

A LATE SUMMER PAUSE?

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AUGUST 2025



WESTLAKE
PRIVATE WEALTH MANAGEMENT

Welcome to August! Each month, we aim to provide fresh insights into the financial markets and break down current headlines to help you cut through the noise and become a more informed investor. Your feedback and suggestions are always welcome, and if you know someone who might benefit from this piece, we encourage you to share it!

Since our July update, the S&P 500 has closed at a record high twelve times¹ – reinforcing our longstanding view that the tariff-driven selloff of early April marked the low point of this cycle. While that event introduced renewed uncertainty at the time, the market's recovery since then suggests it was viewed as little more than a temporary setback.

Two names in particular – Nvidia and Microsoft – have played a significant role in the rally. Together, they've added an estimated \$3 trillion in market value since the April lows and now account for approximately one-quarter of the S&P 500's total gains during that period.¹ It's a meaningful concentration of performance and naturally raises the question of how long the leadership can continue.

Both stocks remain well-supported by investor enthusiasm for AI and tech in general, but they are also beginning to look extended by historical standards. Microsoft, for instance, is now trading at levels that have only been reached twice in the past 15 years¹. That doesn't suggest a reversal is imminent, but a pause would not surprise us at all.

Behind the headlines, one of the more encouraging developments has been the strength of U.S. corporate earnings. Heading into the second-quarter reporting season, analysts were expecting modest +2.7% growth for the S&P 500 – down sharply from the +9.5% forecast at the start of the year². But so far, actual results have exceeded expectations. With over one-third of companies having reported as-of last week, earnings growth has risen to nearly +6%, and 84% of reporting firms have topped analyst forecasts. That's well above the long-term average of about 70%², and it's helped reinforce a more constructive view of both the economy and corporate fundamentals.

In short, companies are showing resilience, even in a more complex economic environment. That strength has helped justify current market levels and has dampened concerns that earlier worries about profit margins, costs, or slowing demand might derail the overall recovery.

We're also seeing a shift in how investors are reacting to developing tariff and trade policies. Earlier in the year, seemingly any announcement on that front triggered a spike in volatility. But recently, similar announcements have barely moved the needle, and when they have, it has been short-lived. We don't necessarily view this change in attitude as a good or bad thing, but rather a manifestation of investors' collective

bullish stance. This doesn't mean the risks are gone; only that investors appear to be assigning less weight to them – at least for now.

Looking ahead, we're entering what has traditionally been a more volatile stretch. August through October tends to be a seasonally soft and choppy period for equities. This doesn't play out every single year, but statistically, it's a time when market gains are harder to come by and short-term pullbacks are more common.

After a strong run since April, it wouldn't surprise us to see the markets pause and consolidate or simply trade sideways for a stretch. Certain areas of the market – particularly those that have led the rally – may need time to digest recent gains. We see that as healthy and, in some cases, a bit overdue.

But while some areas of the market may appear extended, we remain constructive on stocks overall. In our view, staying invested in high-quality companies with strong earnings growth continues to be the prudent approach. Cash and cash equivalents may provide comfort and stability, but they don't offer the same long-term potential – especially in an economy that's proving more resilient than expected.

Nor do we believe in reacting to headlines or chasing short-term moves, as our clients know very well. Instead, we advocate for portfolio adjustments based on thoughtful analysis and a long-term perspective. This includes managing risk, trimming positions that may have become oversized, and identifying areas where new opportunities may emerge.

It's also important to acknowledge that uncertainty never disappears entirely. Whether that uncertainty stems from Federal Reserve interest rate policy, global issues, or Administration policy, the financial markets will always face a slew of inputs. But rather than trying to predict these moments, our objective is always to be well-prepared for them instead.

Whatever the next month – or months – may bring, please know we'll be here: monitoring developments, filtering out the noise, and helping make decisions with your goals in mind.

If you'd like to touch base about your portfolio or discuss any recent developments in more detail, please don't hesitate to reach out.

As always, there's more to come.

¹Birinyi Associates ²Yardeni Research