

# BARRETT CAPITAL PARTNERS

2<sup>nd</sup> Quarter 2025

Newsletter #16

	Q2	2025 TOTAL
S&P 500 TOTAL RETURN	+10.5%	+5.5%
US AGGREGATE BOND (S&P GLOBAL)	+1.22	+3.8%

## Roller coaster first half

The first half of this year has been a whirlwind for equity markets. The markets rose 4% through mid-February, only to fall 20% from those levels over 6 weeks and then recover more than 20% to end the second quarter up 5% on the year. To put this a lighter way, the markets are up a very boring 5% this year!

The breadth of stock returns this year has been more evenly distributed than in the last couple of years, which were led almost entirely by a handful of tech names. The equal weighted S&P 500 index has returned 5.1% this year, a hair behind the standard. Household names like Coca-Cola and Johnson & Johnson are up 14% and 7%, respectively. The biggest gains are still among tech names, especially AI-related companies.

## “How have *my* investments performed this year?”<sup>1</sup>

Great question! I’m glad you asked. Across the board, portfolios have had healthy returns year-to-date. Stocks and bonds are both positive on the year and our allocation to technology companies has worked out well, as I’m sure you have noticed.

We started the year by rebalancing to a marginally more conservative allocation than we had over the last couple of years. Bond yields were attractive, and the equity markets were maybe a touch overvalued. We rebalanced some overvalued positions, bought bonds, and also *bought more of some promising companies we already owned*.

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<sup>1</sup> This section talks in generalities about investments that may or may not be in any specific client’s portfolio. Nothing here should be taken as investment advice. Please see the disclaimer on the last page.

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Companies that benefit from the rise of AI have been the leaders this year, while others who are threatened by the rise have been laggards in our portfolio. Google's search engine is seeing the biggest competition, as ChatGPT is emerging as a promising alternative, and the stock has suffered.

Some of our portfolio companies are improving or even reshaping their entire business model due to the rise of AI. Take Celestica for example, which has been our best performing investment over the past year, and one that we invested more heavily during the first half of 2025. The company is becoming a leader in the AI *infrastructure* field, providing hardware and design services to the companies investing heavily in AI capabilities.

Long story short, we're all smiles at the moment, but we'll continue our disciplined approach to investing with guarded optimism.

## **What about the second half of the year?**

The latest economic data is mixed. Employment is continuing to show strength, with the unemployment rate actually going down to 4.1% in June. On the flip side, layoff announcements are rising, so that's something to watch. The "healthy" rate of unemployment is roughly 5%, so any marginal increases in employment shouldn't cause concern. Some might argue 4% unemployment might actually make the job market *too* restrictive. *(chart on the following page)*

Consumer-level data is more pessimistic. Consumer confidence fell in June<sup>2</sup>, which follows the decline in consumer spending during May. Americans seem to be more cognizant of their spending as prices have risen faster than wages.

*Below are two charts:*

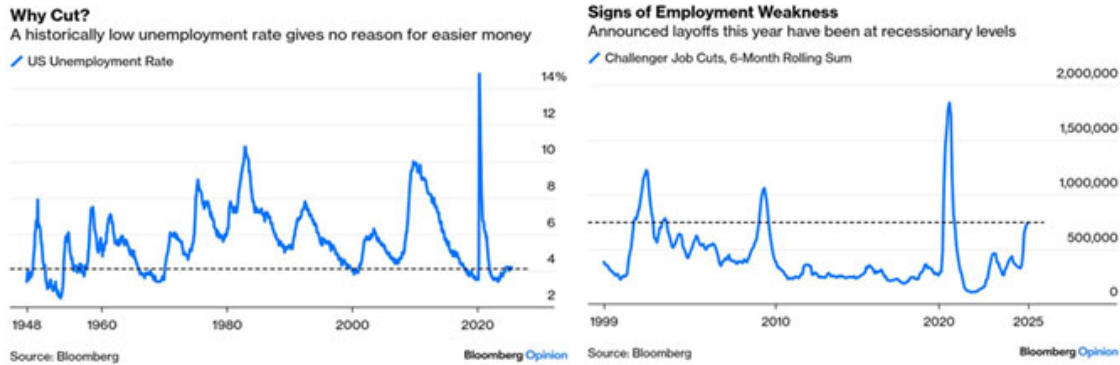
*The left* shows the historical unemployment rate and should put into perspective how amazing 4.1% unemployment actually is.

*The right* shows the increase in layoff announcements over the last 15 years, and a big jump in announcements this year.

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<sup>2</sup> The Conference Board Consumer Confidence Index

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## *Inflation is an ongoing storyline.*

Tariff costs are expected to show up in the data this month and by the end of the summer we should have a better grasp on the actual effects on the economy. As expected, it appears that the U.S. is working out some details with other countries, but that will take time.

On top of tariffs, **the dollar has weakened by over 10% this year**, making it more expensive to import goods from abroad, and conversely making our exports cheaper for foreign consumers. I am *not* an expert on currencies, but I do read lots of material by people who are, and from what I gather, if the dollar continues to depreciate it will increase inflation by a material amount. Per Apollo, the 10% depreciation of the dollar over the first half of 2025 has pushed inflation up 0.3% to date.

This all matters because the Federal Reserve's basis for cutting rates depends on inflation continuing to moderate. They *do not* want to cut rates until they are positive that inflation has been tamed.

*(over)*

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### **Interesting stats and notes presented without context**

- The US Government employs ~3 million people, which has been roughly the same number since the late 1960s<sup>3</sup>.
- Cattle futures outperformed the S&P 500 through the first half of 2025, returning more than 14%.
- July is National Ice Cream month, so get out there and support your local small business. Hornstra Farm in Norwell has a great ice cream stand, and while you're there make sure to go in and see the newborn calves in the barn!
- Seagulls can live well into their 40s.

We look forward to any thoughts or input you may have!

See you soon,

Patrick and Joe

***Disclaimer: This newsletter and related material are for informational and entertainment purposes only, and you should not construe any of the information contained as investment, financial, legal, tax, or other advice.***

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<sup>3</sup> U.S. Bureau of Labor Statistics