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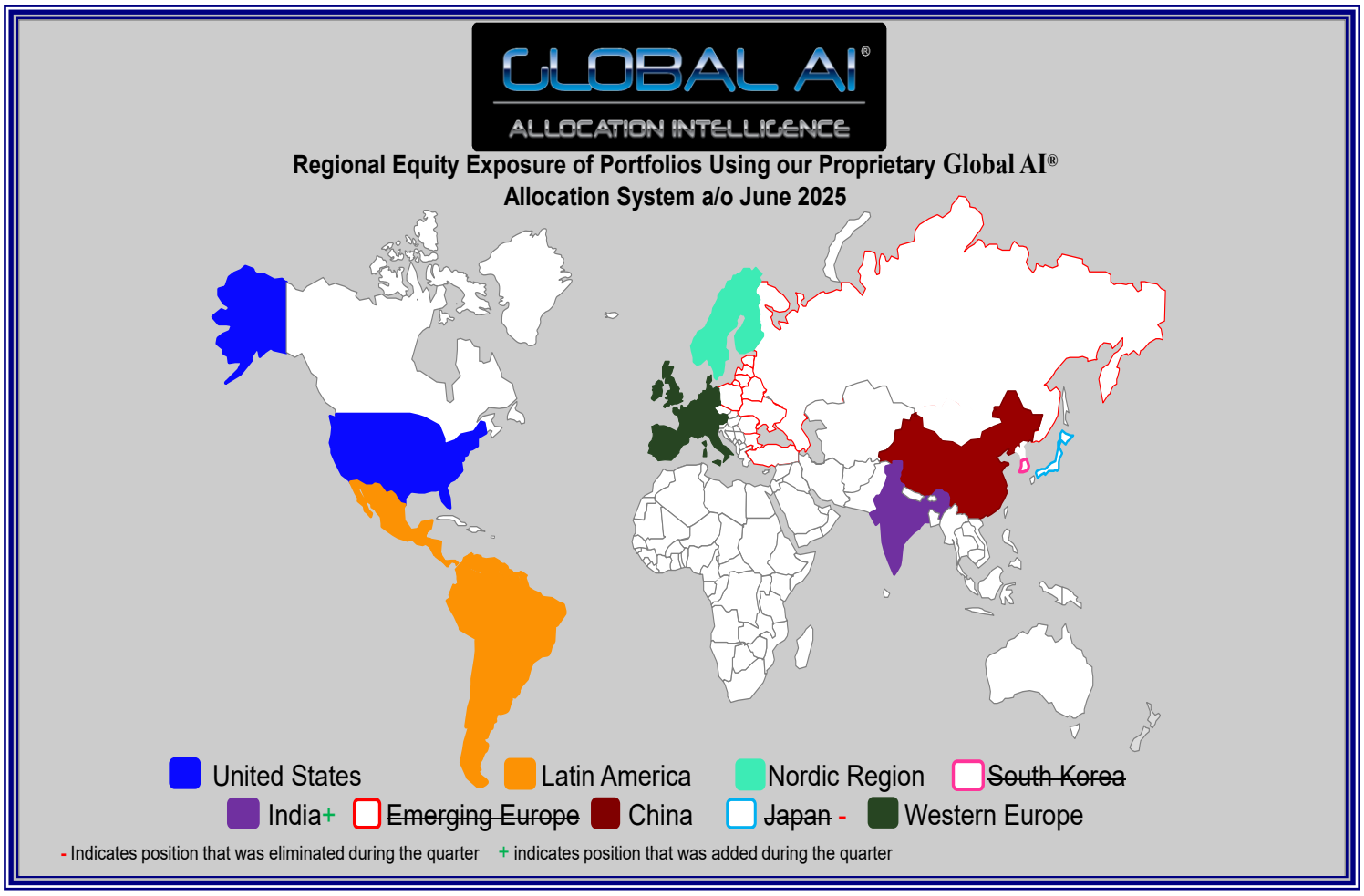
MANAGEMENT, LLC

Quarterly Investment Letter

Second Quarter 2025 Vol. XXIV Issue 2

Key Takeaways

- This quarter, instead of a market recap, we're focusing on what might lie ahead—not to predict, but to prepare.
- Tariffs are back in the headlines, and their potential to stir markets shouldn't be ignored.
- Inflation and interest rates remain tightly linked—and both are on our radar as the Fed navigates economic pressure.
- Political uncertainty in D.C. could introduce more volatility, but staying grounded in a long-term plan remains the smartest response.



Second Quarter 2025

In most quarters, I typically send a short "market recap" message looking back at the previous three months in the markets. This quarter, I want to do something a little different by looking *ahead*. Not to make predictions — we don't waste our time with that sort of thing here at Barrett Capital— but to mentally prepare ourselves for various *possibilities*. The more prepared we are, the easier it will be to maintain a long-term perspective rather than overreact to headlines.

To that end, let's look at some of the storylines my team and I are following that could have an impact on the markets in the second half of the year.

To understand where we are, it's always helpful to understand where we've been. So, in this letter, let's do a quick recap of why markets performed the way they did in Q2. Then, I'd like to share why volatility is a feature, not a bug, of investing.

Tariffs: Back in April, the sweeping slate of tariffs enacted by the Trump Administration sent markets into a tailspin. Many of those tariffs were eventually canceled or suspended, and markets normalized. Since then, investors have entered into a kind of "worst is over mindset." As many tariffs — which were originally suspended until July 9 — were further pushed back into August, the markets have continued to climb, unaffected by trade war fears.

In recent weeks, however, President Trump has again begun suggesting the possibility of new tariffs against various countries, and many trade deals have yet to materialize.[1] Furthermore, many of the "Liberation Day" tariffs announced back in April that were subsequently paused are set to go into effect in August.

If tariff troubles begin rising again, it will be interesting to see whether investors react negatively, or whether the idea of tariffs has been normalized to the extent that it doesn't really provoke a strong reaction. Either way, we should prepare ourselves for tariffs to continue influencing the pulse of the markets moving forward.

Inflation: One reason tariffs make both economists and investors nervous is because they can stoke inflation. Since many tariffs have been suspended or were never enacted, inflation has remained low for the year, but there are signs the tariffs that *are* in play are finally starting to have an effect. Consumer prices rose by 0.1% in May, and a further 0.3% in June, raising the overall inflation rate to 2.7% over the past twelve months.[2] Those aren't huge increases, but the fact that they apply to a wide variety of goods suggests that companies are now passing on the cost of tariffs to customers.

For investors, this matters because it has a direct impact on…

Interest Rates: The task of fighting inflation belongs to the Federal Reserve, which has a mandate to stabilize prices. The Fed's ability to do this largely rests on its ability to drive interest rates.

President Trump has been very vocal about his desire for the Fed to lower interest rates quickly and significantly to help stimulate the economy. The Fed has been resistant to that idea, however, preferring to see how tariffs will affect inflation first. If inflation does continue to climb, it's extremely unlikely the Fed will lower rates any time soon. Depending on how things go, it's even possible the Fed could *raise* interest rates again.

D.C. Drama: Due largely to his frustration with higher interest rates, President Trump has frequently criticized the Fed's chairman, Jerome Powell. On several occasions, the president has even suggested he might fire Powell.[3] (At other times, he has also said he has no intention of doing so.)

Under normal circumstances, this sort of beltway drama is interesting only to other politicians — but the idea of a president firing the chairman of the Federal Reserve is anything but normal. You see, the Fed has historically functioned as an *independent* central bank, meaning its decisions do not need to be approved by either the president or Congress. Why does that matter? Because it gives the Fed freedom to accomplish its mission of maximum employment and stable prices during times of economic stress without having to seek approval first. It also has historically shielded the Fed from being overly influenced or controlled by other factions in Washington. In other words, it enables the Fed to focus on policy over politics.

Whether President Trump can legally fire Powell is an open question. The reason this could affect the markets, though, is because it would signal that the Fed's independence is effectively over. That, in turn, would change everything about how investors expect the Fed to act when it comes to monetary policy. In other words, it would throw a *major* wrench of uncertainty into the markets. And uncertainty, as we know, is ultimately what causes volatility.

Some of these storylines may have a significant impact on the markets. Others may be complete nonfactors. The ultimate takeaway we must remember is to avoid overreacting to any of them. Remember: While storylines like this can drive the markets for weeks, months, even quarters, we are investing for *years.*

As always, my team and I will continue to keep a close eye on Washington and Wall Street so you don't have to. But if you have any questions or concerns as we move towards the end of the year, please don't hesitate to let us know!

Sincerely yours,

Russell E. Lundeberg Jr., CPA

Principal & Chief Investment Officer
Barrett Capital Management, LLC

1 "Trump intensifies trade war with threat of 30% tariffs on EU, Mexico," Reuters, www.reuters.com/business/trump-announces-30-tariffs-eu-2025-07-12/

2 "Consumer Price Index Summary," U.S. Bureau of Labor Statistics, https://www.bls.gov/news.release/cpi.nr0.htm

3 "Trump says 'maybe' he'll try to fire Fed chief," CBS, www.cbsnews.com/news/trump-says-maybe-try-to-fire-federal-reserve-jerome-powell-interest-rates/