FORTITUDE CAPITAL MANAGEMENT

Independence · Integrity · Insight

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"The administration of government, like the office of a trustee, must be conducted for the benefit of those entrusted to one's care, not of those to whom it is entrusted." – Cicero

"Experience teaches us that long-term investors should not try to make short-term market calls." – David Kelly, Chief Global Strategist at JP Morgan Asset Management

Fellow Investors:

Occasionally, a clear example presents itself that demonstrates the value of patience and persistence to the long-term investor. The second quarter of 2025 was just one of those times. In the first few days of the quarter in April, after the Administration made its tariff announcement, the equity markets declined sharply with the S&P 500 approaching bear market levels and the Nasdaq Composite briefly touched that level by being down 20%. By mid-May the S&P had moved into positive territory for the year and ended the quarter at a record. Anyone reacting to the quick decline by selling out of their equity positions in panic likely missed the rapid recovery and the performance beyond. There are always uncertainties and unknowns in the world, including war, politics and markets.

Something we do know is the recent performance of the markets for the past quarter and year to date. The S&P 500 index increased 5.5% for the first six months of the year (total return for the year through the quarter end was 6.2%). The last ten days of the quarter saw a gain of 4.1%. The S&P hit its low point for the year on April 8 when it was down 15% for the year. As we have experienced over the last several years, a handful of very large tech stocks have an outsized influence on the index. The equal weight S&P 500 was up about 4% for the first six months while being down less than 13% at the low point. Small-cap equities continue to struggle in the uncertain environment. The Russell 2000 was down 2.5% for the first six months and at the low on April 8 it was down 21%. The uncertainty of tariffs and the cost of capital weighs more on small and mid-caps. Foreign equities did much better than US stocks with the MSCI ACWI up 17.4% for the year, but about half of that return is due to a decline in the value of the dollar. It is important to remember that investing in non-US stocks adds currency risk to the picture.

Interest rates generally declined over the first six months, with the 2-year treasury making a sharper decline reflecting a lessening concern regarding inflation. For the first half of the year, the two-year treasury rate declined about a half percent to 3.78%. The ten-year declined a more modest 0.28% to 4.30%. The yield curve therefore steepened, and the 30-year mortgage rate fell to 6.7%. The latest inflation reading (May 31, 2025) was 2.35% out of the Bureau of Labor Statistics.

The latest reads on employment from the Labor Department were positive, beating expectations, although jobs added continued to be heavy in government and healthcare. The prior two months' were also revised up and the unemployment rate ticked down to 4.1%, but it should be noted that there was a drop in the labor force affecting the calculation.

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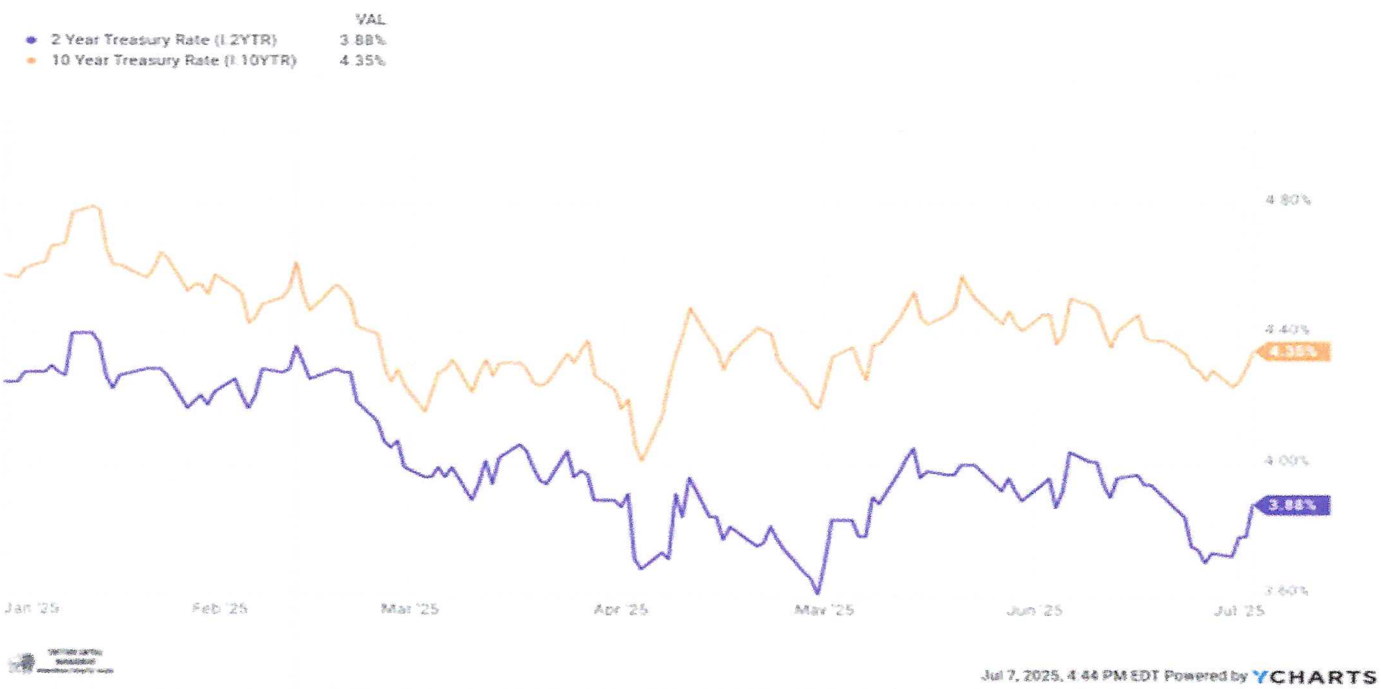

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The charts above show both the year-to-date equity markets and treasury rates. The first chart shows the levels of the S&P 500, the Russell 2000 and the MSCI ACWI, the latter is an index of foreign stocks. The April decline and subsequent recovery is clearly evident. What is not evident from the performance of the S&P 500 is the continued outperformance of growth relative to value stocks. For the second quarter, the growth side of the S&P 500 returned twice that of the value components. Of course, growth also suffered more during the beginning of the quarter following "liberation day". In the lower chart shows the ups and downs of the treasury rates and the gradual widening of the gap between the 2-year and 10-year.

We frequently mention various aspects of investor behavior and the psychology of investing. This most recent quarter gave us all a test as to whether the risk tolerance chosen for our portfolios matched our perception of the risk we are taking with our portfolios. A rapid 15% to 20% sell-off in the equity markets may give us the perception that we are taking a different level of risk than we can tolerate, but the mistake would have been reacting by locking in lower prices by selling, perhaps generating taxable capital gains and then left wondering what sign we will need to re-enter. Yes, it was unusual. The second quarter of 2025 was the first quarter since 1938 that the S&P was both up and down by 10% in the same quarter. Understanding the risks you are taking and the possible volatility inherent with that level of risk will keep your eyes looking at the horizon and not be sidetracked by the inevitable distractions. Experience can be a valuable teacher.

Sincerely,

Erik Ford

Jason Marrs

The S&P 500 Index, or the Standard & Poor's 500 Index, is a market-capitalization-weighted index of the 500 largest publicly traded companies in the U.S. It is not an exact list of the top 500 U.S. companies by market capitalization because there are other criteria to be included in the index.

The S&P 500 Equal Weight Index (EWI) is an equal-weight version of the popular S&P 500 Index. Although both indexes are comprised of the same stocks, the different weighting schemes result in two indexes with different properties and different benefits for investors.

The term Russell 2000 Index refers to a stock market index that measures the performance of the 2,000 smaller companies included in the Russell 3000 Index. The Russell 3000 is a capitalization weighted index representing approximately 96% of the investable U.S. equity market.

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The Morgan Stanley Capital International All Country World Index Ex-U.S. (MSCI ACWI Ex-U.S.) is a market-capitalization-weighted index maintained by Morgan Stanley Capital International (MSCI). It is designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies. The MSCI ACWI Ex-U.S. includes both developed and emerging markets.