

# INVESTMENT VIEWS

JUNE 30, 2025

## BIG PICTURE REVIEW

We are already at the halfway point for 2025 and think it is a good time to review the high-level investment backdrop for the financial markets and the economy.

To begin, there are always potential situations that concern investors. It is very rare that the markets are not climbing the so called “wall of worry.” Economic issues, political drama, geopolitics – these are the usual suspects that are often credited with driving market volatility. Indeed, this is the case now, albeit with a new set of dynamics and characters to anticipate and navigate through. Below you will find our thoughts on these issues and how our portfolios are positioned for them.

## RECESSION, INFLATION & INTEREST RATES

Several of our past newsletters have made clear the uncertainty around the U.S. and global economy. Concerns on a slowdown or recession have dogged the investment community as the financial media have beat the drum of economic turmoil on a daily basis. Combined with persistent higher-than-targeted inflation, this creates an unprecedented backdrop that is difficult to compare to recent decades.

The US economy is clearly uneven at this point, with some sectors continuing to show strong growth, while others are pointing towards weakness ahead. This unevenness will provide fuel for doubt and uncertainty as we progress through the second half of 2025. A recession (especially a deep one) at this point seems unlikely, barring some kind of shock to the economy.

Adding to the complexity of this, inflation is down considerably from prior levels, but still running a bit hotter than the Fed has targeted. The Federal Reserve waited too long to react to inflation back in 2022 and Chairman Powell has so far stood firm in waiting for further rate cuts to ensure inflation is firmly lower. We remind our readers that inflation is mainly due to supply side issues, which the Fed is controlling through keeping demand lower through interest rates. Once the Fed lowers interest rates further, expect inflation to heat back up if demand rebounds and supply stays the same.

Lastly, interest rates are on the rise after a decade of bouncing around 1% or less. Interest rates are one of the larger risks to the equity markets, as bonds yields are seen as an alternative to stocks. Two separate factors have the potential to move yields higher – one being higher inflation expectations and the other being the federal government deficit. Currently, longer term rates are in the 4.5% range, give or take a quarter point and a move too much higher than 5% would likely trigger a sharp sell off in equities and put further pressure on certain interest rate sensitive markets such as housing and capital investment.

## POLITICAL DRAMA

The political landscape in the United States has become more polarized over the past decades, and it has only accelerated recently. Government policy has become more relevant to financial markets as rules have only increased and federal government spending has taken a more dominant role in the economy. Add to that, a massive attempt to reshape existing trade arrangements across the globe, plus an enormous debt load and deficit, and it is easy to understand why this has our attention and the attention of many other investors.

Changes to spending policies or trade policies – or no changes - will have direct impacts to the items discussed in this overview, affecting both the stock and bond markets. It is all tied together.

## GEOPOLITICS



While global situations often grab headlines and can affect markets in the short term, most situations prove to be minimal in lasting impact for investors. Russia-Ukraine War, Israel-Iran, both caused some volatility in equities, however, markets shook them off fairly quickly. That being said, global investors seem to be flocking to gold and other hard assets to protect themselves from broad currency debasement.

## PORTFOLIO POSITIONING

Our firm has traditionally been a “balanced” manager, meaning stock exposure is balanced with other assets meant to reduce overall volatility and risk. Traditionally bonds were used to reduce this volatility, however bonds do not provide the safety they used to. Instead we attempt to replicate this balance with other assets.

As stock pickers, we hunt for stocks that provide some form of “value” to our clients. Value can mean a strong business franchise or technology advantage, or it can mean a stock is inexpensive. Some examples in our portfolio are Cisco, Teva Pharmaceuticals and Halliburton. We also search for themes that have strong and sometimes overlooked investment potential. Currently, we favor the energy sectors, including nuclear, oil and gas companies. AI and blockchain are other examples of themes we believe in.

We have been bearish on bonds for several years now as the risk/reward remain very unattractive, except for the shorter end of the maturity spectrum. Current interest rates on longer date bonds provide very little protection from rising rates. There is also no spread premium or higher rates for corporate bonds, so US Treasuries with maturities 5-years and under is our preference. Also we favor money market funds, which are directly exposed to interest rates so any move higher (or lower) and these funds automatically adjust accordingly.

Our allocation to precious metals has served us well so far in reducing equity market volatility. Gold has taken the place of long-term US Treasuries as the go to safety asset. Indeed, it has become the favorite of central banks across the globe as well as investors and savers everywhere. Silver too, serving dual roles as a critical industrial metal and a monetary metal, has been a leading asset on a year-to-date basis.

We believe our portfolios are well positioned to face the changes ahead. Our positions include those that are optimistic, as well as those that are more defensive in nature. As the situations evolve we will continue to try and anticipate the next moves that will keep our clients ahead of the game.

## OIL PRICE WHIPLASH

With the Middle East conflict this month, we have seen the price of oil jump by over \$10 per barrel over a two-week period only to decline by that amount over two-day period last week. Initially investors became bullish on oil, trading on headlines and not focusing on fundamentals --- actual supply/demand data.

We continue to have a favorable view of oil as we see a tightening in the global supply and demand balance. Global demand continues to grow reaching a record high this month with daily consumption increasing to 106 million barrels. As a point of reference, in 2019 (pre-covid) global demand stood at just under 100 million barrels per day. With this growth, OPEC has slightly ramped up production to offset the loss of production from other areas, i.e. Russia, Mexico, Venezuela. Additionally, here in the U.S. production has peaked as three of the four major shale fields are experiencing a decline. Most of the growth comes from lesser developed countries, a trend we expect to continue as developing countries have the potential to grow at a faster rate than developed countries.



**Recommendation List:** A list of all previous specific investment discussions published over the past 12 months will be provided upon request. Please email [lara@mhandassociates.com](mailto:lara@mhandassociates.com) or call our office for this list.



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