

Market Outlook

Still Exceptional, But No Longer Alone

Q3 2025



DecisionMap
WEALTH MANAGEMENT

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An aerial photograph of a river delta, likely the Mississippi River, showing a complex network of channels and a large body of water. The image is overlaid with a semi-transparent blue filter. The text 'Q2 2025 Recap' is positioned in the lower-left quadrant of the image.

Q2 2025 Recap

Market Standouts and Laggards

Q2 2025 Recap

U.S.-Related

ETF	Description	Q2	YTD
SPY	S&P 500	10.78%	6.05%
DIA	Dow 30	5.38%	4.38%
QQQ	Nasdaq 100	17.77%	8.19%
IJH	S&P Midcap 400	6.63%	0.12%
RSP	S&P 500 Eq Weight	5.34%	4.64%
QQQE	Nasdaq 100 Eq Weight	12.92%	9.75%
IWB	Russell 1000	10.99%	5.96%
IWM	Russell 2000	8.47%	-1.85%
IWV	Russell 3000	10.79%	5.56%

Factor

ETF	Description	Q2	YTD
IWV	S&P 500 Growth	18.74%	8.69%
IVE	S&P 500 Value	2.98%	3.22%
IJK	Midcap 400 Growth	9.43%	0.37%
IJJ	Midcap 400 Value	3.66%	-0.31%
IJT	Smallcap 600 Growth	7.10%	-1.30%
IJS	Smallcap 600 Value	2.51%	-7.66%
DVY	DJ Dividend	-0.16%	2.92%

Global

ETF	Description	Q2	YTD
EWA	Australia	14.01%	12.00%
EWZ	Brazil	13.69%	30.56%
EWG	Canada	14.14%	15.41%
MCHI	China	2.29%	18.75%
EWQ	Franch	9.99%	22.01%
EWG	Germany	16.00%	35.18%
EWH	Hong Kong	15.88%	21.79%
INDA	India	8.16%	5.78%
EWI	Italy	15.76%	36.19%
EWJ	Japan	10.23%	12.63%
EWV	Mexico	20.98%	31.68%
EWP	Spain	16.99%	43.41%
EIS	Israel	28.37%	23.88%
EWU	UK	8.18%	19.57%

EFA	EAFE	11.27%	20.27%
EEM	Emerging Mkts	11.46%	16.47%
IOO	Global 100	12.74%	7.72%
VT	All World	11.37%	10.28%
CWI	All World ex U.S.	11.99%	18.56%

Sector

ETF	Description	Q2	YTD
XLY	Cons Disc	10.30%	-2.66%
XLP	Cons Stap	-0.18%	4.26%
XLE	Energy	-8.51%	0.59%
XLF	Financials	5.50%	9.13%
XLV	Health Care	-7.24%	-1.17%
XLI	Industrials	12.89%	12.65%
XLB	Materials	2.65%	5.39%
XLRE	Real Estate	-0.13%	3.42%
XLK	Technology	22.84%	9.28%
XLC	Comm Services	12.80%	12.71%
XLU	Utilities	4.28%	9.41%
SMH	Semis	31.88%	15.16%

Commodities

ETF	Description	Q2	YTD
DBC	Commodities	-3.07%	2.01%
DBA	Agric Commod.	-0.72%	-1.65%
USO	Oil	-5.46%	-3.23%
UNG	Nat. Gas	-29.29%	-9.10%
GLD	Gold	5.79%	25.90%
SLV	Silver	5.87%	24.61%

Rates

ETF	Description	Q2	YTD
SHY	1-3 Yr Treasuries	1.14%	2.72%
IEF	7-10 Yr Treasuries	1.40%	5.24%
TLT	20+ Yr Treasuries	-1.99%	2.85%
AGG	Aggregate Bond	1.27%	4.05%
BND	Total Bond Market	1.23%	4.05%
TIP	T.I.P.S.	0.43%	4.71%

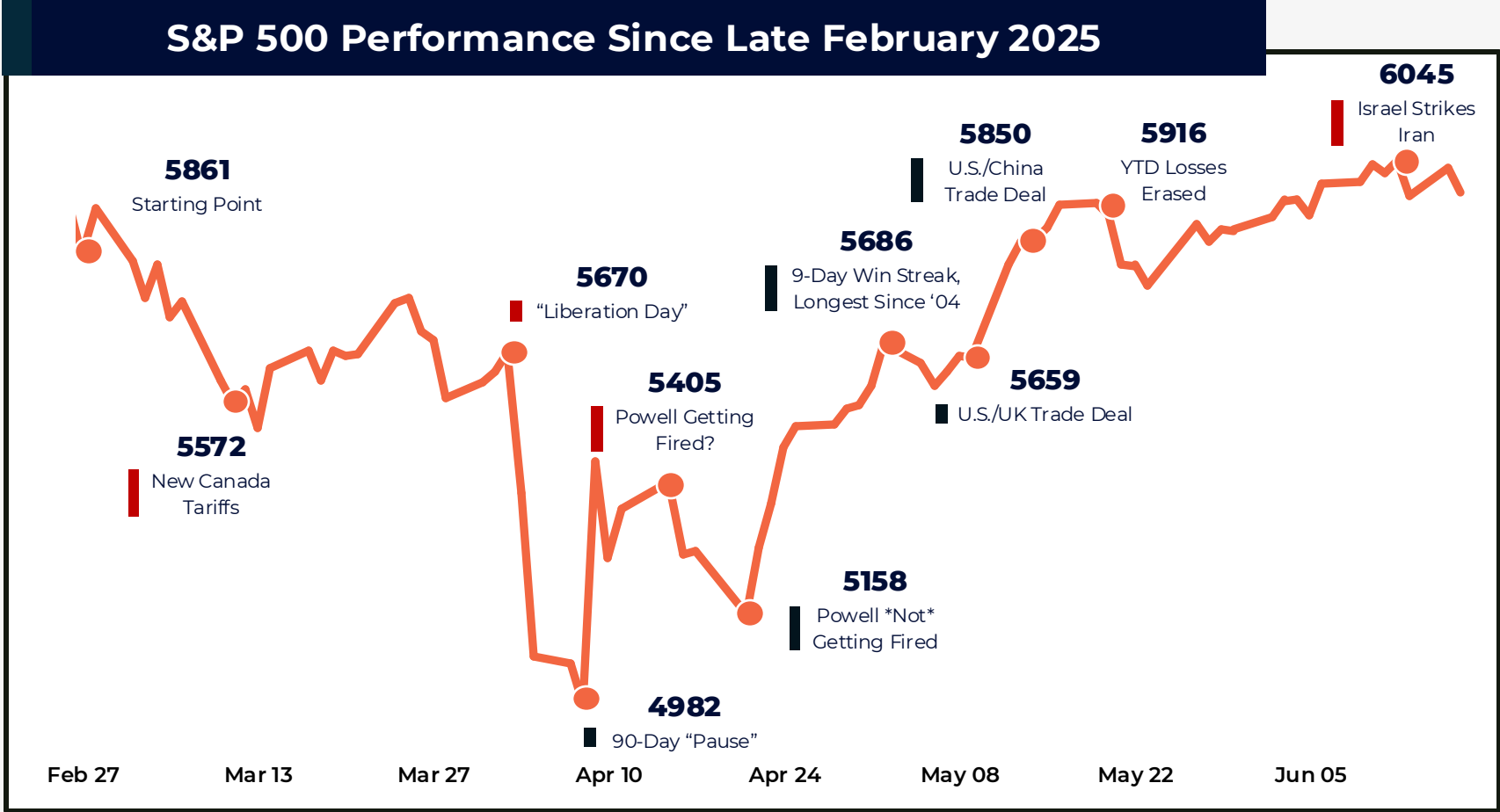
Currencies

ETF	Description	Q2	YTD
FXB	British Pound	6.94%	11.12%
FXE	Euro	9.19%	14.45%
FXV	Yen	3.97%	9.08%
IBIT	Bitcoin	30.76%	15.38%
DXY	Dollar	-7.12%	-10.79%

55 Days From Panic to New Highs

Q2 2025 Recap

After sentiment bottomed out in early April, markets have steadily advanced on a **consistent flow of mildly positive news**, with investors responding to stabilization rather than standout data.



Source: Bloomberg, Nasdaq,

Uncertainty Was Elevated

Q2 2025 Recap

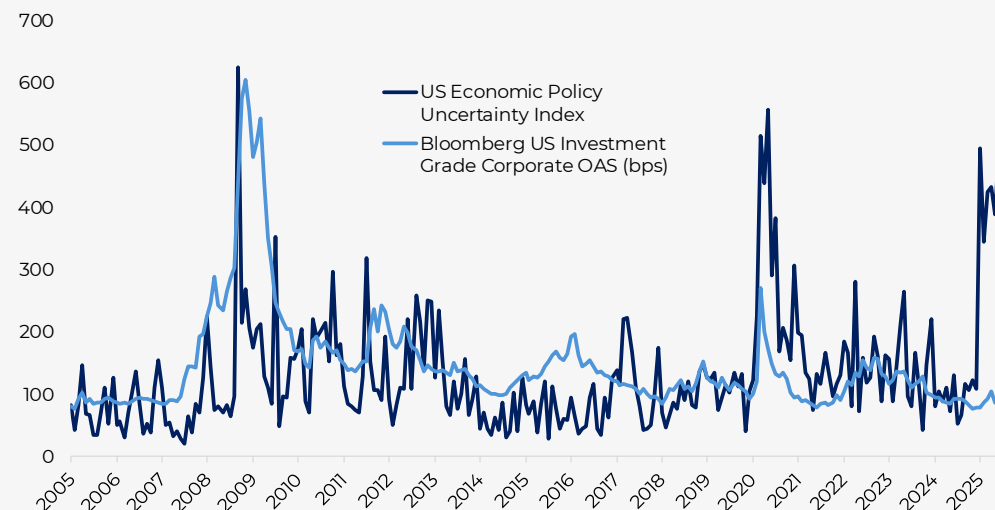
Bond Markets Stay Calm Despite Rising Economic Uncertainty

- The persistent decline in the U.S. advance trade balance since 2020 underscores ongoing volatility and fragility in global trade flows, with recent rebounds likely reflecting only temporary adjustments rather than a sustained recovery.

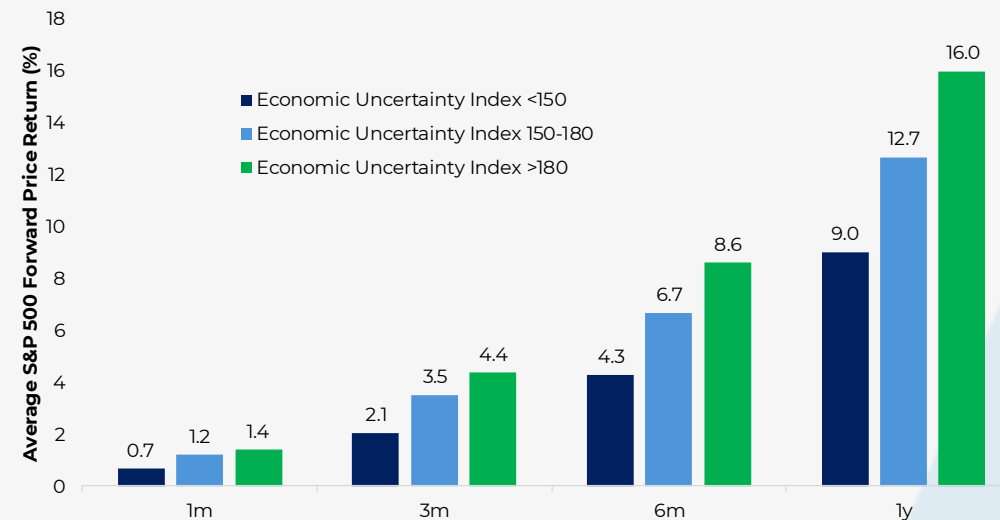
Forward Returns Have Historically Been High After Peak Uncertainty

- Historically, periods of elevated uncertainty **have often coincided with market bottoms** rather than tops. Forward returns following spikes in the Economic Policy Uncertainty Index **tend to be above average**, as markets begin to price in clarity and risk premiums normalize.

Bond Spreads Are Disconnected From Economic Uncertainty



Returns Rise With The Economic Uncertainty Index (Since 1985)

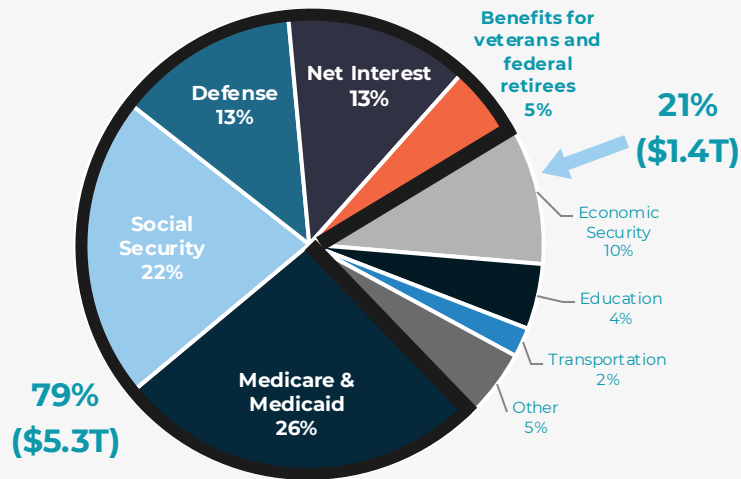


DOGE's Bark Was Louder Than Its Bite

Q2 2025 Recap

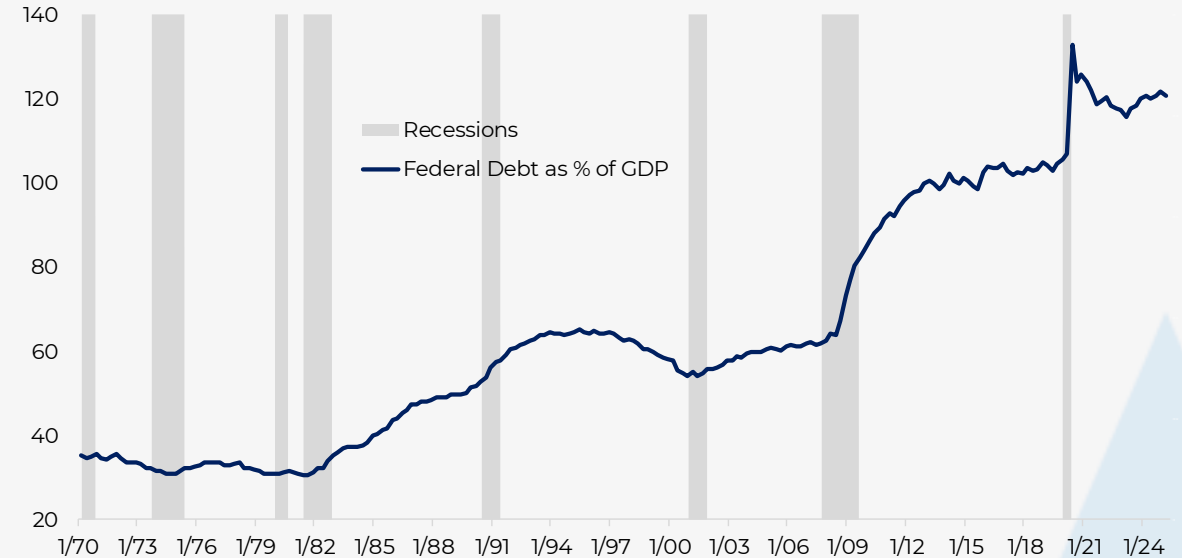
79% of Federal Budget was Untouchable by DOGE

2024 Federal Spending



- The Department of Government Efficiency (DOGE) can only target **\$1.4T—or 21% of the federal budget**—since entitlements, defense, and key fiscal items are off-limits, but actual savings have fallen well short of that.
- DOGE claims to have saved \$190B **but only \$88B of savings have been verified with receipts.**

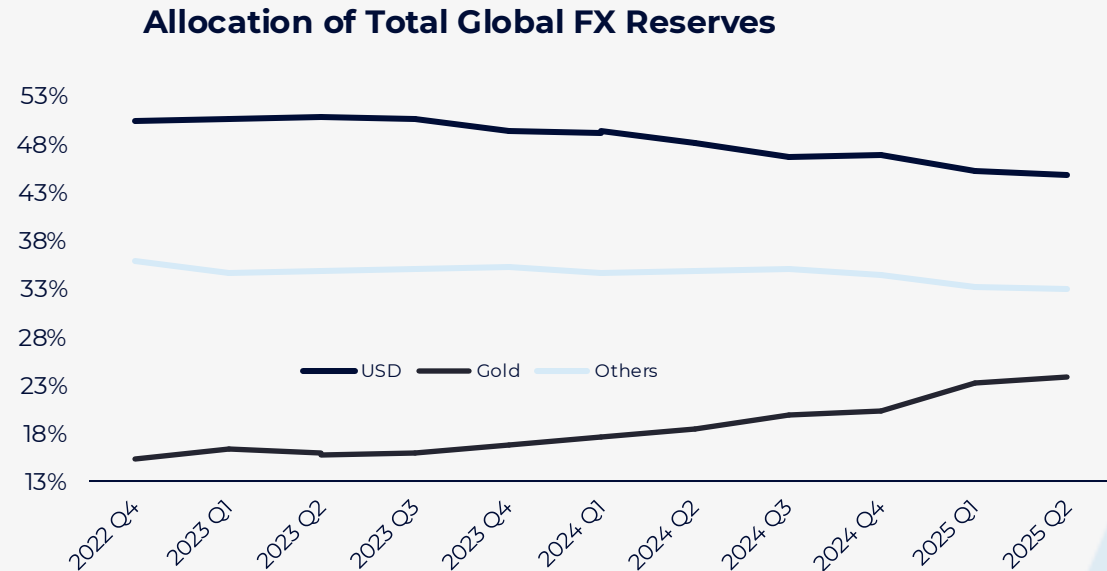
US Debt as a % of GDP near highest level in modern history ex COVID



- Fiscally, this remains a high-priority issue as deficit to GDP and debt/GDP for the U.S. are at **historically high levels** (excluding COVID).
- Given DOGE was able to **only impact 21% of the total budget**, and realistically cut materially less, **fiscal concerns will continue to stay top of mind.**

Central Banks Mixing Up Their Reserves

Q2 2025 Recap



Central Banks Are Diversifying Their Reserves Away From Only USD

- The U.S. dollar index has **fallen 10.7% year-to-date**, reflecting concerns about fiscal deficits, trade disputes, and the growing appeal of non-dollar assets.
- Annual central bank **precious metals purchases have quadrupled** since 2020, driven by countries like China, Poland, and India.

An aerial photograph of a river delta, likely the Mississippi River, showing a complex network of channels and distributaries. The land is divided into a patchwork of agricultural fields. The entire image is covered with a semi-transparent blue overlay.

2nd Half Outlook 2025

2H 2025 Outlook Summary

I. We Are in Early Innings of the AI Supercycle

The AI sector is poised to lead the next phase of market growth.

II. Broad Market Strength Fuels Bullish Sentiment

A broad-based rally across sectors reinforces the bullish outlook for risk assets.

III. U.S. Dollar And U.S. Rates Relationship Is In A New Regime

The dollar will be driven more by trade policy whereas rates will be driven more by fiscal, growth, and inflation.

IV. Dollar Weakness Giving Support to High Equity Valuations

Historically, a weaker dollar provides a boost to global equities.

V. Yield Curve Steepening to be Driven by Dovish Fed vs. Inflation/Growth/Fiscal

The yield curve will likely steepen as Trump's agenda and a dovish Fed meet inflation and fiscal pressure. Financials should benefit.

VI. Diversification Remains Key as Global Equities Stay Strong

International equities still offer potential, making diversification essential for portfolios.

Valuations Are High, But There Is Some Rationale

2H 2025 Outlook

No Matter How You Dice It Up, Valuations Are High

- If S&P 500 earnings meet consensus earnings estimates at the current high multiple, it indicates **only a 2% additional rise** in the S&P 500 index for the remainder of the year.
- Higher uncertainty for longer could put pressure not only on rest of year earnings, but also on the valuation multiple investors are willing to **pay for the S&P 500**. Any slippage in multiple or earnings could **hurt returns**.

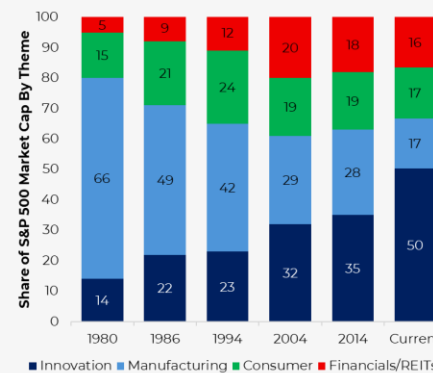
BUT: The Index Has Changed Over The Years

- The index, which used to be heavily manufacturing driven, has become asset light with tech and communication services paving the way.
- Company's balance sheets are at extraordinarily healthy levels historically indicated by low leverage and high credit ratings – justifying a higher multiple.

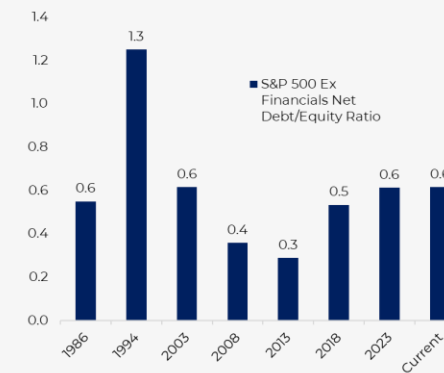
S&P 500 Sensitivity Analysis: EPS & Multiple

		Forward 12m EPS Scenarios		
		Recession Scenario (-10% From Consensus)	Consensus	Boom (+10% From Consensus)
		\$253	\$281	\$309
Estimated NTM EPS Multiple	Scenario			
	22.6x December 2024	-8% 5718	2% 6351	12% 6983
	20.1x 5y Avg	-18% 5085	-9% 5648	0% 6211
	18.6x 10y Avg	-24% 4706	-16% 5227	-8% 5747
	16.2x 20y Avg	-34% 4099	-27% 4552	-20% 5006
	13.7x 2018 Low	-44% 3466	-38% 3850	-32% 4233

From High Asset Heavy to Asset Light



Low Leverage



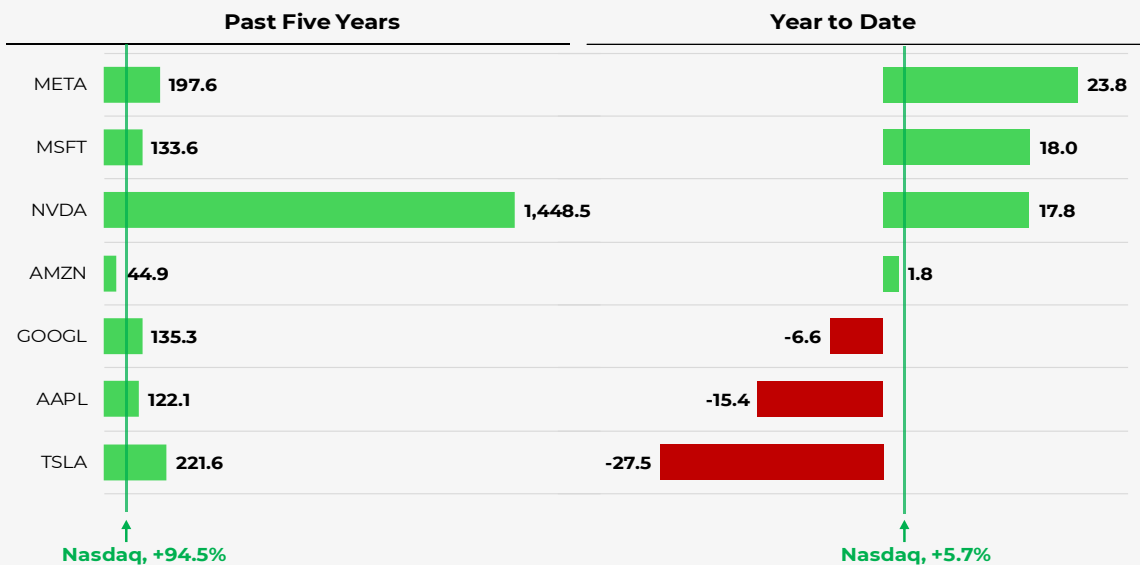
High Quality



Mag 7 Revamp – The AI Race Matters Most

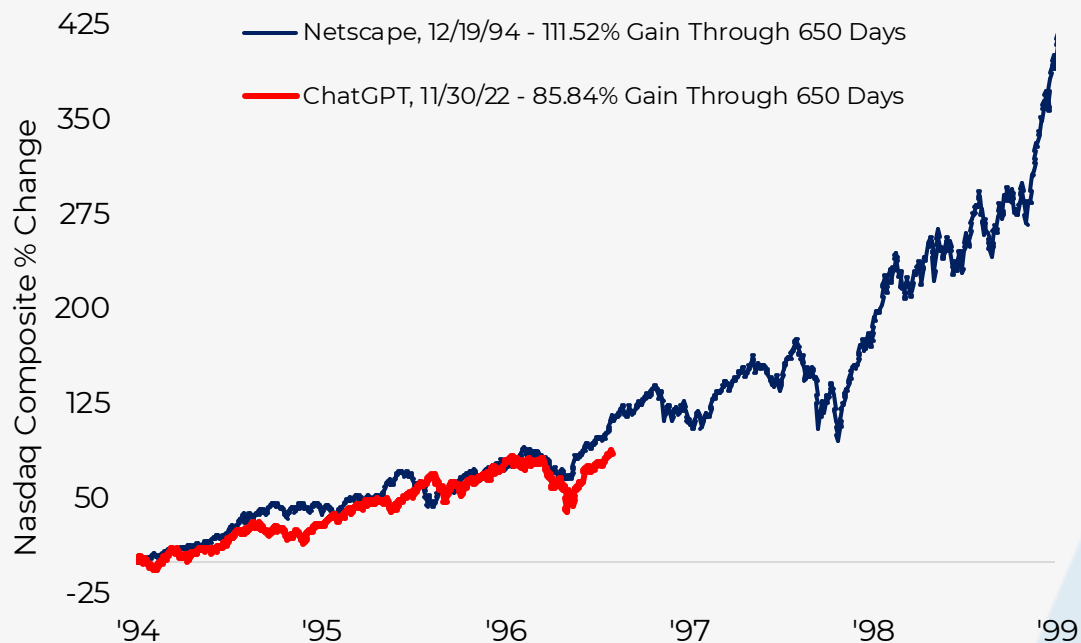
2H 2025 Outlook

Magnificent 7 Stock Performance (%)



Tech Leadership Will Evolve

- The Mag 7 performance over the first half, in our view, is reflecting the **new AI super cycle** with leaders (MSFT and META) **outperforming** those who are falling behind (APPL).
- We will see **new leaders as old ones drop out** as CAPEX continues to accelerate and landscape continues to evolve and be adopted quickly.



The AI Supercycle Could Be The Driver Of The Next Rally

- While we're cognizant of the stretched valuations across markets, we think this **longer-term theme requires staying invested in tech**, especially those at the **forefront of this arms race**, and continuing to ride the AI wave – **led by the U.S.**

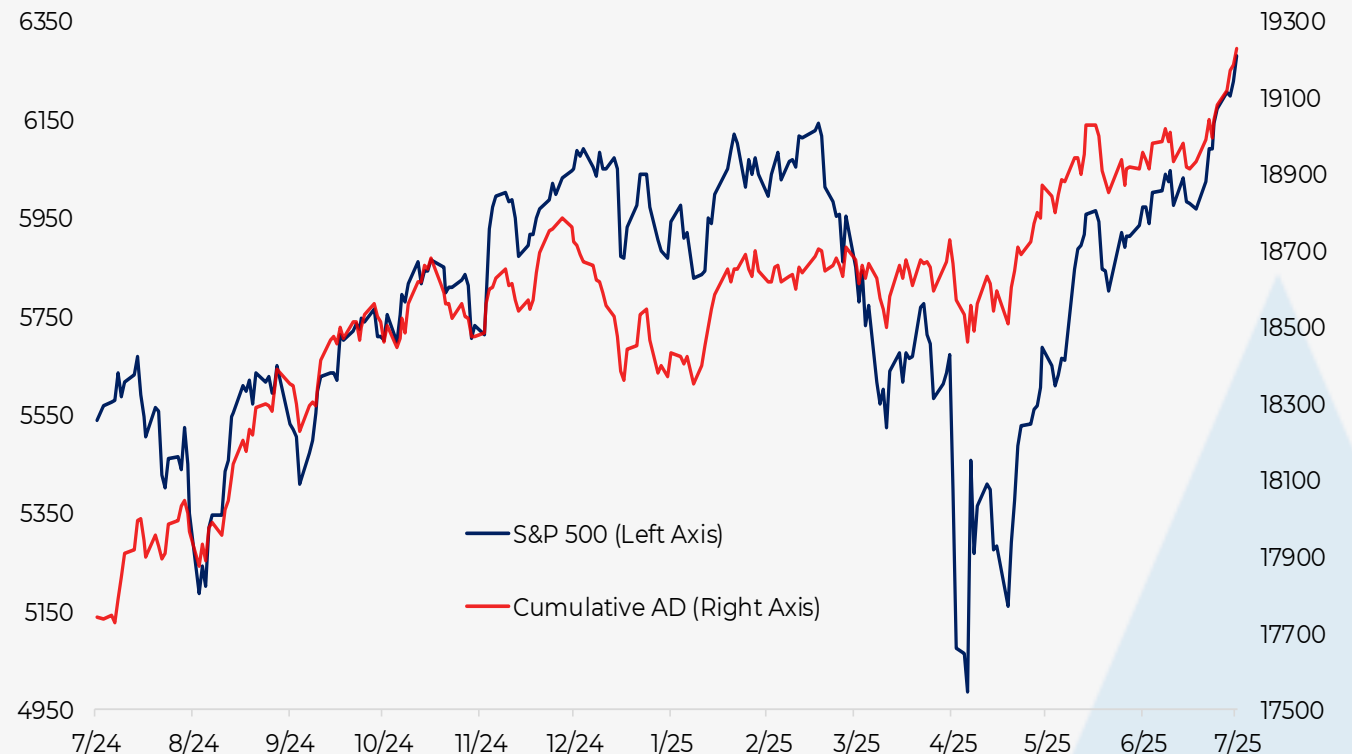
Market Participation Increase Is Positive For Risk

2H 2025 Outlook

After Years Of Market Concentration, The Broader Market Is Participating

- Driven by Financials, Industrials, and Discretionary, more stocks have broadly **participated in recent market gains** shown through a positive Advance Decline (AD) Line.
- While the low volatility and staples provided a buffer during the April volatility, **they continue to lag** the remainder of the market given the quick rebound.

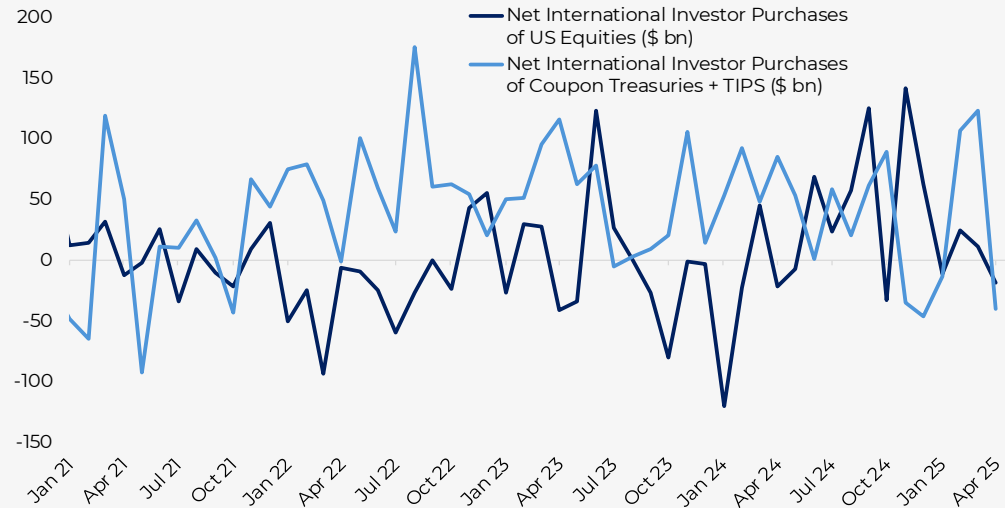
S&P 500 Price vs. Cumulative AD Line: Past Year



The Dollar Disconnected From Rates

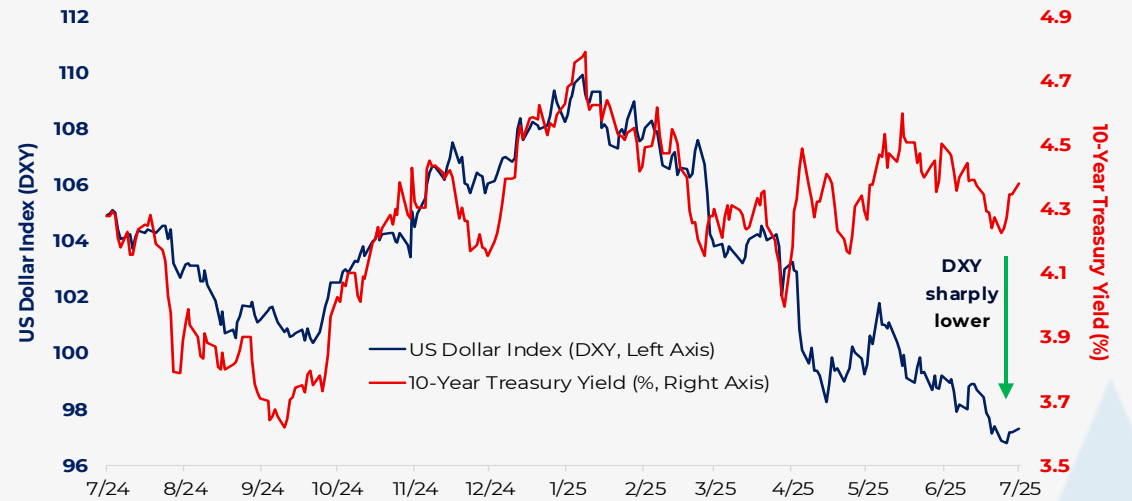
2H 2025 Outlook

International Outflows From Equities & UST In April Were Modest



- The U.S. Dollar (DXY) and U.S. Treasury correlations **have broken down since Liberation Day.**
- It's our view that this was not a function of asset selling, as indicated by flows, but instead **driven by overseas hedging activity, central banks adjusting their reserves to more gold, and the administration targeting a lower USD relative to trading peers.**

US Dollar (DXY) vs. 10-Year Treasury Yield (%) - Past Year



- While DXY typically has followed Treasury yields, we think this relationship **is settling into a new, decoupled regime** where the **dollar responds more to trade policy** and **rates respond more to inflation, fiscal policy, and growth.**
- On the margin, this **should be good for equities and physical assets** and continue to pressure the dollar lower as we remain in the early innings of the dollar's secular decline.

Don't Fight ~~The Fed~~ Trump

2H 2025 Outlook

The Administration's 3-3-3 Plan

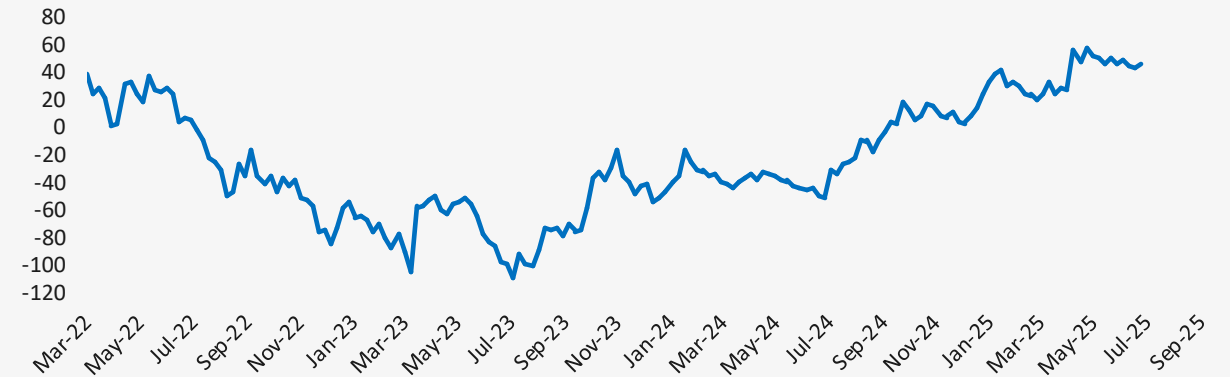
Despite skepticism, the administration **made lowering oil prices, interest rates, and the U.S. dollar** central to its strategy for stimulating growth and reducing the federal deficit. As of today, **two of the three (oil and the dollar)** are meaningfully lower from recent highs. However, rates remain a wild card as deficit fears loom.

Interest Rate Implications with New Dovish Fed Chair

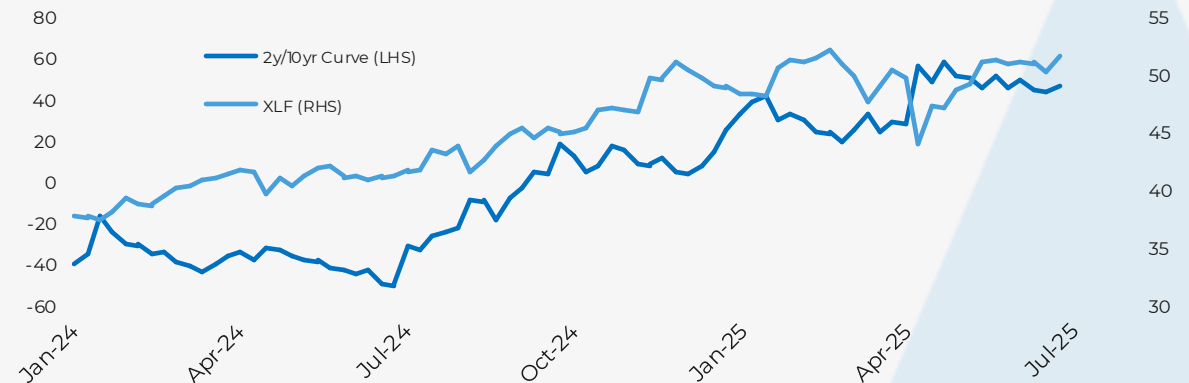
The Trump administration is focused squarely on a more accommodative Fed policy. Powell has remained data dependent during his term, but as we approach a new Fed chair in 2026, it's our view that **the Fed will strike a much more dovish tone**. We think this has implications across rates as well as equities:

- **Curves should continue to steepen** from a combo of lower front-end rates as well as higher inflation expectations and continued deficit concerns.
- **Financials should benefit** from a more accommodative economic policy as well as a steeper yield curve.

U.S. 2y/10y Yield Curve Has Steepened



Steepening Yield Curve Good For Financials



Dollar Weakness Should Help Equities

2H 2025 Outlook

DXY Return Since Start of 2025



US vs RoW Equity Markets After 10%+ DXY Half Year Drops

Date	S&P 500 Performance (%)					MSCI All World Ex. US Index Performance (%)				
	Week	Month	3 Month	6 Month	Year	Week	Month	3 Month	6 Month	Year
6/30/1973	-0.74	6.17	5.16	-5.20	-16.40	0.00	0.00	-4.22	-22.64	-26.40
12/31/1985	1.19	-0.92	11.29	19.60	14.62	0.65	2.05	27.99	37.86	62.68
12/31/1987	5.66	3.22	4.78	10.00	12.40	0.19	0.58	14.50	8.71	25.81
12/31/1991	0.07	-1.31	-3.21	-1.01	5.21	2.04	-3.00	-11.99	-9.79	-13.95
Average	1.55	1.79	4.51	5.85	3.96	0.72	-0.09	6.57	3.54	12.03
Median	0.63	1.15	4.97	4.49	8.81	0.42	0.29	5.14	-0.54	5.93

Historically, Foreign Equity Markets Have Performed Well Following Material Dollar Sell-offs

Average returns for the one year following a 10% drop in DXY, over the past four instances **were positive**, with S&P 500 generating an average **+3.96% return** and MSCI ACWI ex U.S. **averaging 12.03%**.

Stick With International

2H 2025 Outlook

Continued International Performance?

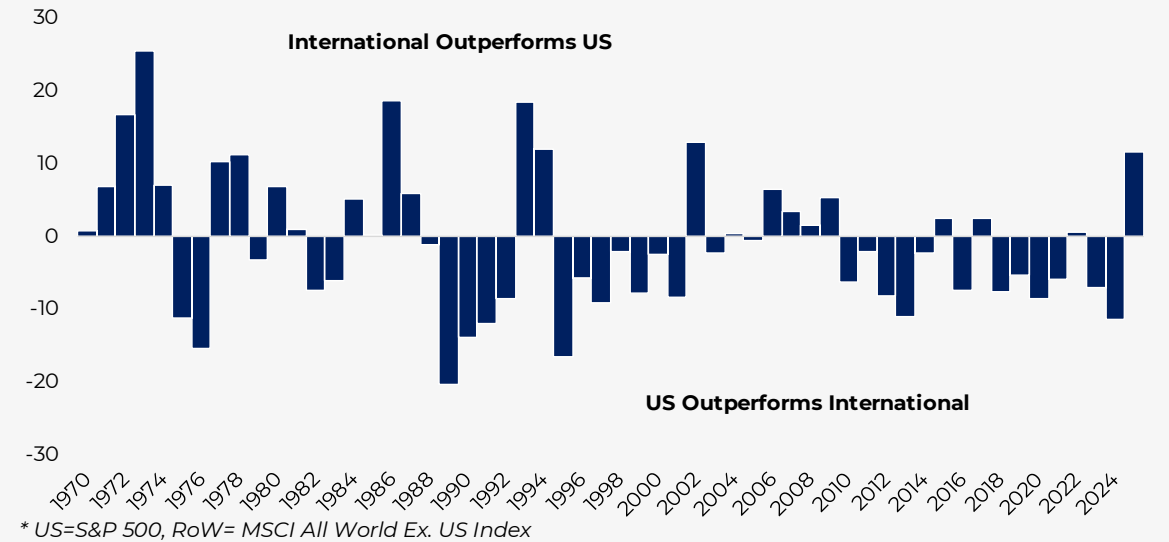
- The **U.S. has started to perform more in-line** with the rest of the world after underperforming in the first quarter of 2025.
- We think that while international outperformed materially in the first half, **it is not yet time to move away from regional diversification.**
- The weaker dollar, coupled with policy uncertainty in the U.S. and valuations abroad, should continue to provide **support for the value of diversification into international equities.**

Years W/ First Half Intl. Stock Outperformance

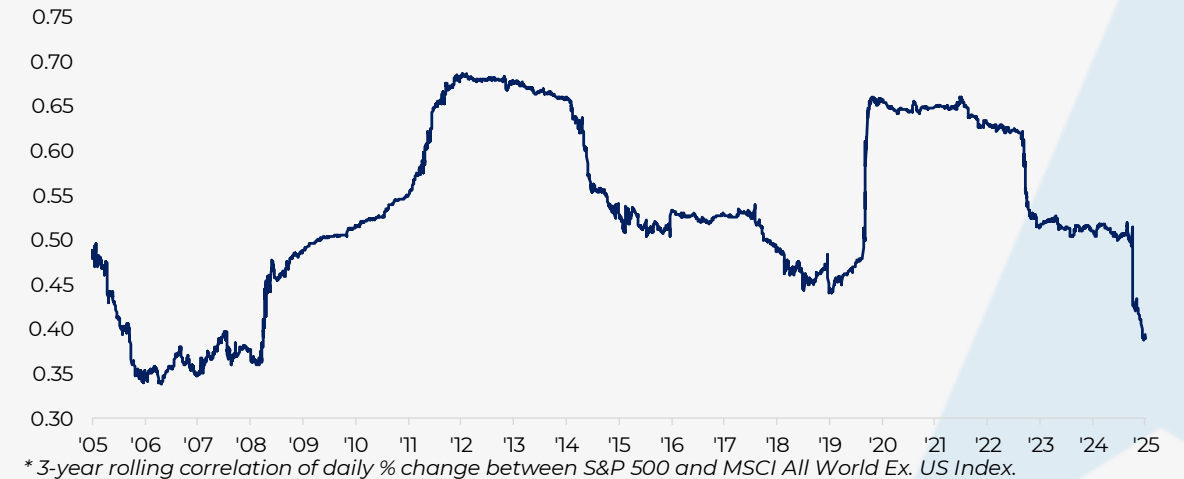
Date	First Half			Second Half		
	RoW	S&P 500	Spread	RoW	S&P 500	Spread
1973	11.9	-13.6	25.5	-22.6	-5.2	-17.4
1986	37.3	18.7	18.6	18.5	-3.5	21.9
1993	21.9	3.4	18.5	6.8	3.5	3.2
1972	21.6	4.9	16.7	11.7	11.2	0.6
2002	-2.7	-15.6	13.0	-15.1	-9.2	-5.9
1994	7.2	-4.8	12.0	-1.4	3.4	-4.7
2025	17.0	5.5	11.5	?	?	?
1978	13.0	1.8	11.2	12.9	1.3	11.7
1977	3.7	-6.5	10.2	8.6	-6.6	15.2
All Year Avg.	4.0	4.8	-0.8	3.6	4.2	-0.6

* Years w/ 10+ ppts of outperformance of RoW vs. US
 US=S&P 500, RoW= MSCI All World Ex. US Index

Spread of International vs. US Stocks First Half Performance (ppt)



3-Year Rolling Correlation of S&P 500 & MSCI All World Ex. US



An aerial photograph of a river delta, likely the Ganges-Brahmaputra delta, showing a complex network of water channels and a dense grid of agricultural fields. The image is overlaid with a semi-transparent blue filter. The text 'Private Markets' is positioned in the lower-left quadrant of the image.

Private Markets

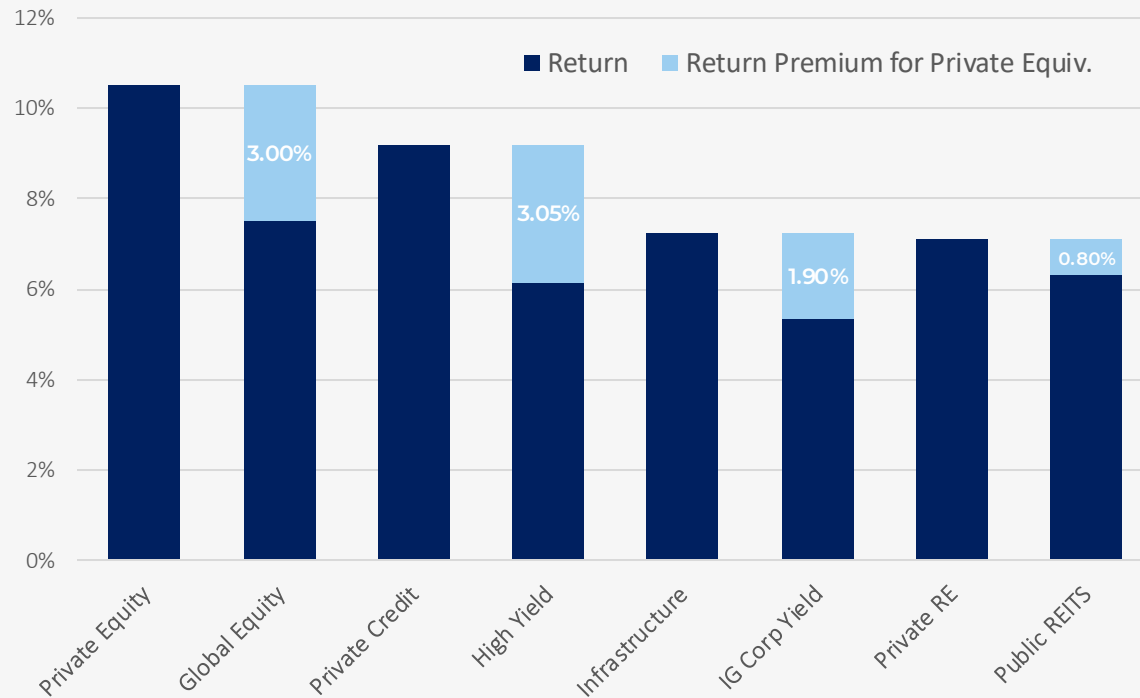
Private Markets 101

2H 2025 Outlook

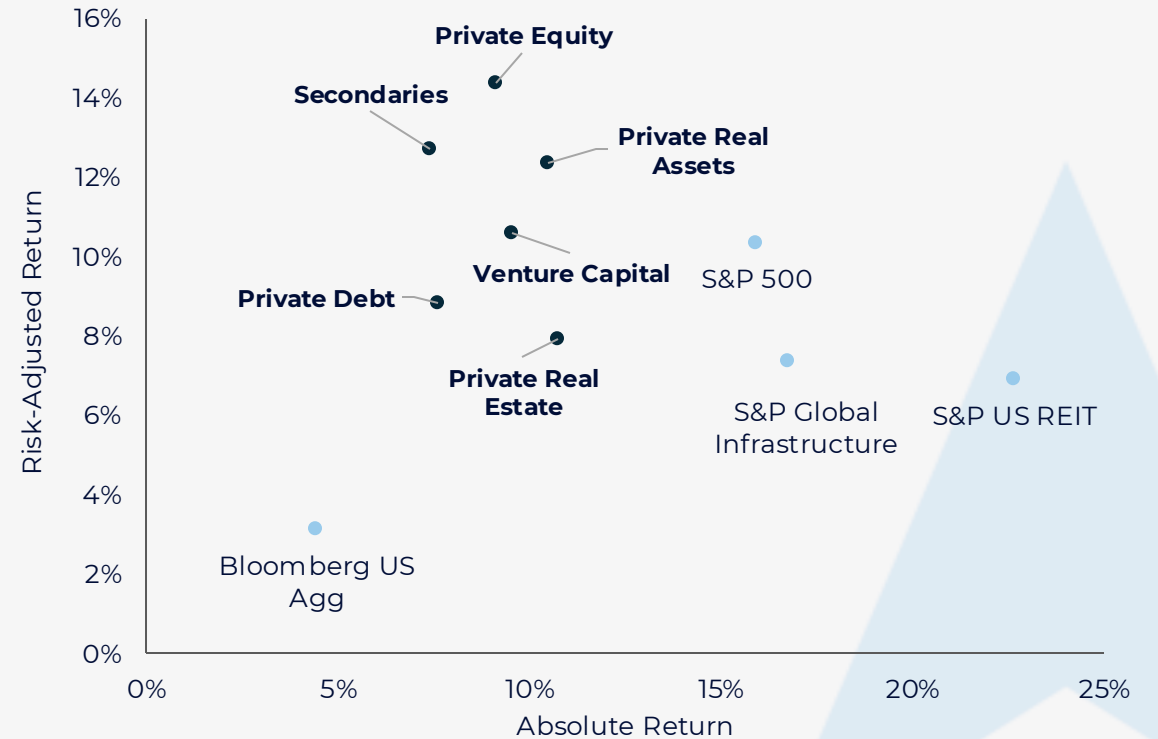
Absolute and Risk-Adjusted Outperformance

The private markets have exhibited **consistent long-term outperformance** relative to public markets.

Private Return Premium By Asset Class



Absolute & Risk-Adjusted Returns By Asset Class

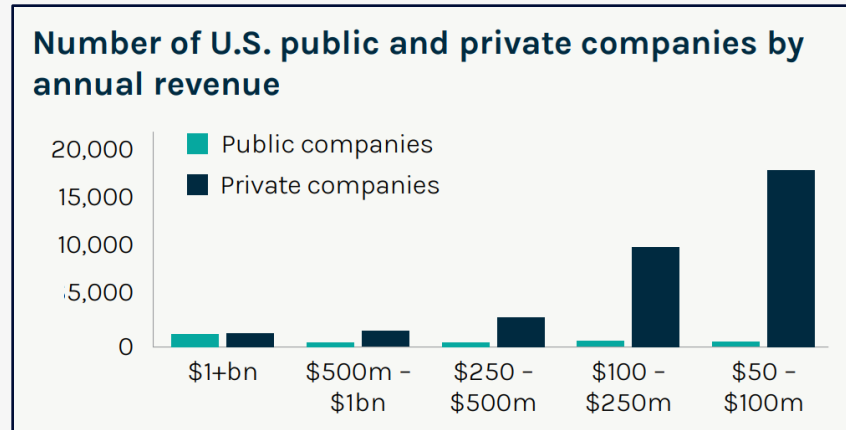


Private Markets 101

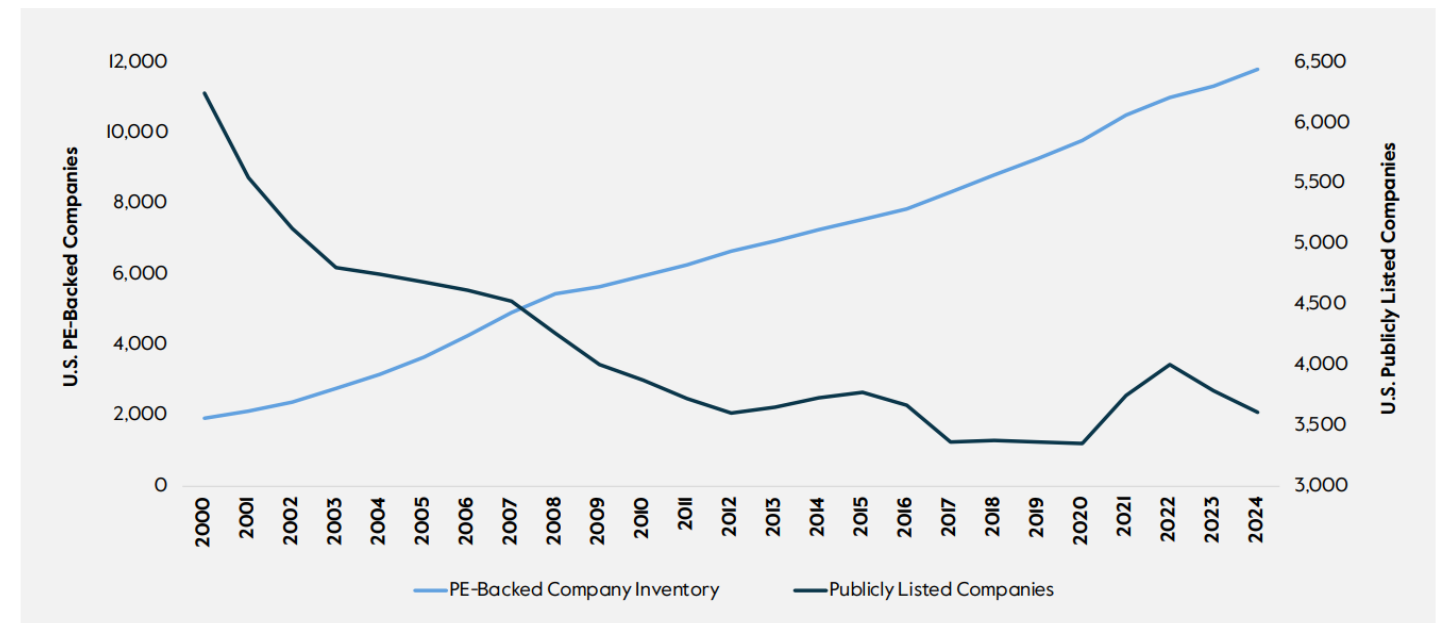
2H 2025 Outlook

Too Big To Ignore

- The private markets have grown from **\$4 trillion to \$20 trillion over the last decade**, with inflows growing **21% vs just 7%** for the public markets. The private middle market, defined by companies with revenue between \$10 million and \$1 billion includes 200,000 companies employing 48 million people and representing **one-third of economic output**.
- The Silver Tsunami of Baby Boomer business owners creates **consolidation supply for private equity**.
- Regulatory trends have pushed credit origination and holdings **from banks to the private markets**.



Private Capital Moves from Periphery to Center of Corporate Finance



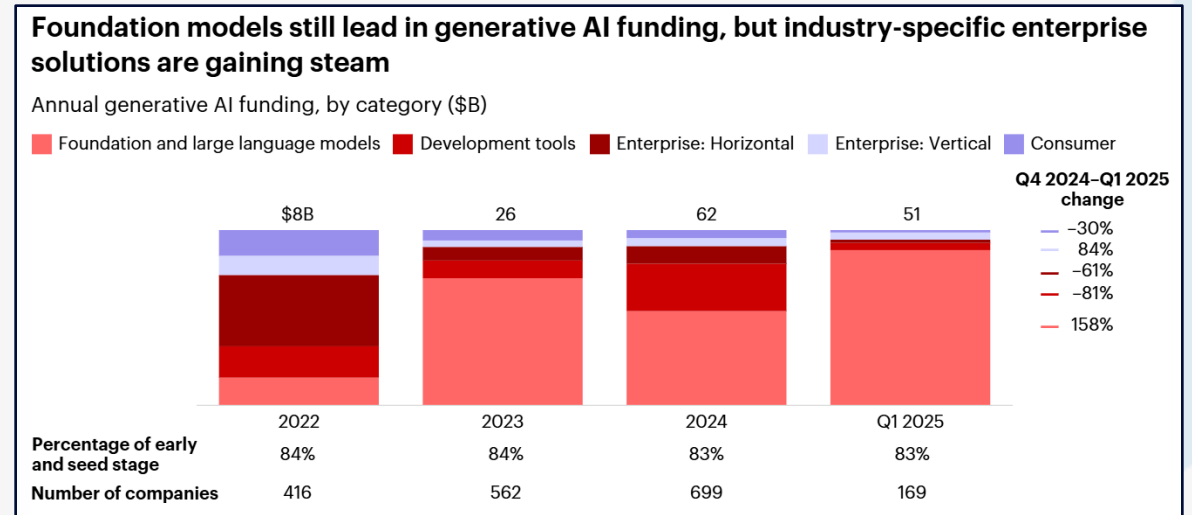
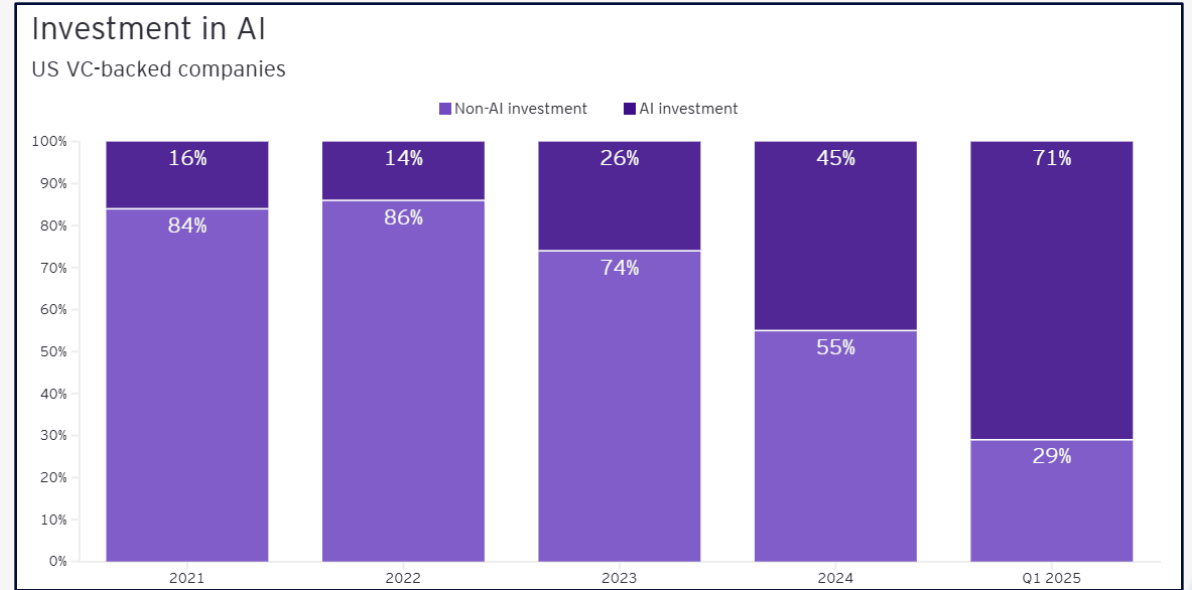
Private Markets 101

2H 2025 Outlook

Most Innovation Trends Remain Private

Innovation is accelerating at a dramatic pace. Aside from “Hyperscalers”, growth opportunities remain largely private. Key trends include:

- Increased investment in **AI-related technology** from VC-backed firms.
- **Foundation and Large Language Models (LLMs)** still consume the majority of AI funding.



What's Next?

2H 2025 Outlook



Source: Robert Rich, Hedgeye Risk Management, 2025

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