

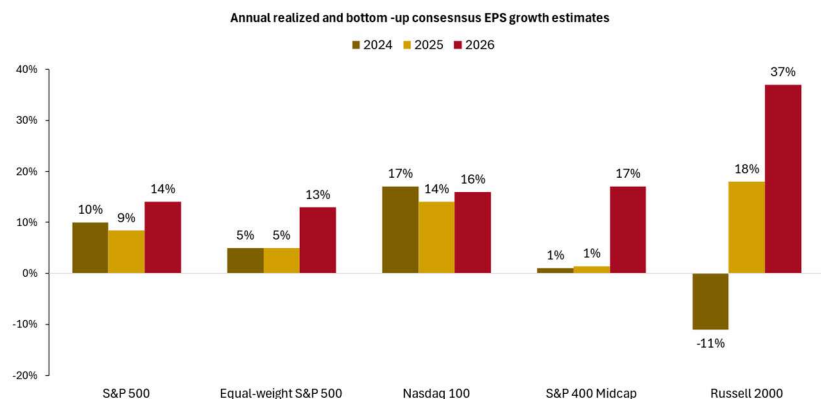


COVINGTON INVESTMENT ADVISORS, INC. Q2 2025 QUARTERLY NEWSLETTER

If one simply looked at headline economic data points at the end of June compared to what they were in late March, the conclusion would be that the second quarter of 2025 was rather uneventful.

The yield on a 10-year US government treasury bond, a benchmark for global interest rates, yielded 4.25% on June 30th, roughly the same rate as it did to end the first quarter. A barrel of US WTI crude oil ended the quarter at \$65, essentially the same price as on March 31st. The unemployment rate ended the quarter at 4.25%, the same as it did in the previous quarter. To top it off most equity and bond indexes finished the quarter strongly rebounding from broadly negative returns in the beginning of the year.

Exhibit 1: Realized and consensus EPS estimates still point to strong growth



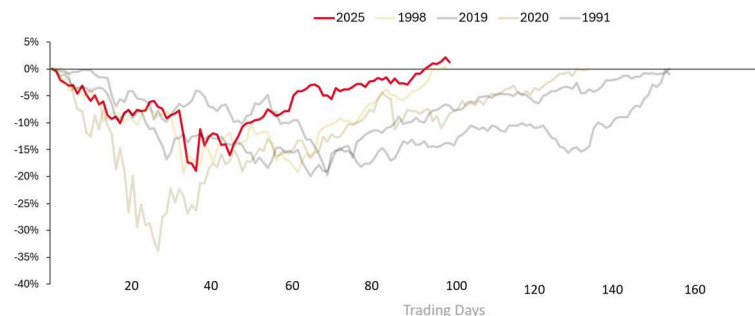
(1) July 2025
(2) Source: Yardeni, compiled of bottom-up institutional estimates

Covington Investment Advisors

However, as anyone following economic news knows, the quarter was far from uneventful. The most significant development was undoubtedly the Trump administration's aggressive trade policy escalation, which culminated in 'Liberation Day.' In our first-quarter letter, we predicted tariff rate hikes, but the administration's announced levels were considerably higher than even our most generous estimates. But just as quickly as the administration announced these tariffs they delayed many of them and have since announced several trade deals - some substantive, some symbolic. Looking ahead, the larger- and quicker-than-expected de-escalation with China should reduce both the direct impact of tariffs and trade policy uncertainty. Additionally, the impact from the higher tariffs up to this point has been muted in the hard economic data.

Correspondingly markets followed this series of events experiencing a sharp drawdown in early April followed by one of the fastest recoveries of the last 30 years. The tariff rollercoaster is likely to continue for the foreseeable future.

Exhibit 2: S&P 500's quickest recoveries to records following a decline of at least 15%



(1) July 2025
(2) Source: Dow Jones Market Data

Covington Investment Advisors



COVINGTON INVESTMENT ADVISORS, INC. Q2 2025 QUARTERLY NEWSLETTER

Market Review

Exhibit 3: Major indices performance table

Index	2024	Q1 2025	Q2 2025	YTD
<i>Stock Indices</i>				
S&P 500 Total Return Index	25.02%	-4.27%	10.94%	6.20%
Dow Jones Industrial Average	14.99%	-0.87%	5.46%	4.55%
Nasdaq Composite	29.57%	-10.26%	17.96%	5.85%
Russell 2000 Index (Small Cap's)	11.54%	-9.48%	8.50%	-1.78%
<i>Bonds</i>				
Bloomberg Barclays US Aggregate Bond TR	1.25%	2.78%	1.21%	4.02%
Bloomberg Barclays Municipal Bond TR	1.05%	-0.22%	-0.12%	-0.35%
ICE BofA US High Yield Index	8.22%	0.94%	3.57%	4.55%
<i>Gold</i>				
S&P GSCI Gold Spot Price Index	27.47%	19.28%	5.00%	25.24%
<i>Real Estate Investment Trusts (REITS)</i>				
FTSE NAREIT REIT Composite Index	4.75%	2.90%	-0.96%	1.91%
<i>International Indices</i>				
MSCI EAFE Index	1.15%	6.15%	10.58%	17.37%
MSCI Emerging Markets Index	5.05%	2.41%	11.02%	13.70%

(1) Data provided by Envestnet Tamarac through data providers Refinitiv. Total Return includes the effects of dividends. Past performance is no guarantee of future results.

Covington Investment Advisors

Equities

Corresponding with the cascade of events in the second quarter, equities experienced heightened volatility. US large cap equities, as represented by the S&P 500, had a strong rebound in the quarter rising 10.94% bringing the year-to-date 2025 return to 6.20%.

Drawdowns of over 15% are not unusual in public equities, however the speed of the second quarter's drawdown and recovery are exceptional. This year's decline and recovery is one of the fastest ever recorded. We would look for this volatility to remain elevated going into the second half of the year.

The strong drawdown and rebound was most pronounced in the large cap technology space. The tech-heavy Nasdaq composite rose 17.96% during the quarter as confirmation of AI spending trends, solid tech earnings, and a rebound from the selloff pushed tech stocks higher.

Small caps, as represented by the Russell 2000 Index, rose 8.50% during the quarter but are still slightly negative on the year.

Looking abroad, international markets continued their streak of strong performance on both an absolute and relative basis. Developed international markets, as represented by the MSCI EAFE index, returned 10.58% for the quarter, bringing its 2025 return to 17.37%. Emerging markets, as represented by the MSCI Emerging Markets Index, also had strong performance in the second quarter rising 10.58%. A weakening dollar, low valuation, and reversion of several years of chronic underperformance have led to this strong relative performance for international markets in 2025.

Gold once again had another strong period, rising 5.00% for the quarter and 25.24% for the year as a weakening dollar, rising global debt, and market volatility cause investors to park funds in gold which is perceived as a safe haven.

Fixed Income

The first half of 2025 saw a generally positive, albeit volatile period for fixed income returns. In the second quarter the Bloomberg US aggregate and Municipal Bond Indexes produced returns of 1.21% and -0.12%, respectively. High yield bonds, as represented by the ICE BofA US High Yield Index, rose 3.57% for the quarter bringing its 2025 return to 4.55% for the first half of the year. High yield bonds are issuers with lower credit quality and thus will have more volatile returns.



COVINGTON INVESTMENT ADVISORS, INC. Q2 2025 QUARTERLY NEWSLETTER

As always, the key driver to fixed income performance remains the path of interest rates. As of right now markets are pricing in one or two 25-basis point cuts by year end starting in October. Were growth or inflation to dramatically undershoot expectations it would be a tailwind for fixed income returns. Conversely, an upgrade to growth forecasts, sticky prices brought on by trade restrictions, and an increase in government deficits would buoy interest rates thus hampering bond returns.

Therefore we favor keeping below-benchmark duration as we expect interest rates to remain higher for longer.

Summary

As we look ahead to the second half of the year our core views remain unchanged. The US economy is likely to experience slightly lower growth than expected coming into the year but will still be positive. The tariff rollercoaster will continue not just for the rest of 2025 but likely for the remainder of President Trump's term providing spurts of volatility. However, in the back half of the year fiscal stimulus will provide an offset to the headwind from tariffs. Inflation has been subdued in recent months but could climb in the second half as input pressures from tariffs squeeze margins and force businesses to at least partially pass the tariffs through to consumers. Putting everything together US GDP for 2025 is estimated to grow roughly 1.5%.

Currently the market is pricing in one or two 25-basis point rate cuts by the end of the year. In our view, the combination of resilient growth, supply chain bottlenecks, and government deficits will force the Fed to remain on hold for the rest of the year. Ultimately, we will have to see where tariff rates settle and how they affect earnings and the consumer. Corporate earnings for 2025 are expected to grow by 8.5%, aligning with their historical range, and are projected to jump 13.9%

in 2026. While the 2026 estimate will likely be revised lower, it still suggests that a contraction in corporate earnings isn't currently anticipated.

Geopolitics is inherently unpredictable and thus difficult to incorporate in financial predictions. Still, we need to be prepared for an escalation or emergence of conflicts. The US today is roughly energy independent so shocks to global commodity prices are not as impactful as they once were. Even so, a substantial further increase in oil prices or disruption of shipping routes would make the outlook more stagflationary.

This past quarter perfectly illustrated the inherent volatility of markets, underscoring the importance of maintaining a long-term view. It's equally crucial to stick to the financial plan we have built for you, which includes holding 6-12 months of operating cash in an emergency fund. This ensures you won't need to liquidate long-term assets as we head into what will likely be a turbulent period. Ultimately, our strategy of owning a diversified portfolio of high-quality, cash-flowing assets remains the best approach for long-term returns and navigating market volatility.

Enclosed is your performance report for your account as of June 30th, 2025. Please contact us if you have any questions on your quarterly performance report or if there are any changes to your financial picture.

Sincerely,

Pat

Patrick R. Wallace

Covington Investment Advisors, Inc. is a Federally Registered Investment Advisor. The information contained herein is general in nature and is provided solely for educational and information purposes and does not constitute legal, financial or tax advice. Opinions and forward-looking statements expressed are subject to change without notice. Past performance is no guarantee of future results. Covington Investment Advisors, Inc. uses reasonable efforts to obtain information from sources which it believes to be reliable and does not endorse, approve, certify or control the third-party content referenced.