LYNCH & Associates

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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	9.06 %
S&P 500	13.72%

Fixed Income Yields	**1 year**	**2 year**	**5 year**	**10 year**	**30 year**
Municipals	2.30%	2.27%	2.31%	2.92%	4.30%
US Treasuries	3.61%	3.61%	3.74%	4.15%	4.73%

Fidelity Government Cash Reserves Money Market Fund	3.91%
Fidelity Money Market Fund Class Premium	4.05%

The equity markets are again at all-time highs. After a brief 20% decline in the spring, the S&P 500 is now up 13% on the year, a 38% rebound from the yearly low, noting the quickest bounce back to an all-time high in market history from a decline of that magnitude. Every major US equity index and sector is positive for the year, with technology and communication services leading the way. Growth stocks are again outpacing value, and large-cap stocks are far outperforming mid-cap and small-cap stocks. Most foreign equity markets are performing well, with notable examples including Europe, +27%; Canada, +26%; Japan, +20%; and Mexico, +46%. Asset prices are appreciating seemingly everywhere, as home prices, gold, silver, copper, and bitcoin are also near or at all-time highs. We are clearly in good times as long-term investors.

Federal Reserve Chairman Jay Powell recently stated that “equity prices are fairly fully priced.” We remember when Fed Chairman Alan Greenspan famously asked, “How do we know when irrational exuberance has unduly escalated asset values?” His words provided quite a stir. Was he right in his implication? It depends on your time horizon. He said these words in 1996, a year that returned 23% and was preceded by 13 of 14 positive years, including a 32% return in 1995. The valuation reset in markets did not come until the years 2000-2002. The years 1997, 1998, and 1999 returned 33%, 28%, and 21%, respectively, as technology stocks fetched far greater returns. In hindsight, Greenspan was not wrong over a seven-year period, but he was four years early on his timing. We highlight and overlap these two time periods because we believe the level of excitement for the prospects of change and investors' appetite for growth at any price is similar. The conundrum of the day for investors is not whether Powell is correct, but rather how long it will take for valuations to return to normal levels, and what we should do about it.

At LYNCH & Associates, we are concerned about the numerous valuation metrics that are significantly above their trend lines. We continue to grapple with how to remain optimistic in light of high equity valuations relative to annual sales and earnings, as well as their respective 10-year rolling averages. Another concerningly high valuation metric is the Buffett Indicator, named after Warren Buffett's long-time "favorite" metric. It measures the total US stock market relative to US GDP. The indicator recently hit an all-time high. Markets are indeed expensive relative to historical standards.

On a bullish note, nearly $7 trillion is on the sidelines in money markets, marking another all-time high. We can quote axioms like "don't fight the Fed," as futures markets are indicating we are at the beginning of a significant Fed rate-cutting cycle. Does the money sidelined in money markets find its way into the equity markets as interest rates come down? We can further point to history, showing that strong markets have consistently led to more positive market performance. In fact, 20 out of 20 times in history, the equity market's performance has been positive one year after the Fed cut interest rates, during a period of market all-time highs. Once again, we are humbled by the challenge of balancing equity risk in the short term.

As mentioned, the current excitement about AI is similar to the enthusiasm for the internet in the late 1990s. How impactful will the AI transformation be? It is perhaps the defining question of our times when assessing the appropriate valuations of the markets. Is this the beginning of the fourth Industrial Revolution, and how much economic productivity can companies expect from technologies that can teach themselves while working continuously? We fully concede that the questions are unknowable, humbling, and daunting; and what valuations are tolerable?

We maintain a value bias in our equity holdings and are becoming more optimistic about our domestic-based multinational investments. This year, we have slightly increased our allocation of international funds in our fund models as the dollar has declined. The spread between a 3-month T-bill and a 30-year Treasury has widened, but we remain cautious about the outlook for the bond market. Although the bond market has modestly increased year-to-date, we continue to allocate a large portion of our fixed-income holdings to money markets until better bond opportunities arise.

We encourage our clients to remain focused on their 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.