



MARKET UPDATE

Quarterly Conversations

June 26, 2025



MODERATOR

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Indices are unmanaged and are not subject to fees and expenses typically associated with managed accounts. You cannot invest directly in an index. S&P 500 Index is regarded as a gauge of large cap U.S. equities. The index includes 500 leading companies and captures approximately 80% of the available market capitalization.

S&P 500 Index is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

S&P 400 Index provides investors with a benchmark for mid-sized U.S. companies. The index, which is distinct from the large-cap S&P 500, is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment.

S&P 600 seeks to measure the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financial stable.

MSCI EAFE is an equity index which captures large and mid cap representation across 21 developed market countries around the world excluding the U.S. and Canada. With 722 constituents, the index covers approximately 85% of the free float adjusted market capitalization in each country.

FTSE All World Emerging Index is a market capitalization-weighted index that tracks the performance of large and mid-cap companies in emerging markets globally.

Presentation prepared by First Horizon Advisors @2025



Connecting the Dots



Food For Thought

- What's Going On in the World?



- China
- Ukraine
- Middle East
- Tariffs or ?



- What's Going On at Home?



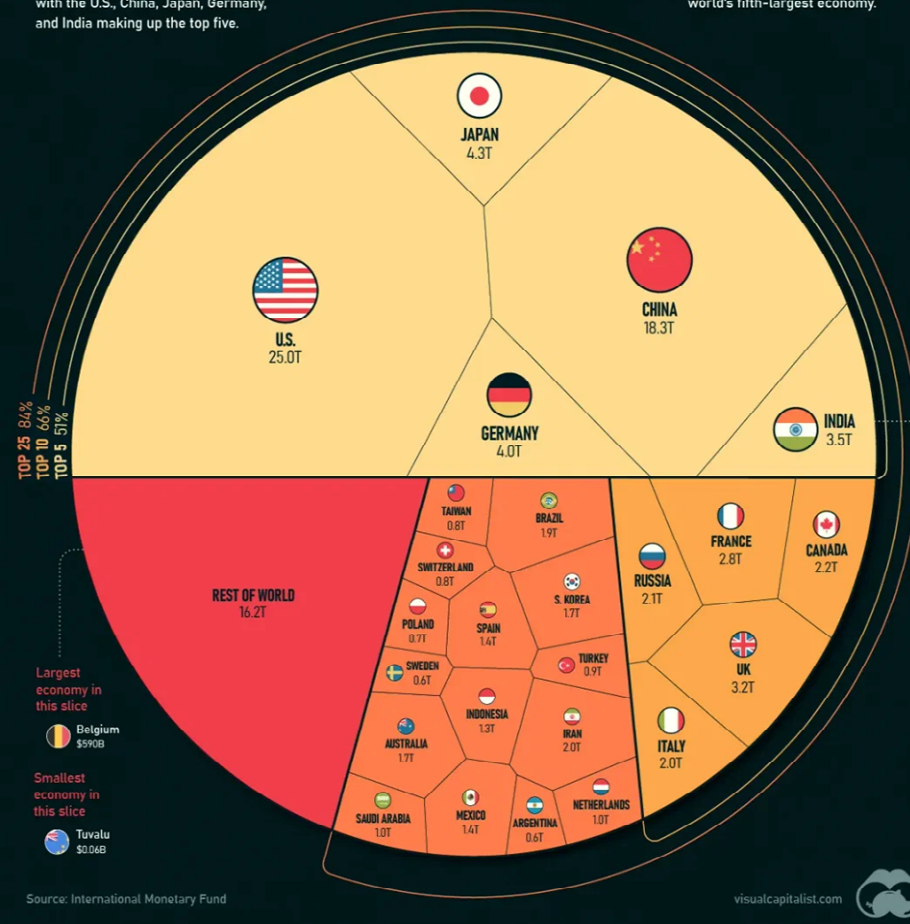
- Fiscal Policy
- Monetary Policy
- Macroeconomics
- Capital Markets
- Hope for the Future

THE TOP HEAVY GLOBAL ECONOMY

The majority of global economic activity comes from just a handful of countries, with the U.S., China, Japan, Germany, and India making up the top five.

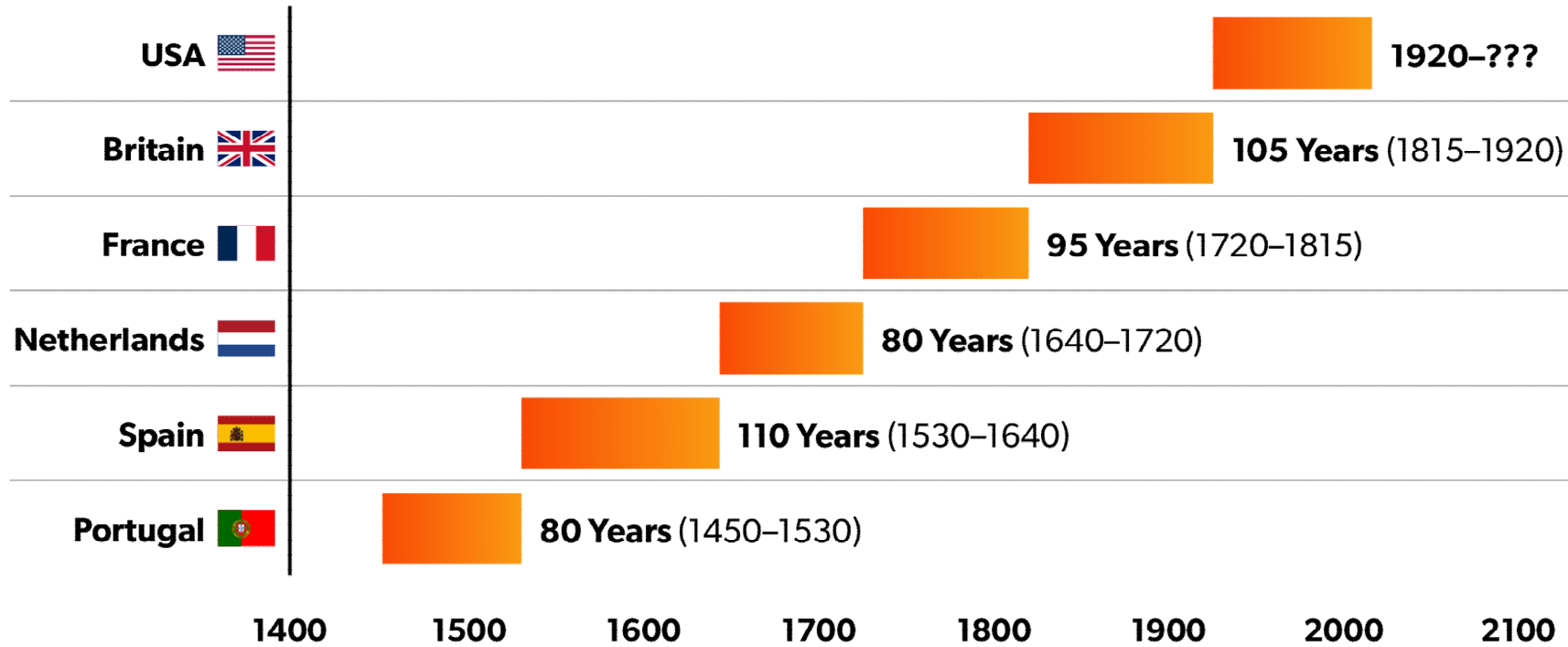
Share of the \$101.6 trillion global GDP, by country (2022)

In 2022, India overtook the United Kingdom to become the world's fifth-largest economy.

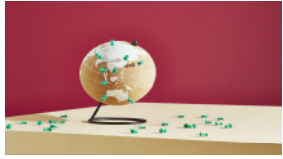


Source: Voronoi by Visual Capitalist

Global Reserve Currencies Since 1450

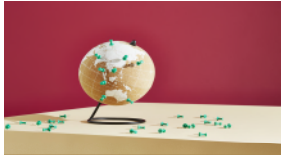


Source: MonetaryGold.com



• China

- Attempting to boost domestic consumption
- Real estate market stress, both commercial and residential (Evergrande, Country Gardens, Fantasia Holdings)
- Temporary halt in EV subsidies
- Geopolitical tensions, concerns about oil supplies
- Tariff talks
- Highly recommended: "Apple in China" by Patrick McGee
- Schwinn Bicycle Company



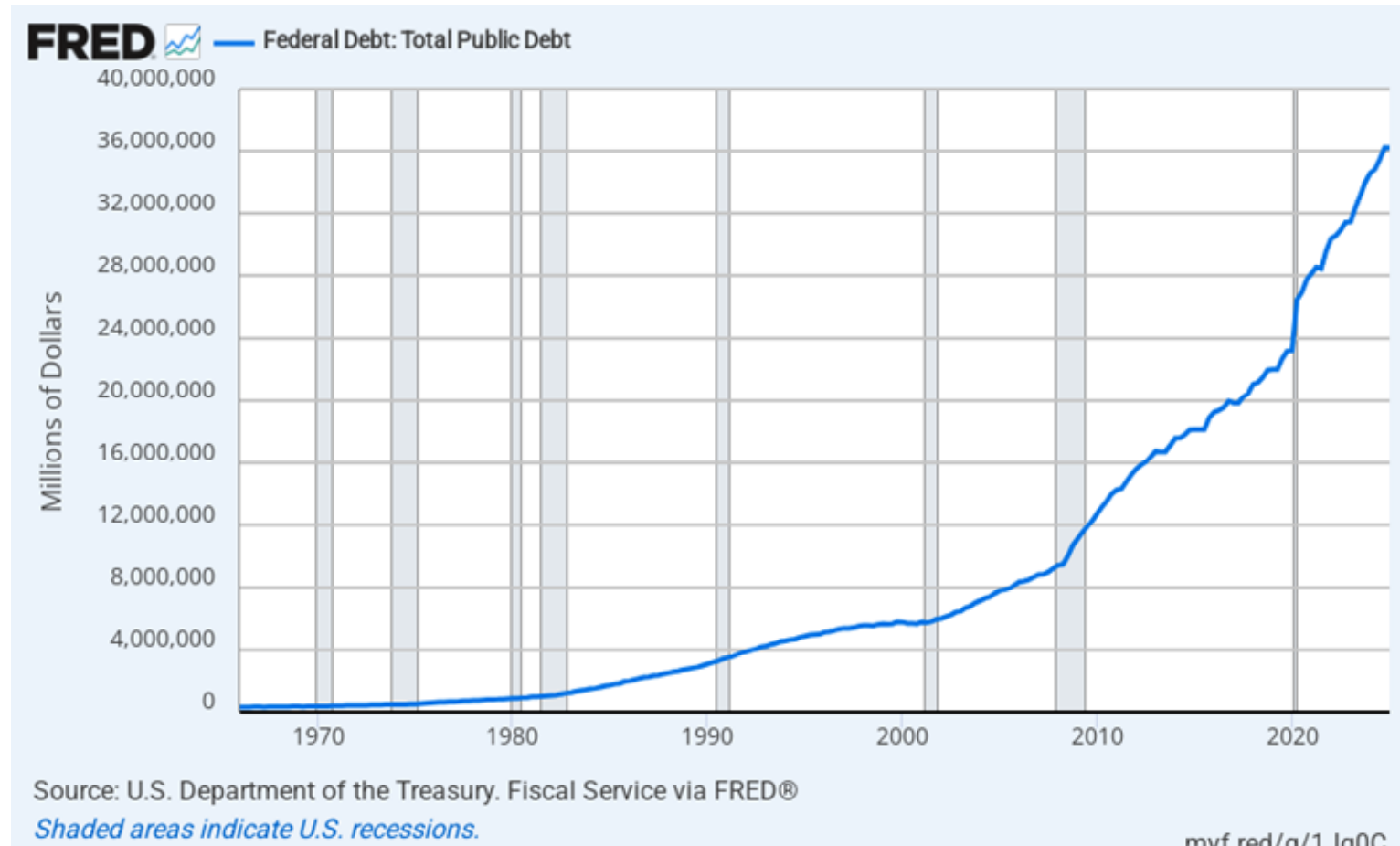
- Ukraine
- Middle East – another oil shock?
- South Korea – always a wild card
- South America – natural resources!
- Tariffs

U.S. Fiscal Policy

- Are we experiencing fiscal overdrive?
 - Running \$1.5 trillion in deficits while unemployment is historically low (see chart later in the macroeconomic key performance indicators)
 - Congress is showing little to no restraint
 - Interest on the debt is becoming as large as defense spending
 - Will the bond vigilantes ride again?
- Current state of play – the OBBBA
 - Tax cuts – extend the 2017 cut; SALT cap increase; child/tip/overtime credits
 - Spending cuts – Medicaid/SNAP reductions; agency cuts via DOGE
 - Debt ceiling negotiations
 - OBBBA is expected to add \$2.4T-\$3.0T to the budget deficit over 10 years (Source: Congressional Budget Office – CBO)

Total Public Debt

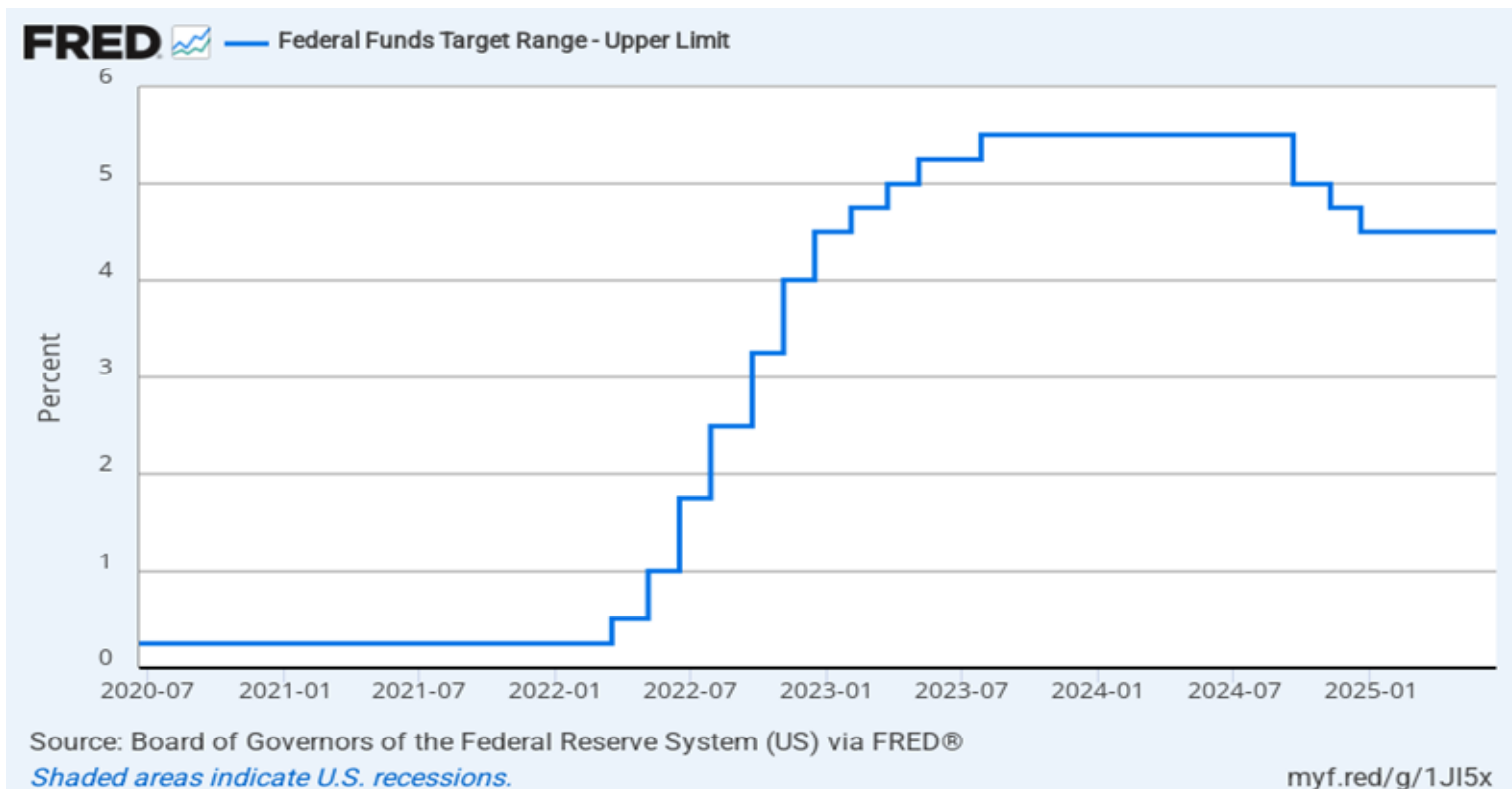
Check out [U.S. National Debt Clock : Real Time](#)



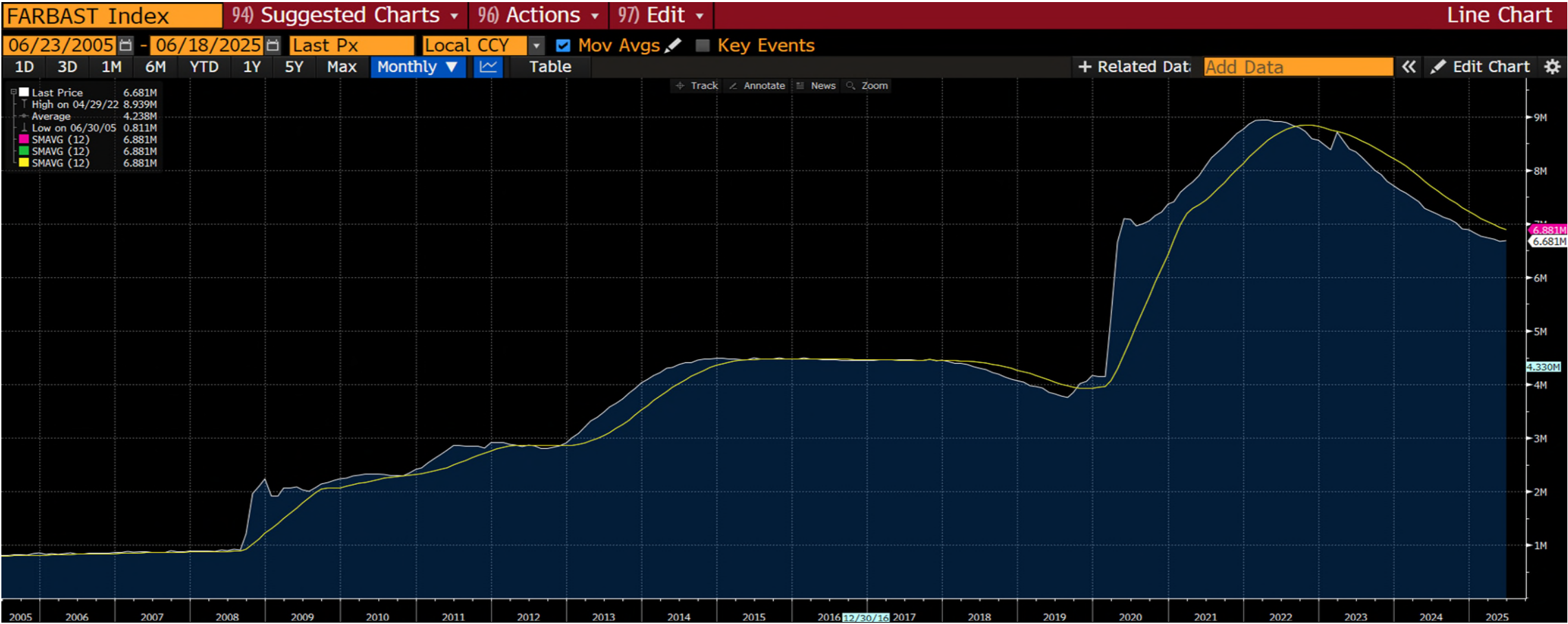


Monetary Policy = Dual Mandate

Maximize Employment + Stabilize Prices



Federal Reserve Board's Balance Sheet



Source: Bloomberg

Dot Plot



Source: Bloomberg

10 Year Treasury Note Yields 1975 – 2025

Average 5.86% currently 4.3%



Source: Bloomberg



- Macroeconomics – Key Performance Indicators
 - Consumer Price Index / Inflation
 - Gross Domestic Product
 - Money Supply M2
 - Unemployment/unemployment rate
 - Gold
 - Interest rates
 - Housing starts
 - Retail Sales

Year over Year Change in the Consumer Price Index

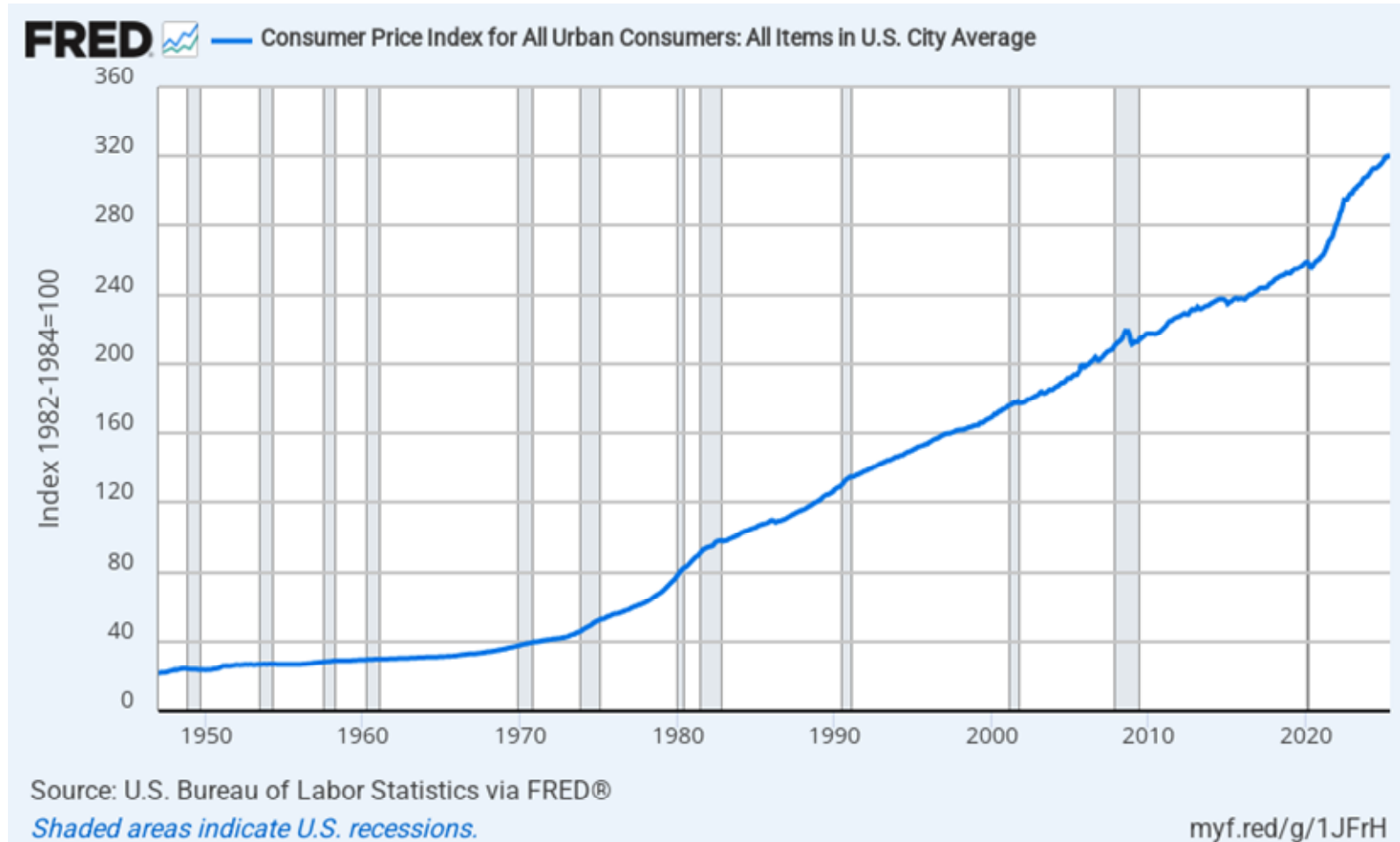
Good News!



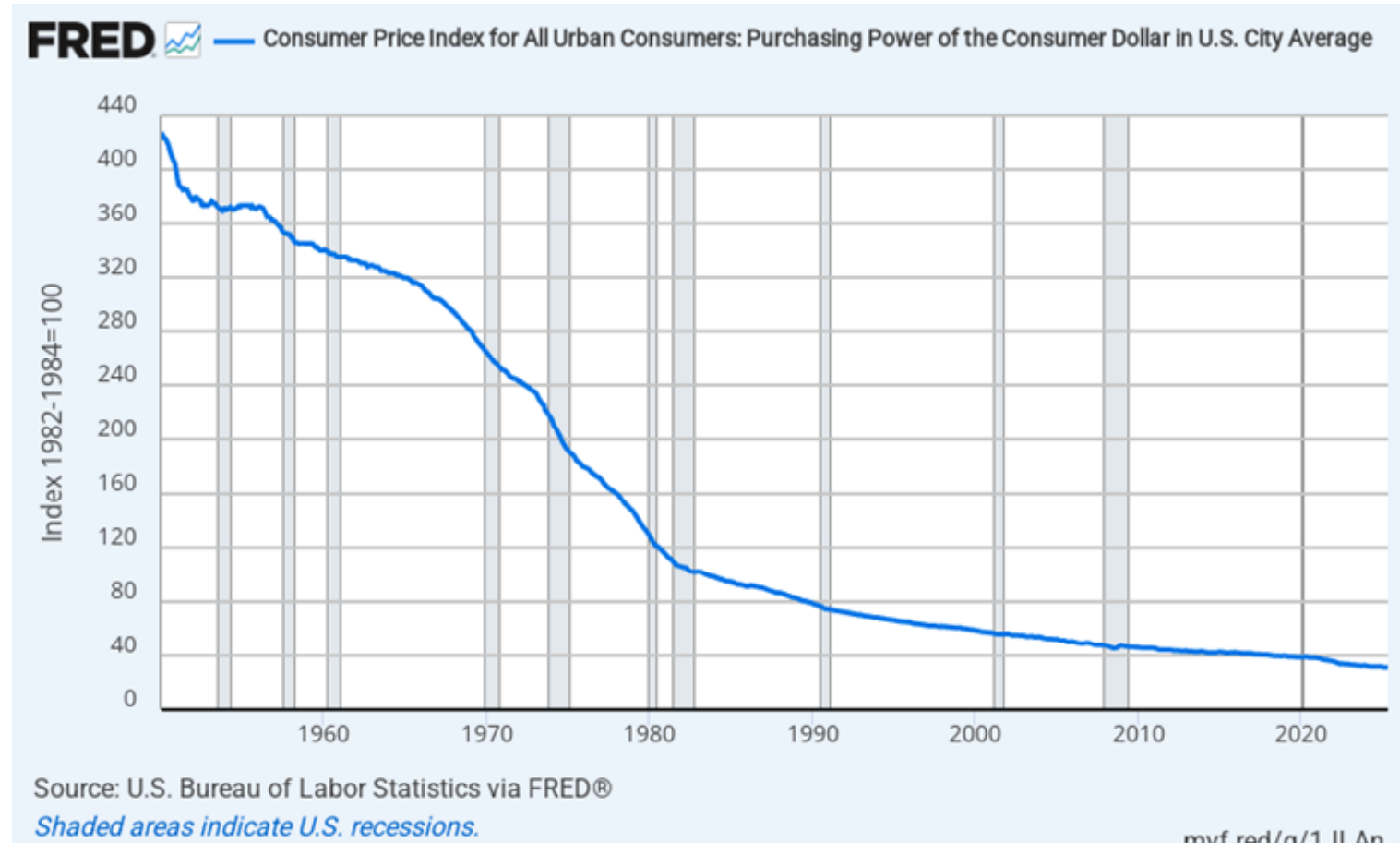
Source: Bloomberg

Consumer Price Index

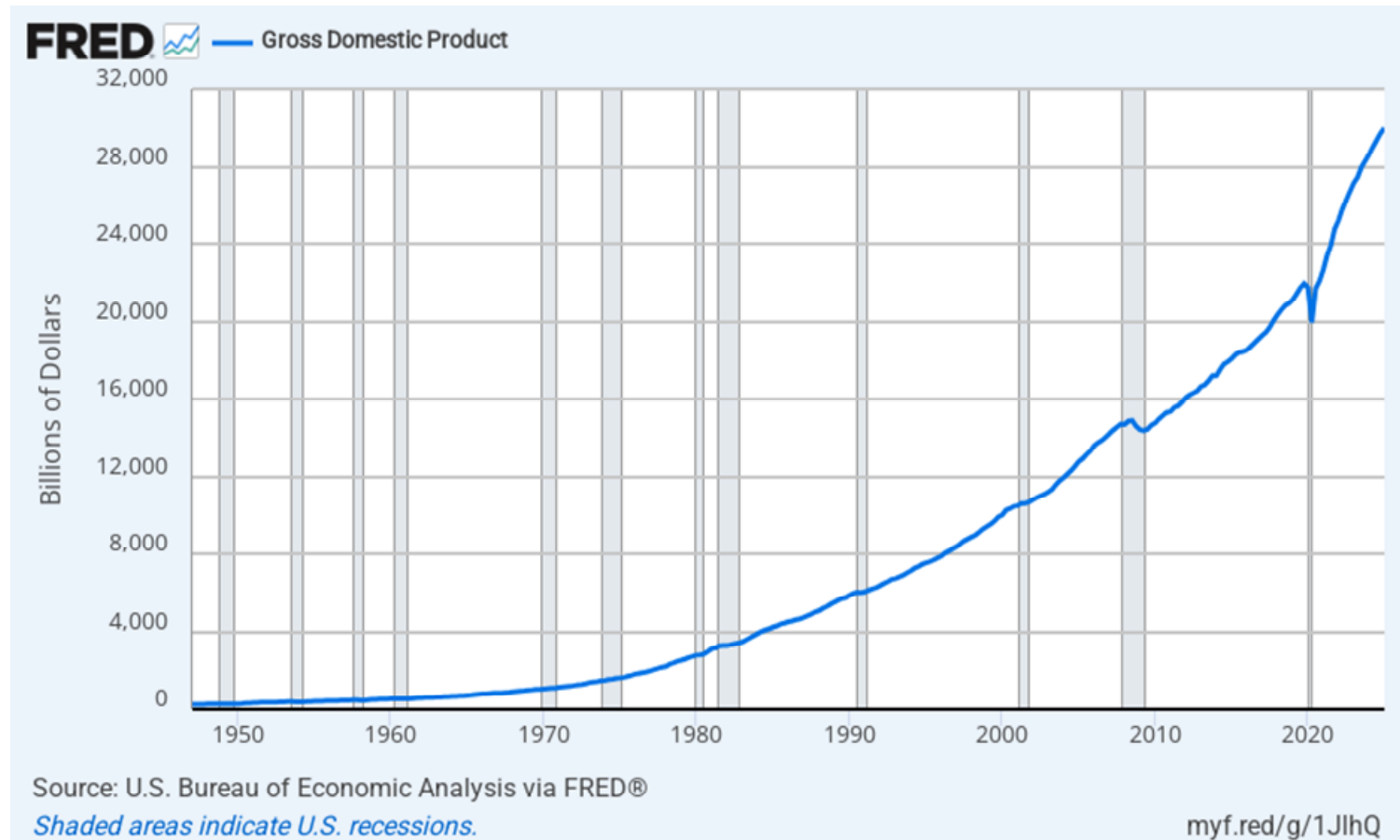
Bad News!



Decline in Consumer Purchasing Power Since 1950



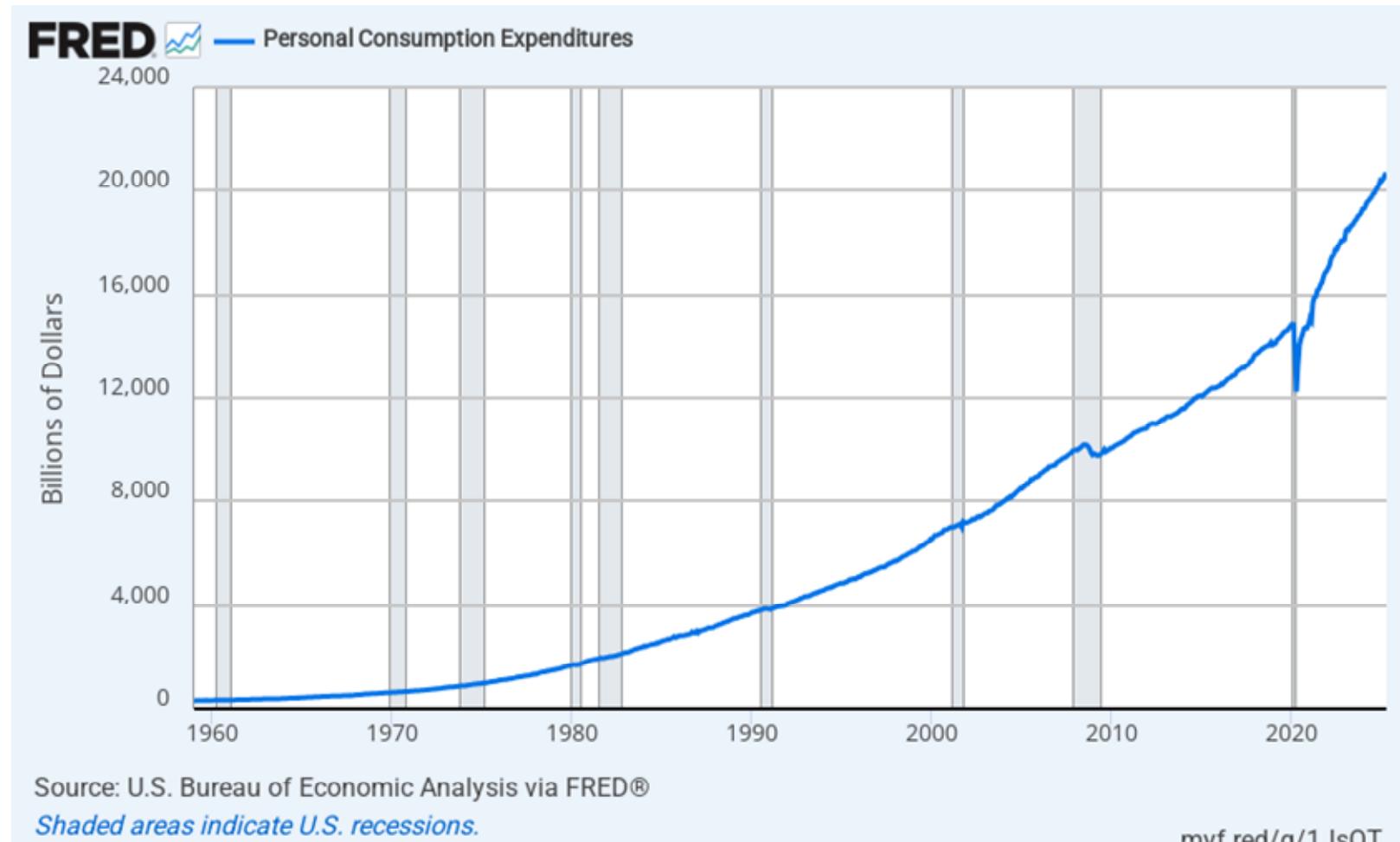
Gross Domestic Product - GDP



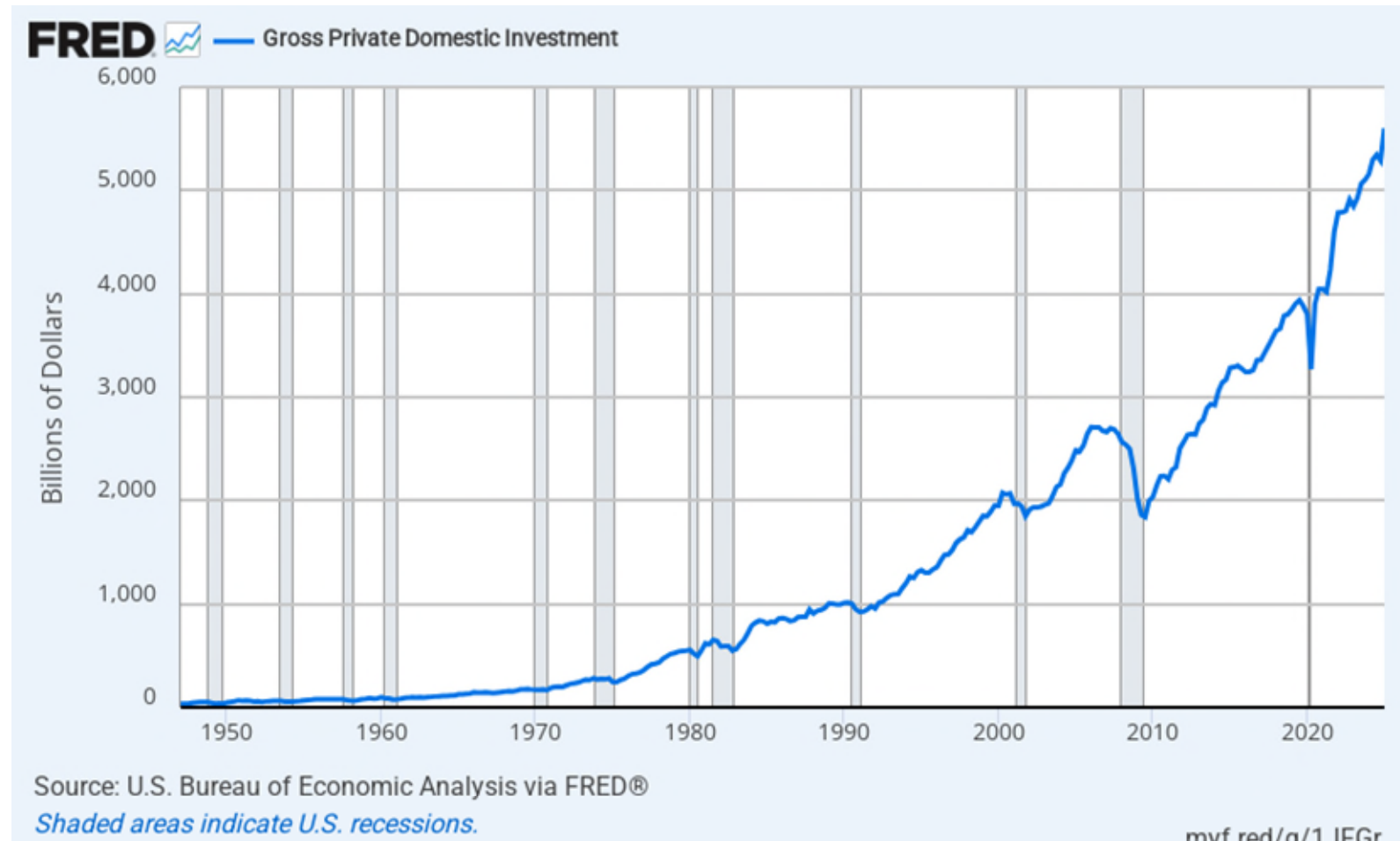
$$\text{GDP} = C + I + G + \text{netX}$$

- Consumption is the largest contributor at roughly 62.6%
- Investment (business and residential) contributes about 17.5%
- Government spending (includes federal, state, and local outlays) comes in at approximately 17.3%
- Net exports take away about 2.9%; we import more than we export – the money we send to other countries takes away production from the U.S. (it's what the tariffs are all about!)
- Note that these percentages don't add to 100% due to "inventory adjustments" and "statistical discrepancies" aka fudge factors
- Estimates come from the Bureau of Economic Analysis (BEA)

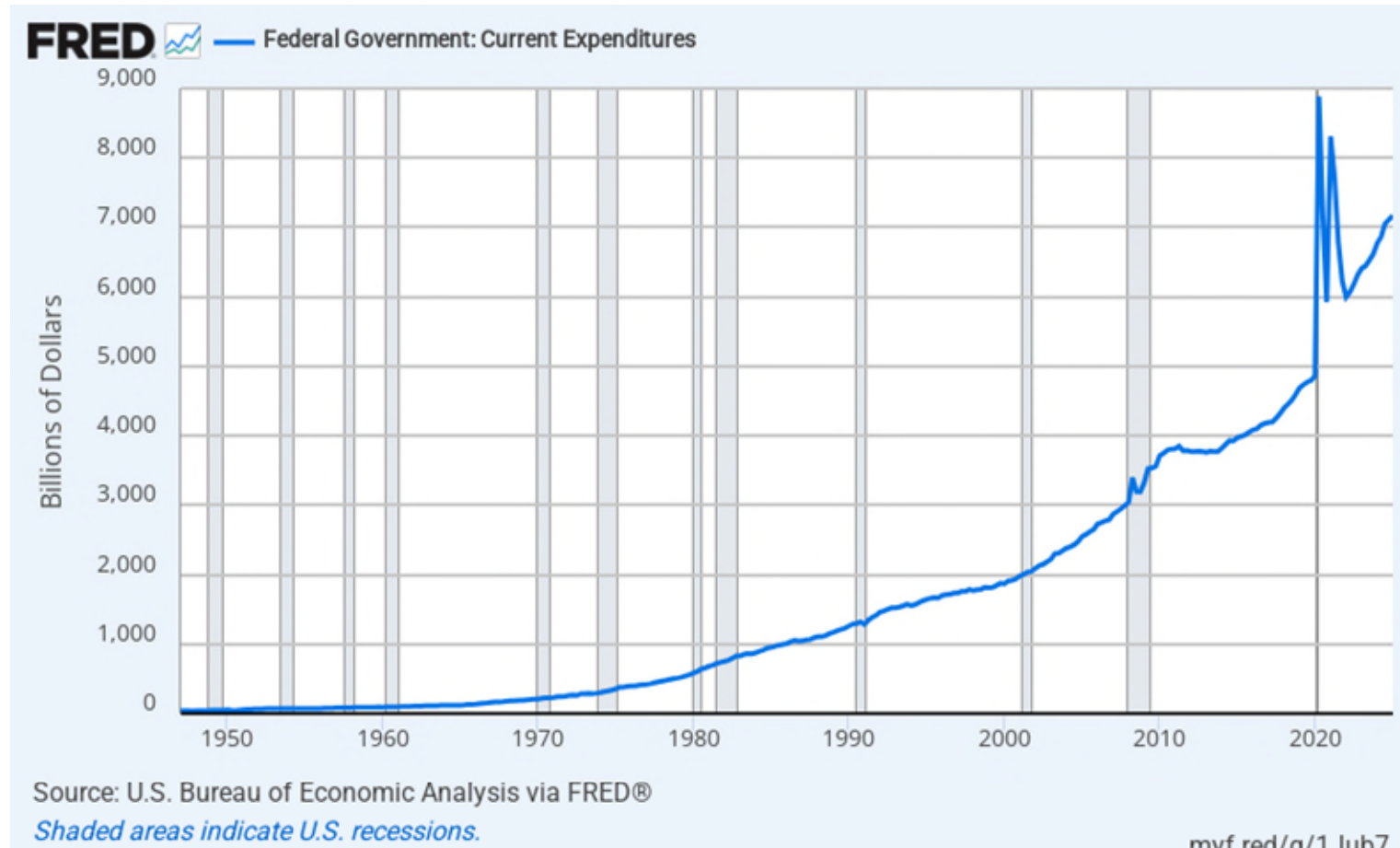
Personal Consumption Expenditures - PCE



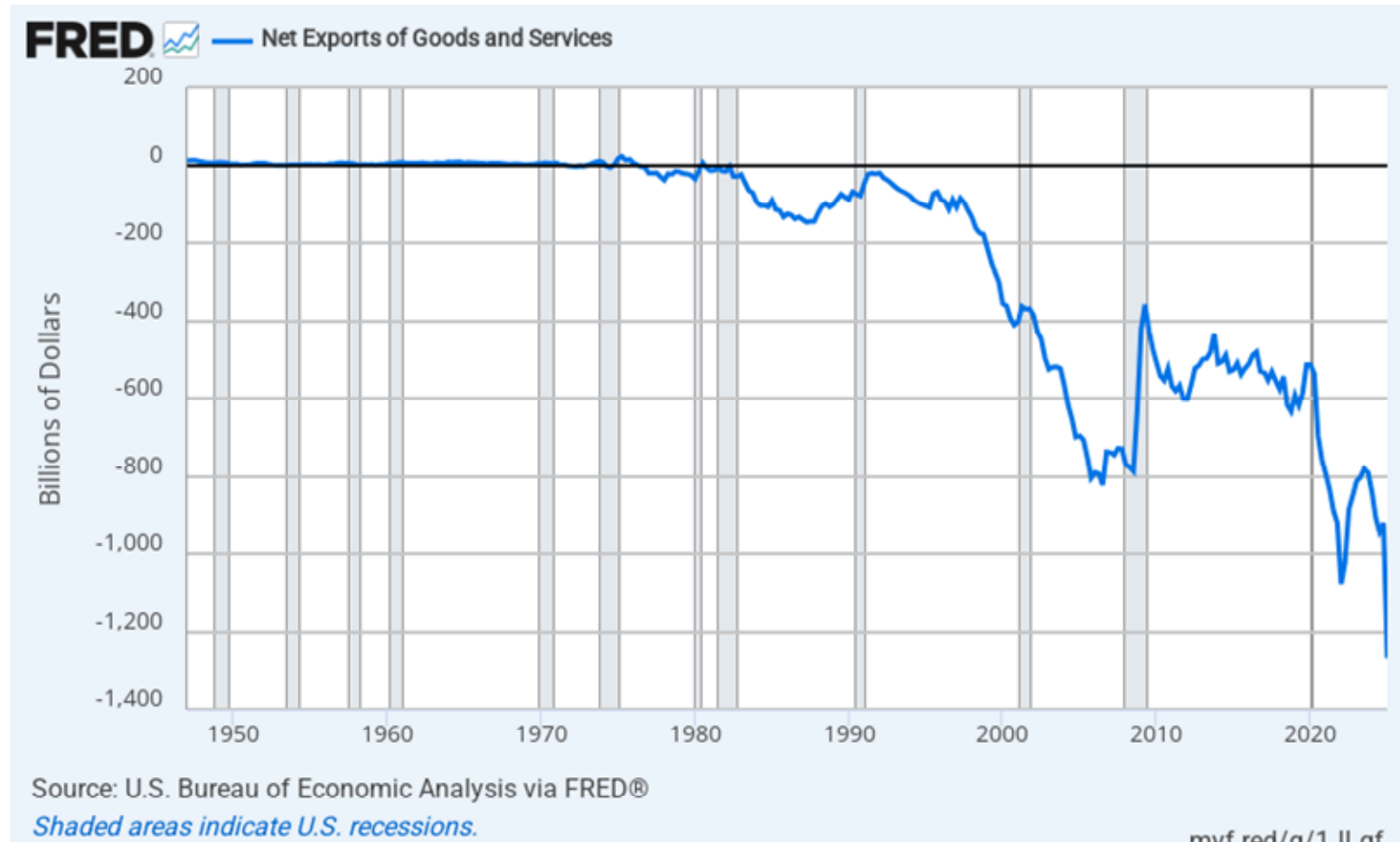
Gross Private Domestic Investment



Government Expenditures

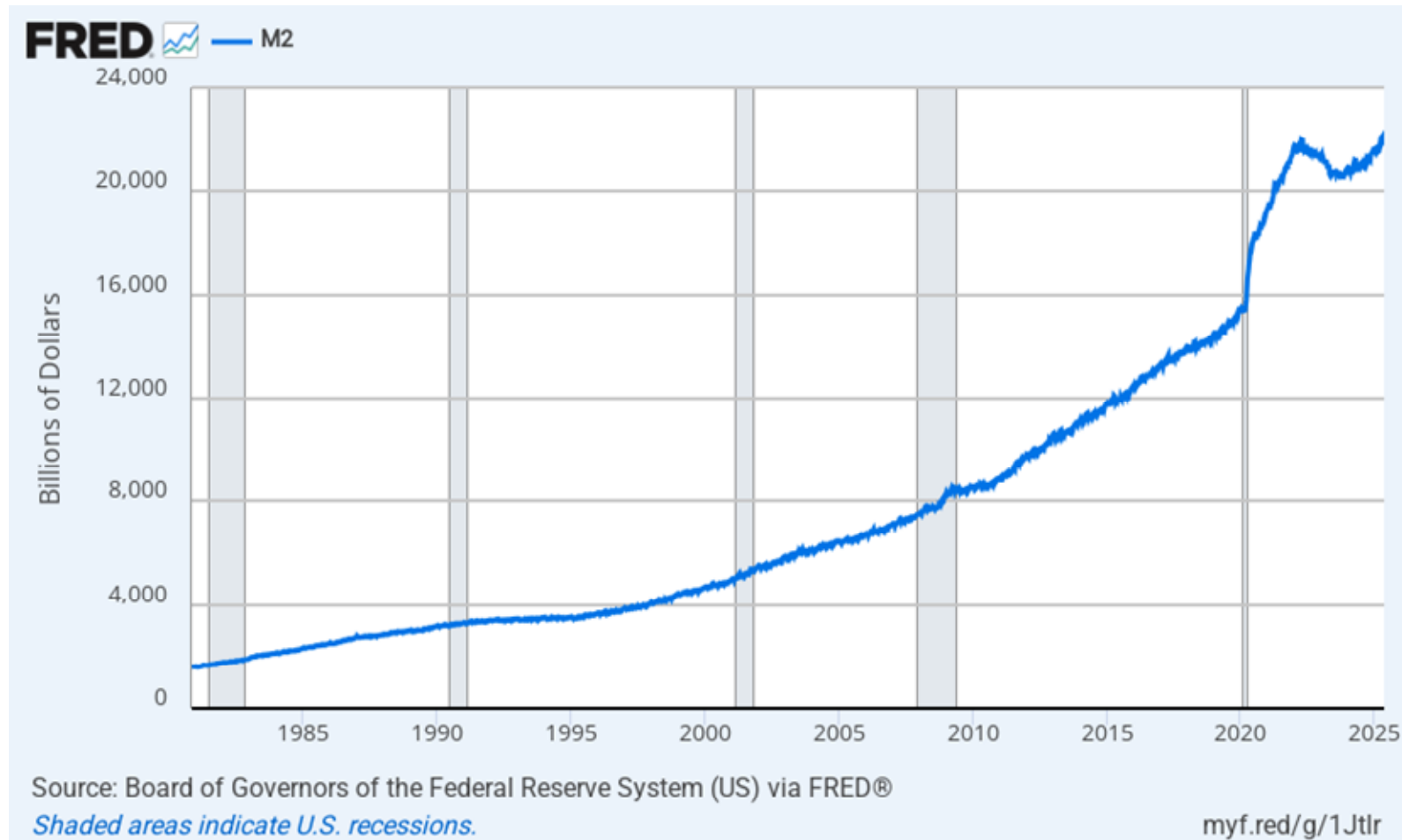


Net Exports –
Negative means that we are importing more than we export

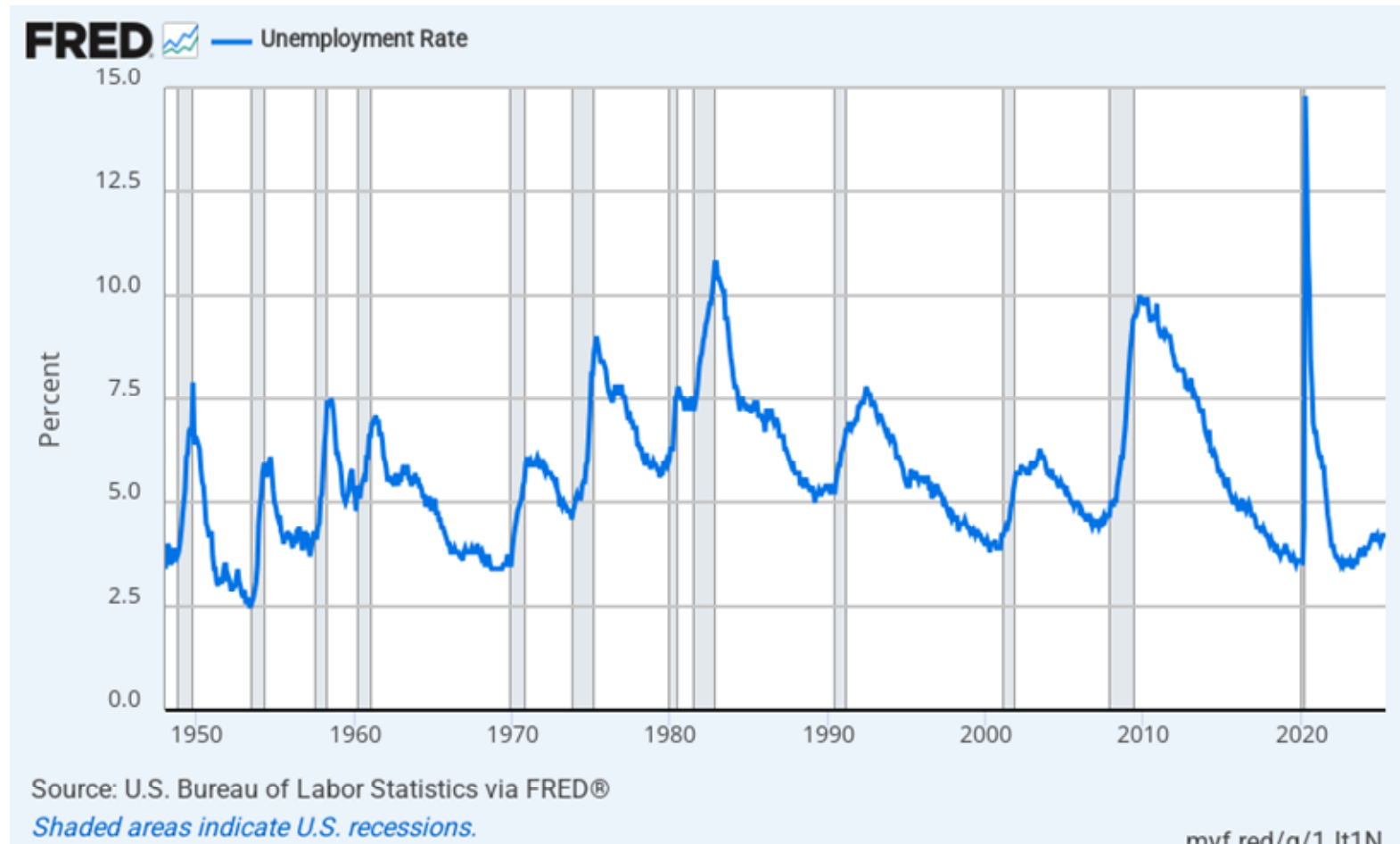


Money Supply – M2

“Inflation is always and everywhere a monetary phenomenon” Milton Friedman



Unemployment Rate @ 4.2%



Nearby Gold Futures – inflation hedge?



Source: Bloomberg

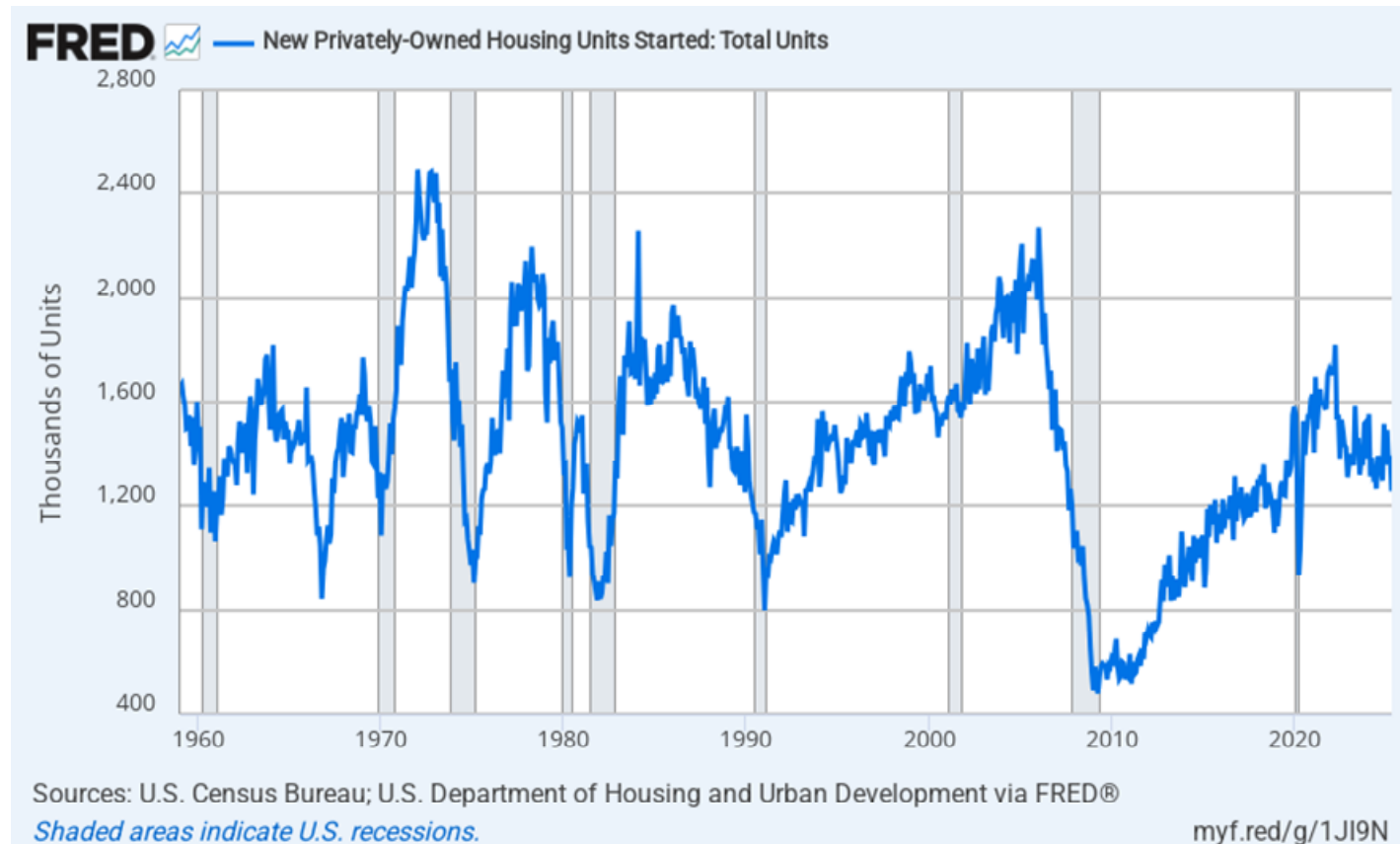
Rates: 10 Year Treasury Note Yields 1975 – 2025

Average 5.86%

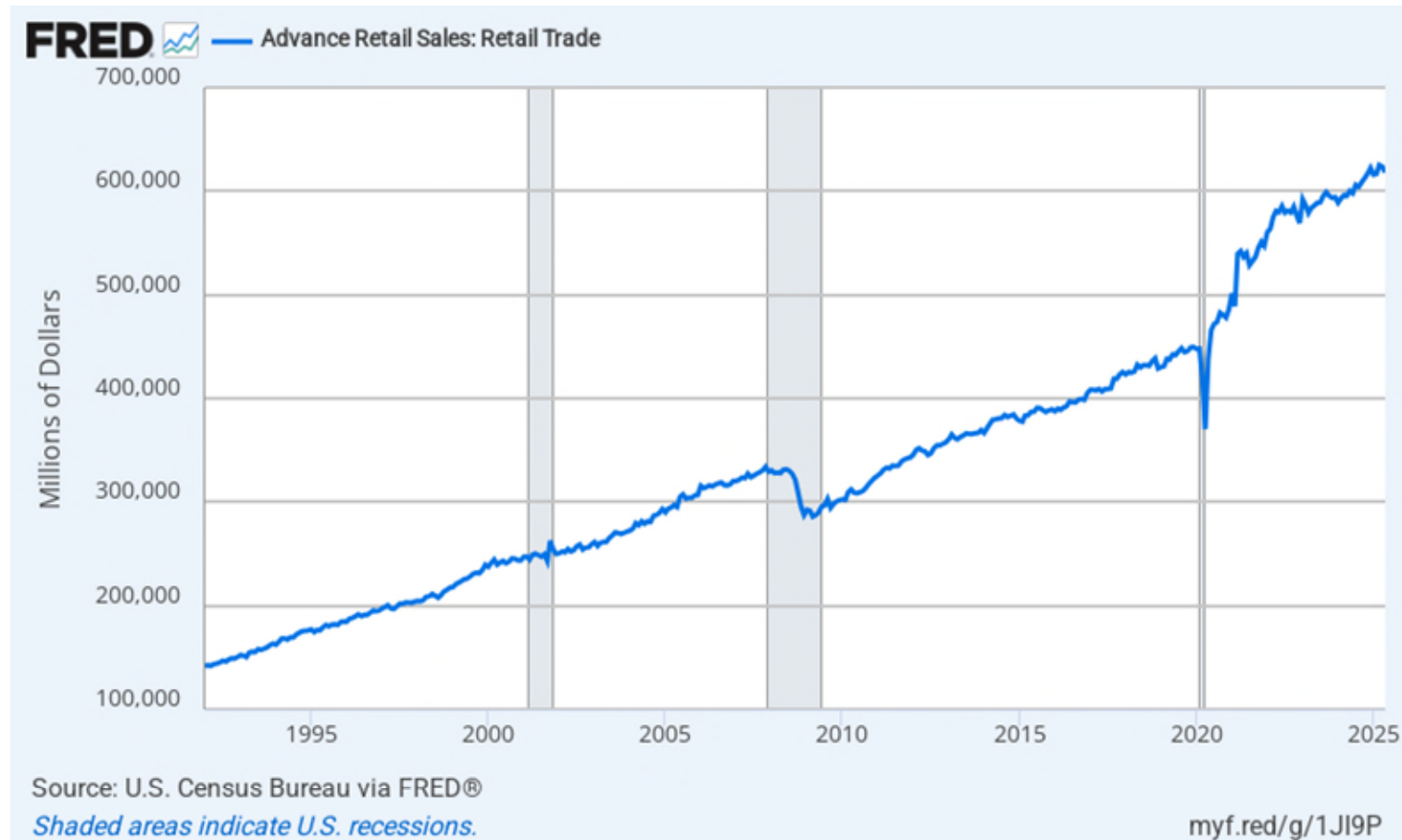


Source: Bloomberg

Housing Starts – impacted by rates!



Retail Sales



Five Factor Framework

May 2025



Source: First Horizon Advisors, Inc.

Five Factor Framework

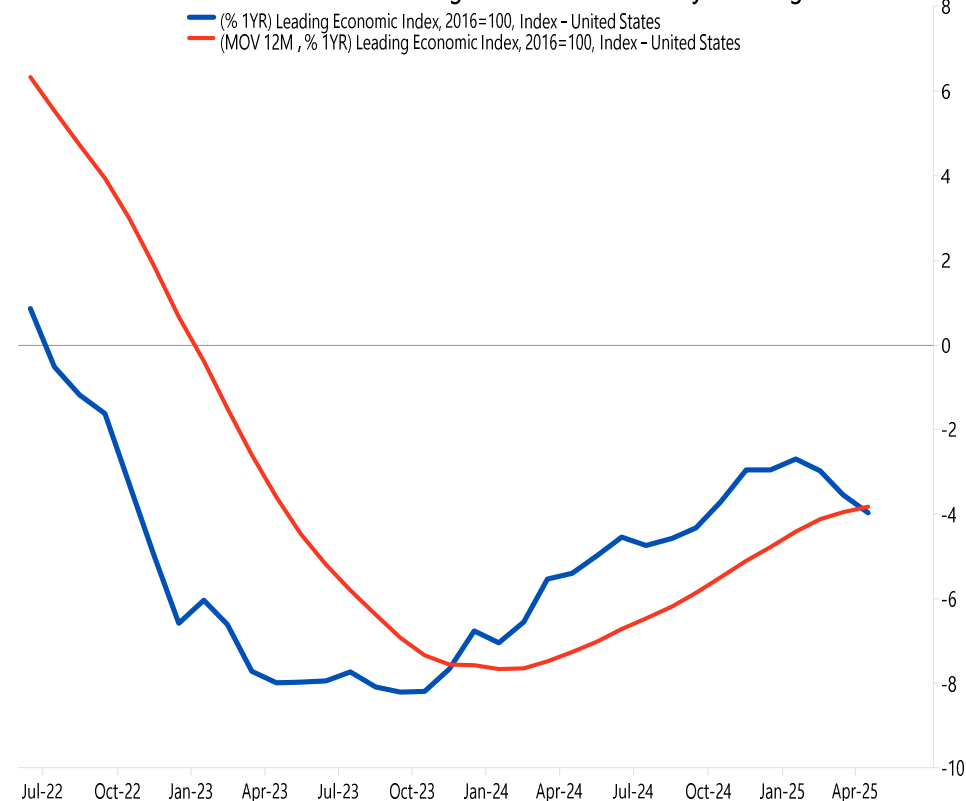
Economic Growth

- U.S. Real GDP decreased at an annual rate of 0.3 percent in the first quarter of 2025. This is according to the advance estimate of GDP from the Bureau of Economic Analysis.¹
- Factset consensus estimates for GDP growth stands at 1.9% for 2025.²
- The Conference Board's Leading Economic Index still indicates a slowing economy with the most recent readings suggesting a downtick to the leading indicators.²
- Heightened economic uncertainty is causing some downward revisions to growth expectations.



Source: First Horizon Advisors, Inc.

The Conference Board: Leading Economic Index Yearly % Change



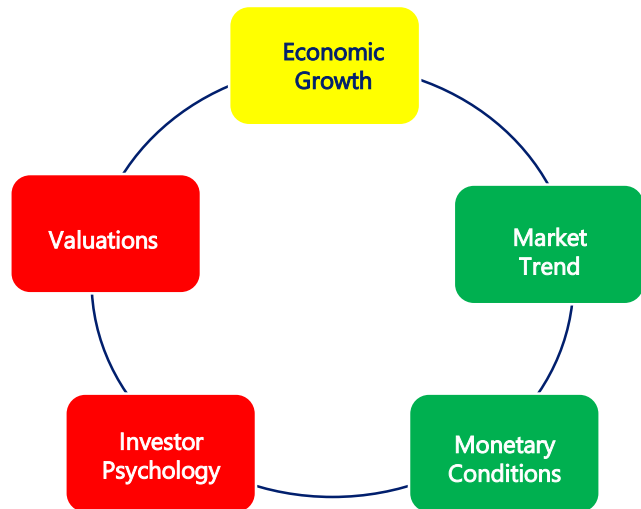
Footnotes:

1. Bureau of Economic Analysis
2. FactSet

Five Factor Framework

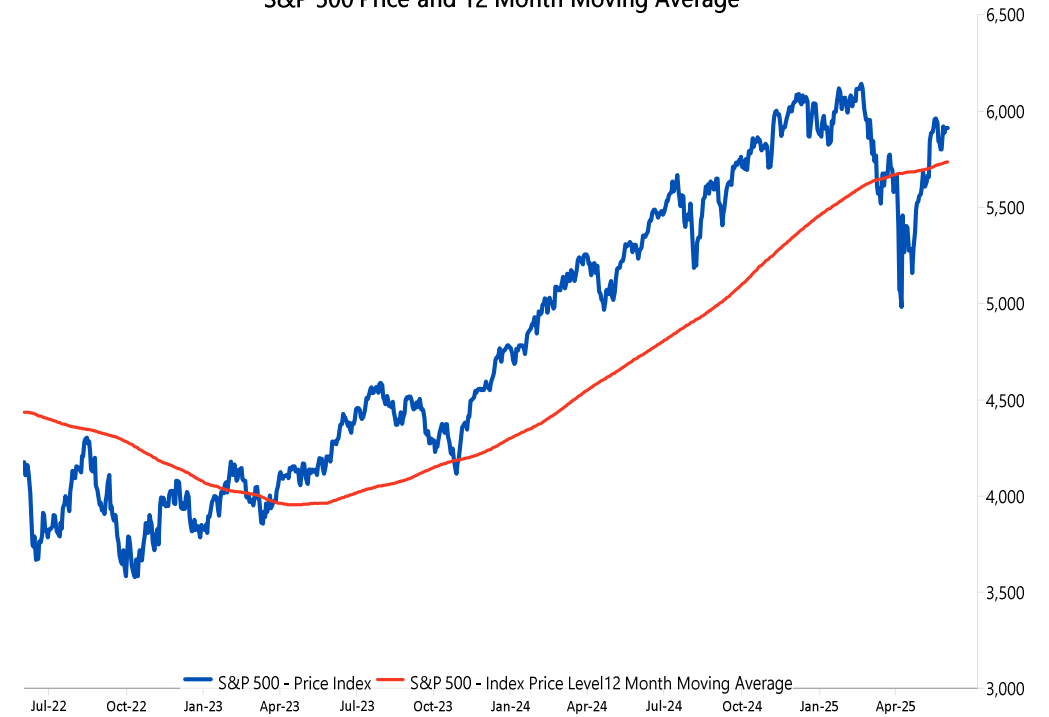
Market Trend

- The S&P 500 once again rose above its 12 MMA at the end of May. We now consider the market to be in an uptrend and are changing this indicator back to green.



Source: First Horizon Advisors, Inc.

S&P 500 Price and 12 Month Moving Average



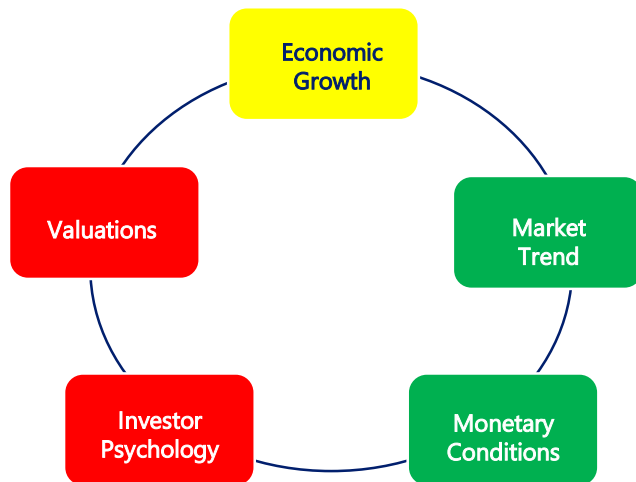
Source: FactSet

The S&P 500 Index is a stock market index tracking the performance of the 500 large companies listed in the United States. It is one of the most commonly followed equity indexes.

Five Factor Framework

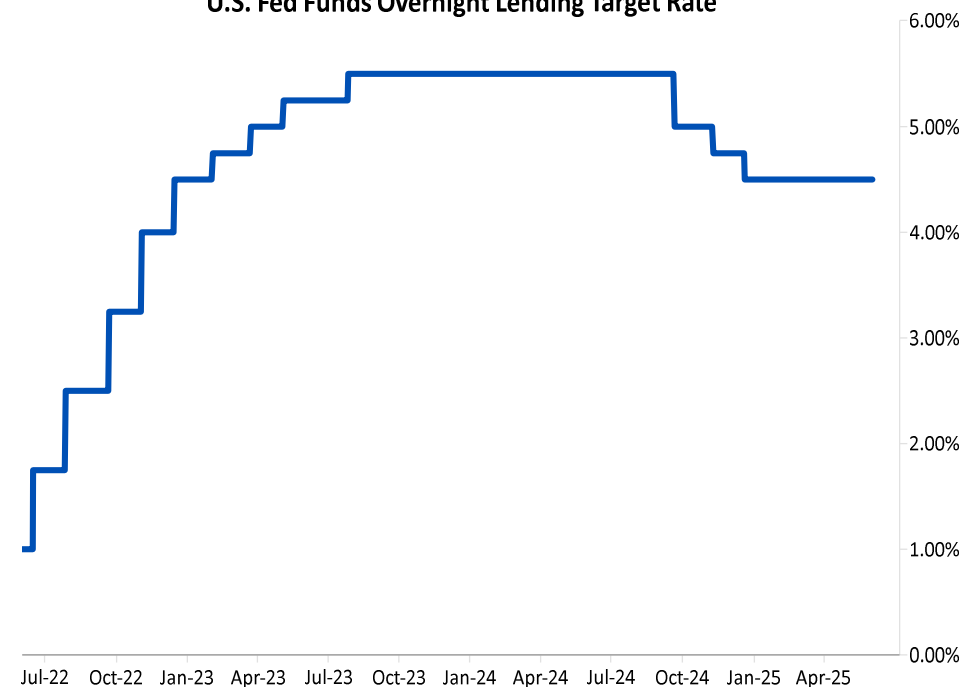
Monetary Conditions

- The Fed reduced its overnight lending interest rate by 0.25% at its December 2024 meeting to a range of 4.25%-4.50%. It has not reduced interest rates at its meetings since.¹ Financial markets are unsure about Fed moves during 2025 as expectations for growth and inflation are changing rapidly.²
- The Fed has changed its stance to one of patience when it comes to additional interest rate cuts. It would like to see additional progress on inflation without further employment market weakening. Economic data will dictate the timing and speed of future rate cuts.³



Source: First Horizon Advisors, Inc.

U.S. Fed Funds Overnight Lending Target Rate



Source: FactSet

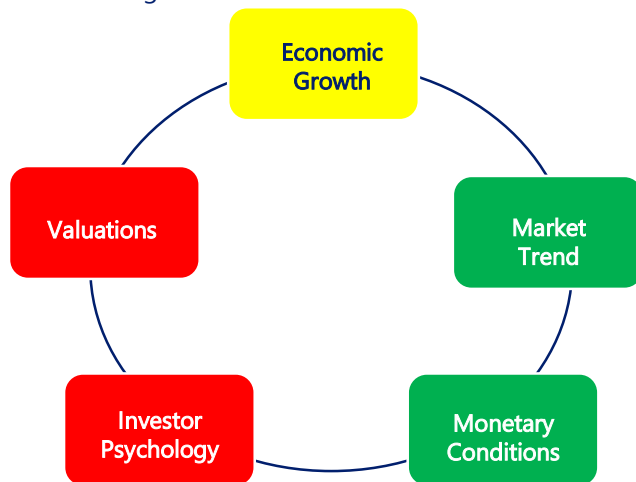
Footnotes:

1. Federal Reserve
2. CME Fedwatch Tool
3. FOMC December Statement

Five Factor Framework

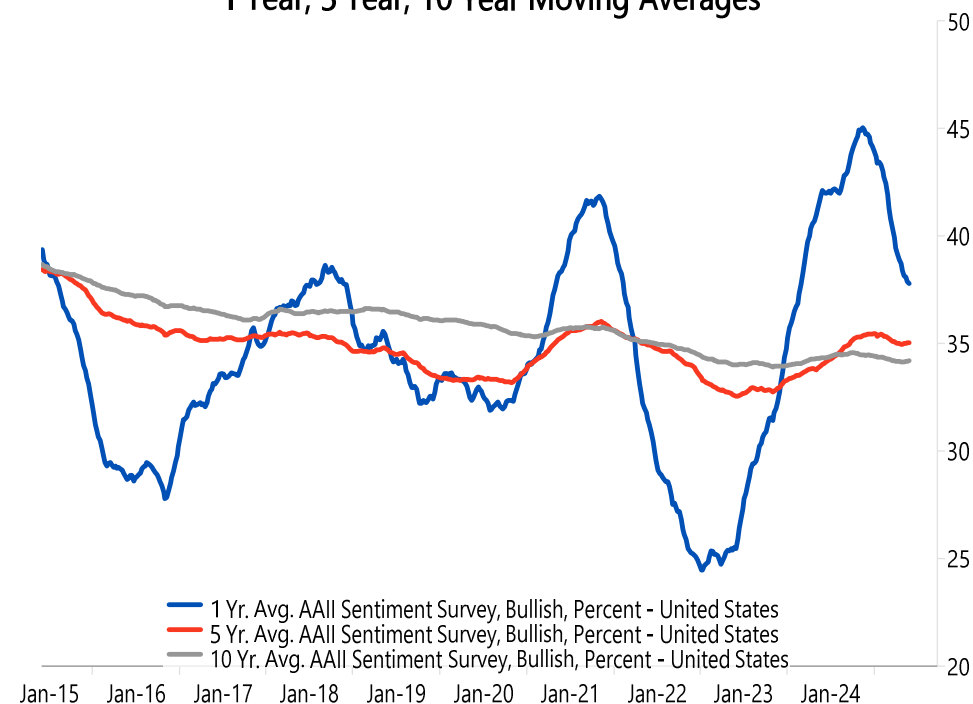
Investor Psychology

- The 1-year average percentage of investors saying they are bullish in the American Association of Individual Investors Sentiment Survey has rolled over but remains above its 5 and 10 year averages.
- A break in the S&P 500 up trend and tighter credit conditions mean investors are becoming more cautious. Daily reading of bullishness are low but can change quickly. We'll watch the 1 year moving average.
- Positive investor psychology is helpful to a point. Too much positive sentiment can mean unwise risk-taking.



Source: First Horizon Advisors, Inc.

AAll Investor Survey Percent Bullish
1 Year, 5 Year, 10 Year Moving Averages

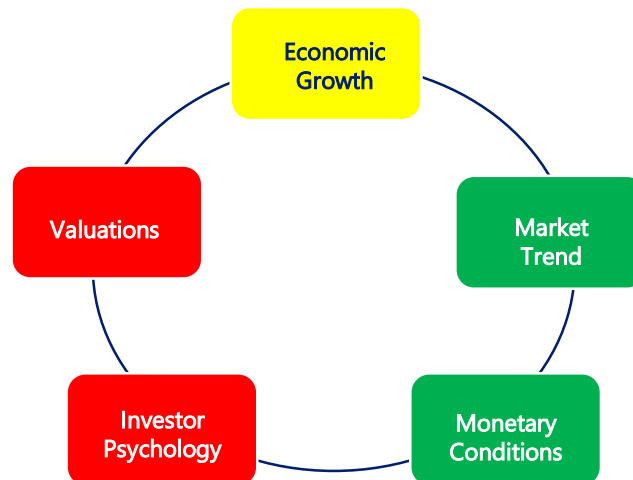


Source: FactSet

Five Factor Framework

Valuations

- Valuations on the S&P 500 Index have contracted since the beginning of the year but remain above 5 and 10 year moving averages. With uncertainty still high and pressure on earnings a real possibility, we are keeping this indicator in the red.
- Market conditions are not currently favorable for expanding valuations.

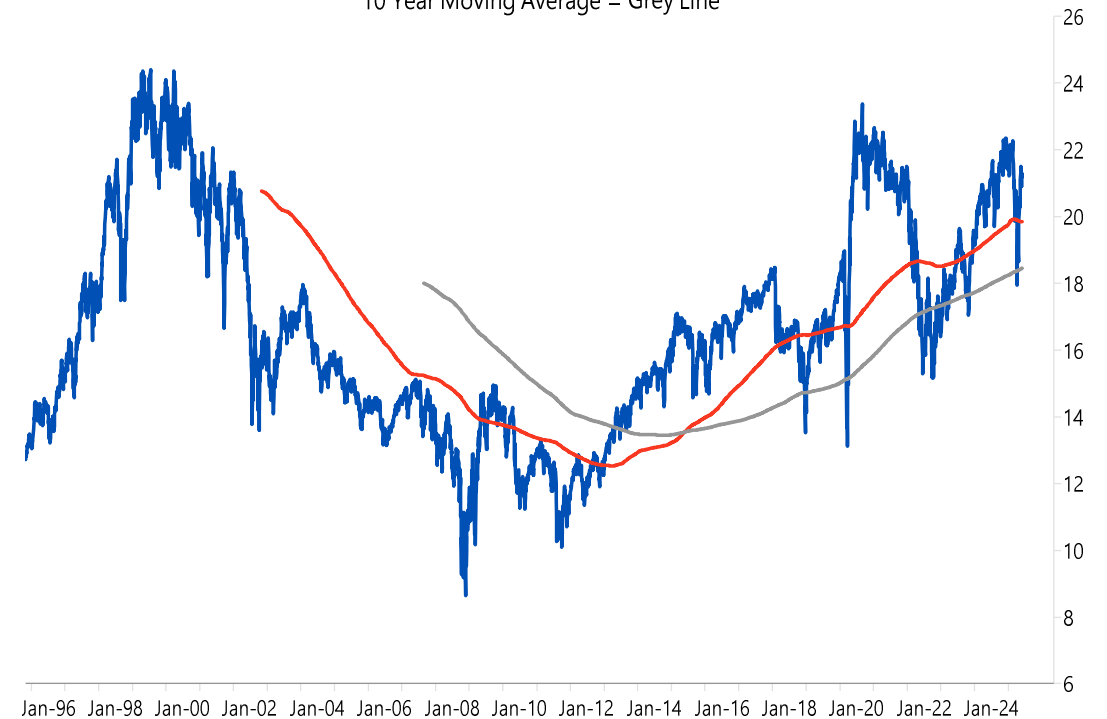


Source: First Horizon Advisors, Inc.

S&P 500 Next Twelve Months PE Ratio

5 Year Moving Average = Red Line

10 Year Moving Average = Grey Line



Source: FactSet

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Hope For the Future - Technology

- Highly recommended: The Singularity is Near – Ray Kurzweil
 - Singularity University at www.su.org
- Exponential Technologies
 - Artificial Intelligence (AI) and Machine Learning
 - Natural language processing ala ChatGPT, computer vision and robotics
 - Biotechnology and Genomics – personalized medicine, mRNA vaccines, anti-aging
 - Quantum computing – drug discovery, cryptography, materials science
- See also:
 - XPRIZE Foundation
 - Future of Life Institute
 - Lux Capital

Connecting the Dots

- There is a lot going on in the world. Geopolitical risks abound.
- In the United States
 - Fiscal policy is in overdrive
 - Monetary policy is stuck waiting to see if and how tariffs will impact inflation and the economy
 - Macroeconomic key performance indicators look generally strong
 - Our Five Factor Framework is currently balanced. The current market trend is positive
 - Technology gives me hope for the future

Q&A



Martin De Laureal

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Chief Investment Officer
First Horizon Advisors, Inc.

Please reach out to your banker or advisor with any questions or to set up a meeting with our Chief Investment Officer.

A recording of this event will be forwarded next week.

Thank you.

