Capital Markets Commentary and Quarterly Report: 2nd Quarter 2025

Capital Markets Highlights

After declining by -4.27% in Q1, the stock market[1] rallied by +10.94% in Q2, ending the quarter at a record high. For the year-to-date through June 30, the market was up +6.20%.

Q2 was a wild ride for the market, falling more than -12% in the days following the announcement of the administration's reciprocal tariffs on April 2 and then regaining much of the lost ground on April 9, rising by +9.5%, when the administration announced a 90-day postponement. By the end of the quarter, the S&P had rallied close to +25% from its April lows, led by stocks in the Technology, Industrial, Communications, and Consumer Discretionary sectors. The worst preforming sectors in the quarter were Energy, Health Care, Real Estate and Consumer Staples, many of the areas that led in the first quarter.

In summary, it was a very solid quarter for stocks despite a list of significant economic and geopolitical uncertainties that might have easily explained a less positive result.

The stock market action in the second quarter is a striking example and warning about the difficulties of trying to time the market. It was a period of tremendous headline risk and market pessimism during the market's decline. But as is often the case, stocks reversed course on a dime while much of the uncertainty continues. As we often suggest, the best course of action is to have a thoughtful, all-weather investment plan and asset allocation and stay with it through the market's ups and downs.

The bond market [2]was also very volatile, but by the quarter's end, fixed income performance was generally positive with the notable exceptions of some municipal bonds and longer dated Treasuries. Bond yields moved substantially higher in the aftermath of the April reciprocal tariffs announcements and on concerns about the budget and tax negotiations. Short-term bonds drifted lower and longer-term bonds moved back to levels at the start of the quarter as the fears subsided. On June 30, the 10-year U.S. Treasury yield was 4.23% compared to 4.21% on March 31, and 4.57% at the start of the year.

Matrix's equity portfolios performed well in Q2 and for the year-to-date through June 30[3]. The Matrix Dividend Income (MDI) portfolio had another solid quarter, building on its positive Q1 results. Our Large Cap Value (LCV) portfolio, with more Technology exposure, fully participated in the market's rebound and ended the quarter solidly higher for the first six months of the year.

Our Thoughts Going Into Q3

At the start of the year, we expected that 2025 would be a very volatile year for the stock market but that ultimately stocks would have a positive year, in-line with historic high single digit returns. Halfway through the year we

[1]All references to the stock market are the S&P 500® unless otherwise noted
[2] All references to bond market performance are the Bloomberg U.S Treasury Intermediate Index
[3] All references to Matrix performance (MDI & LCV) are net of fees.

continue to believe that is the most likely outcome. After two consecutive years, 2023 and 2024, of +20% returns and a half year in 2025 of +6% gains, we expect smaller but further gains for the balance of the year with significant volatility along the way and sector rotations.

The market has been remarkably resilient in the face of greater risks than normal. The administration's confrontational style in publicly negotiating complicated tariff deals, a controversial budget and tax bill with wide ranging implications on spending priorities and the federal deficit and dealing with wars in Europe and the Middle East, has been unsettling to markets and led to manic swings. We expect and are prepared for more volatility.

On the plus side, the economic backdrop remains positive. The latest unemployment rate was a solid 4.1%[4]. From our perspective the economy is slowing but still growing. While inflation remains above the Federal Reserve's 2% target, it has settled into a non-threatening mid-2% range with the worst fears about a step-up in inflation from tariffs yet to be realized. The Fed is waiting to see if the inflation bump from tariffs materializes this summer and is signaling that if it doesn't, it is ready to cut rates in the fall. All positive.

When we think about what could go wrong in the next six months, besides the obvious geopolitical concerns, we think the biggest risk continues to be the ultimate resolution of the reciprocal tariff negotiations. While we are hopeful that the administration reaches agreements that accomplish its objectives while not impairing U.S. companies and the U.S. economy, this is clearly not a given. There is a reasonable likelihood that there will be some short-term bumps and setbacks along the way which could hurt the economy and the equity market.

Beyond our tariff concerns, we also believe that high stock valuations may put a ceiling on upside performance and leave little margin of safety for disappointing earnings or outlooks. Employment while still solid is clearly slowing. Job anxiety impacts consumer behavior and the latest economic data shows a meaningful drop in consumer spending[5]. We think earnings expectations for companies are likely to be revised lower as the year progresses, reflecting lower profit margins from higher costs and a lid on the ability to raise prices[6]. In the earnings season about to get underway we believe more companies than usual may provide cautious outlooks and expect the market reaction to be severe for companies with high valuations that report results or guidance below expectations.

We expect volatility to persist as we enter the second half of the year. Sector rotation is likely to continue, with Q2's leaders potentially cooling off and some of the quarter's laggards poised for a rebound. The market remains headline-driven, with the policy environment-both fiscal and geopolitical-continuing to shift in unpredictable ways. We are highly attuned to the fluidity of the current economic situation and the emotional state of the markets. We continue to evaluate the risk reward in all our current positions and are building a list of names to add to our portfolios if they reach our buy points.

We continued to be more active than usual in Q2 as we were in Q1, selling or trimming some stocks that have done very well and adding to some laggards and buying new positions during market sell-offs. So far that has

[4] June 2025 Unemployment data released by the Bureau of Labor Statistics (BLS) on July 3, 2025

[5] The latest figures from the Commerce Department's Bureau of Economic Analysis show a 0.1% decrease in May, following a 0.2% increase in April.

[6] WSJ June 30, 2025, From Tariff Pain to Record Highs, a Wild Quarter on Wall Street
Analysts polled by FactSet expect companies in the S&P 500® to report earnings growth of 9.4% this year, below the 14.3% they expected in January.

been a good strategy in 2025. In our last quarterly letter, written in early April during the height of the tariff panic sell-off, we said that we saw some of the best investment opportunities in several years and we invested much of the cash reserves raised during market rallies.

Please know we are sensitive to the tax implications of our higher-than-normal trading activity and the realized gains taken this year. For taxable accounts we factor capital gains into our investment decision making process, but our ultimate focus is to grow and protect assets and when stocks become richly priced it can make sense to lock in the profit even after taking the tax impact into account. As the year unfolds, we will do our best to offset these gains with losses to the extent that it makes economic sense while keeping the portfolio's appreciation potential intact.

As stated earlier, Q2 was a good reminder of why market timing is not a good investment strategy. There was a lot to be worried about, but events and market sentiment move quickly and in unexpected ways.

Large Cap Value Strategy

The Matrix Large Cap Value Strategy performed well in the second quarter, rising by low double digits. This performance was modestly below the S&P 500's gain and well ahead of the Russell 1000® Value Index. For the first six months of 2025, the strategy is up in the mid to high single digits, ahead of the S&P 500® and the Russell 1000® Value Index.

Sector leadership shifted notably from Q1 to Q2. Portfolio gains were led by Financial Services, Technology, Communication Services, Industrials, and Consumer Discretionary. On the other hand, Health Care and Consumer Staples, which were strong contributors in Q1, lagged during the quarter.

We were very active during the quarter, deploying cash built up in Q1 and repositioning the portfolio:

We started a new position in Applied Materials (AMAT), a global supplier of equipment used in the fabrication of semiconductors. Surging demand for advanced chips that fuel Artificial Intelligence (AI), and high-performance computing is driving a significant investment in semiconductor manufacturing equipment. AMAT is well positioned to capitalize on this trend. The company has a track record of strong performance, consistently generating significant cash flow from operations, allowing it to invest in R&D and return value to shareholders through buybacks and dividends. This is an example of a company that we had previously done the work on hoping for an opportunity to add it to the LCV portfolio on price weakness. We started our position after the April 2nd reciprocal tariff announcements caused a sharp, short-lived market pullback.

For those with cash, late in the quarter, we reestablished our position in Fiserv (FI) after exiting our shares in Q1 at much higher levels. The stock dropped sharply when FI provided disappointing guidance on its last earnings call. After speaking with the company, we thought the share price decline was overdone, and the lower price offered a favorable risk/reward profile. We also added to existing positions in Comcast, Federal Express, Generac, Lowe's, PayPal, PepsiCo, and Thermo Fisher Scientific on price weakness.

We fully exited the positions in American Electric Power, Dollar General, and UnitedHealth Group. American Electric Power and Dollar General had reached our target valuations. In the case of Dollar General in a very short period. We sold UnitedHealth Group to free up funds for other attractive investment opportunities and because of our concerns that their business model was facing a more difficult future. In hindsight this was a timely sale as the shares dropped more than 50% from our sale price when the company reported a big earnings miss in mid-April due to higher than anticipated medical claims costs and then a few weeks later in May suspended earnings guidance and announced the departure of its CEO for personal reasons. We trimmed positions in Bank of New York Mellon, Cisco Systems, and TE Connectivity on strength.

On June 30, the LCV portfolios' largest sector weightings are in Technology, Financial Services, Communications Services, and Health Care.

The LCV portfolio's companies' businesses are performing well, and their valuations remain attractive. More than 96% of our companies beat earnings estimates in the most recent quarter compared to the S&P 500's 77.5% beat rate. It had an average P/E multiple on estimated 2026 earnings of 15.7x, versus the S&P 500® multiple of 20.9x.

Looking ahead, we expect continued volatility but believe the portfolio is well positioned to navigate a wide range of market outcomes.

Dividend Income Strategy

Following its good start to the year, the Matrix Dividend Income Strategy posted another solid quarter, up in the mid-single digits. This performance was ahead of the Russell 1000® Value Index but trailed the S&P 500®. For the first half of the year through June 30, the portfolio is up high single digits and has outperformed both the Russell 1000® Value and S&P Indexes. Importantly, the strategy continued to deliver strong results with less volatility than the broader equity market.

Portfolio gains in Q2 were driven by Financials and Technology, while Health Care, Consumer Staples, and Utilities underperformed after leading in the first quarter.

During the quarter we added to several high-quality names on weakness, including Comcast, Morgan Stanley, PepsiCo, PNC Financial, Qualcomm, Starbucks, Target, Texas Instruments, and US Bancorp.

We scaled back positions in Bank of New York Mellon and Cisco Systems on price strength. We also sold Pfizer, a disappointing investment, as we had concerns about management's ability to drive earnings growth under the administration's healthcare policy regarding vaccines.

The MDI portfolio's largest sector weights at the end of Q2 are in Financial Services, Technology, Consumer Discretionary and Health Care.

Strong financial performance allowed seven of the portfolio holdings to increase their dividends in Q2 by an average of 5.9%. In the first six months of the year through June 30, fifteen portfolio companies have increased their dividends by 6.2%. Twenty-two of our 23 portfolio companies have raised their dividends in the past year. The total portfolio dividend increase was 5.9% over this period. On average, our portfolio companies have raised their dividends for 17 consecutive years and maintained or grown them for 29 years.

On June 30, the portfolio yielded 2.90%, which compares favorably with the 1.24% yield on the S&P 500® and the 1.97% yield on the Russell 1000® Value. It had an average P/E multiple on estimated 2026 earnings of 15.5x, versus the S&P 500's multiple of 20.9x.

We remain confident that the Dividend Income Strategy will continue to deliver on its objectives of generating high current and growing income, capital appreciation over time, and downside protection, even in challenging markets. We look for the portfolio to continue making steady progress in the back half of 2025.

Fixed Income

Bond market volatility was high during the quarter, driven by tariff concerns, budget negotiations, inflation readings, and speculation about future Fed policy. Despite this, fixed income portfolios delivered positive returns in Q2 as short-term yields declined slightly. Municipal bonds and longer dated Treasuries underperformed the rest of the market. For the first six months of 2025, fixed income strategies generally returned low to mid-single digits.

Matrix fixed income portfolios were positive in the quarter and first half of the year, generally performing in-line with our benchmarks having similar duration. We continue to emphasize shorter-term maturities and high credit quality across our portfolios, including U.S. Treasuries, agencies, municipals, and investment-grade corporate bonds.

Interest rate movements in the municipal bond market vs. the U.S. Treasury market in the past 6 months have resulted in tax-free bonds offering higher tax adjusted yields vs. U.S. Treasuries than usual for those in higher tax brackets. For taxable bond accounts, we have started building more exposure to tax-free bonds.

We remain cautious on long-term bonds, where we see the risk/reward as unattractive given the potential for renewed inflation pressure and rising rates. We expect short-term fixed income to continue delivering positive, steady returns and to provide stability during periods of equity market volatility.

Balanced Accounts

We have actively managed asset allocations across our balanced portfolios this year. We reduced our equity overweight into market strength in Q1 and then during the March/April stock market correction, we used the cash raised to selectively add to high-quality stocks. After the stock market's rally later in Q2, we have been trimming back equity exposure again.

While we believe stocks continue to offer reasonable long-term upside, the balance of risks has shifted somewhat with overall equity valuations at a record high. We see better value in fixed income than we did 12 months ago and have adjusted our positioning accordingly. As a result, we are reducing our large overweight to stocks to a more modest overweight. We have been less active in making some of these changes in the asset allocation for taxable accounts as we balance capital gains implications against more significant changes.

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While these remain volatile and uncertain times, we are confident in how our portfolios are positioned. Our disciplined approach, valuation focus, and willingness to act opportunistically have served us well through past cycles and are again proving effective. We appreciate the trust you placed in Matrix Asset Advisors and are always available to discuss your portfolio or the markets in greater detail.

Disclosure:

Definitions:

The S&P500® Index *is a broad-based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. You cannot invest directly in an index.*
The Russell 1000® Value Index *measures the performance of those Russell 1000 Index® companies with lower price-to-book ratios and lower forecasted growth values.*
Fixed Income *type of investment security that pays investors fixed interest or dividend payments until their maturity date.*
Inflation *is a sustained increase in the general level of prices for goods and services.*
Financials *a section of the economy, is made up of firms and institutions that provide financial services to commercial and retail customers.*
Health Care *all businesses are involved in the provision and coordination of medical and related goods and services.*
Information Technology *businesses that sell goods and services in electronics, software, computers, artificial intelligence, and other industries related to information technology (I.T.).*
Industrials *Companies that manufacture machinery, handheld tools, and industrial products. This sector also includes aerospace and defense firms as well as companies engaged in transportation and logistics services.*
Energy Sector *is the totality of all the industries involved in the production and sale of energy, including fuel extraction, manufacturing, refining and distribution.*
Consumer Discretionary *an economic sector classification of non-essential consumer goods and services.*
Communication Services *includes companies that sell phone and internet services via traditional landline, broadband, or wireless. The communications sector also includes companies that create and produce movies, television shows, and other content.*
Federal Reserve *is the central banking system of the United States. It was created on December 23, 1913, with the enactment of the Federal Reserve Act, after a series of financial panics led to the desire for central control of the monetary system to alleviate financial crises.*
Economic Growth *an increase in the production of economic goods and services, compared from one period of time to another*

Balanced Accounts *combines asset classes in a portfolio in an attempt to balance risk and return. Portfolios are divided between stocks and bonds, either equally or with a slight tilt, such as 60% in stocks and 40% in bonds. Balanced portfolios may also maintain a small cash or money market component for liquidity purposes.*
Utility Sector *companies that provide electricity, natural gas, water, sewage, and other services to homes and businesses.*
Corporate Profitability *is a measure of an organization's profit relative to its expenses.*
Volatility *is the degree of variation of a trading price series over time, usually measured by the standard deviation of logarithmic returns.*
U.S. Governments *(Treasuries) are debt obligations issued by the United States Government and secured by the full faith and credit (the power to tax and borrow) of the United States.*
Municipal Bond *is a bond issued by state or local governments or entities they create such as authorities and special districts. In the United States, interest income received by holders of municipal bonds is often, but not always, exempt from federal and state income taxation.*
10-year Treasury Yield *the yield that the government pays investors that purchase the specific security.*
Net Rate of Return *is the total rate of return on an investment after the deduction of any fees, commissions, or expenses. Often quoted as the rate of return on an investment in strategy marketing materials. Returns for more than a year are often annualized, which provides the geometric average return of an investment for each year over a given time period.*
Interest rates *are the amount a lender charges a borrower and is a percentage of the principal—the amount loaned.*
Operating Results *show what the company has earned in connection with its business activities before deduction of interest and taxes.*
Dividend Yield a financial ratio that tells you the percentage of a company's share price that it pays out in dividends each year.
Maturities *are the agreed-upon dates on which the investment ends, often triggering the repayment of a loan or bond, the payment of a commodity or cash payment, or some other payment or settlement term.*
Consumer Spending *the value of the goods and services purchased by, or on the behalf of, U.S. residents.*
Short Term Bonds *are bonds that will pay back your principal, or mature, quickly, typically within four years.*
Intermediate Term Bonds *issued with maturity dates that are between two and 10 years.*
Long Term Bonds *maturities of between 10 years and 30 years.*
Unemployment Rate *represents the number of unemployed people as a percentage of the labor force.*
Yield Curve is a line that plots yields, or interest rates, of bonds that have equal credit quality but differing maturity dates.
Unemployment Rate *represents the number of unemployed people as a percentage of the labor force.*
P/E Multiples *the ratio for valuing a company that measures its current share price relative to its per-share earnings.*
Corporate Profitability *is a measure of an organization's profit relative to its expenses.*
Bloomberg Intermediate Aggregate Index *measures the performance of investment grade, U.S. dollar-denominated, fixed- rate taxable securities with maturities of 1-10 years, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS.*
Tariff *is a tax imposed by a government on goods imported from another country.*
Deficit *is when expenses exceed revenues, or when a person, company, or government spends more than it receives in a given period.*
Consumer staples *are products that people buy regularly, regardless of their financial situation or the economy.*
Risk/Reward ratio *is a measure of how much you stand to profit for every dollar you risk on a trade.*
Tax- Exempt *some or all of a person's or business's income is free from federal, state, or local tax.*
-to-book ratios, higher I/B/E/S forecast medium term (2 year) growth and higher sales per share historical growth (5 years).
Capital Appreciation *is an increase in the price or value of assets.*
Operating Performance *measures results relative to the assets used to achieve those results.*
Realized capital gain *occurs when an investment is sold for more than its purchase price, and it becomes a taxable event.*
Geopolitical *is the study of how political, geographical, and economic factors influence international relations and foreign policy.*
Capital Gains *taxes levied on earnings made from the sale of assets, like stocks or real estate.*
Bloomberg US Aggregate Bond Index *is a broad base, market capitalization -weighted bond market index representing intermediate term investment grade bonds traded in the United States. Investors frequently use the index as a stand-in for measuring the performance of the US bond market.*
Treasury Securities *often simply called Treasuries, are debt obligations issued by the United States Government and secured by the full faith and credit (the power to tax and borrow) of the United States.*
Taxable accounts *are accounts where the normal IRS tax rules apply. In a taxable account, you pay taxes on interest, dividends, and capital gains, in the year in which you earn them.*
All Weather Investment Strategy *aims to provide consistent returns across various economic conditions by diversifying across different asset classes. It's designed to be robust and minimize losses during both bull and bear markets, as well as periods of inflation and deflation.*
Asset Allocation *is an investment strategy that involves dividing an investment portfolio among different asset classes, like stocks, bonds, and cash, to optimize returns while managing risk.*
Sector Rotation *is an investment strategy where investors shift their investments between different sectors of the stock market, such as technology, energy, or healthcare, based on the current stage of the economic cycle.*
Stock Valuation *is the process of determining the worth of a company's stock, essentially calculating how much an investor should pay for a share.*

Earnings Expectations *refer to the projected future financial performance of a company, specifically its profits, typically expressed as earnings per share (EPS) for a specific period, such as a quarter or a year.*
Profit Margin *the percentage of revenue left after paying business expenses.*
Bloomberg Treasury Intermediate Index *measures the performance of U.S. Treasury bonds with maturities between one and ten years, according to Bloomberg.*