

July 15, 2025

Dear clients and friends,

In what seems like a distant memory, the S&P 500 Index was down 19% from its recent high earlier this year. As of June 30th, the picture looked quite different. The S&P 500 Index delivered a total return of 10.9% during the second quarter of 2025 and 6.2% year-to-date. The MSCI ACWI ex-US Index returned 9.2% year-to-date in local currency and 18.3% from the perspective of U.S. investors, reflecting the effect of a weakening U.S. dollar.

The U.S. Aggregate Bond Index posted a total return of 1.2% during the second quarter of 2025 and 4.0% year-to-date. Interestingly, a massive, new supply of municipal bonds has resulted in attractive tax-equivalent yields, particularly for investors with an effective tax rate of 40.8% (37% federal income tax + 3.8% net investment income tax). More on that in a minute.

Two years ago, inflation exceeded 9% but it has moderated significantly. A recent reading of headline PCE, the Federal Reserve's preferred measure, was 2.3%. This brings inflation much closer to the Fed's stated long-term target of 2%. That said, the full effects of tariffs and continued deficit spending have yet to be felt. CPI, which was reported earlier today, increased on a year-over-year and on a month-over-month basis.

A key aspect of our advisory approach is setting appropriate expectations regarding prospective returns and price volatility. From 1950 through 2024, the S&P 500 Index produced a double-digit annualized return, reflecting an extended period of economic growth that was fueled by a population boom, productivity improvements, and free trade. The demographic, technological, and geopolitical environment of today differs significantly from the past. Looking ahead, we have more modest return expectations for equities in aggregate,



but we believe that the equities and funds we curate for our clients will increase the likelihood of preserving and enhancing purchasing power over time. Historical analysis indicates that nearly every rolling ten-year period since 1950 has included at least one 20% market decline as measured by the S&P 500 Index. The same analysis shows that the odds of a 20% market decline during a one-year holding period are nearly one-in-three. Our clients understand this. In fact, we received only one call from a worried client during the recent swoon in stock prices. (We forgave him because he was new!) As always, Sapphire stayed true to its disciplined, long-term investment approach and is pleased to report that the new client's portfolio ended the quarter in the green. This anecdote reinforces the tangible value of maintaining a long-term perspective rather than attempting to time the market.

"So, what were you saying about municipal bonds?" you ask. Some of you may recall that I served as Chief Investment Officer of an institution with \$1.4 billion in assets under management during the great financial crisis and its aftermath. The magnitude of the institution and its investment policies necessitated the use of external investment managers. Having worked as a buy-side equity analyst prior to joining the institution, I maintained a healthy dose of skepticism when performing due diligence on external investment managers. This work provided exposure to new ideas, as well as brilliant, genuine investment professionals. Sapphire continues to work with certain of the specialized managers today. One of them recently highlighted the attractive value that municipal bonds currently offer. If you are not a client of Sapphire and expect to be in a high tax bracket this year, please give us a call – dial (502) 509-2568, visit sapphirefiduciary.com, or email info@sapphirefiduciary.com.

Sincerely,

A handwritten signature in black ink that reads "Paul Stropkay". The signature is written in a cursive, flowing style.

Paul Stropkay, CFA

Sources

- J.P. Morgan Asset Management *Guide to the Markets*® U.S. 3Q 2025 as of June 30, 2025
- Baird Advisors Fixed Income Market Commentary, June 2025
- Baird Advisors 2nd Quarter Bond Market Review, July 9, 2025
- Ritholtz Wealth Management LLC, *A Wealth of Common Sense On the Inevitability of Bear Markets*, June 1, 2025

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