1492 CAPITAL MANAGEMENT

DISCOVERING OPPORTUNITY

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INDENTIFY THEMES | FUNDAMENTAL ANALYSIS | TARGET VALUATION | GROWTH STRATEGY | VALUE STRATEGY | CORE ALPHA STRATEGY

1492 Vantage Point Quarterly Newsletter

Welcome to 1492 Capital Management's newsletter for the second quarter of 2025. In each quarterly newsletter, we provide our perspective on the most recent quarter, preview what lies ahead, and offer a bit of market trivia.

Our corporate slogan is "Discovering Opportunity," which is our daily focus for our clients with our small-cap and wealth management portfolios. 1492's time-tested strategies are based on a three-step process of identifying investment themes from hundreds of meetings annually with company executives, extensive tire-kicking of the business fundamentals, and a rigorous valuation methodology.

Trump's Tariff Talk Spooks Market, but Closes the Quarter at a New High

Significant volatility marked the second quarter of 2025 due to policy shifts, tariff related economic uncertainties, and geopolitical instability in the Middle East. The Trump administration's Liberation Day tariff announcements had the market quickly on its heels, and it suffered a near 20% correction from its February high. The initial market reaction was severe, and global equity markets experienced their worst two-day decline on record, which wiped out approximately $5 trillion in value from the S&P 500 alone. A 90-day tariff pause followed this selloff and gave many countries a reprieve from 20% tariffs on global imports and 60% on Chinese goods. This pause led to one of the single largest daily gains in stock market history dating back to 1929. Markets demonstrated resilience and adaptability, which culminated in one of the strongest quarterly performances in recent memory. The quarter also contained the "One Big Beautiful Bill" negotiations, which went smoothly from a governance perspective and was passed shortly after quarter end. While detractors pointed at the bill's price tag of an additional $4 trillion to the U.S. deficit over 10 years, proponents cheered the permanent tax cuts and incentives for building manufacturing facilities in the U.S. Despite concerns over the delays in spending that occurred as a result of the tariff uncertainty, low inflation and persistent consumer spending have kept the economy moving along at a 2%+ growth trajectory. It remains to be seen how much of a hangover there will be from the front-running of inventory purchases that many companies executed late in 2024 and early in 2025 to avoid the pending tariffs. Tariff uncertainty remains as another pause was just granted, and only a few select countries have inked final tariff deals.

The second quarter delivered a dramatic rebound for global markets, and U.S. equities surged to record highs after a tumultuous start. Strong corporate earnings, robust technology and AI sector performance, and resilient consumer demand were the key drivers. Meanwhile, the bond market posted modest gains amid rising volatility, and international equities benefited from a weaker U.S. dollar. Despite many tariff deals being in limbo, U.S. tariff collections have seen a marked acceleration from prior period levels. Even though the Israel-Iran conflict temporarily raised oil prices, the inflation statistics have continued to be very tame lately. This tranquility has left the Fed's interest rate cuts on hold for now while President Trump badgers Jerome Powell. After a lot of noise in the quarter, the S&P 500 jumped +10.94% and the NASDAQ Composite rocketed +17.97%. Small caps continued to lag their larger brethren as the Russell 2000 rose +8.50% and is still the only major index that is down year to date.

The Trump administration's unconventional economic moves will likely continue to cause volatility going forward, but the market seems to understand that it is now part of the playbook. Please read on to see our unique views of what's on tap for the balance of 2025, themes that we're investing in here at 1492, what we believe the key stock market drivers will be, and indulge in some stock market trivia. We will provide our strategy webinars and detailed performance information on 1492's strategies in a separate email next week.

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Significant volatility marked the second quarter of 2025 due to policy shifts, tariff related economic uncertainties, and geopolitical instability in the Middle East. The Trump administration's Liberation Day tariff announcements had the market quickly on its heels, and it suffered a near 20% correction from its February high. The initial market reaction was severe, and global equity markets experienced their worst two-day decline on record, which wiped out approximately $5 trillion in value from the S&P 500 alone. The chart below left shows the Global Trade Uncertainty Index, which hit levels not seen over the past 20 years. A 90-day tariff pause followed this selloff and gave many countries a reprieve from 20% tariffs on global imports and 60% on Chinese goods. This led to one of the single largest daily gains in stock market history going back to 1929 as shown in the table below right.

Source: Strategas

10 Best Days For The S&P 500 Since 1929

1	3/15/1933	16.6%
2	10/30/1929	12.5%
3	10/6/1931	12.4%
4	9/5/1939	11.9%
5	9/21/1932	11.8%
6	10/13/2008	11.6%
7	10/28/2008	10.8%
8	6/22/1931	10.5%
9	4/20/1933	9.5%
10	4/9/2025	9.5%

Source: Strategas

Markets demonstrated resilience and adaptability, culminating in one of the strongest quarterly performances in recent memory. However, Wall Street strategists, in typical fashion, completely missed the boat as nearly all of them recalibrated their year-end S&P 500 targets amid the initial tariff noise. They seem to be reporters and not analysts.

Year-End 2025 Wall Street Strategist Targets (1/1/2025)

Firm	Px Target (sorted)	Date Changed
Oppenheimer	7,100	12/9/2024
Wells Fargo	7,007	12/3/2024
Yardeni Research	7,000	12/16/2024
Deutsche	7,000	11/25/2024
Evercore ISI	6,800	12/15/2024
Societe Generale	6,750	12/9/2024
HSBC	6,700	12/6/2024
BMO Capital Markets	6,700	11/18/2024
Natixis	6,700	11/8/2024
BofA Securities	6,666	11/26/2024
Scotiabank	6,650	12/9/2024
Fundstrat	6,600	12/11/2024
Ned Davis Research	6,600	12/10/2024
RBC	6,600	12/9/2024
Barclays	6,600	11/25/2024
CFRA	6,585	12/10/2024
Ameriprise	6,500	12/18/2024
Morgan Stanley	6,500	12/11/2024
Citi	6,500	12/6/2024
JP Morgan	6,500	11/27/2024
Goldman Sachs	6,500	11/19/2024
BNP	6,300	12/6/2024
Cantor	6,000	11/11/2024
Stifel	5,500	12/12/2024
BCA Research	4,450	12/10/2024
Average	*6512*	
S&P on 1/3/2025	*5942*	
% Difference	*9.6%*	

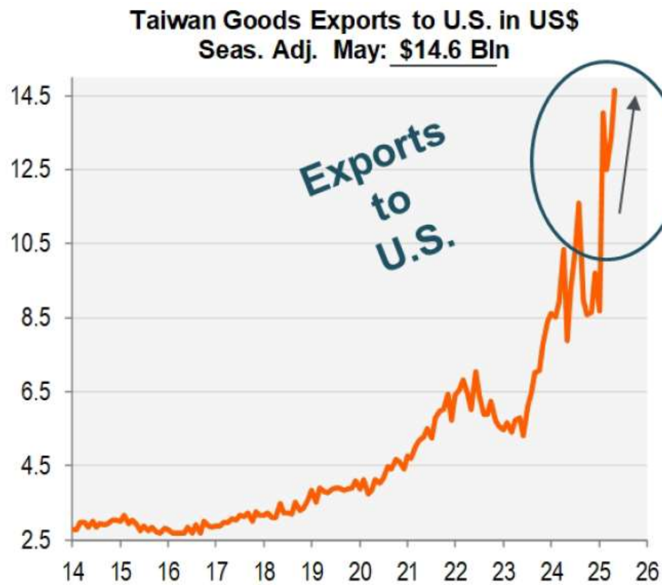
Year-End 2025 Wall Street Strategist Targets (6/2/2025)

Firm	Px Target	YTD Change (sorted)	Date Changed
Evercore ISI	5,600	-1,200	4/6/2025
Oppenheimer	5,950	-1,150	4/6/2025
HSBC	5,600	-1,100	4/29/2025
BofA Securities	5,600	-1,066	4/7/2025
Ned Davis Research	5,550	-1,050	4/7/2025
Ameriprise	5,600	-900	4/30/2025
RBC	5,730	-870	6/2/2025
Citi	5,800	-700	5/5/2025
Natixis	6,000	-700	5/7/2025
CFRA	5,925	-660	4/23/2025
BMO Capital Markets	6,100	-600	4/9/2025
Barclays	6,050	-550	6/4/2025
JP Morgan	6,000	-500	6/5/2025
Yardeni Research	6,500	-500	5/13/2025
Deutsche	6,550	-450	6/2/2025
BNP	5900	-400	5/13/2025
Goldman Sachs	6,100	-400	5/12/2025
Societe Generale	6,400	-350	4/1/2025
Cantor	5,800	-200	4/16/2025
BCA Research	4450	0	2/17/2025
Morgan Stanley	6,500	0	5/20/2025
Stifel	5500	0	1/14/2025
22V Research	5,570	-	4/16/2025
Raiffeisen	5,900	-	5/6/2025
UBS	5,300	-	4/22/2025
Zacks	5542	-	4/4/2025
Average	*5828*	*-607*	
Current S&P	*6000*		
% Difference	*-2.9%*		

The average sell-side analyst has reduced their 2025 target by ~600 bps.

Source: Strategas

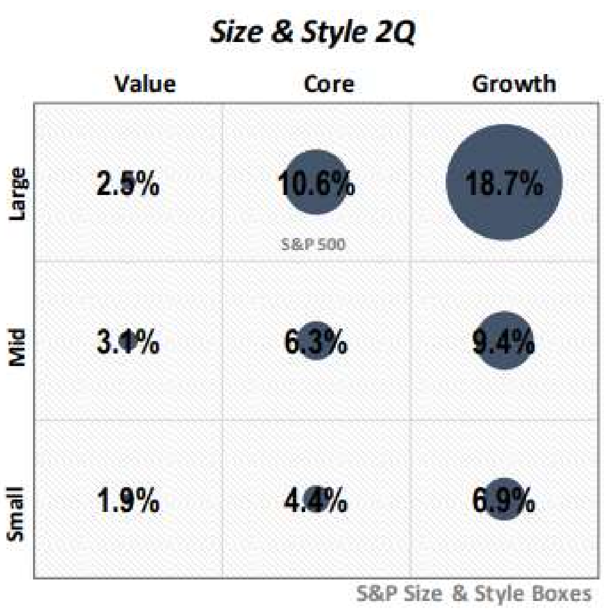
The quarter also contained the “One Big Beautiful Bill” negotiations, which went smoothly from a governance perspective and was passed shortly after quarter end. While detractors pointed at the bill’s price tag, adding $4 trillion to the U.S. deficit over 10 years, proponents cheered the permanent tax cuts and incentives for building manufacturing facilities in the U.S. Low inflation and persistent consumer spending have kept the economy moving along at a 2%+ growth trajectory, despite concerns over the delays in spending that occurred as a result of the tariff uncertainty. It remains to be seen how much of a hangover there will be from the front-running of inventory purchases many companies did late in 2024 and early in 2025 to avoid the pending tariffs. Tariff uncertainty remains as another pause was granted, and only a few select countries have inked final tariff deals. The chart below left shows exports to the U.S. from Taiwan, which is the epicenter for AI-related equipment, so it’s difficult to tell how much product was being shipped in anticipation of higher tariffs to come. The broader U.S. Mfg PMI (Purchasing Managers Index), which measures the tone of U.S. manufacturers, remained resilient throughout the first half of the year. Despite all the uncertainty around tariffs, the current reading of 52% is in expansion territory.



Source: PSC

Source: PSC

The second quarter delivered a dramatic rebound for global markets as U.S. equities surged to record highs after a tumultuous start. Strong corporate earnings, robust technology and AI sector performance, and resilient consumer demand were the key drivers. The chart on the left shows graphically how skewed the markets were to large-cap growth stocks, like Microsoft and Nvidia, which now act like the most stable parts of the market. The table on the right shows the rapidity with which the markets shrugged off a -15% drawdown before reaching new all-time highs. It was the fastest bounce on record at only 55 days.



Source: PSC

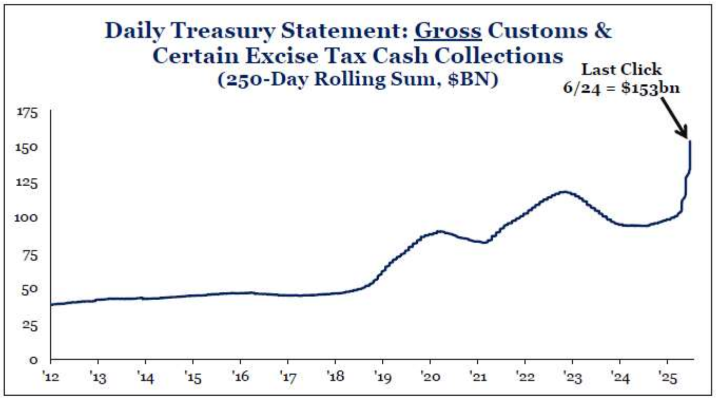
Number of Trading Days to Make it Back to the Highs Following -15% Drawdowns in S&P 500

Date of Low	Date of New High	Trading Days
10/22/1957	9/24/1958	233
6/26/1962	9/3/1963	299
10/7/1966	5/4/1967	143
5/26/1970	3/6/1972	451
10/3/1974	7/17/1980	1462
8/12/1982	11/3/1982	58
12/4/1987	7/26/1989	414
10/11/1990	2/13/1991	86
8/31/1998	11/23/1998	59
10/9/2002	5/30/2007	1166
3/9/2009	3/28/2013	1021
7/2/2010	11/4/2010	87
10/3/2011	2/24/2012	99
12/24/2018	4/23/2019	81
3/23/2020	8/18/2020	103
10/12/2022	1/19/2024	318
4/8/2025	6/27/2025	55
	Average:	361
	Median:	143

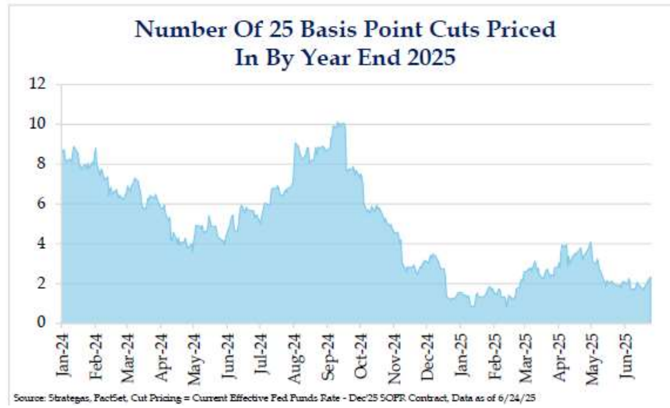
Beat the 1998 comp by 4 trading days... fastest return to a new high following a -15% drawdown in history.

Source: Strategas

Meanwhile, the bond market posted modest gains amid rising volatility, and international equities benefited from a weaker U.S. dollar. Despite many tariff deals being in limbo, U.S. tariff collections have seen a marked acceleration from prior period levels as shown in the chart below left. Even though the Israel-Iran conflict temporarily raised oil prices, the inflation statistics have continued to be very tame lately. This tranquility has left the Fed's interest rate cuts on hold for now while President Trump badgers Jerome Powell. The chart below right shows that Wall Street continues to expect two 25-basis point cuts by year end.



Source: Strategas



Source: Strategas

The table below shows that the stock market posted strong returns in the second quarter after a softer start to the year. After a lot of noise in the quarter, the S&P 500 jumped +10.94% and the NASDAQ Composite rocketed +17.97%. Small caps continued to lag their larger brethren as the Russell 2000 rose +8.50% and is still the only major index that is down year to date.

Index Returns		
Index	Second Qtr. 2025 Return	2025 YTD Return
Russell 2000	+8.50%	-1.79%
Russell 2000 Growth	+11.97%	-0.48%
Russell 2000 Value	+4.97%	-3.16%
S&P 500	+10.94%	+6.20%
Dow Jones Industrials	+4.98%	+3.64%
NASDAQ Composite	+17.96%	+5.85%

Source: 1492 Capital Management, LLC and FactSet

From a style perspective, the Russell 2000 Growth Index (+12%) beat the Russell 2000 Value Index (+5%) for the quarter. This victory for the growth side of the house shows the power of the AI movement. When AI is in vogue, it takes all of the growth indices with it, and this quarter's lopsided outcome for growth stocks proves this out. Small-cap indices trailed the large-cap benchmarks due to ongoing cuts in earnings expectations for the Russell 2000 constituents. Wall Street blames much of this reduction on the economically sensitive nature of small caps as tariff impacts have been much harder for them to offset. However, we disagree with this general thesis as the small-cap index has significantly less international exposure and more financial / bank exposure, which should help buffer the potential tariff impacts. The best-performing sector in the Russell 2000 for the quarter by far was the Tech sector (+21.3%) due to the strong performance of AI-related stocks. A distant second was Industrials, as the tariff reprieve was viewed as a potentially positive impact for these companies that might end up escaping the tariff impact altogether. The worst-performing sectors were the bond proxies like Real Estate (-1.9%) and Utilities (-1.4%), which were the safe havens and outperformers last quarter. Oddly, on a year-to-date basis, the best-performing sector is Materials (+5.1%) as they have become the bargaining chip for many of the tariff discussions currently taking place. The table immediately below highlights the performance of the Russell 2000 Index by sector for the second quarter and year-to-date 2025. The second table below shows that there was a reversal in the performance by size. For years, there has been a significant market cap skew in the numbers, as the performance was significantly worse moving down the market cap spectrum. This quarter reversed that trend but not enough to offset the year-to-date numbers. See the green and red arrows below. This change could be indicative of a broadening out of the market's performance and away from just the Magnificent 7.

Russell 2000:

Table 4 - Russell 2000 Scorecard through June 30.

	June			Second Quarter			Year to Date			
GICS Sector	Absolute	Contribution	Relative	Absolute	Contribution	Relative	Absolute	Contribution	Relative	Wgt
Com Serv	12.05	0.30	6.62	10.24	0.25	1.74	-3.56	-0.13	-1.77	2.6
Discretionary	3.36	0.31	-2.08	9.69	0.92	1.18	-6.65	-0.65	-4.87	10.1
Staples	-4.02	-0.13	-9.46	-0.98	-0.03	-9.48	-1.07	-0.04	0.71	2.3
Energy	6.57	0.31	1.14	-0.65	-0.11	-9.15	-13.43	-0.76	-11.65	4.9
Financials	5.38	1.03	-0.06	6.55	1.31	-1.95	1.93	0.36	3.72	19.3
Health Care	4.63	0.76	-0.80	2.67	0.40	-5.83	-5.83	-1.17	-4.05	16.0
Industrials	6.65	1.20	1.22	15.49	2.74	6.98	2.75	0.63	4.53	17.1
Info Tech	9.58	1.28	4.14	21.27	2.73	12.77	-1.05	0.04	0.74	14.7
Materials	5.63	0.23	0.19	13.01	0.54	4.51	5.06	0.26	6.84	3.8
Real Estate	2.51	0.15	-2.93	-1.87	-0.20	-10.37	-5.06	-0.43	-3.28	6.1
Utilities	-0.39	-0.01	-5.83	-1.40	-0.05	-9.91	3.80	0.09	5.58	3.2
Size Quintile	**Absolute**	**Contribution**	**Relative**	**Absolute**	**Contribution**	**Relative**	**Absolute**	**Contribution**	**Relative**	**Wgt**
1 (Largest)	5.32	3.18	-0.12	8.77	5.29	0.27	0.43	0.48	2.21	56.1
2	4.94	1.12	-0.49	6.46	1.42	-2.04	-6.11	-1.60	-4.33	24.7
3	6.38	0.68	0.94	9.33	0.98	0.83	-2.95	-0.40	-1.17	11.5
4	6.10	0.30	0.67	10.55	0.53	2.05	-2.83	-0.17	-1.05	5.6
5 (Smallest)	8.61	0.15	3.17	15.75	0.28	7.25	-4.15	-2.37	2.15	0.0

Returns in the international markets were generally positive and continued their strong year-to-date performance. They have generally outperformed the U.S. markets so far this year. European markets have, for the most part, been stronger than Asian markets so far this year. Tariffs once again are likely the determining macro factor as European countries aren't facing as high tariffs as the Asian countries. China markets continue to act very muted as the Chinese government continues to stimulate their economy to offset the mass exodus from U.S. companies as many of them are shifting production to other Southeast Asia countries. Germany is leading the way in Europe as they have significant exposure to China. The U.S. tariffs on Chinese products may be pushing China to do more business with Germany. Bond market returns were mixed as shorter-term interest rates fell, and as treasury securities became a haven from the tariff turmoil. From a commodity perspective, nearly all commodities were weak in the quarter as tariff-related demand concerns began to take hold and the early pull forward seen at the start of the year began to wane. Natural gas continues to be the clear standout after a strong 2024. Demand continues to be robust, and Trump favors exporting liquefied natural gas, which should be a nice tailwind for the commodity. Gold also appreciated nicely as it rode the theme of inflation reaccelerating under President Trump due to tariffs. Volatility plummeted post the tariff reprieve and is now down year to date.

Index	Second Qtr. 2025 Return	2025 YTD Return
France	+1.0%	+7.8%
Germany	+7.9%	+20.1%
Brazil	+6.6%	+15.4%
India	+10.6%	+7.6%
China- A Shares	+2.4%	-0.3%
China- Shenzhen A Shares	+3.1%	+3.3%
Japan	+7.5%	+2.8%
Long-Term Treasuries (TLO)	-2.9%	+1.5%
Investment Grade Corp Bonds	+1.6%	+4.4%
Gold	+5.1%	+25.2%
Volatility- VIX Index	-23.2%	-3.6%
Oil	-8.6%	-9.2%
Natural Gas	-11.7%	+12.7%
Lumber	-6.1%	+14.2%

Source: 1492 Capital Management, LLC

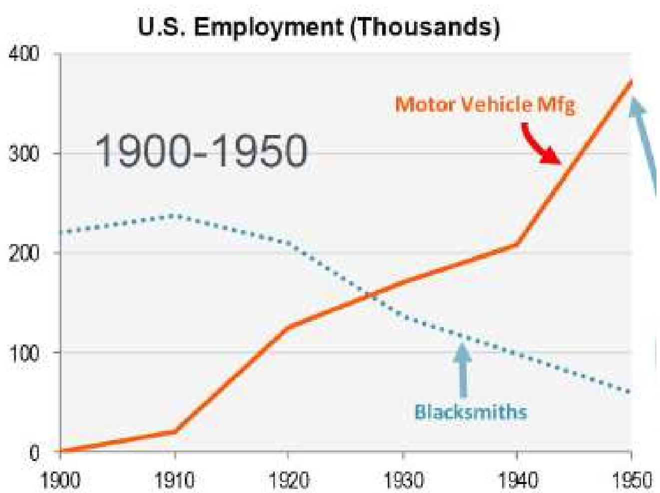
Thematic Investing: History Shows Job Loss Fears Driven by AI are Likely Overstated

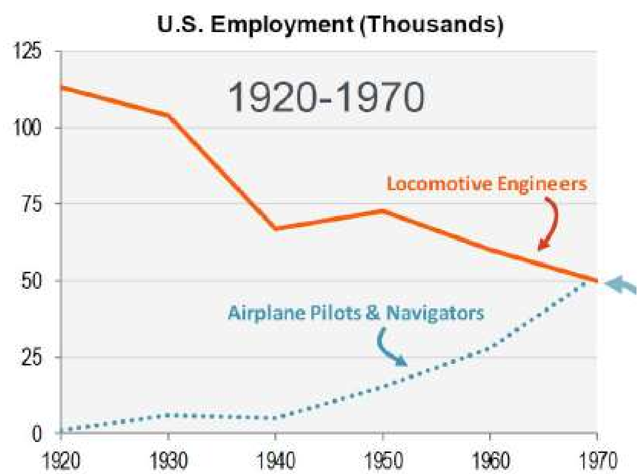
There is a common narrative being spun by a host of talking heads that AI will ultimately drive mass unemployment as it begins to displace many administrative and lower-level jobs through automation in sectors like technology, manufacturing, and services. These fears stem from AI's ability to perform complex tasks from coding to customer service, which may reduce labor demand.

Historical technological revolutions provide context for assessing AI's impact.

- **Industrial Revolution (18th–19th Century)**: Mechanization displaced agricultural and craft workers but created new roles in manufacturing and urban economies. Unemployment spikes were temporary with long-term job growth in new industries.
- **Computing Revolution (20th Century)**: Mainframe and personal computers automated clerical tasks but spurred demand for programmers, IT specialists, and tech support roles. The U.S. unemployment rate remained stable with an average of 5–6% from 1960–1980.
- **Internet and Automation (1990s–2000s)**: E-commerce and robotics disrupted retail and manufacturing, but new sectors (e.g., digital marketing, logistics) emerged and helped to maintain unemployment around 4–6%.

Each shift caused short-term disruption but led to net job creation over decades as economies adapted. AI's current trajectory mirrors these patterns as rapid adoption creates both risks and opportunities. Below are two different periods that experienced technology shifts. The first on the left is a part of the Industrial Revolution when auto production displaced the need for blacksmiths who produced horseshoes. On the right is a chart that shows the displacement of locomotive engineers by airplane pilots as the airline era accelerated.

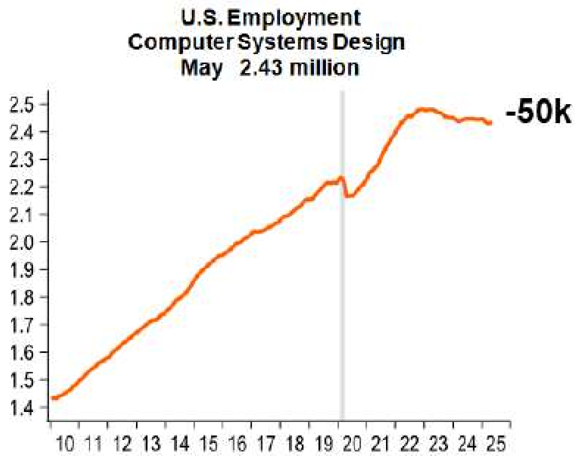


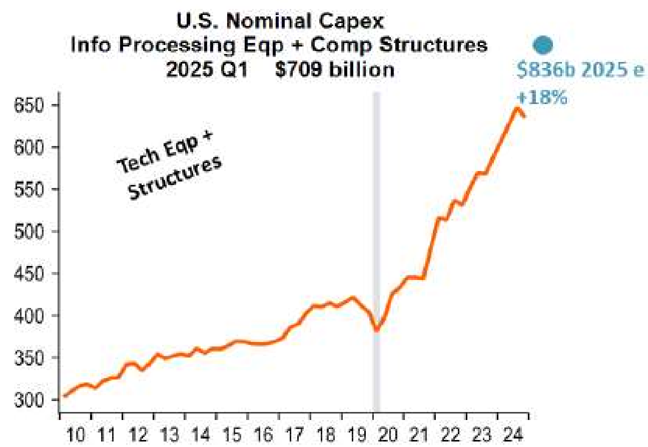


Source: PSC

Reality Check

- **Current Labor Market**: Q2 2025 data shows U.S. unemployment at 4.1–4.2% as June nonfarm payrolls rise above expectations to 147,000. Wage growth remains resiliently positive, particularly for low-wage workers. The chart below left shows that there has been a drop in the number of programmers over the past several years following decades of unbridled growth. Programmers will likely continue to be in demand as software embeds more AI-related features and functions. However, there is no doubt that AI is taking over a significant amount of lower-level programming.
- **AI's Impact**: AI is driving capital expenditures in tech and energy (e.g., data centers, power infrastructure), which is creating jobs in engineering, construction, and renewable energy. However, white-collar roles (e.g., data analysis, administrative tasks) face displacement risks. Estimates suggest AI could automate 20–30% of current jobs by 2030, but new roles in AI development, ethics, and maintenance are emerging. The chart below right shows the significant increase in technology equipment and structures (data centers) over the past five years. It requires construction workers for the data centers and engineers to facilitate power generation, distribution, and renewables growth.
- **Historical Parallel**: Like past shifts, AI's disruption is likely to be gradual and include retraining and upskilling to mitigate unemployment spikes. The Department of Government Efficiency (DOGE) layoffs may edge unemployment higher, but cyclical employment growth is expected to offset this increase.





AI will disrupt labor markets, but historical precedent suggests it won't drive unemployment to unprecedented levels. Instead, it will create new roles while requiring workforce adaptation. We will monitor labor market data (e.g., jobless claims, nonfarm payrolls) and invest in sectors benefiting from AI-driven capex, which includes energy and industrials. We at 1492 Capital Management will continue to search for opportunities to invest in companies that are well-positioned with their workforce to capture a disproportionate share of these activities.

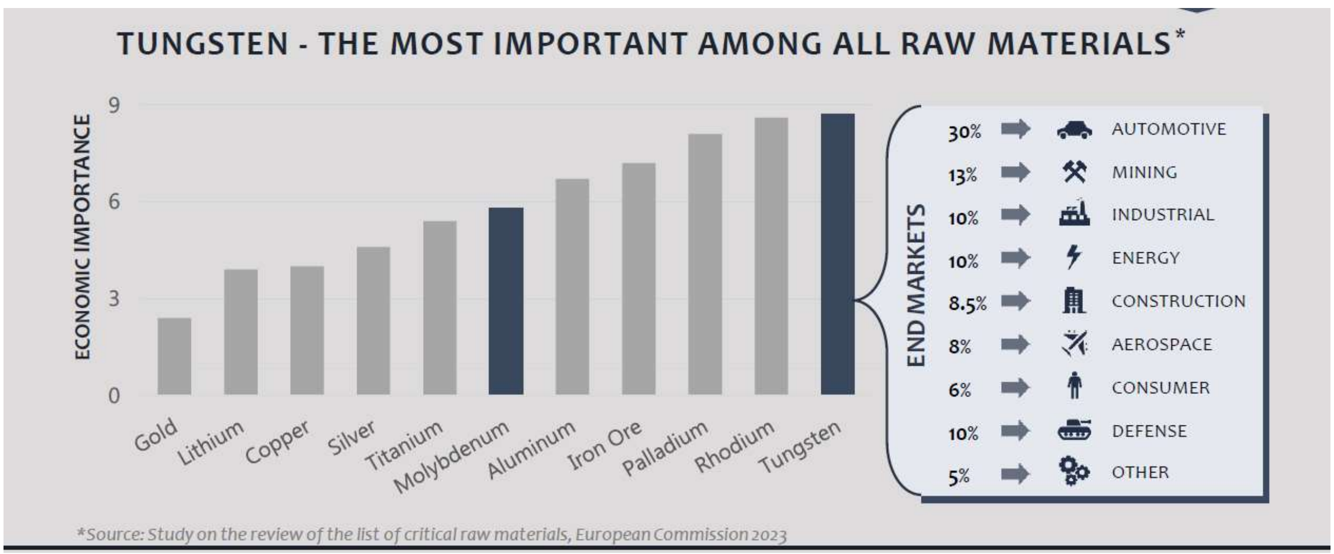
Thematic Investing Update: Specialty Metals Part II – Adversaries Exerting Leverage on the U.S.

In our previous quarterly newsletter, we discussed the exceptionally poor position that the U.S. finds itself in concerning critical minerals and materials. These minerals are ones where the U.S. faces sizable supply challenges and must rely largely on China or Russia for its needs. We have continued to research this subject matter as part of our efforts to deploy additional holdings within the 1492 Capital Management's specialty metals theme. Over the past three months, the topic of critical minerals has gained additional attention for disruptions associated with decisions from both the Chinese and Russian governments.

For Russia, they are following the centuries-old pattern of fighting for strategic resources with its war in Ukraine. According to estimates from the Center for International Relations and Sustainable Development (CIRSD), the Russians controlled roughly $12.5 trillion of Ukrainian mineral and energy deposits within months of their 2022 invasion. Some of these key deposits hold manganese, titanium, nickel, rare earth metals, lithium, and even neon, which the U.S relies on Ukraine for 90% of its needs for this gas used in semiconductor production. As the country potentially holds the largest rare earths deposits in Europe, the U.S. has signed a deal with Ukraine for the development of these minerals so that in the long term, we may reduce our reliance on China for the metals and their processing. As seen in the green area in the chart below, the largest rare earths deposit lies in the Russian-controlled area of Ukraine. The titanium deposits in yellow in the chart below are of note as well as the critical metal is vital for U.S. aircraft production. China and Russia are the largest and third-largest titanium producers, respectively, with Ukraine in sixth place. Russian sanctions have severely restrained the import of titanium bar and rod into the U.S, and according to Lasting Titanium, airlines have cut flights due to shortages of titanium-based parts for maintenance and repair.

As the 800 lb. gorilla or larger in the rare earths minerals business, China is vital for the ore and just as important, its processing into permanent magnets, which are used extensively in electric vehicles and in sensors, spark plugs, and catalytic converters of traditional automobiles. When the U.S. announced its tariff plan in early April, the Chinese retaliated with export restrictions on rare earths and magnets, which cut the flow of magnets by 75%. By mid-June, one auto executive who commented for a Reuters article described the U.S. and European auto companies as being in full panic. Consequently, the Trump administration found a way to negotiate the loosening of these restrictions in late June and avoid further unplanned production shutdowns like the ones that Ford experienced during the month. If there was anyone who thought that China did not have any negotiating leverage in trade talks, this U.S. automotive scramble put that notion to bed. We can add the automotive sector to the aerospace and defense industries that we discussed in the previous newsletter as being critical mineral pinatas with an adversary holding the bat to swing away at our supply chain. As these actions are taken, U.S. production cycles are impacted due to shortages and usually extended as suppliers scramble for key critical minerals and materials.

During the quarter, we were able to speak with multiple management teams that lead critical mineral companies. One of the companies is mining tungsten, which is the sixth-ranked strategic metal for national security. As seen in the bar graph below, a 2023 European Commission report cited tungsten as the top raw material for economic importance amongst a group of ten heavily used metals. The U.S. has no primary tungsten production, but it is needed in tank armor, bullets, and ballistics. China and Russia control roughly 85% of the market. In addition, tungsten gas is used in semiconductor production. Starting in 2026, the U.S. REEShore Act (Restoring Essential Energy and Security Holdings Onshore for Rare Earths Act of 2022) prohibits the use of Chinese tungsten in military equipment, according to a CNBC article. The enforcement of this legislation to foster supply outside of Russia and China for tungsten should represent a priority for the U.S. military to keep its supply chains healthy and efficient.



During the quarter, we also were able to participate in a conversation with the CEO of an antimony miner. On the list of critical minerals for the U.S., antimony is used in bullets, military electronics, and laser-guided missiles, and China and Russia control about 60% of the world's supply. Due to declining ore grades in China, the market has tightened for antimony, with prices soaring from $5-6 per pound in the 2021-2023 period to nearly $27 per pound at the end of April of this year. This company has plans to ramp production in the U.S. and process ore here as well. Reducing the ability of adversarial nations to disrupt giant portions of the economy in autos, aerospace, and defense is paramount for healthy economic growth. The 1492 Capital Management research team continues to search for additional holdings for our specialty metals investment theme that are helping to solve the sourcing of critical minerals and materials for the U.S. from domestic or friendly country sources.

2025 Updated Outlook: Policy Uncertainty Remains Biggest Hurdle for Small Cap Outperformance

Market Outlook for the Balance of 2025
Looking ahead to the second half of 2025, several key themes and drivers are likely to shape market performance:

Policy Uncertainty Resolution: The trajectory of trade policy will remain a critical factor. Markets will closely monitor any signs of policy moderation or successful trade negotiations that could reduce tariff burdens. The ongoing legal challenges to the tariff program, which include recent appeals court proceedings, add another layer of uncertainty that markets will need to navigate.

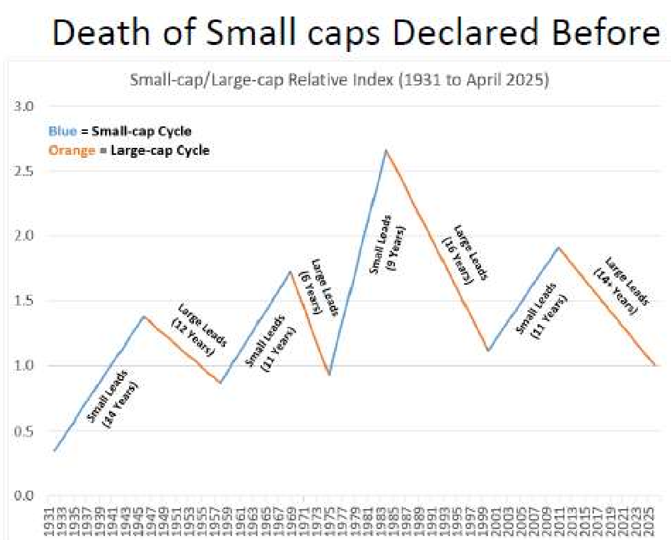
Corporate Earnings Resilience: The ability of companies to maintain earnings growth despite trade headwinds will be crucial. The technology sector's continued innovation and the broader market's adaptation to new trade realities will be key determinants of equity performance.

Federal Reserve Policy: Interest rate policy will remain important, particularly as the Fed balances the potential inflationary impacts of tariffs against signs of economic slowdown. The central bank's communication strategy and policy decisions will significantly influence both equity and fixed-income markets. We are still in the camp that inflation is a dead issue unless oil prices surge from current levels. Absent that surge, we expect a rate cut before year-end.

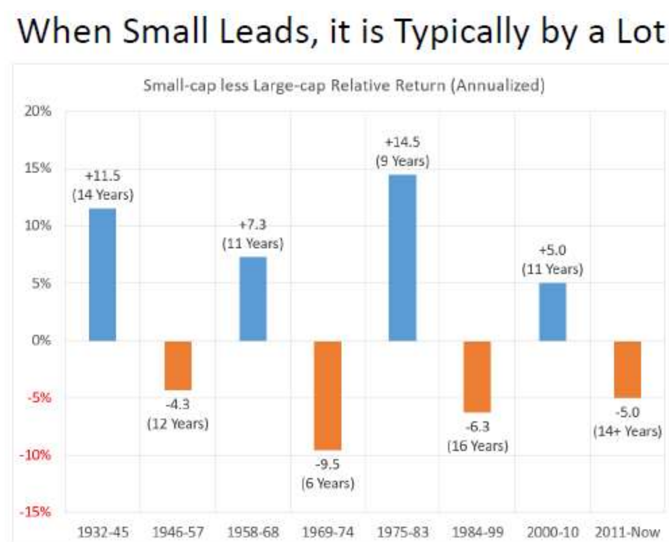
International Market Dynamics: The performance of international markets will depend on their ability to adapt to the new trade environment and potentially benefit from trade diversion effects. Countries and regions that can successfully navigate the changing trade landscape may present attractive investment opportunities.

AI Investment Sustainability: The continued evolution of AI technology and its commercial applications will be crucial for technology sector performance. The sustainability of current AI investment levels and the emergence of profitable AI business models will be key factors to monitor.

Small-Cap Recovery Potential: While small-cap stocks underperformed in 2Q, their attractive valuations and potential for policy benefits (such as reduced international competition) could lead to outperformance in the second half if economic conditions stabilize. We feel a bit like a broken record here as small caps have underperformed for quite a while albeit with some temporary reprieves along the way. The death of small caps has been declared before, as shown in the chart below left. It's usually at times when everyone hates something that it inevitably finds a bottom and begins to outperform. When small caps work, they typically outperform by a lot as the chart below right shows.

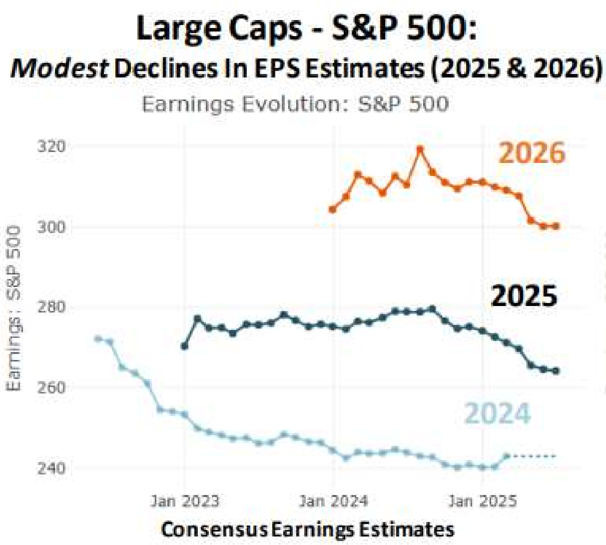


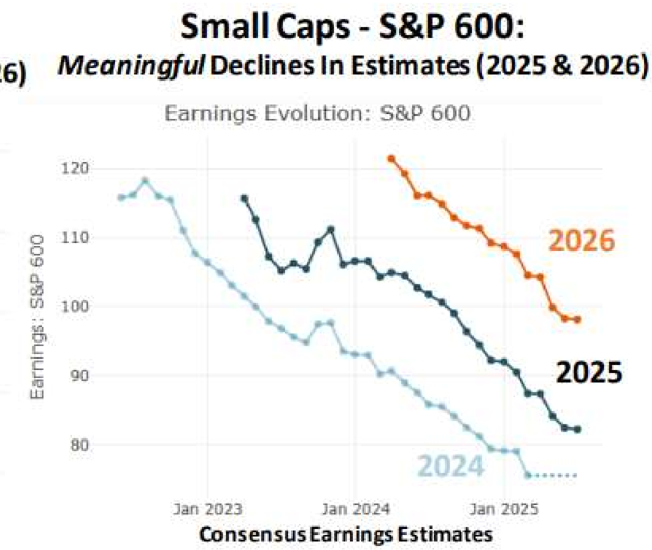
Source: Furey Research



Source: Furey Research

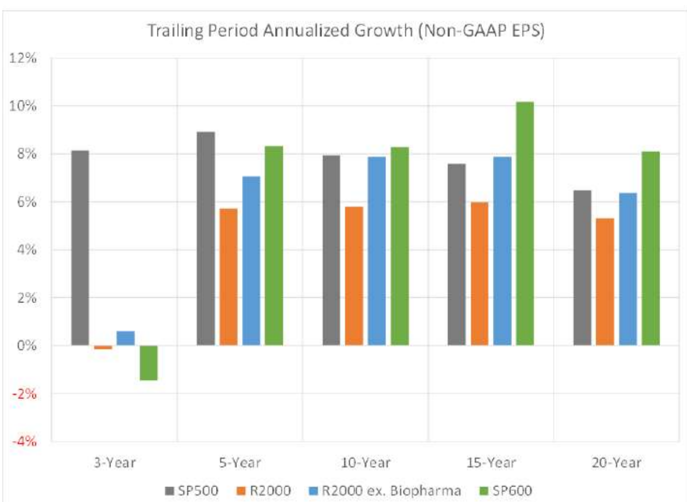
However, until small-cap earnings estimates stop being cut and at least stabilize, they will likely continue to underperform large caps. It's not unusual to see forecasted earnings come down at the start of a year as there always seems to be a lot of optimism in the earnings expectations for the current and next year. The charts below show the cuts being made for both the S&P 500 (left) and the S&P 600 Small Cap index (right). The good news is that the estimates appear to have stabilized lately for small caps.





Source: Strategas Research

Except for the recent past, small-cap earnings growth has historically been as good or better than the S&P 500 earnings growth. However, it has recently lagged badly due primarily to the strong earnings growth that the Magnificent 7 stocks have had over the past three years. See the chart below left. The underperformance of small caps relative to large caps has left them at a level from which they have seen strong outperformance as shown on the chart below right. Additionally, the profitable segment of the Russell 2000 Index trades at a significant valuation discount to the S&P 500 index, which is near all-time high valuations.



Source: Furey Research Partners and FactSet. Based on Non-GAAP EPS.

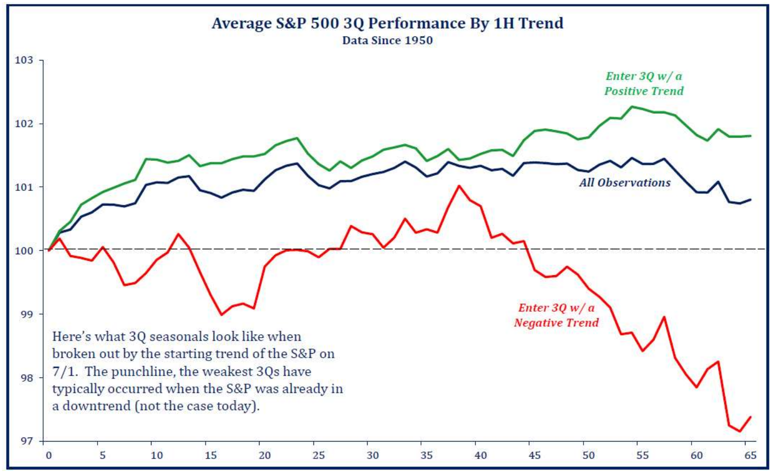
Source: Furey Research

The results for the first half of 2025 may lead to some potentially compelling outcomes if we take a look at history. The chart below left shows that in years when the first quarter is negative and the second quarter sees a return greater than 10%, the balance of the year sees strong returns with nearly 80% positive. The chart on the right shows third-quarter returns when you enter the quarter on a positive trend. This evidence bodes well for 2025 as the S&P 500 is near an all-time high.

SPX Performance | When Q1 is Negative and Q2 Posted >10% Gain (1928-YTD)

Year	SPX - Performance				
	Q1	Q2	Q3	Q4	Jul-Dec
1933	-15.46%	86.50%	-10.91%	2.57%	-8.62%
1935	-11.05%	21.18%	13.18%	15.88%	31.15%
1938	-19.43%	36.00%	5.88%	7.35%	13.67%
1948	-1.44%	11.01%	-7.47%	-1.87%	-9.20%
1968	-6.50%	10.40%	3.10%	1.16%	4.30%
1980	-5.42%	11.90%	9.82%	8.21%	18.84%
2003	-3.60%	14.89%	2.20%	11.64%	14.10%
2009	-11.67%	15.22%	14.98%	5.49%	21.30%
2020	-20.00%	19.95%	8.47%	11.69%	21.15%
2025	-4.59%	10.57%	-	-	-
Average	-9.92%	23.76%	4.36%	6.90%	11.85%
Median	-8.78%	15.06%	5.88%	7.35%	14.10%
% Positive	0%	100%	78%	89%	78%
Maximum	-1.44%	86.50%	14.98%	15.88%	31.15%
Minimum	-20.00%	10.40%	-10.91%	-1.87%	-9.20%

Source: Piper Sandler Technical Research/Bloomberg # of occurrences: 10



Source: Strategas Research

Key Risks and Opportunities

Risks:

- Escalation of trade tensions lead to broader economic disruption.
- Unintended consequences of tariff policies on domestic industries and consumers.
- Potential for retaliatory measures from trading partners.
- Slower-than-expected economic growth due to trade policy impacts.

Opportunities:

- Continued technology sector innovation and AI commercialization.
- Potential for trade policy modifications that remove market uncertainty.
- Attractive valuations in certain market segments, particularly small-cap stocks.
- Possible benefits to domestic industries from reduced international competition.

Wealth Management Monitor – Thematic Investing: Capitalizing on Mega-trends

As many of you know, 1492 Capital Management also offers a series of wealth management portfolios that are managed consistently with our small-cap strategies through the use of thematic research and stock picking. These portfolios range in risk from very conservative to ultra-aggressive with several in between. Welcome to the Wealth Management Monitor! This quarter, we're shifting our focus to **identifying where opportunities currently lie in the market for the balance of 2025 and beyond.** The investment landscape is dynamic, and while prudence remains key, several compelling themes are emerging that warrant your attention. Beyond traditional sectors, **thematic investing** allows one to directly invest in powerful, long-term trends that are shaping the future. Several strong themes that we're currently invested in or researching include:

- **Artificial Intelligence (AI):** The widespread adoption and advancement of AI continue to reshape industries globally. Investing in companies at the forefront of AI development or those heavily leveraging AI to enhance their operations, presents significant growth potential. This opportunity includes everything from core AI technology providers to sectors that AI is revolutionizing, which include healthcare and manufacturing.

- **Global Infrastructure:** As economies look to "reshoring" manufacturing and upgrading aging systems, there's a significant push for infrastructure development. This push includes not only traditional infrastructure like transportation and utilities, but also the new infrastructure required to support emerging technologies such as data centers and advanced energy solutions.

- **Healthcare Innovation:** This theme goes beyond traditional pharmaceuticals. It includes cutting-edge areas like biotechnology (think gene therapy and personalized medicine), medical technology (new diagnostic tools and robotic surgery), and digital health (telehealth, wearable health tech, and AI-driven diagnostics). Companies at the forefront of preventing, treating, and managing age-related conditions are poised for significant growth.

- **Supply Chain Reshoring & Localization - A More Resilient World:** The past few years have highlighted the vulnerabilities of highly globalized, "just-in-time" supply chains. Geopolitical tensions, natural disasters, and global pandemics have spurred a significant shift towards reshoring, nearshoring, and localization of manufacturing and critical supply chains**.**

- **Advanced Manufacturing & Automation:** To bring production closer to home, companies are investing heavily in advanced manufacturing technologies, robotics, and automation. This trend includes everything from 3D printing to AI-driven factory optimization.

- **Logistics & Domestic Infrastructure:** Strengthening domestic supply chains requires robust logistics and infrastructure. This theme encompasses investments in warehousing, transportation networks, and specialized industrial real estate that supports localized production and distribution.

- **Strategic Materials & Resource Security:** Ensuring access to critical raw materials is paramount. This theme can involve investments in companies focused on domestic mining, recycling, and innovative materials science that reduce reliance on distant or volatile sources. See our section above- **Thematic Investing Update: Specialty Metals Part II – Adversaries Exerting Leverage on the U.S.**

While these opportunities are compelling, the key to success lies in a thoughtful, diversified approach tailored to your individual risk tolerance and financial goals. The current market rewards selectivity and a deep understanding of underlying trends. Our team is actively monitoring these evolving opportunities and is prepared to help you explore how they might fit within your broader investment strategy. We encourage you to reach out to discuss how we can help you strategically position your portfolio for growth in 2025 and beyond.

2025 Updated Outlook: A Picture is Worth a Thousand Words

We articulated our updated 2025 outlook above and the key issues and drivers for the stock market. Yet, we believe there are other topics that we haven't spent much time on that deserve some mention. We decided to express it in pictures to provide you with a shorter read, as everyone's time is valuable. As they say, a picture is worth a thousand words, and we'll let you interpret what we view as some compelling charts. We've provided a bullet point or two of explanation as to why we think the chart or graphics are important.

Day traders are back with vengeance and setting new volume records. In the first half of 2025, retail investors traded a staggering $6.6 trillion in equities.

FIGURE 7. **Retail transaction volumes have hit new highs**

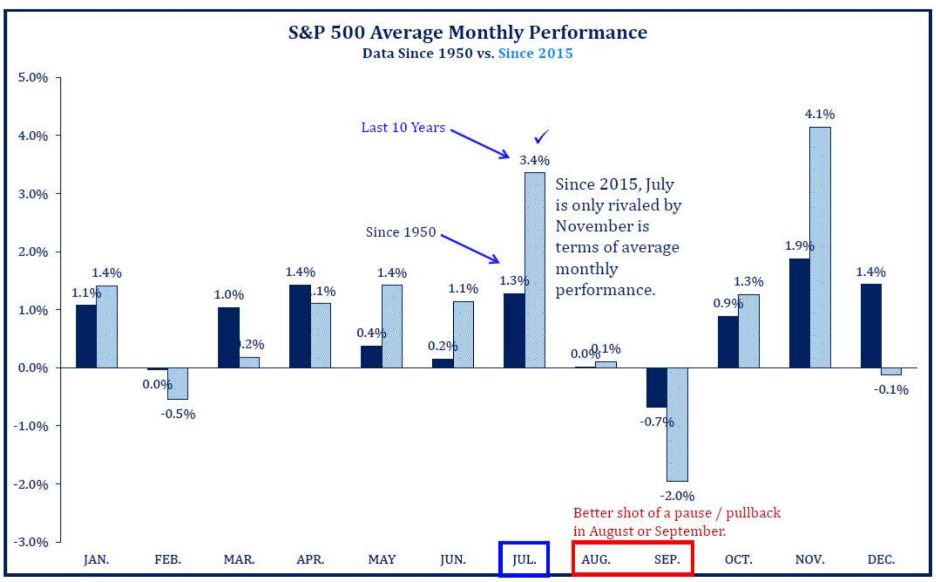
Source: Bloomberg, Barclays Research

Nvidia recently became the first publicly traded stock to surpass $4 trillion in market value. This level is more than enough to buy the entire Russell 2000.

Fig 18. **The S&P 500's largest market cap company is worth 26% more than the entire R2000 market cap**

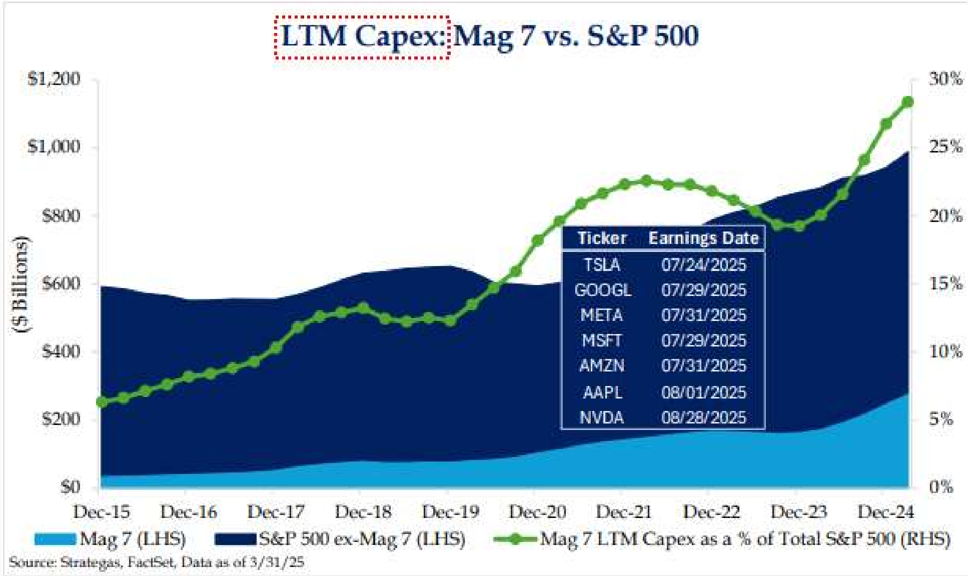
Source: Furey Research Partners and FactSet. Data as of 6/30/25; R2000 market cap based up newly reconstituted index.

Surprisingly, the month of July has been the second strongest month for S&P 500 performance. Then markets go quiet in August as vacationing around the globe is most common, and the news flow tends to dry up. The S&P 500 has seen positive performance in the month of July for every year since 2015.



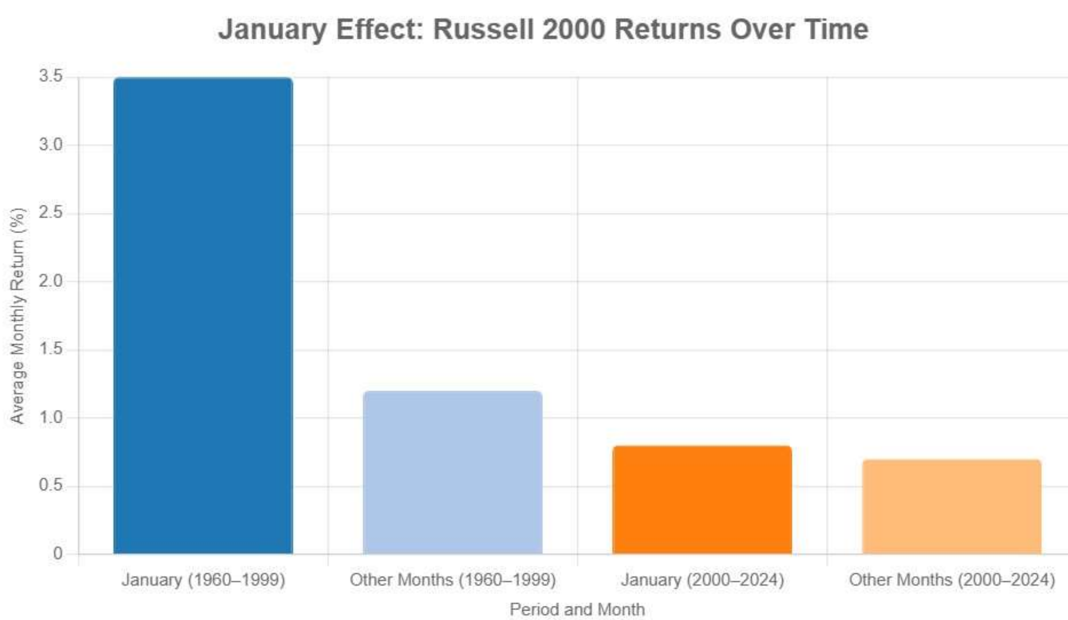
Source: Strategas

Comprising nearly a third of the S&P 500 total capital expenditures, what happens when the Magnificent 7 spending slows?



Stock Market Trivia

Each quarter, we offer a piece of stock market trivia that we believe is interesting or timely, or both. We are focusing this quarter on the “January Effect,” which is a bit like Christmas in July. The "January Effect," which is a historical tendency for stocks, particularly small-cap stocks, to outperform in January due to tax-loss selling in December and the next month’s subsequent buying, has significantly weakened in recent decades. High-frequency trading and institutional awareness have arbitraged away this once-reliable anomaly. Data from 2000–2024 shows the Russell 2000’s average January return dropped from 3.5% (1960–1999) to just 0.8% (2000–2024) and now barely outperforms other months. Driven by algorithmic trading and increased liquidity, market efficiency has diminished seasonal patterns and challenged investors to find new alpha sources.



Source: Furey Research

We hope you found our second quarter 2025 review and 2025 updated outlook newsletter insightful and interesting. If you have any questions about anything discussed herein or would like more information about 1492 Capital Management, please call us at 414-276-1492.

Kathleen Daley Adam France Joe Frohna Nancy Frohna Tim Stracka

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