



QUARTERLY INVESTMENT REVIEW & OUTLOOK – Q2 2025

Q2 was dynamic, highlighted by “Liberation Day” which unveiled the largest tariff hike since the Smoot-Hawley Act of 1930. Markets declined in short order with risk assets selling across the board and bond prices declining as yields rose. Negotiations to reduce or delay tariffs eased fears and the markets recovered to finish the quarter strongly. Economic data remained mixed but held steady as corporate earnings generally remained favorable and inflation moderated.

- **Equities:** Volatility from Q1 carried over into Q2, although stocks recovered from early declines to finish strongly. The decline reached its lowest point on April 8th, as markets entered bear market territory. However, markets reversed course and sharply rebounded from the lows. Large cap (S&P 500 +10.9%) bounced back while International (MSCI EAFE +12.0%) continued its recent leadership. Broadening of returns (beyond the “Mag 7”) continued in Q2 with 44% of S&P 500 stocks outperforming the index (from 27% in 2023 and 28% in 2024). In fact, the 493 stocks outside the “Mag 7” contributed the vast majority of the 6.2% year-to-date gain in the S&P 500 (approximately 85% of the return, or +5.3%). Artificial Intelligence (AI) investment continued to be strong as Technology and Communication Services led the way while Q1 winners (Healthcare and Consumer Staples) were some of the biggest detractors in Q2. Corporate earnings will be in the spotlight as we move forward. Valuations remain well above historical averages after another strong quarter and markets trade near all-time highs while risks remain.
- **Fixed Income:** The bond market experienced some interesting swings throughout Q2, as credit spreads widened but settled back to historically tight levels and yields rose only to finish where they started. All said, the US Aggregate Bond Index (+1.2%) produced positive returns in Q2 and has delivered solid results over the past 12 months (+6.1%). The Treasury yield curve saw movement with a spike in yields, but the 10-year yield essentially started and finished at 4.2% while the 2-year fell slightly from 3.9% to 3.7% and short rates remain attractive at 4.2%-4.3%. Investment grade corporates (+1.8%) performed well, while high-yield (“junk”) bonds (+3.5%) produced strong results, albeit with much greater volatility. FOMC projections suggest two rate cuts by the end of 2025 and additional cuts in 2026, although the dispersion of opinions is wide and some strategists suggest no rate cuts this year. Given persistent rate uncertainty and volatility, we continue to favor balancing between bonds of longer duration with those of shorter duration (“barbell”). Also, given tight credit spreads and risks embedded in high-yield, we favor higher credit quality over lower quality.
- **Economy:** After a contraction in GDP in Q1, growth rebounded in Q2 driven by trade improvement and resilient investment and consumption. Both businesses and consumers continued spending, although concerns around tariffs may weigh on activity in the second half of the year. The June ISM Manufacturing PMI (49.0) denoted contraction for the 4th straight month, although it contracted at a slightly lower rate and beat expectations. The



June ISM Services PMI (50.8) denoted modest growth for the 11th time in the past 12 months, also beating muted expectations. The push-and-pull of the Fed's dual mandate (employment and inflation) continues to be a challenge. Labor demand cooled more recently as jobless claims were elevated and the economy remained in a low-hiring, low-firing environment. Wage growth has remained strong relative to history but appears to be stagnating. Inflation metrics appear to be on a downtrend with both CPI and PPI coming in at-or-below expectations in June, although annualizing at mid 2% levels (still above the Fed's target of 2%). Uncertainty persists around the potential impact of tariffs on inflation as well as the effects of fiscal stimulus resulting from the passage of the "One Big Beautiful Bill." As such, the Fed balancing act remains in focus.

2025 PERFORMANCE – BENCHMARK INDEXES

Index	Quarter	YTD	5 Yr Ann	10 Yr Ann	15 Yr Ann
<i>S&P 500 (US large cap stocks)</i>	+10.9%	+6.2%	+16.6%	+13.7%	+14.9%
<i>S&P 400 (US mid cap stocks)</i>	+6.7%	+0.2%	+13.4%	+9.3%	+12.0%
<i>Russell 2000 (US small cap stocks)</i>	+8.5%	-1.8%	+10.0%	+7.1%	+10.4%
<i>MSCI EAFE (devel int'l large cap) - US\$</i>	+11.8%	+19.5%	+11.2%	+6.5%	+7.5%
<i>MSCI EM (emerging mkts int'l) - US\$</i>	+12.0%	+15.3%	+6.8%	+4.8%	+4.4%
<i>Bloomberg US Aggregate (US bonds)</i>	+1.2%	+4.0%	-0.7%	+1.8%	+2.3%

Data as of 6/30/25. Returns represent total returns (dividends & capital appreciation/depreciation). Past performance is NOT predictive of future performance.