Portfolio Advisor is a quarterly commentary for fiduciaries and individuals by John and Katherine Reitnouer, financial advisors with D.A. Davidson & Co. Wealth Management. We favor a proactive investment process that aligns a portfolio with long-term goals in light of economic and market conditions that may affect investment performance in the shorter-term. Volatile markets and conflicting information sources can cloud decision-making, causing many investors to get away from their original plans. We seek to simplify the complex through communication and sound investment management over time.

The way the ball bounces

In Review

Two of the more remarkable accomplishments in second quarter this year were the New York Knicks' bounce back from basketball oblivion to win the NBA championship after a 53-year drought, and across town, the stock market's rebound following the oil supply shock triggered by warfare in Iran. Elite athletes and markets are resilient. They both bounce back from adversity; how quickly and how far matter to their eventual success.

The markets hit the floor hard early in the year but retained enough energy to bounce. Despite a 9% peak-to-trough fall, major equity indexes have posted solid gains by mid-year, led by technology and small-cap strength: the S&P 500 has returned approximately 10.2% YTD, the Nasdaq Composite roughly 12.8%, the Dow Jones Industrial Average about 9.8%, and the Russell 2000 about 22.6%. Developed international equities were up roughly 9.4% and emerging markets were up about 23.9%. Fixed income returns have been more modest: the U.S. Aggregate Bond Index was up approximately 0.6%, while 7–10-year Treasuries were slightly negative. The Bloomberg municipal bond index was up about 2.3%, and TIPS were broadly up about 1.3%.

In every sense of the word, rebounding contributed to the Knicks' rebound. They were tough on the boards; 2nd in the league in defensive rebounds and 5th in offensive rebounds. Ball control leads to more scoring opportunities while denying your opponent. Applying a little high school physics, remember that the angle of reflection equals the angle of incidence adjusted for conditions; in basketball for spin, ball compression, surface conditions, and energy loss. In other words, the rebound depends upon whether the player put up a brick or had some touch.

Like a basketball rebound, a stock market rebound is shaped by the force and angle of the initial decline, the conditions of the surface it strikes, and the energy retained after impact. A sharp selloff may create the potential for a sharp bounce, but the strength and direction of the recovery depend on valuation, liquidity, investor sentiment, policy support, and whether the underlying fundamentals remain intact.

Outlook

Applying that to today, the market has meaningful rebound energy, but less margin for error. Economic growth has slowed from the prior cycle pace but remains positive, while inflation, interest-rate uncertainty, and geopolitical disruption remain active risks. Earnings growth remains strong, AI-related capital spending continues to support profits, and liquidity conditions are still constructive enough to sustain risk appetite. At the same time, the market's "surface conditions" are less forgiving: valuations are elevated, leadership remains concentrated, inflation is sticky, interest rates remain a headwind, and investor positioning appears stretched. One wonders how long the fear of missing out will remain stronger than the fear of missing capital, particularly if the up 20%+ Q2 earnings growth estimates miss, or forward guidance disappoints.

A correction would not necessarily signal a broken bull market; it could simply reflect a sharper angle of incidence after a strong advance. If earnings continue to broaden, inflation moderates, and policy remains supportive, a pullback could set up a healthy rebound. But if higher yields, energy shocks, disappointing AI returns, or weaker earnings revisions absorb too much of the market's energy, the rebound could be lower, choppier, or redirected into more selective leadership.

Portfolio Implications

Balancing the conflicting factors is both the challenge and purpose of portfolio management. Risk control can come from correct diversification, valuation discipline, quality fixed income, and liquidity rather than simply reducing equity exposure alone.

Periods of rapid change reinforce the value of a disciplined, diversified investment approach. Market leadership in Q2 again showed the power of innovation, but it also showed the risk of allowing a portfolio to become overly dependent on a narrow set of companies or themes. Diversification across asset classes, sectors, styles and geographies remains a practical defense against the unexpected.

Quality remains central to our investment process. We continue to favor companies with durable earnings power, strong balance sheets, disciplined capital allocation, pricing power and the ability to generate free cash flow. Growth is desirable, but growth purchased without regard to valuation can become its own risk. We seek to participate in opportunities while maintaining a margin of prudence.

Within fixed income, elevated yields continue to provide a meaningful source of return and stability. Cash equivalents and short-to-intermediate maturities remain useful while interest-rate volatility persists. Selective duration may become more attractive if inflation cools and economic growth moderates, but credit quality should not be sacrificed casually when spreads offer limited compensation for risk.

A rebalancing of positions to reflect our outlook would include increasing cash and introducing TIPS, underweighting technology and discretionary stocks vs. the index, and slightly overweighting healthcare, staples, energy and hard assets. Accounts that face no current taxation provide more flexibility to make changes. Taxable accounts may see less trading, but a similar positioning bias would be appropriate.

When discussing financial markets, it is not satisfactory to say, "That's the way the ball bounces." Recognizing what can be managed and understanding where that ball may bounce- and why- is important in assessing how to position assets. It is a matter of ball control. Thank you for calling upon us to help.

John Reitnouer, Senior Vice President
Financial Advisor, Portfolio Manager

Katherine Reitnouer, CPFA™, CWS®
Senior Vice President, Financial Advisor