

MID-YEAR CHECK IN

Summer 2025

The first half of 2025 saw solid market performance, with the S&P 500 up 6.2% and international equities leading the way with a +17.9% gain. Strong corporate earnings and AI momentum helped offset volatility from new tariffs. Bonds rebounded as interest rate expectations shifted, and while small caps lagged, mid-caps and real estate held steady. Despite ongoing uncertainty, resilient consumer demand and easing inflation support a cautiously optimistic outlook for the second half.

US STOCK MARKET

U.S. equities posted mixed results in the first half of 2025, with large-cap stocks leading the way. The S&P 500 reached record highs in late June, driven by strong Q1 earnings, resilient consumer demand, and continued enthusiasm around artificial intelligence, particularly among mega-cap tech names like Nvidia, Microsoft, and Amazon. Easing inflation and a decline in long-term yields added fuel to the rally, despite a brief market correction in April due to newly imposed tariffs.

Mid-cap stocks delivered moderate gains, showing resilience in a volatile environment. Domestic-focused sectors such as industrials and consumer discretionary performed well, but margin pressure from higher input costs and less exposure to tech innovation limited upside.

Small caps struggled in comparison, weighed down by rising interest rates, tighter margins, and broader macro uncertainty. These companies were hit hardest during the April market dip due to their higher debt loads and sensitivity to trade policy. While there was a slight rebound late in Q2, small caps continue to face headwinds in the current environment.

US Stock Performance Returns (1H 2025):

- S&P 500 (Large Cap) Index Total Return: 6.2%
- S&P 400 (Mid Cap) Index Total Return: .02%
- S&P 600 (Small Cap) Index Total Return: - 4.5%

Europe

European equities posted strong gains in the first half of 2025, supported by lower valuations, increased government spending, and easing monetary policies aimed at stimulating investment. A weakening U.S. dollar also helped boost returns. However, European exporters faced early headwinds from U.S. tariffs, and there is some uncertainty as trade negotiations continue.

Asia

Markets across Asia also saw meaningful gains, driven by targeted stimulus measures and a rebound in investor sentiment. Countries like China benefited from currency tailwinds and accommodative policy responses. While trade tensions presented challenges, regional equity performance remained strong thanks to improved liquidity and growth outlooks.



Emerging Markets

Emerging market equities experienced a more mixed first half. While some countries benefited from global liquidity trends and a weaker dollar, others struggled with higher input costs, geopolitical tensions, and exposure to shifting trade dynamics. Select opportunities emerged in Latin America and Southeast Asia, but overall performance lagged developed international markets. 1H 2025 Total Return (Developed International): **MSCI World ex-U.S. (Net TR): +17.9%**

Interest Rates

The Fed held rates steady through the first half of 2025 to manage inflation, which sat around 2.3% in May. While official guidance suggests cuts in 2026, markets are expecting 1-2 rate cuts later this year as inflation slows and uncertainty grows. April's tariff-related volatility briefly shook markets, but declining long-term yields in Q2 offered relief for bonds and rate-sensitive assets. If inflation or job data weakens further, the Fed may move sooner. In the meantime, high short-term yields continue to benefit cash holders

US BOND MARKET

The bond market saw modest gains in the first half of 2025, with the Bloomberg U.S. Aggregate Bond Index returning +4.0% year-to-date. April's market volatility prompted a flight to safety. Lifting bond prices, while shifting expectations around Federal Reserve policy added further support. The Fed held rates steady but signaled a potential easing path beginning in 2026, with markets now anticipating 1-2 rate cuts before year-end.

High short-term yields continued to make cash and cash alternatives attractive, with the 30-Day Treasury Bill yielding between 5% and 5.5%. However, elevated yields also limited near-term price appreciation across core bond segments.

Going forward, intermediate- and long-term bonds may benefit if the Fed begins cutting rates. In this environment, maintaining a focus on quality remains key, as bonds can help provide a ballast if equity markets face renewed volatility.

1H 2025 Total Returns:

Bloomberg U.S. Aggregate Bond Index: +4.0%
ICE BofA 30-Day U.S. T-Bill Index (est.): +2.6%

Alternative Investments and real estate

Amid inflation, rate shifts, and trade tensions, alternative investments provided steady diversification in early 2025. The IQ Hedge Multi-Strategy ETF (QAI) returned 2.9% through June, offering lower-volatility exposure to hedge fund strategies. Real estate also held up, with the Dow Jones U.S. Real Estate Index gaining about 4.1%, showing resilience despite elevated interest rates and ongoing uncertainty in the commercial space.

Conclusion

In early 2025, markets balanced tariff-driven volatility with strong fundamentals, including solid earnings and clear Fed policy. U.S. large caps and tech led gains, while international stocks outperformed for the first time in nearly two decades—highlighting the case for global diversification.

Bonds, cash, and REITs added stability. We remain cautiously optimistic, favoring mid-cap U.S. equities, infrastructure, and selective crypto exposure for risk-tolerant investors. With markets near record highs, a steady, long-term strategy remains essential as a new phase of growth may be emerging.

Market Recap

S&P 500 (Large Cap): +6.2%
S&P 400 (Mid Cap): +0.02%
S&P 600 (Small Cap): -4.5%
MSCI World ex-U.S. (Net TR): +17.9%
Bloomberg U.S. Aggregate Bond Index: +4.0%
ICE BofA 30-Day U.S. T-Bill Index (est): +2.6%
IQ Hedge Multi-Strategy ETF (QAI): +2.9%
Dow Jones U.S. Real Estate Index: +4.1%

New Year, New Staff!

We welcomed Megan, Margaret, and Emily to the Alpha team this year!

Megan joined us as our new Client Service Manager in February! Originally from Whitesburg, KY, Megan has called Lexington home for most of her life. With over 20 years in client service and a degree in English from UK, enjoys working with our clients and assisting them in all their various needs!

Margaret joined us as our marketing intern in February and through the summer! Originally from Fort Worth, Texas, Margaret is a senior at Asbury University studying business and marketing and will graduate in December of 2025! She enjoyed growing her professional skills during this internship.

Emily, who is our newest edition to the team joined us in June as our new Director of Retirement Plan Services. Born and raised in Lexington, Emily is a UK grad with a background in Equine Management. After starting her career in the horse industry, she found her true calling in financial services in 2021. Since then, she's earned both her Series 65 and CFP® designation and is passionate about helping clients navigate their financial journey with clarity and confidence.



Megan



Margaret



Emily

ALPHA EVENTS



The first half of 2025 has been packed with great events and even better company!



We kicked things off with our Year Ahead Summit at Malone's, where we had engaging conversations around the markets, economy, and tax landscape. In February, we celebrated a major milestone with our Ribbon Cutting Ceremony—a special moment made even better by having so many of our clients there to share it with us.

We wrapped up the first half with our Alternative Investment Summit at White Dog Trading & Storage, where we explored unique strategies beyond the public markets.



Spring brought our Advisory Board Meeting at The Castle, followed by a fun and creative Women's Night at Pinot's Palette in May (those paintings were impressive!).



And we're not slowing down—our Annual Retirement Plan Summit is right around the corner in August. We can't wait to see our plan sponsors there!

Thank You!

Thank you, as always, for your continued trust in Alpha Financial Partners. We're grateful for your loyalty and confidence in our team as we work together toward your financial goals.

Stay connected with us on social media for updates, insights, and educational content on financial planning, retirement strategies, and 401(k) guidance. You can also visit us anytime at www.alphaky.com. We hope you find our resources valuable and informative!

-Marc, Greg, Aaron, Megan, Emily, Joe, and Margaret