asset classes, supporting our preference for "More Stocks, Less Bonds." This reinforces the value of looking past short-term noise and embracing strategies that combine growth potential with downside protection.
- Risk assets tend to reward long-term investors.
- Long-term compounding benefits can be missed by those stuck in "T-Bill and Chill" mode.

Stocks, Bonds, and T-Bills after Inflation
Starting with $100,000 in June 1985

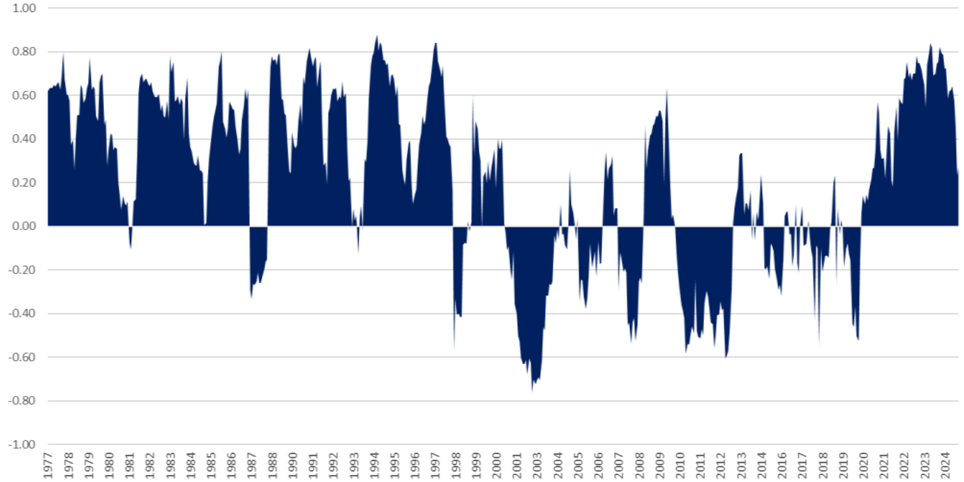


Source: Bloomberg, Aptus as of 6/30/25

Portfolio Volatility as Correlations Rise

- Historically, stock/bond correlations were negative during low-inflation periods and turned positive in high-inflation environments. We're mindful of near-term disinflationary pressures but believe inflation is likely to stay above the Fed's 2% target for longer.
- Although there are short-term catalysts for disinflation, we expect stickier than expected inflation, leading to positive stock/bond correlations and favoring alternative sources of protection.

S&P 500 Index vs. Bloomberg Agg Bond Index
Rolling 1YR Correlation, 12/31/1975-06/30/2025



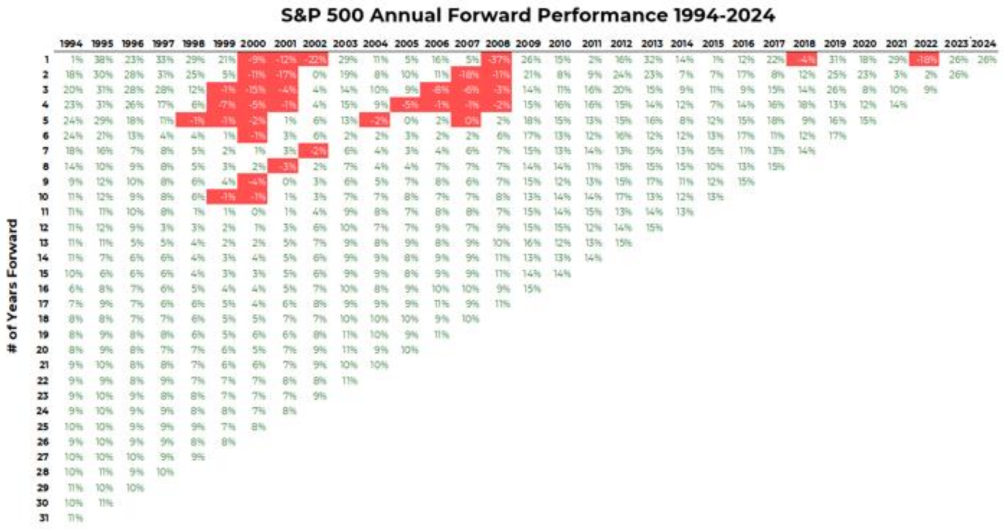
Source: Aptus Capital Advisors, Data as of 06/3/2025

The World Can Only End One Time

There's a Lot of Certainty in an Environment Where There is a Lot of Uncertainty

It Pays to Be a Rational Optimist

- Pessimism about the long-term does not align in any way with a historic worldview. Investors can choose to believe that right now is the beginning of the end, but that is a bet against all of human history and against human nature itself. As has always been the case, progress occurs against an inevitable backdrop of catastrophe. Always has, always will. Invariably, you can always find what you go looking for and your investment results will probably mimic that worldview.

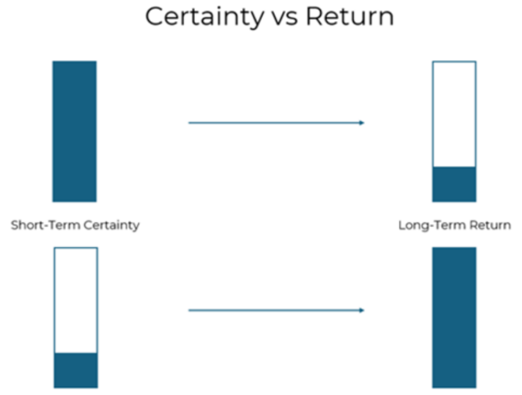


Source: Aptus Capital, YCharts, Data as of 6/30/2025

Invest Unemotionally for Better Long-Term Results

- The more certainty you seek from your portfolio in the short term, the lower your long-term returns will be and the lower your long-term returns are, the probability of achieving your investment goals will decrease in lockstep.
- Just $1 invested in the S&P 500 in 1922 would be worth nearly $13,800 today, so where are all the historical could-have-been billionaires? The missed opportunities are not because of wars, recessions, or crises, but because of investor behavior.
- Conclusion: It is not adverse market conditions that derail compounding; it's investors' reaction to them.

Investor behavior derails compounding.



Source: Money Visuals, For Illustration Purposes Only

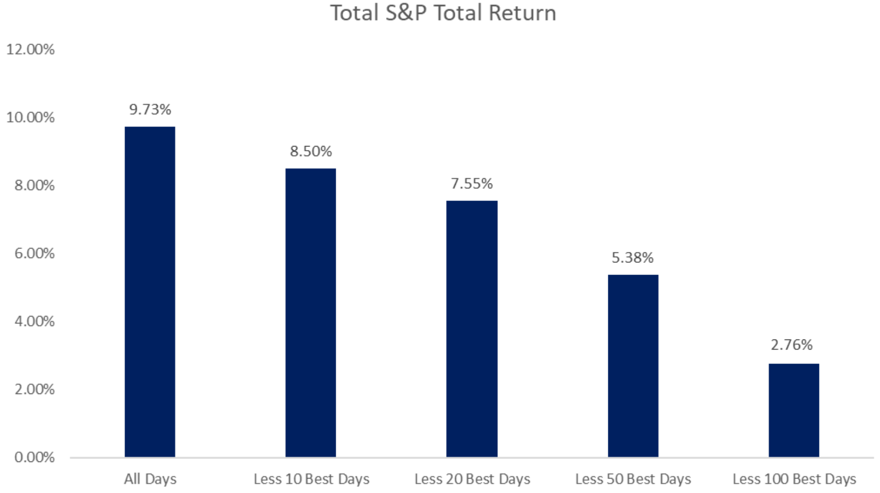
Conceptual Illustration
Information presented in the above charts are for illustrative purposes only and should not be interpreted as actual performance of any investor's account. As these are not actual results and completely assumed, they should not be relied upon for investment decisions. Actual results of individual investors will differ due to many factors, including individual investments and fees, client restrictions, and the timing of investments and cash flows.

Consistent Behavior Breeds Winners

At the Top, Everyone's Time Horizon Extends to Infinity. At the Bottom, It Collapses Into 'Today.'

Stay Invested for Long-Term Gains

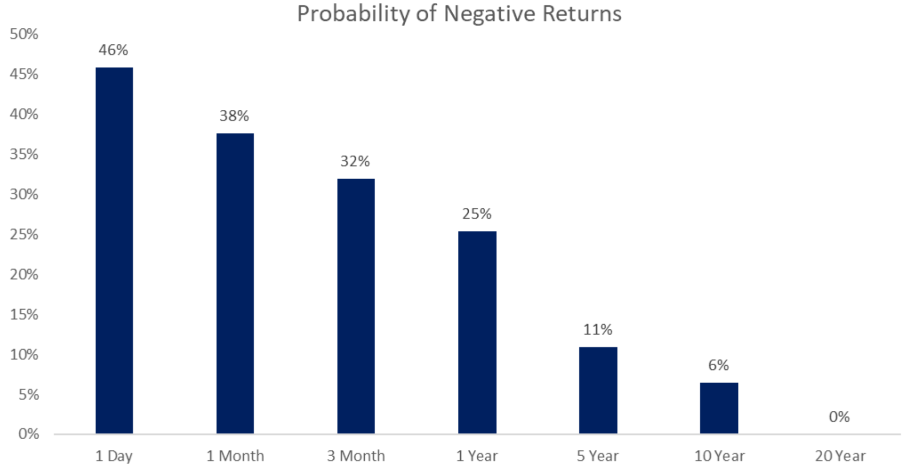
- **It Pays to Stay Invested:** The U.S. stock market has a history of resilience, consistently recovering from short-term crises to achieve long-term growth. Staying invested through volatility is essential.
- **Timing the Market is Dangerous:** Attempting to time the market by predicting the best moments to buy and sell often leads to missing significant gains. Expanding your time horizon is the most reliable strategy to avoid losses.
- **Eliminate the Behavior Gap:** A shorter time frame can lead to emotional decisions and excessive trading, known as the 'behavior gap.' This often results in poor outcomes. Focus on long-term goals instead.



Source: Bloomberg LP, Aptus Research. Data 12/31/1927 - 06/30/2025

Expand Your Time Horizon for Better Results

- No one ever knows what the market is going to do – especially on a daily basis – volatility tends to breed more volatility – whether it's up or down.
- Investors focus too much on the short-term "noise" in the market. There is usually a great deal of variability in the day-to-day, with different economic, geopolitical, and company-specific news constantly moving markets.
- Focus on a long-term investment horizon, where the probability of negative returns diminishes significantly.



Source: Bloomberg LP, Aptus Research. Data 12/31/1927 - 06/30/2025

Staying Focused on Long-Term Goals

We Continue to Advise That Clients Stay Invested

Avoid Emotional Investing

- **Problem:** Investors often make poor decisions when emotions drive actions.
- **Solution:** Stay focused on your long-term goals and carefully consider all options.
- **Don't Buy High, Sell Low:** Have you heard the old investment adage, "Buy low, sell high"? Strong emotions during market swings can tempt investors to do the opposite.
- **The Impulse to "Do Something":** Taking action during a downturn may feel right, but sometimes, inaction—staying invested—is the best choice for long-term success.

Source: Money Visuals, For Illustrative Purposes Only

Valuation Alone Shouldn't Dictate Investment Decisions

- Although valuations "feel" elevated— standing in their 8th historical decile— high absolute valuations have not been a reliable timing signal in the past. As seen in the chart below, previous periods where the market entered the 9th or 10th valuation decile still experienced strong subsequent returns, highlighting the penalty for exiting equities prematurely based on valuation alone.
- Don't let high valuations scare you away from staying invested.

S&P 500 Forward Returns After Crossing 9th and 10th Deciles of Valuation

Source: Aptus, Data as of 6/30/2025

Conceptual Illustration

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APTUS CAPITAL ADVISORS

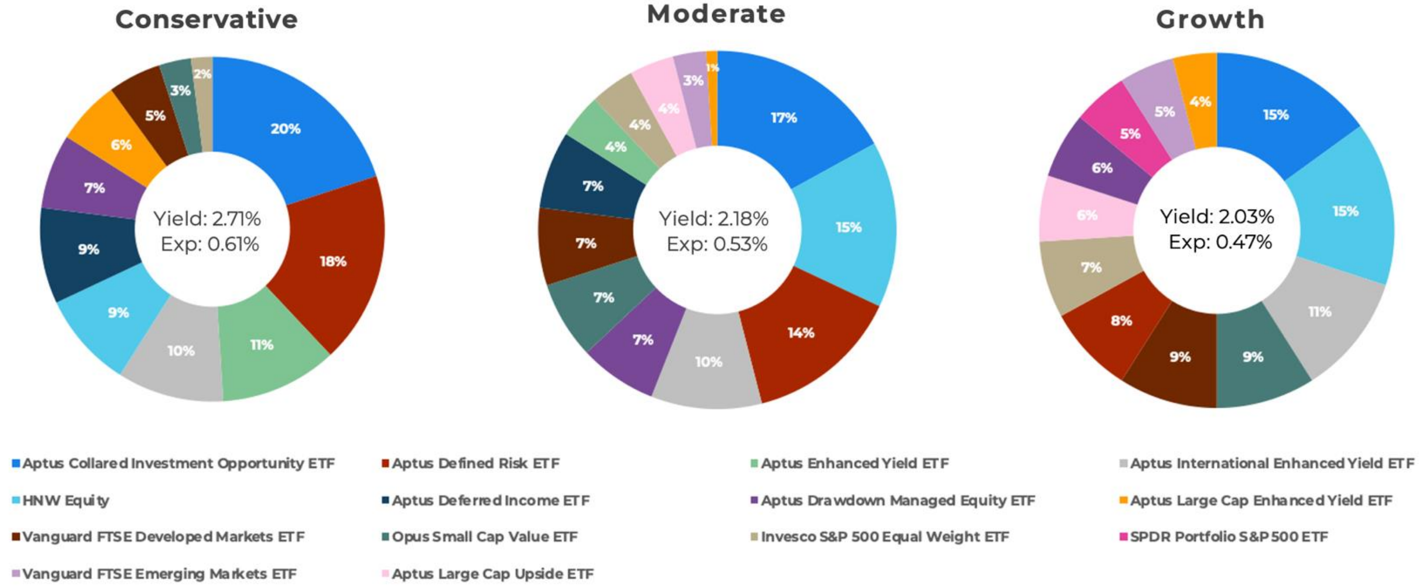
The Aptus Impact Series

Client-Specific Growth & Income Targets

Conservative Allocation: Designed with the primary objective of stability and protection, plus opportunity for appreciation. Reducing drawdown is the foundation, with lower exposure to traditional equities.

Moderate Allocation: Designed with flexibility to dynamically adjust exposure as risks & opportunities change. Balancing the reduction of both drawdown and longevity risk is the goal, designed to capture market returns while mitigating significant declines. Nearly half of the equity exposure contains some form of explicit hedging.

Growth Allocation: Designed to accumulate wealth through equities. Reduced drawdown remains a feature but with a greater emphasis on reducing longevity risk by harnessing the compounding power of stocks.



Equity Sleeve

AMT	MSFT
AMZN	NOW
BR	NVDA
CHE	PGR
CPRT	PWR
FANG	ROP
JPM	V
	WMT

Holdings as of 06/30/2025 Please see attached disclosures.

Disclosures

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The 2 Year Treasury Rate is the yield received for investing in a US government issued treasury security that has a maturity of 2 year.

The 10 Year Treasury Rate is the yield received for investing in a US government issued treasury security that has a maturity of 10 year. The 10 year treasury yield is included on the longer end of the yield curve. Many analysts will use the 10 year yield as the "risk free" rate when valuing the markets or an individual security.

This is not a recommendation to buy, sell, or hold any particular security. The holdings shown above are target portfolio weights and do not reflect the entire portfolio. The holdings are sorted by target portfolio percentage weight then alphabetized within each asset range. Actual portfolio investments will vary when invested. A complete list of holdings is available upon request.

Information presented on this presentation is for educational purposes only and offers generalized speech. It is for informational purposes only and does not constitute a complete description of our investment services or performance. Information specific to the underlying securities making up the portfolios can be found in the Funds' prospectuses. Please carefully read the prospectus before making an investment decision. All investments involve risk and unless otherwise stated, are not guaranteed. Be sure to consult with an investment & tax professional before implementing any investment strategy.

The Nasdaq Composite Index measures all Nasdaq domestic and international based common type stocks listed on The Nasdaq Stock Market. To be eligible for inclusion in the Index, the security's U.S. listing must be exclusively on The Nasdaq Stock Market (unless the security was dually listed on another U.S. market prior to January 1, 2004 and has continuously maintained such listing). The security types eligible for the Index include common stocks, ordinary shares, ADRs, shares of beneficial interest or limited partnership interests and tracking stocks. Security types not included in the Index are closed-end funds, convertible debentures, exchange traded funds, preferred stocks, rights, warrants, units and other derivative securities.

The Consumer Price Index (CPI) measures the change in prices paid by consumers for goods and services. The CPI reflects spending patterns for each of two population groups: all urban consumers and urban wage earners and clerical workers.

The Dow Jones Industrial Average is the most widely used indicator of the overall condition of the stock market, a price-weighted average of 30 actively traded blue chip stocks, primarily industrials. The 30 stocks are chosen by the editors of the Wall Street Journal (which is published by Dow Jones & Company), a practice that dates back+A70 to the beginning of the century. The Dow is computed using a priceweighted indexing system, rather than the more common market cap-weighted indexing system.

Created by the Chicago Board Options Exchange (CBOE), the Volatility Index, or VIX, is a real-time market index that represents the market's expectation of 30-day forward-looking volatility. Derived from the price inputs of the S&P 500 index options, it provides a measure of market risk and investors' sentiments.

Treasury Inflation-Protected Securities, or TIPS, provide protection against inflation. The principal of a TIPS increases with inflation and decreases with deflation, as measured by the Consumer Price Index.

The Bloomberg US Mortgage Backed Securities (MBS) Index tracks fixed-rate agency mortgage backed pass-through securities guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The index is constructed by grouping individual TBA-deliverable MBS pools into aggregates or generics based on program, coupon and vintage.

The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed markets, excluding the United States and Canada. The MSCI EAFE Index consists of the following 21 developed market countries: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization-weighted index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 26 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

Non-investment-grade debt securities (high-yield/junk bonds) may be subject to greater market fluctuations, risk of default or loss of income and principal than higher-rated securities.

Investment-grade Bond (or High-grade Bond) are believed to have a lower risk of default and receive higher ratings by the credit rating agencies. These bonds tend to be issued at lower yields than less creditworthy bonds.

The S&P 500® Index is the Standard & Poor's Composite Index and is widely regarded as a single gauge of large cap U.S. equities. It is market cap weighted and includes 500 leading companies, capturing approximately 80% coverage of available market capitalization.

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