



# The End of the Era of Easy

Aprio<sup>®</sup>  
Wealth Management

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# The End of the Era of Easy

July 10, 2025

## Executive Summary

The second quarter of 2025 reinforced a growing realization: we are living through the end of the era of “easy.” For more than a decade, investors enjoyed low rates, stable inflation, strong employment, and calm geopolitics. The world we live in is quickly giving way to something less predictable, more volatile, and more demanding of discipline and perspective.

In this new environment, our strategy remains focused on the fundamentals — cash flow, valuation, and diversification — and we continue to adapt thoughtfully. In response, we’ve made disciplined shifts in portfolios to emphasize resilience, including increasing exposure to commodities and reinforcing international diversification.

## Commentary

*“The greatest danger in times of turbulence is not the turbulence;  
it is to act with yesterday’s logic.”<sup>1</sup>*

– Peter Drucker

This quarter reminded us why that mindset matters: the “easy money” era that followed the 2008 financial crisis has given way to something more complex. We’re witnessing a shift in how the world works. Low interest rates, benign inflation, stable employment, friendly trade relations, and cooperative geopolitics helped define the post-Global Financial Crisis (GFC) era. That framework is now being challenged.

It’s hard to believe it’s been three months since “Liberation Day” tariff announcements were made on April 2. Since then, volatility surged and the U.S. dollar plunged. The uncertainty the tariffs introduced hasn’t faded, delaying decision-making across the economy and reinforcing the sense that we have entered a different economic regime.

At Aprio Wealth Management, we increased our commodity exposure this quarter, recognizing that real assets, like precious metals and natural resources, often hold value when inflation, currency risk, or volatility rise.

Bond markets also sent a clear message. The long end of the yield curve moved higher, not on inflation alone, but on fears about mounting government debt and the structural pressures of increased issuance.

In equity markets, volatility was the rule. The largest indices experienced wide swings between intra-quarter lows and quarter-end levels, further highlighting the need for diversified, resilient portfolios.

The shift away from “easy” has also opened new relative opportunities. As the U.S. adjusts to a more complex landscape, international equities are showing signs of strength, benefiting from cheaper valuations, favorable currency dynamics, and fiscal stimulus abroad. While not without risks, these markets could represent a meaningful part of future returns. Year to date, international markets have outperformed the S&P 500 by 13.3%<sup>2</sup>, marking a three-decade high.

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1 17<sup>th</sup> Global Peter Drucker Forum 2025. [www.druckerforum.org](http://www.druckerforum.org)

2 Bloomberg Finance, L.P. International reflects MSCI World ex USA, while U.S. reflects S&P 500.

We believe volatility is an inherent feature of long-term investing. As best-selling investment writer Michael Mauboussin noted this quarter in a piece in the *Consilient Observer*, even the best companies and stocks experience major drawdowns or declines from prior peaks.

Mauboussin's research shows that even top-performing stocks often suffer steep losses along the way. The top 20 S&P 500 performers (as defined by total shareholder return or TSR) over the last 40 years fell 72% on average from peak to trough,<sup>3</sup> at some point during their ultimate climb.

In his articles, Mauboussin cites the paper, "*Even God Would Get Fired as an Active Investor*" by investor Wes Gray of Alpha Architect. Gray's "perfect foresight" portfolios — selecting the best performing stocks over the next five years in advance — endured drawdowns of over 70%. Using data from 1927 through 2016, these prescient, "God-like" portfolios would have experienced drawdowns of 76%, 41%, 40%, 39%, and 31% with the top 10 declines all falling at least 20%. Yet despite these sharp declines, the portfolios would have a compound average growth rate (CAGR) of 29%.<sup>4</sup>

As we have written in prior letters, we believe volatility isn't failure — it's part of the journey. The key is staying invested through discomfort, which is often when future gains are secured. Sometimes, being a Rip Van Winkle investor — ignoring the daily noise and staying the course — is exactly what's required. As the late Charlie Munger reminds us: patience isn't just a virtue; it's a competitive advantage.

		Annualized TSR, 1985–2004	Max Drawdown	Max Drawdown Duration (Years)	Time Back to Par (Years)
S&P 500		11.8%	-58%	1.4	4.2
<u>Top 20</u>					
1.	Amgen	22.7%	-64%	0.6	1.6
2.	Apple	21.6%	-83%	3.1	1.8
3.	Paychex	20.8%	-67%	8.3	7.4
4.	Home Depot	20.5%	-76%	8.5	4.4
5.	Progressive Corporation	20.4%	-74%	1.2	2.1
6.	Williams-Sonoma	20.4%	-90%	2.9	2.5
7.	Stryker Corporation	19.7%	-60%	1.2	4.8
8.	Brown & Brown	19.7%	-58%	2.9	7.1
9.	Raymond Jones Financial	19.6%	-72%	0.5	2.0
10.	HF Sinclair Corporation	19.4%	-87%	1.4	3.7
11.	NIKE	19.0%	-66%	3.1	4.0
12.	Applied Materials	19.0%	-86%	8.6	9.0
13.	Graco	18.9%	-72%	2.9	2.1
14.	Badger Meter	18.8%	-72%	0.2	6.5
15.	Expeditors International	18.7%	-59%	2.7	8.4
16.	Cintas Corporation	17.9%	-68%	6.8	4.7
17.	Gentex Corporation	17.8%	-72%	4.8	2.1
18.	Sherwin-Williams	17.2%	-55%	1.8	4.2
19.	Eli Lilly and Company	17.2%	-75%	8.7	9.6
20.	Aflac Incorporated	17.0%	-84%	0.9	7.1
Top 20 Average		19.3%	-72%	3.5	4.8
Top 20 Median		19.2%	-72%	2.9	4.3

## CHINA: A TALE IN DATA OVER NARRATIVE

One core value for our investment operations is that we focus on data over narrative. What we mean by that is that we are aware that there are times when a narrative becomes popular, whether in the press or in dialogue, at which point it becomes an assumed truth. The key word being *assumed*. We want to trust but verify through data. When there's a difference between the data and the common narrative, we believe there lies opportunity.

<sup>3</sup> "Drawdowns and Recoveries – Base Rates for Bottoms and Bounces," *Consilient Observer*, May 21, 2025, p. 10.

<sup>4</sup> "Even God would get fired as an Active Investor," Wesley Gay, PhD, Alpha Architect blog, February 2, 2016.

One anomaly that we have seen is how China has been perceived for the better part of two decades. Since becoming a key beneficiary of globalization after its admittance into the World Trade Organization (WTO), China's GDP growth has averaged nearly 12% compounded *annually*, rising from \$2.0 trillion in 2004 to \$18.5 trillion in 2024. Yet investors in China's stock market have not benefited nearly as much, with price returns of just 5.6% per year and about 7.3% when including dividends.<sup>5</sup>

This contrasts sharply with U.S. investors' experiences. The growth of the U.S. economy is a boon for U.S. investors. Over the same 20 years, the U.S. economy increased roughly 4.5% annually, rising from \$12.2 trillion to \$29.2 trillion. More importantly, the returns for U.S. investors<sup>6</sup> were an 8.2% price return and about 10.2% total return annually when including dividends.<sup>7</sup>

Despite tremendous economic growth, Chinese stock market returns have lagged far behind — a stark contrast with the U.S. We believe this gap reflects weaker investor protections and trust in capital markets, not just growth differences. Approximately two years ago, our investment committee decided to remove Chinese exposure in portfolios to reflect the lower protection for investors and the potential geopolitical risk of Chinese military aggressiveness.

## The Economy: Navigating Uncertainty, Anticipating Reform

The U.S. economy remains steady but cautious. Investment is slowing, not from lack of opportunity, but from uncertainty around tariffs and tax policy. It's clear that the "wait and see" approach has become the default across many sectors.

Despite that, we believe a reacceleration in 2026 remains plausible. Proposed deregulation, corporate tax reform, and targeted investment incentives within the One Big Beautiful Bill Act (OBBBA) could provide meaningful tailwinds — if implemented. Until then, the dominant narrative is one of moderation, not collapse.

Inflation has followed a similarly uneven path. While overall pressures are receding, tariff-induced price distortions remain a risk. We expect inflation to continue trending lower but with episodic spikes that could test market confidence.

The Federal Reserve, for its part, appears increasingly comfortable with a cautious easing bias. Current expectations suggest one or two rate cuts through year-end, with Fed Chair Powell signaling a preference for gradualism. The Fed appears to favor a slow and measured path forward, which we believe is appropriate.

## The Markets: Adjusting To A Harder World

Return	STOCKS				BONDS		REAL ESTATE	
	Global Equities	US Market*	International Developed	Emerging Market	US Market	Global Market ex-US	US Real Estate	Global Real Estate
Q2 2025	11.7%	11.0%	12.0%	12.2%	0.8%	7.1%	(0.7)%	1.3%
2025	10.3%	5.7%	19.9%	15.5%	3.7%	9.8%	2.1%	4.4%
Last 5 Years	14.6%	16.6%	11.8%	7.1%	(0.8)%	(1.7)%	7.6%	5.8%
Last 10 Years	10.3%	12.7%	6.8%	5.1%	1.8%	0.7%	6.3%	5.0%

Source: Bloomberg Finance, LP

\*US Market reflects Russell 3000 Index

5 Bloomberg Finance, LP.

6 As measured by the Russell 3000 index.

7 Bloomberg Finance, LP.

If Q1 marked the end of the era of easy, Q2 illustrated how that transition plays out in real time.

The second quarter of 2025 delivered strong results for global equities, with a notable rotation in leadership that reflects the increasingly divergent path of capital markets in a post-easy money world. Global stocks rose 11.7% in Q2, led by strong performance in international developed and emerging markets. U.S. markets gained as well, but returns were driven by a narrow group of large-cap tech stocks, as evidenced by the Nasdaq's gain of 18.0% compared to the S&P 500 Equal Weight's 5.5% — a trend that has widened the gap between index performance and broader economic participation.

Year to date, international markets<sup>8</sup> have outperformed the U.S. by the largest amount since 1993. While we do not know if this is the beginning of a longer-term trend, as shown in the chart below, geographic outperformance tends to be clustered in several years.

## DOMSETIC VS. INTERNATIONAL PERFORMANCE



SPX Index (S&P 500 Index) Relative Mkt Perform Yearly 11JUL1975-30JUN2025

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Source: Bloomberg Finance, L.P.

Year to date, the S&P 500 (Market Cap-weighted) is up 6.2%, but beneath the surface in the second quarter, leadership has become increasingly narrow and uneven.

- Information Technology (+22.5%) and Communication Services (+18.1%) led, while sectors that were more sensitive to cost pressures — including Energy (-8.0%), Healthcare (-7.8%), and Real Estate (-0.8%) — posted negative returns.
- Small caps, as measured by the Russell 2000, are down 1.8% this year, continuing a now multi-year trend of underperformance amid tighter financial conditions and less margin for error.

This bifurcation reinforces a broader reality: we believe the era of rising tides lifting most boats will give way to a more selective environment where fundamentals, free cash flow generation, capital discipline, balance sheets, and competitive positioning matter more.

<sup>8</sup> As defined by the MSCI All Country World Index ex-US.

Fixed income markets reflected a more stable interest rate backdrop in Q2, though not without crosscurrents.

- Bond returns were modest, particularly in the U.S., where rates remain elevated. Markets are adjusting to the reality that ultra-low interest rates are not returning any time soon.
- In contrast, global ex-U.S. bonds added 7.1%, driven by a weaker dollar and improving growth.
- For the year, bond returns remain positive (+3.7%), especially in the U.S., where 10-year Treasury yields have remained elevated despite slowing inflation.

Investors appear to be adjusting to a world where rates are not falling back to pre-2022 levels — and where capital has a cost again.

Real estate, while offering what we believe is compelling value, faced pressure in the first half of the year. U.S. real estate fell 0.7% in Q2 and has barely eked out a 2.1% gain for the year, held back by higher financing costs, uncertainty around labor and material costs, and lingering questions about the post-pandemic commercial property mix. However, we believe the constrained future supply relative to demand is highly favorable as we look out several years.

## SECTOR PERFORMANCE

Return	Q2 2025	2025
Information Technology	22.5%	7.0%
Healthcare	(7.8)%	(1.7)%
Consumer Discretionary	12.5%	(3.0)%
Communication Services	18.1%	10.8%
Financials	4.6%	8.2%
Industrials	12.4%	12.1%
Consumer Staples	0.6%	5.9%
Utilities	3.8%	9.0%
Real Estate	(0.8)%	2.7%
Energy	(8.0)%	1.4%
Materials	3.0%	5.9%

Source: Bloomberg Finance, LP

Q2 2025 saw sharp contrasts across sectors. Tech surged 22.5% as AI momentum drove investor demand, while Communication Services (+18.1%) and Consumer Discretionary (+12.5%) followed with strong gains. Industrials also advanced 12.4%, benefiting from infrastructure tailwinds, including the buildout of AI. On the downside, Healthcare (-7.8%) and Energy (-8.0%) lagged under cost and regulatory pressure, and Real Estate (-0.8%) continued to struggle with elevated financing costs.

Year-to-date, Industrials lead with a 12.1% gain, followed by Communication Services (+10.8%) and Utilities (+9.0%), showing steady strength in core areas. Consumer Discretionary (-3.0%) and Healthcare (-1.7%) remain weak, while Energy (+1.4%) and Real Estate (+2.7%) have made modest progress.

The data reinforces a market rewarding select fundamentals driven by growth themes, while punishing sectors facing regulatory, structural, or macro headwinds.

## BENCHMARK PERFORMANCE

Risk-based portfolios followed a logical hierarchy in Q2, with higher equity-weight portfolios delivering stronger results.

Aggressive portfolios returned 9.5%, while Conservative portfolios gained 3.1%, reflecting the dominance of equity markets. Balanced and Growth portfolios

### Benchmark Performance by Risk Tolerance

Return	Aggressive	Growth	Balanced	Conservative
Q2 2025	9.5%	7.6%	5.6%	3.1%
2025	7.6%	6.9%	5.9%	4.6%

Source: Bloomberg Finance, LP

See Disclosures section for benchmark details

delivered solid mid-single digit returns, benefiting from both equity exposure and modest contributions from fixed income and global diversification.

Year to date, returns have been positive across all risk profiles, but the spread between Aggressive and Conservative allocations has somewhat narrowed. This is consistent with a more uneven equity market in 2025, where large-cap tech leadership has not fully translated across sectors or asset classes. While traditional diversification still offers long-term benefits, recent performance underscores the importance of adaptability in a post-easy money environment.

Risks that we are keeping an eye on include:

#### **Economic Risks:**

- Increasing inflation due to tariffs and more restrictive immigration policies.
- Changing tariff policies resulting in trade wars that greatly disrupt supply chains.
- Mounting stress on lower income “Stretched Consumers” expanding to middle income consumers, slowing consumer spending, which accounts for approximately 70% of U.S. GDP.
- Rising initial unemployment filings causing a pullback in consumer spending.

#### **Financial Markets Risks:**

- Disappointing AI-driven growth leading to reduced valuation multiples.
- Widening credit spreads and surging defaults could raise concerns over the economy.
- Growing fears over government spending could impact the longer end of the Treasury curve, thus increasing the cost of capital and pushing asset prices down.

#### **Geopolitical Risks:**

- Rising political de-globalization causing alliances to crack, creating opportunities for China and Russia to exert anti-capitalist influences.
- Escalating conflict between Israel-Iran spreading to include other Middle East nations.
- Slowing Chinese economy resulting in the government becoming more militaristic, potentially pursuing Taiwanese reunification.

## **CHANGES WE HAVE MADE TO THE PORTFOLIO**

We believe that rising volatility, a weaker dollar, and geopolitical complexity make real assets like commodities an essential part of today's diversified portfolio. As a result, we increased commodities exposure in Q2.

Greater exposure to commodities aligns with our viewpoint in the *End of the Era of Easy*, as we believe that markets will experience increased volatility as economies adjust to different trade arrangements, supply chains evolve, immigration tightens, and Baby Boomers retire, further stressing workforces. Similarly, the growth of AI may create confusion as winners and losers emerge. Furthermore, we believe that the decline of the U.S. dollar is an important component of the U.S. reducing its trade deficits — a declining dollar has historically correlated with higher commodity prices.

Together, these factors support our view of increasing the weight of commodities, leveraging our allocation to energy infrastructure in portfolios in Q1.

For Aggressive portfolios, we selected funds with potential for stronger returns when the market rallies, or what investors call “upside capture,” while maintaining our discipline around quality and valuation.

The funds we allocated to are actively managed ones that we have researched and monitored for years, including met on multiple occasions as part of due diligence, evaluated in detail, and compared against a broad universe of alternatives. Each manager aligns with our philosophy: invest in high-quality businesses, take a long-term view, and apply a thoughtful approach to valuation.

## Investment Themes: Mid-Year Progress

At the start of 2025, we outlined three economic themes shaping our portfolio construction. Here's how they're progressing:

### AGILITY AMIDST TRANSFORMATION

Agility pays in volatile markets. It is essential in navigating this new market cycle. During Q2, that meant increasing tactical allocations into commodities. While volatility deters many investors, we see it as a window for adding long-term value when opportunities dislocate from the fundamentals.

### PRODUCTIVITY UNLEASHED

Innovation remains alive and well. From autonomous driving advances at Waymo to ongoing investment by the “Magnificent 7” in AI infrastructure, the push for productivity gains is not slowing. We maintain exposure to the “backbone” of AI — such as energy infrastructure, electrical grid infrastructure, and data centers — where we believe the most sustainable gains reside.

### THE DEAL BOOM: ON PAUSE BUT NOT OVER

M&A and capital markets activity have lagged against our expectations. Uncertainty around trade and tax policy has stalled deal-making. Still, we believe this is a pause, not a pivot.

Recently, there have been several successful technology IPOs. As clarity around policy improves, we anticipate a pick-up in deal volume, especially in sectors with real earnings power and operational leverage.

Through structural change and volatility, we remain focused on fundamentals, long-term opportunities, and realizing your financial objectives.

## Summary

The second quarter of 2025 offered a clear signal that we are operating in a new investment environment: one defined by structural change, volatility, and the unwinding of the post-crisis era of “easy.” Despite the uncertainty, our approach — anchored in fundamentals, valuation, and diversification — continues to provide clarity and confidence.

### Key takeaways from the quarter:

- The *End of the Era of Easy* thesis was evident across markets, as higher long-term rates, fiscal concerns, and shifting geopolitical alliances drove volatility and challenged historical assumptions.
- International equities continued to gain traction relative to U.S. markets, benefiting from more attractive valuations, a declining U.S. dollar, and proactive fiscal responses abroad.
- Commodities added ballast to portfolios, supported by both the rising demand for real assets and concerns over fiscal-driven currency debasement.
- Inflation showed signs of moderation, though tariff-related pressures remain a wildcard. The Federal Reserve appears positioned for cautious rate reductions.

We remain committed to our long-term investment themes: *The AI Backbone*, *From Analog to Digital*, and *The Health Supercycle*, which are supported by powerful structural trends that we believe will compound over time.

In a quarter shaped by transition and tension, staying anchored to fundamentals and forward-looking themes allowed us to navigate confidently and position portfolios for what lies ahead.

Please do not hesitate to contact us if you have specific questions.

Sincerely,



**Simeon Wallis, CFA<sup>®</sup>**  
Chief Investment Officer

Simeon Wallis, CFA, is the Chief Investment Officer of Aprio Wealth Management and the Director of Aprio Family Office. Each week, Simeon brings you insights from the financial markets in Aprio's Pulse on the Economy. To discuss these ideas and how they may affect your current investment strategy, schedule a consultation.

## DISCLOSURES

For benchmarking purposes, Aprio uses allocation funds that we believe align with client levels of risk tolerance. These incorporate multiple asset classes, including occasional allocations to alternatives such as commodities, real estate and real assets. Specifically,

- For Aggressive risk profiles, we benchmark against BlackRock's Aggressive Target Allocation ETF – BIAPX
- For Growth risk profiles, we benchmark against BlackRock's Growth Target Allocation ETF – BIGPX
- For Balanced risk profiles, we benchmark against BlackRock's Balanced Target Allocation ETF – BIMPX
- For Conservative risk profiles, we benchmark against BlackRock's Conservative Target Allocation ETF – BICPX

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