BLUE GRANITE CAPITAL, LLC

INVESTMENT COMMENTARY, JULY 2025

MARKET RECAP

The second quarter began with significant volatility, triggered by global trade tensions and political uncertainty. The Trump Administration's tariff announcements shook not just Wall Street but global markets, causing a sharp sell-off that briefly flirted with bear market territory.

However, equity markets staged a dramatic rebound from their April 9th lows, with the S&P 500 gaining over 28% and the Nasdaq soaring 39%, its best quarter in five years. Despite widespread concern that tariffs would stoke inflation and hinder growth, markets surged in a rally that truly embodied the adage, *"climbing a wall of worry."*

Technology, financial and industrial stocks led the way, underscoring our view that quality corporate earnings drive markets. Despite uncertainties, earnings per share for the companies comprising the S&P 500 increased 13.3%, year over year, through the first quarter of 2025. So, perhaps another adage worth considering is *"it may be unwise to bet against American corporate resilience."*

ECONOMY AT A GLANCE

The dominant issue remains the substantial shift in U.S. trade policy. Ongoing tariff uncertainty continues to cloud economic forecasts, disrupt corporate planning, and create a difficult environment for financial valuation. With dozens of unresolved trade agreements and retaliatory measures in play, it is impossible to accurately gauge their full economic impact.

Tariffs risk raising consumer prices, slowing global commerce, and pressuring profit margins—factors that directly affect stock valuations. Until clear policy direction emerges, investors are operating in an opaque landscape, which adds complexity to both forecasting and strategy execution.

Meanwhile, geopolitical risks remain elevated, with two ongoing conflicts threatening to escalate, and inflation is still a persistent concern. It is remarkable that, in the face of these headwinds, stocks have reached new highs.

Interest rates are also front and center. President Trump has been vocal in his criticism of current rate levels, pressuring the Federal Reserve and Chair Jay Powell to lower them. Lower rates would, in theory, stimulate growth, reduce the government's interest burden, and help fund recent fiscal initiatives. A debate about Fed independence has ensued.

Yet the Fed remains cautious. Despite inflation having eased from peak levels, recent short-term trends and tariff-related pressures have kept the Fed in “wait and see” mode. They have acknowledged that trade policy now plays a significant role in their rate decisions, and with inflation data remaining volatile, an imminent rate cut is far from certain.

Looking ahead, the Fed's direction could shift with the much anticipated January 2026 appointment of a new, more dovish Fed chair.

Adding to the complexity, the U.S. dollar has experienced its largest first-half depreciation in 52 years. This decline erodes purchasing power already strained by inflation, compounding pressure on American consumers.

The recent market rally seems at odds with underlying economic risks—ongoing trade tensions, stubborn inflation, a swelling federal deficit with over $1 trillion in annual interest payments, and persistent geopolitical threats. While markets often price in future expectations 6–9 months ahead, this “risk-on” sentiment feels overly optimistic given current challenges. With a Price-to-Earnings multiple for the S&P 500 Index that has moved from 18x at the April market low to 22x on June 30th, valuations are more expensive, justifying a little bit of caution.

LOOKING AHEAD

We continue to take a balanced approach in your portfolios, combining growth potential from equities, with their steadily increasing dividends, combined with the stable income of bonds. This diversified strategy, we believe, remains the most prudent path amid today’s uncertainties.

Thank you, as always, for your trust and confidence. We wish you a wonderful summer and invite you to reach out with any questions or to discuss your investment strategy further.

Warmest regards,
Scott, John & Dave