

LYNCH & Associates
Registered Investment Advisor

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July 1, 2025

Dear Valued Client:

Returns for the major stock indexes for 2025 and the current bond and money market yields are as follows:

Index	2025 YTD
Dow Jones Industrial Average	3.64%
S&P 500	5.50%

Fixed Income Yields	1 year	2 year	5 year	10 year	30 year
Municipals	2.59%	2.61%	2.72%	3.21%	4.52%
US Treasuries	3.97%	3.72%	3.80%	4.23%	4.78%

Fidelity Government Cash Reserves Money Market Fund	4.08%
Fidelity Money Market Fund Class Premium	4.21%

Happy Fourth of July!

As we begin the 250th year of our great nation, it feels especially fitting that markets have returned to all-time highs. The second quarter marked one of the swiftest rebounds in history, recovering from a 20% decline. After bottoming in early April following tariff announcements, markets rebounded steadily as deals and delays were introduced. While there has been a strong recovery, year-to-date performance remains relatively modest as the markets continue to absorb two consecutive years of 25%+ gains. The Dow and S&P 500 are both positive for the year, with growth stocks outperforming value, and small- and mid-cap stocks lagging behind the indexes. After over a decade of significant underperformance, foreign markets have been a bright spot in 2025 as the U.S. dollar is experiencing one of its weakest starts to a year on record. Once again, long-term investors were reminded not to panic, as the perceived negative tariff news presented a strong buying opportunity.

At LYNCH & Associates, our responsibilities include helping clients remain level-headed during times of turbulence and temper expectations during periods of market exuberance. While bull markets can be enjoyable, the concern and worry about how long they will last never abates. Undoubtedly, the economy is humming along as inflation rates have moderated, corporate profits and expectations are healthy, employment is strong, and real wages are rising. The caution signs also remain as we continue to acknowledge that equity market valuations are expensive relative to historical norms, as measured by many objective indicators, such as price-to-sales, price-to-earnings, and the Shiller PE ratio. We also recognize, as in the 1990s and other historical periods, that markets can remain richly valued for extended stretches.

Clearly, the good times are here for investors, as the bullish narrative is prevailing. We again recognize that fueling today's bullish sentiment and record levels of corporate investment is the widespread belief in the transformative potential of artificial intelligence. The level of spending on AI initiatives is staggering, particularly among the world's largest technology companies, as the top seven tech giants are projected to invest \$325 billion in AI-related infrastructure in 2025 alone. This surge in spending reflects a race to lead what many view as the next major technological revolution. As famous investor Ray Dalio aptly described, we are entering a "time warp" over the next five years, a period in which AI could reshape society and create a "radically different world," the full implications of which remain unknown. While we share in the fascination with AI's potential, we know that equity valuations always matters.

We continue to be heavily weighted in equities, while also maintaining a conservative value bias. We have slightly increased our foreign holdings in some of our fund models and remain unenthused by the prospects of the bond market. The bond market continues to behave as if it is entirely subsidized by the Federal Reserve/government. The difference between a 3-month T-bill and a 30-year Treasury is 0.50%; the implicit backing of the bond market by the Fed has contributed to an incredibly narrow spread in yields. Moreover, market expectations are now pricing in three interest rate cuts by year-end, despite all-time high prices or near-historic levels in housing, equity markets, gold, money supply, and national debt. While the bond market is up modestly year-to-date, we do not believe the cost of money should be lowered and are likely to continue holding a large percentage of our fixed-income allocations in money markets until we find better opportunities to invest in bonds.

We encourage our clients to remain focused on long-term investment goals. Our team is here to provide guidance and support as needed, and we remain committed to helping you achieve your investment objectives.

We appreciate your continued confidence in LYNCH & Associates.

Sincerely,

Ryan T. Lynch, CFP® ChFC®

President

Form ADV Part II and III of the LYNCH & Associates Uniform Application for Investment Advisor Registration and the LYNCH & Associates Code of Ethics are available to all clients at any time. If you would like to receive a copy, please contact Evan Lynch at (812) 853-0878.

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