

Market Commentary

US equities remained remarkably resilient in the second quarter of 2025, delivering robust returns even as markets navigated relentless uncertainty, including deficit concerns from GOP fiscal reforms, persistent tariff anxieties, and elevated geopolitical tensions. The S&P 500 finished the quarter up 10.9% after a violent move downward to start the quarter. The market rebound was fueled by risk-on sentiment that drove growth stocks higher, with the Russell 1000 Growth surging 17.8%. In contrast, value stocks lagged meaningfully, with the Russell 1000 Value rising just 3.8%. The “Magnificent Seven” saw a strong rebound, with the MAGS ETF rising 21% and fully recovering from its ~16% decline in the first quarter.

Current Valuation Metrics Appear Stretched Amongst Elevated Uncertainties

The Market Capitalization-to-GDP ratio, often referred to as the "Buffett Indicator," provides insight into whether the market is overvalued or undervalued relative to economic output. It is currently above 200%, marking the highest level in US market history. This far exceeds the dot-com bubble peak of approximately 150% and is also well above the ratios seen in other major economies such as Germany, the UK, China, India, and Japan. The Cyclically Adjusted Price-to-Earnings (CAPE) ratio, also known as the Shiller P/E, smooths out business cycle fluctuations by using inflation-adjusted average earnings over the past 10 years. Currently at around 38 times, the ratio is near recent highs and just 16 percent below its dot-com bubble peak. Mean reversion of both ratios can lead to a significant market correction, unless offset by a sharp acceleration in earnings or GDP growth.

USA Ratio of Total Market Cap over GDP: 209.5 (As of 2025-07-05)

• USA Ratio of Total Market Cap over GDP



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S&P 500 Shiller CAPE Ratio: 37.93 (As of 2025-07-01)

• S&P 500 Shiller CAPE Ratio



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Post-Liberation Day Sell-off and Swift Recovery

President Trump's April 2nd "Liberation Day" announcement of retaliatory import taxes triggered a massive sell-off in US equities, with the S&P 500 falling over 10%. However, the losses were recouped within April due to the easing of the administration's trade rhetoric.

The Passage of the "Big Beautiful Bill" Market Implications

On July 4, 2025, President Trump signed the "One Big Beautiful Bill Act" into law following weeks of contentious negotiations between the House and Senate. This included a sweeping combination of tax extensions, spending increases, and entitlement reforms. The final package emerged after a narrow Senate approval (51–50) and a similarly tight House vote (218–214), with well-publicized internal divisions bridged through last-minute concessions. We view the bill as a pro-growth, pro-business stimulus in the short run, albeit with the potential to have material long-term fiscal consequences.

Pro-Business Tax Policies

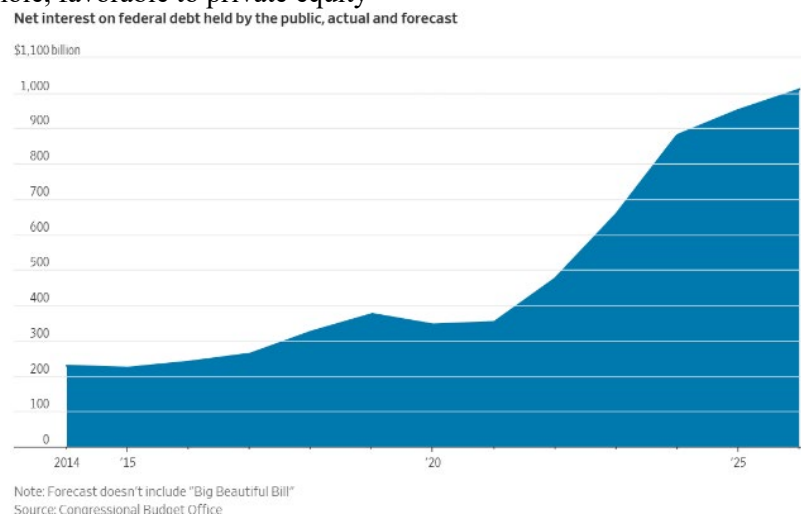
- Permanent extension of the 2017 Tax Cuts and Jobs Act provisions for individuals and corporations
- Retention of the carried interest loophole, favorable to private equity
- New deductions for US-made vehicle loans, overtime pay, and tipped income

Spending Shifts

- +\$150 billion increase in defense funding, including a new missile defense initiative ("Golden Dome")
- +\$150 billion for border security and immigration enforcement

Program Rollbacks

- Introduction of Medicaid work requirements, with an estimated 11.8 million impacted by 2034
- Cuts to SNAP and nutrition programs totaling ~\$9 billion
- Repeal of numerous clean energy tax credits and incentives for EVs and renewables



In the short-term, the bill represents tailwinds for traditional energy, industrials, defense, and financials. In contrast, the bill has large negative impacts on renewables and healthcare providers. It is less clear how the consumer will be impacted. While stimulus to defense and construction sectors may boost certain regional economies, cuts to entitlements will likely constrain spending among low-income households. The market did

not react significantly to the bill's passage as participants were focused more on the pending trade/tariff deadline on July 9th. However, it is safe to say that volatility could persist around sectors exposed to policy reversals.

The long-term implications of the bill remain highly uncertain. Corporate tax cut permanence may support capital investment. However, the CBO estimates an incremental \$3.4 trillion in structural fiscal deficits over 10 years, introducing long-term risks to US creditworthiness and fiscal flexibility. The new large increase in the government deficit adds another reason for the Federal Reserve to remain cautious, making near-term cuts unlikely.

Rising Risks of Monetary Policy Disruption

In addition to volatile fiscal policy within the US, we have also seen a growing risk for shifts in monetary policy. Discussions by President Trump about firing Fed Chair Jerome Powell before his term ends is a massive risk as it would imply that the Fed (and therefore monetary policy as a whole) is no longer being treated as an independent agency that can remain politically neutral. A shift such as this introduces risks surrounding inflation, US creditworthiness, interest rate volatility, and international confidence in the US Dollar. On April 21st, when the concept of Trump firing Powell started to gain traction, the S&P 500 fell over 2%, the US 2-Year yield increased nearly 10 basis points, and the US Dollar Index declined by nearly 1%.

Geopolitical Destabilization

As we highlighted in our Q1 2025 commentary, global geopolitical instability has been a key theme within our strategies for multiple years. Defense companies surged following Israel's June 12th preemptive strikes on Iran's nuclear infrastructure. While some of this uptick has been unwound as the conflict de-escalated, our overweight in defense companies was still a positive contributor to performance in all strategies during the quarter. The India-Pakistan crisis also unfolded during the quarter, coming alarmingly close to escalating into full-scale war between the two nuclear powers—an event that has only occurred twice in history.

The conflict within Iran is another example of a massive uncertainty that the market rallied through during the quarter. While the Israel-Iran conflict appears to be resolved at this time, it highlights the multi-year trend of increasing global instability. Nations around the world have become increasingly emboldened to act on decades-long feuds or aspirations; these actions were previously abstained from as there had been a global expectation for diplomatic relations within developed countries. With Russia's aggression in Ukraine—beginning with the annexation of Crimea in 2014 and continuing with a full invasion in 2022—and Israel's conflicts with Palestine and Iran, this expectation has all but disappeared.

This shift in global perspective on near-peer conflicts has been reflected in defense budgets. The recent increases in NATO member defense spending commitments are a direct result of the increasing likelihood of near-peer military conflicts.



The Importance of Fundamental Analysis and Active Management

We believe that year-to-date equity market performance does not adequately reflect a range of elevated risks, including tariff uncertainty, policy inconsistency, geopolitical instability, and growing concerns around both fiscal sustainability and potential monetary policy disruption. In more rational market environments, any one of these factors could warrant a broad market pullback. Instead, markets have continued to reach new all-time highs despite these mounting headwinds. In response, we have increased cash allocations across our strategies. This reflects our view that current market conditions are atypical and characterized by excessive optimism. The elevated cash position provides us with the flexibility to deploy capital opportunistically, either in the event of a market correction or when fundamentals more clearly justify prevailing valuations.

With uncertainty surrounding the trajectory of tariff policies, and the varying implications across countries, sectors, and individual companies, thorough fundamental research remains essential. A core component of Brookmont's investment process is identifying businesses aligned with durable secular trends, including advancements in obesity and oncology treatment, artificial intelligence, the energy transition, automation, and global geopolitical realignment. These themes tend to be less exposed to cyclical trade dynamics and are instead supported by multi-year demand drivers. Many of the companies we own also benefit from pricing power, durable competitive advantages, and innovation-led differentiation—characteristics that contribute to resilience during periods of broader market disruption.

Although rising geopolitical tensions, fiscal policy shifts, and escalating tariffs have increased macro uncertainty, we believe our emphasis on companies with strong competitive positioning, long-term structural growth, and operational flexibility across global markets puts us in a favorable position to navigate this environment. While near-term volatility may persist, we remain confident in the underlying foundation for long-term value creation.

Disclosures

This letter may contain "forward-looking statements" which are based on Brookmont's beliefs, as well as on a number of assumptions concerning future events, based on information currently available to Brookmont. Current and prospective clients are cautioned not to put undue reliance on such forward-looking statements, which are not a guarantee of future performance, and are subject to a number of uncertainties and other factors, many of which are outside Brookmont's control, and which could cause actual results to differ materially from such statements. All expressions of opinions are subject to change without notice.

Brookmont Capital Management is a registered investment advisor that invests in domestic and global securities. Brookmont Capital is defined as an independent investment management firm that is not affiliated with any parent organizations.

A complete description of Brookmont's performance calculation methodology, including a complete list of each security that contributed to the performance of this Brookmont portfolio is available upon request.

Certain economic and market information contained herein has been obtained from published sources prepared by other parties, which in certain cases has not been updated through the date of the distribution of this letter. While such sources are believed to be reliable for the purposes used herein, Brookmont does not assume any responsibility for the accuracy or completeness of such information.

These individual securities do not represent all of the securities purchased, sold, or recommended for this Brookmont portfolio and the reader should not assume that investments in the securities identified and discussed were or will be profitable.

The Brookmont Dividend Growth Strategy returns are based on an asset-weighted composite of discretionary accounts that include 100% of the recommended holdings. Individual accounts will have varying returns, including those invested in the Strategy. The reasons for this include 1) the period of time in which the accounts are active, 2) the timing of contributions and withdrawals, 3) the account size, and 4) holding other securities that are not included in the Strategy. Dividends and capital gains are not reinvested. The Strategy does not utilize leverage or derivatives. Returns are based on U.S. dollars. The inception of the Strategy is January 1, 2008.

The Brookmont Dividend Growth Strategy Composite contains fully discretionary accounts with similar value equity investment strategies and objectives. For comparison purposes, the Dividend Growth Strategy Composite is measured against the Russell 1000 Value Index. The Russell 1000 Value Index measures the performance of the large-cap segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. The Russell 1000 Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. There is no representation that this index is an appropriate benchmark for such a comparison. You cannot invest directly in an index, which also does not take into account trading commissions and costs. The volatility of this index may be materially different from the performance of the strategy.

The Brookmont Core Dividend Strategy returns are based on an asset-weighted composite of discretionary accounts that include 100% of the recommended holdings. Individual accounts will have varying returns, including those invested in the Strategy. The reasons for this include, 1) the period of time in which the accounts are active, 2) the timing of contributions and withdrawals, 3) the account size, and 4) holding other securities that are not included in the Strategy. Dividends and capital gains are not reinvested. The Strategy does not utilize leverage or derivatives. Returns are based in U.S. dollars. The inception of the Strategy is January 1, 2015.

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The Brookmont Quality Growth Strategy returns are based on an asset-weighted composite of discretionary accounts that include 100% of the recommended holdings. Individual accounts will have varying returns, including those invested in the Strategy. The reasons for this include, 1) the period of time in which the accounts are active, 2) the timing of contributions and withdrawals, 3) the account size, and 4) holding other securities that are not included in the Strategy. Dividends and capital gains are not reinvested. The Strategy does not utilize leverage or derivatives. Returns are based in U.S. dollars. The inception of the Strategy is January 1, 2015.

The Brookmont Quality Growth Strategy Composite contains fully discretionary accounts with similar value equity investment strategies and objectives. For comparison purposes, the Dividend Growth Strategy Composite is measured against the Russell 1000 Index. The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower than expected growth values. The Russell 1000 Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment.

Brookmont's returns do include reinvestment of dividends and are shown gross-of-fees. All transaction costs are included. The Russell 1000 Value cumulative return includes reinvestment of dividends and capital gains. During a rising market, not reinvesting dividends could have a negative effect on cumulative returns.

Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Net-of-fees performance was calculated using actual management fees. Additional information regarding the policies for calculating and reporting returns is available upon request.

Your account returns might vary from the composites returns if you own securities that are not included in the Strategy or if your portfolio dollar-cost averaged into the Strategy during the reporting period.

The firm maintains a complete list and description of composites, which is available upon request. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. The composite policy requires the temporary removal of any portfolio incurring a client-initiated significant cash inflow or outflow of at least 15% of portfolio assets. The temporary removal of such an account occurs at the beginning of the month in which the significant cash flow occurs and the account re-enters the composite at the beginning of the month which follows the cash flow by at least 30 days. Additional information regarding the treatment of significant cash flows is available upon request.

Brookmont Capital Management claims compliance with the Global Investment Performance Standards (GIPS®). To receive a complete list and description of Brookmont's composites and a presentation that adheres to GIPS standards, please contact Suzie Begando at 214-953-0190 or write Brookmont Capital Management, 5950 Berkshire Lane, Suite 1420, Dallas, TX 75225.

The Brookmont Dividend Growth Strategy is available through several institutional platforms and registered investment advisors that are not affiliated with Brookmont Capital Management. The minimum investments and advisory fees required differ from one firm to another.

Brookmont Capital does not provide comprehensive portfolio management services for investors who have not signed an Investment Management Agreement with our firm.

Past performance is not indicative of future returns