

THE COMPASS

August 2025

A Quarterly Newsletter of Martin Capital Advisors, LLP

INVESTMENT PERSPECTIVE by Paul Martin, Managing Partner

Second Quarter Bear Market and Rebound Rally Result in Positive S&P 500 Return YTD

August 21, 2025

Following a wild ride, stocks finished the second quarter higher and up for the year. A selloff in early April based on tariff concerns turned around very quickly and stocks recovered both their first quarter and April declines by the end of the second quarter. Bond prices were slightly higher (rates lower) in the second quarter as inflation concerns moderated.

So far in the third quarter both inflation and the economy are still somewhat in line with Fed targets, and stocks and bonds have continued to work their way higher. That said, the recent rally is probably due for a correction at some point, but not worth trying to sell into it. The issue with non-Fed driven pullbacks is: when do you get back in before markets recover, as we saw in April.

A big question is: will tariffs have a significant influence on inflation and economic growth in the near future? That is a question



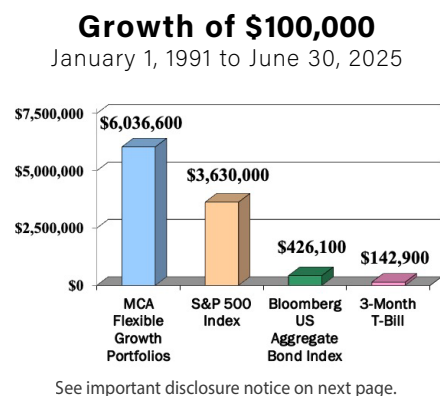
everyone is asking. The most likely answer is that they will have at least some negative impact on both inflation and the economy.

The bigger question is: will the Fed Funds rate become too tight in the face of higher interest rates

caused by tariffs? My guess is that the Fed will try to remain neutral for the time being, in which case the stock market has the potential to continue working its way higher.

Of course, trying to predict the short-term performance of financial markets is a fool's errand. That's why at Martin Capital we invest in what we consider to be great companies and hold on to them, or "buy and hold", if we believe that they can grow their businesses significantly over the long run.

However, we do have a hedging strategy based on the yield curve for when the Fed Funds rate is too tight relative to the one-year T-Bill, which has happened five times since 1953. The last signal was in



October 2007, leading into the worst recession and bear market since 1931. The hedge is based on buying slightly out-of-the-money put options that will counter stock market losses, and then, since we remain fully invested, we can still participate in higher stock market returns, minus the options cost, even if the hedging signal is wrong for the first time in 72 years. It's essentially like buying insurance for your car or house.

Please let me know if you have any questions or thoughts. And always remember that the S&P 500 compound average annual return since 1926 through the end of last year is up 10.4% per year (see our annually updated presentation "Long-Term Performance of Stocks, Bonds, T-Bills & Inflation, 1926 - 2024" at www.martincapital.com).

COMPARISON OF INVESTMENT RESULTS

January 1, 1991 to June 30, 2025

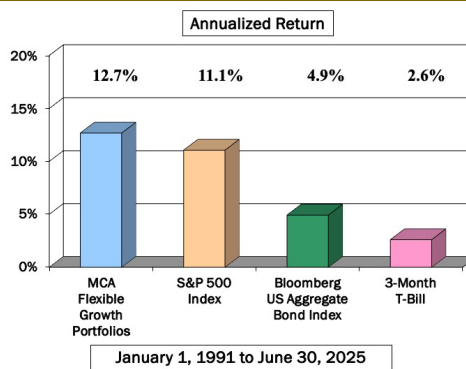
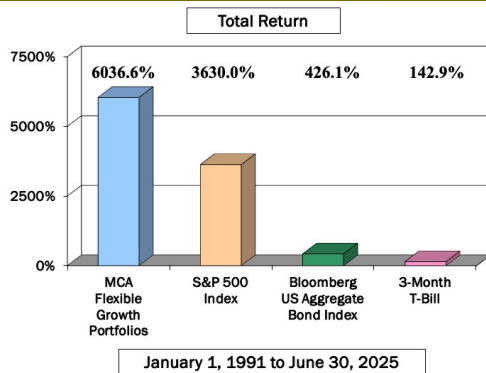
	Martin Capital Advisors ¹	S&P 500	Russell 3000	Bloomberg U.S. Aggregate Bond Index	3 Month T-Bill	Consumer Price Index
Total ²	6036.6%	3630.0%	3646.1%	426.1%	142.9%	141.1%
Avg. ³	12.7%	11.1%	11.1%	4.9%	2.6%	2.6%

¹Total performance, net of commissions, fees, and expenses of all Martin Capital Advisors' Flexible Growth Portfolios.

²Total compounded return, including reinvestment of dividends and interest. ³1991-2025 annualized return.

— See Important Disclosure Notice on last page. —

RELATIVE LONG-TERM PERFORMANCE January 1, 1991 to June 30, 2025



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Martin Capital Advisors, LLP, is a registered investment advisor managing private and institutional investment portfolios.

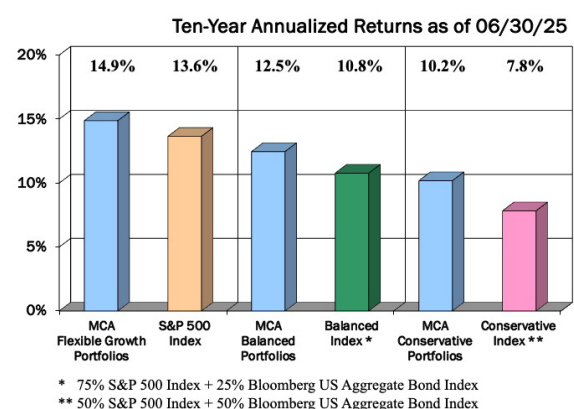
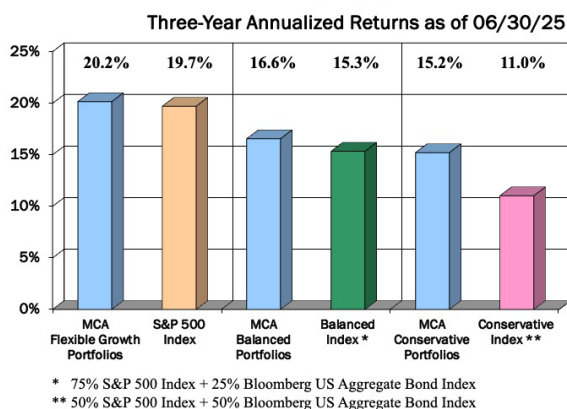
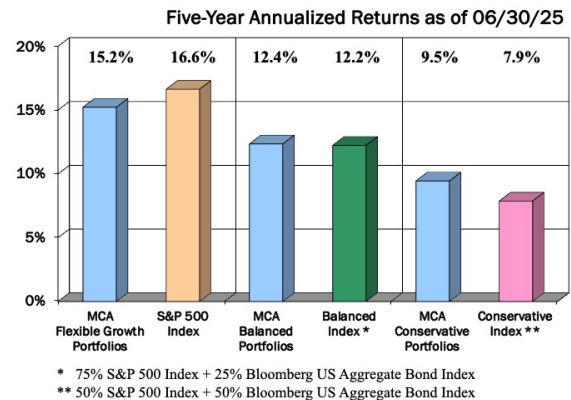
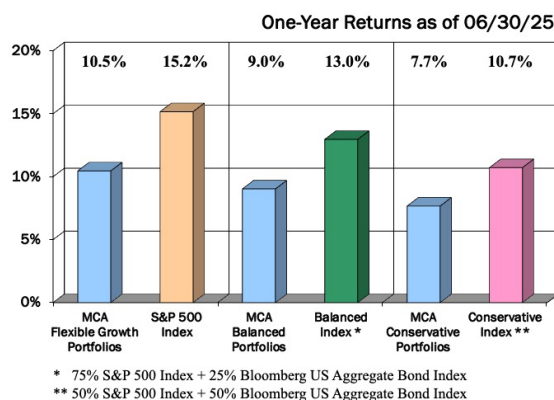
MCA FLEXIBLE GROWTH PORTFOLIOS TOP 25 STOCKS

as of June 30, 2025

1. Apple	6. Oracle	11. Intuit	16. Alphabet C1A	21. Edwards Lifesciences
2. Nvidia	7. Williams-Sonoma	12. Texas Instruments	17. Chipotle Mexican Grill	22. Tractor Supply
3. Intuitive Surgical	8. Lam Research	13. Charles Schwab	18. GoDaddy	23. Netflix
4. Costco Wholesale	9. Visa	14. Amazon.com	19. Block	24. Da Vita
5. Mastercard	10. Starbucks	15. IDEXX Laboratories	20. Blackrock	25. Cisco Systems

INVESTMENT RESULTS

Martin Capital Advisors' Investment Portfolios vs. S&P 500 and Barclays Aggregate Bond Indexes



IMPORTANT DISCLOSURE NOTICE

Past performance does not guarantee future results. Figures include the reinvestment of all dividends received and reflect cash and cash equivalents. Martin Capital Advisors, LLP (MCA) composite returns are net of all fees and expenses. From time to time, composite performance may reflect the use of margin investing and options, as well as material investments in bonds and cash, and volatility may differ from that of the benchmark. As of 06/30/2025, the MCA Flexible Growth/Balanced/Conservative portfolios' returns represent, respectively, 54/13/1 individual portfolios and 70%/25%/1% of all funds under management by MCA. Clients explicitly elect these management styles on their Personal Data Form. The MCA Flexible Growth Portfolios are managed for capital appreciation, and the MCA Balanced and Conservative Portfolios are managed for capital appreciation and income. Independent performance reporting is provided by CGM Investment Management.

MCA claims compliance with the Global Investment Performance Standards (GIPS®). MCA's GIPS® compliance has been independently verified for the periods January 1, 1991 to December 31, 2024 by Absolute Performance Verification LLC. The verification reports are available upon request. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. The reporting currency is U.S. dollars. Returns are net of fees. To receive a list of composite descriptions of MCA and/or a GIPS® Composite Report, contact Darby Barncord at (210) 694-2100, ext. 2, or darby@martincapital.com.

ADDITIONAL DISCLOSURE NOTICE

MARTIN CAPITAL ADVISORS, LLP (MCA) is a registered investment advisor based in San Antonio, Texas, founded in 1989. MCA specializes in managing customized equity and balanced investment portfolios with an all-cap equity strategy to grow capital, as well as balanced strategies to grow capital with less volatility.

MCA Flexible Growth Portfolios Composite consists of all fully discretionary portfolios that are invested in publicly traded companies with the goal of maximizing long-term returns. These portfolios are classified as an all-cap core strategy, but predominately invest in large and mid-cap stocks, blending the characteristics of both growth and value investing. Each portfolio typically invests in 30 to 40 stocks that are rigorously selected to meet our core philosophy of investing in companies with an enduring competitive advantage that offer growth at a reasonable price. These portfolios are for investors who are willing to accept significant short-term volatility in the pursuit of superior long-term returns. In addition, from time to time this strategy may utilize material amounts of leverage, options, bonds and strategic cash reserves. The benchmark for this composite is the S&P 500 Index, which is an index of the 500 leading companies in the U.S. and is designed to reflect the risk and return characteristics of the large-cap U.S. equities universe. An options hedging strategy is available for this portfolio.

MCA Balanced Portfolios Composite consists of all fully discretionary portfolios that are invested in equities and fixed income securities with a target asset allocation of 75% equities and 25% fixed income. These portfolios are for investors with a long-term investment horizon who seek to grow capital, but want to do so with less short-term volatility than the MCA Flexible Growth Portfolios. The equity investments in the portfolios are classified as an all-cap core strategy and are managed in the same way as the MCA Flexible Growth Portfolios. Fixed income investments include both individual and ETF fixed income securities. In addition, from time to time this strategy may utilize material amounts of leverage, options, bonds and strategic cash reserves. The benchmark for this composite is a blend of 75% S&P 500 Index and 25% Bloomberg U.S. Aggregate Bond Index, rebalanced monthly. The S&P 500 is an index of the 500 leading companies in the U.S. and is designed to reflect the risk and return characteristics of the large-cap U.S. equities universe. The Bloomberg U.S. Aggregate Bond index is made up of the Bloomberg U.S. Government/Corporate Bond Index, Mortgage-Back Securities Index, and Asset-Backed Securities Index, and only includes securities that are investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least \$100 million. An options hedging strategy is available for this portfolio.

MCA Conservative Portfolios Composite consists of all fully discretionary portfolios that are invested in equities and fixed income securities with a target asset allocation of 50% equities and 50% fixed income. These portfolios are for investors who prefer to significantly reduce short-term volatility in their investments rather than maximize long-term returns. The equity investments in the portfolios are classified as an all-cap core strategy and are managed in the same way as the MCA Flexible Growth Portfolios. Fixed income investments include both individual and ETF fixed income securities. In addition, from time to time this strategy may utilize material amounts of leverage, options, bonds and strategic cash reserves. The benchmark for this composite is a blend of 50% S&P 500 Index and 50% Bloomberg U.S. Aggregate Bond Index, rebalanced monthly. The S&P 500 is an index of the 500 leading companies in the U.S. and is designed to reflect the risk and return characteristics of the large-cap U.S. equities universe. The Bloomberg U.S. Aggregate Bond index is made up of the Bloomberg U.S. Government/Corporate Bond Index, Mortgage-Back Securities Index, and Asset-Backed Securities Index, and only includes securities that are investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least \$100 million. An options hedging strategy is available for this portfolio.

Past Performance does not guarantee future results.