Global Market Commentary: Second Quarter 2025

Markets Have Strong 2nd Quarter

Equity markets posted robust gains in the second quarter of 2025, driven by moderating inflation, resilient investor sentiment, and renewed optimism in key sectors. Despite ongoing global trade tensions, investors responded positively to policy developments and economic data that signaled improving fundamentals.

A significant catalyst was the evolving tariff landscape. Newly imposed levies—particularly targeting technology and renewable energy imports—reshaped expectations and triggered a realignment in investor positioning. While the trade measures introduced brief volatility, markets largely viewed them as manageable, with the potential to stimulate domestic production in the medium term.

Inflationary pressures eased more than expected, with both the Consumer Price Index (CPI) and Producer Price Index (PPI) trending lower. These developments reinforced the view that the Federal Reserve may maintain its current policy stance for longer. Slowing price growth contributed to multiple expansion across equity markets, with technology and consumer discretionary sectors leading the rally. The quarter closed on a strong note, with both the NASDAQ and S&P 500 reaching new all-time highs, underscoring growing confidence in the economic outlook and corporate earnings strength.

Second Quarter Index Returns:

- DJIA: +5.0%;
- S&P 500: +10.2%;
- NASDAQ : +16.7%
- Russell 2000: +8.1%.

Further, we saw that:

- Volatility, as measured by the VIX, declined by approximately 20% over the quarter—despite a temporary spike exceeding 150% early in the period.
- Meanwhile, West Texas Intermediate crude fell about 8%, settling at $65.68 per barrel, well below the $84 level recorded a year earlier.

Market Performance Around the World

International equity markets mirrored the strength seen in the U.S., delivering widespread gains during the second quarter. Of the 49 developed markets tracked by MSCI, 48 posted positive returns, with 39 rising more than 10%. Emerging markets also advanced, with 45 of 46 countries finishing the quarter in positive territory and over half gaining more than 10%.

Index Returns	Q22025
MSCI EAFE	+10.58%
MSCI EURO	+10.87%
MSCI FAR EAST	11.13%
MSCI G7 INDEX	+10.83%
MSCI NORTH AMERICA	+11.10%
MSCI PACIFIC	+11.79%
MSCI PACIFIC EX-JAPAN	+13.04%
MSCI WORLD	+10.96%
MSCI WORLD EX-USA	+10.91%

Source: MSCI. Past performance cannot guarantee future results

Sector Performance Rotated in Q22025

Sector performance in the second quarter of 2025 was broadly positive, with 8 of the 11 S&P 500 sectors generating positive returns – many exceeding double digits.

This marked a strong reversal from the first quarter, when only four sectors ended in positive territory and several key areas had entered correction.

Notably, Information Technology surged 23.5% after falling sharply in Q1, while Communication Services and Consumer Discretionary also posted strong rebounds. In contrast, Energy declined by 8.4%, underscoring continued weakness in commodity-linked sectors.

This divergence reflects selective investor optimism, with capital flowing toward industries benefiting from moderating inflation, productivity gains, and AI tailwinds. Meanwhile, sectors tied to energy and defensive industries experienced relative underperformance amid shifting global demand and pricing pressures.

Here are the sector returns for Q2 2025 and Q1 2025:

S&P 500 Sector	Q12025	Q22025
Information Technology	-14.66%	+23.54%
Energy	+9.51%	-8.40%
Health Care	+4.10%	-6.79%
Real Estate	+2.14%	-0.12%
Consumer Staples	+1.80%	+2.13%
Consumer Discretionary	-16.02%	+11.12%
Industrials	-2.26%	+13.28%
Financials	+0.96%	+6.44%
Materials	+0.22%	+3.70%
Communication Services	-8.23%	+18.48%
Utilities	+2.50%	+4.59%

Source: FMR

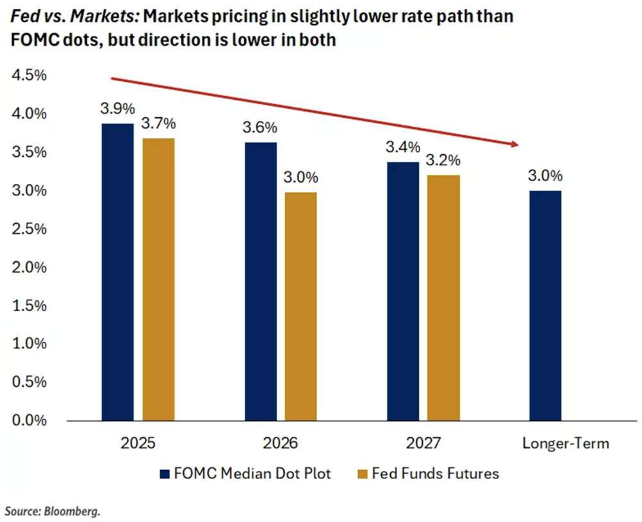
Reviewing the sector returns from Q1 to Q2, we see that:

- **Sharp Rebound in Growth Sectors**: Technology and Communication Services reversed steep Q1 losses, emerging as top performers in Q2 amid renewed optimism around AI and innovation-led growth.
- **Consumer Discretionary Strengthened**: After a challenging start to the year, Consumer Discretionary staged a strong recovery, signaling improved sentiment around household spending and demand.
- **Wide Performance Dispersion**: The gap between the best- and worst-performing sectors exceeded 30 percentage points, highlighting a market environment driven by selective leadership and increased dispersion.

Fed Keeps Rates the Same

The Federal Reserve, as widely expected, opted to leave its benchmark interest rate unchanged, maintaining the target range at 5.25% to 5.50%. This decision reflects the central bank's ongoing cautious stance amid persistent inflationary pressures. In remarks following the Federal Open Market Committee meeting, Chair Jerome Powell reiterated the Fed's commitment to its inflation target, emphasizing that policymakers require "greater confidence that inflation is moving sustainably toward 2 percent" before considering any rate cuts.

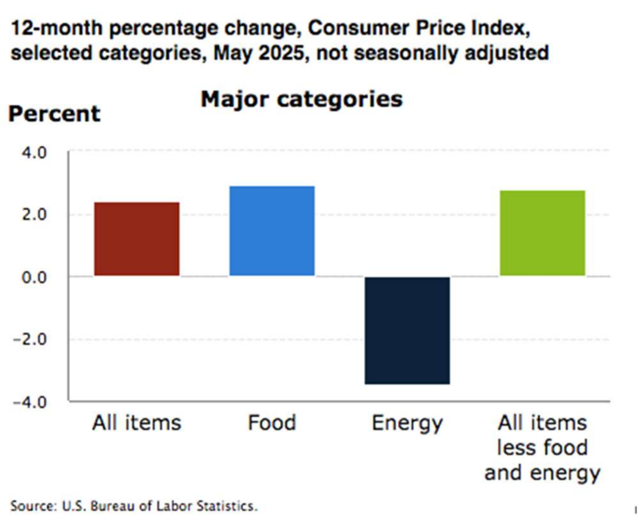
"We're prepared to maintain the current level of restriction for as long as appropriate," Powell stated, signaling that the central bank is not in a hurry to ease monetary policy prematurely.



Powell acknowledged recent signs of disinflation but warned that they are not yet sufficient to justify a pivot. The Fed remains data-dependent, and upcoming economic indicators – particularly those related to core inflation, labor market strength, and consumer spending – will play a critical role in shaping future policy moves. Market participants, while hopeful for a cut later in the year, now appear to be recalibrating expectations in light of the Fed's patient tone.

Consumer Price Index Drops

In June 2025, U.S. consumer prices experienced a modest decline, with the Consumer Price Index for All Urban Consumers (CPI-U) decreasing by 0.1% on a seasonally adjusted basis. This marked the first monthly drop since May 2020. Over the 12 months ending in June, the all-items index rose by 3.0% before seasonal adjustment, down from a 3.3% increase in May.



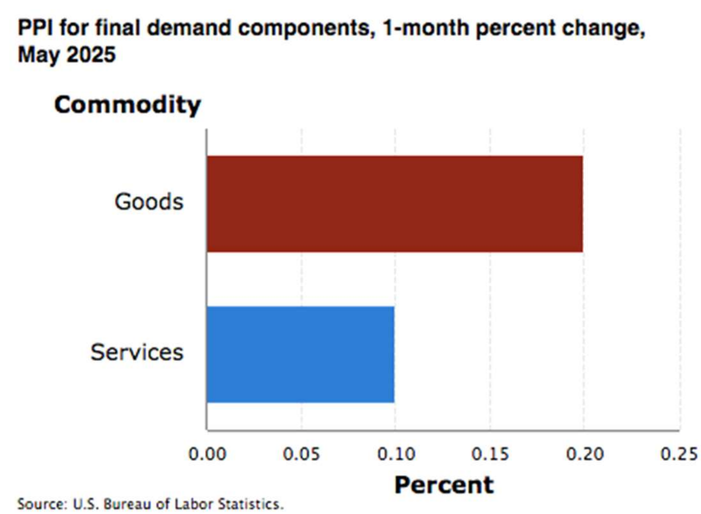
The decrease in the CPI was primarily driven by a significant 3.8% drop in gasoline prices, which followed a 3.6% decline in May. Shelter costs, a major component of the CPI, rose by 0.2% in June, a slowdown from the 0.4% increase observed in May. Food prices increased by 0.2% in June, with grocery store prices edging up by 0.1%. Notably, the core CPI, which excludes food and energy, rose by just 0.1% in June, the smallest increase since August 2021.

However, some areas remain inflation hotspots. For instance, motor vehicle insurance prices rebounded by 0.9% in June after falling 0.1% in May.

Additionally, costs for household furnishings, personal care, education, recreation, and apparel saw increases. Despite these pockets of rising prices, the overall trend indicates a cooling of inflation, providing some relief to consumers and policymakers alike.

Producer Price Index Rises by 0.1%

In May 2025, the U.S. Producer Price Index (PPI) for final demand rose by 0.1% on a seasonally adjusted basis, following declines of 0.2% in April and 0.1% in March. On an unadjusted basis, the index increased by 2.6% over the 12 months ending in May. The modest monthly uptick was driven by a 0.1% rise in prices for final demand services and a 0.2% increase in final demand goods. Core PPI, which excludes food, energy, and trade services, also edged up 0.1% in May and was up 2.7% year-over-year .

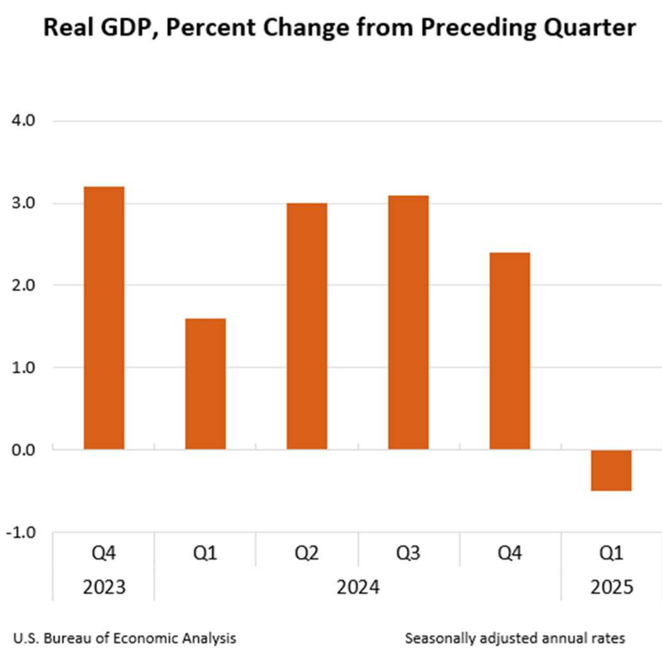


Within final demand services, the slight increase was primarily due to a 0.4% rise in trade services margins, notably a 2.9% jump in machinery and vehicle wholesaling. However, prices for transportation and warehousing services declined by 0.2%, and airline passenger services fell by 1.1%. In the goods sector, the 0.2% increase was largely attributed to a 0.2% rise in core goods prices, with tobacco products up 0.9% and gasoline prices also contributing. Conversely, jet fuel prices dropped by 8.2%, and prices for pork and carbon steel scrap also declined .

Regarding intermediate demand, prices for processed goods edged up 0.1%, while unprocessed goods fell by 1.6%, marking the third consecutive monthly decline. The decrease in unprocessed goods was mainly due to a 3.5% drop in unprocessed energy materials, including an 18.7% fall in natural gas prices. Prices for services for intermediate demand rose by 0.1%, driven by a 0.7% increase in trade services margins, particularly a 4.9% rise in metals, minerals, and ores wholesaling

GDP in 1Q2025 Down 0.5%

According to the U.S. Bureau of Economic Analysis, the U.S. economy contracted at an annual rate of 0.5% in the first quarter of 2025, marking the first quarterly decline since early 2022. This third estimate represents a downward revision from the previous estimate of a 0.2% decline.

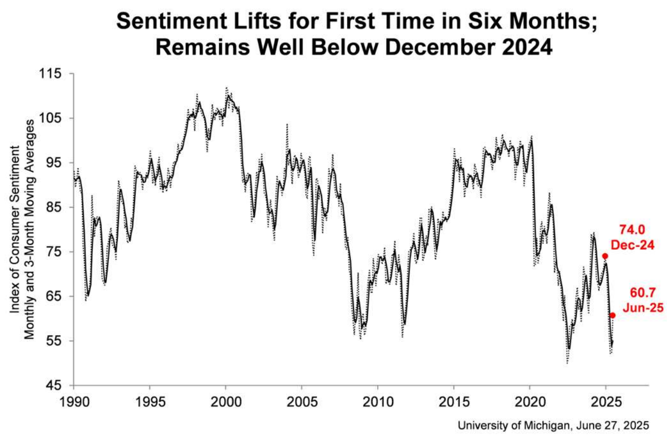


The contraction was primarily driven by a significant increase in imports, which surged by 41.3%, subtracting 4.83 percentage points from GDP. This surge in imports was largely due to businesses accelerating purchases ahead of anticipated tariffs. Additionally, federal government spending decreased by 4.6%, the largest drop since 2022, further contributing to the GDP decline.

Consumer Sentiment Leaps

In June 2025, the University of Michigan's Surveys of Consumers reported a notable improvement in consumer sentiment, marking the first increase in six months. The Index of Consumer Sentiment rose by 16.3% from May to reach 60.7.

Despite this uptick, the index remains approximately 18% below the post-election high observed in December 2024. This positive shift was broad-based, with significant gains in expectations for personal finances and business conditions, both increasing by around 20% or more.



Inflation expectations also showed a downward trend. Year-ahead inflation expectations decreased from 6.6% in May to 5.0% in June, while long-run expectations fell from 4.2% to 4.0%. These are the lowest readings in several months, suggesting a softening in consumers' inflation concerns. However, inflation expectations remain above the levels seen in the second half of 2024, indicating that consumers still perceive persistent inflation risks.

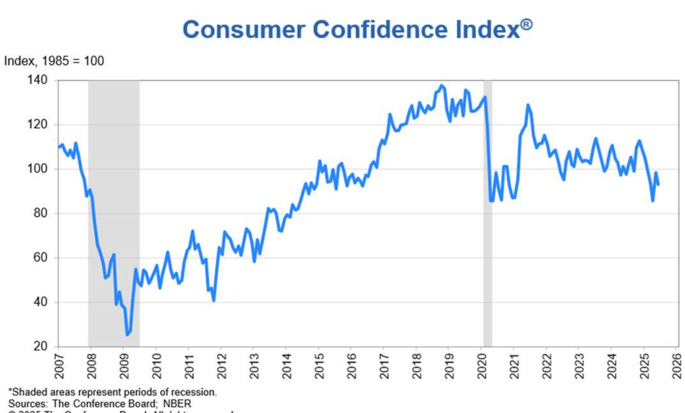
Despite the overall improvement in sentiment, consumers continue to express concerns about potential economic slowdowns and the impact of tariffs.

While worries about the Middle East have not significantly influenced economic outlooks, the uncertainty surrounding trade policies continues to weigh on consumer confidence. These mixed sentiments reflect an economy in transition, with consumers cautiously optimistic but still wary of underlying risks.

Consumer Confidence Drops

In June, Americans' confidence in the economy took a noticeable hit. The Conference Board's Consumer Confidence Index® dropped by 5.4 points to 93.0, down from 98.4 in May. This reflects growing concern among households about both current conditions and what lies ahead. Consumers' views of the present – specifically business activity and the job market – declined by 6.4 points, while their outlook for the future fell even more sharply. The Expectations Index dropped to 69.0, well below the 80-point threshold that historically warns of a possible recession on the horizon.

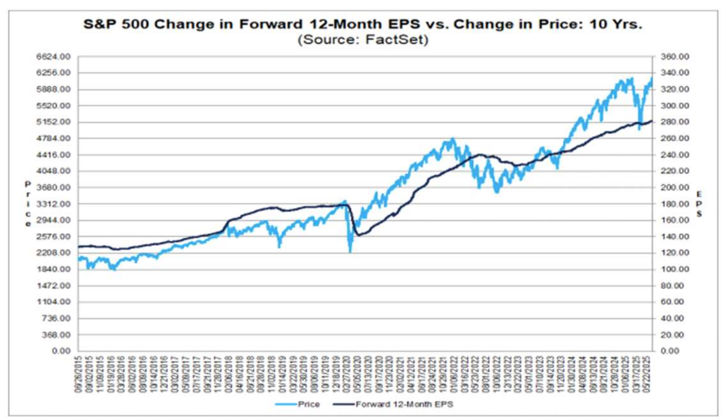
According to The Conference Board, "consumer confidence weakened in June, erasing almost half of May's sharp gains." Both how people feel now and what they expect in the months ahead contributed to the slide. Fewer Americans viewed current business conditions positively, and concern about job availability grew for the sixth month in a row – though the labor market still appears relatively strong. People were also gloomier about future job prospects, business conditions, and income, showing a general unease about where the economy is headed.



This dip in confidence wasn't limited to one demographic. It was felt across all age groups and nearly every income bracket. Politically, the mood darkened across the board as well, with the steepest decline reported among Republican respondents. The shared nature of this downturn suggests that growing economic anxiety is cutting across typical dividing lines, pointing to broader uncertainty about the nation's financial future.

Strong Corporate Earnings Continue

As of June 27th, FactSet reported several key financial metrics for companies within the S&P 500. For the second quarter of 2025, the estimated year-over-year earnings growth rate is 5.0%. If this estimate holds, it would represent the lowest earnings growth for the index since the fourth quarter of 2023, when it was 4.0%. Notably, this figure reflects a decline from March 31, when the estimated earnings growth rate for Q2 2025 was 9.4%. All eleven sectors within the index are now projected to report lower earnings than previously expected, due to downward revisions in earnings-per-share (EPS) estimates.



In terms of earnings guidance, 59 S&P 500 companies have issued negative EPS guidance for the quarter, while 51 have issued positive guidance. Meanwhile, the forward 12-month price-to-earnings (P/E) ratio for the index stands at 21.9. This valuation is higher than both the 5-year average of 19.9 and the 10-year average of 18.4, indicating relatively elevated market expectations.

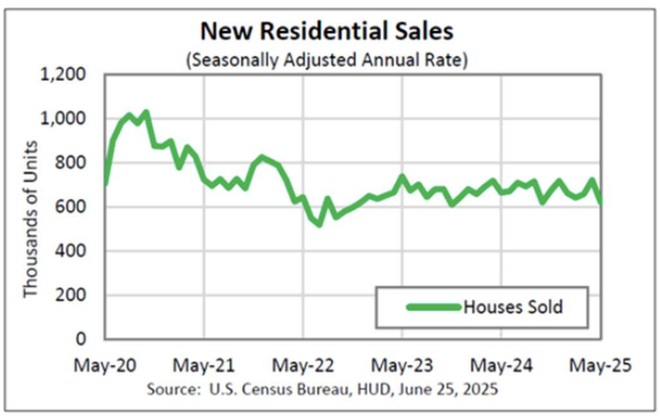
New Home Sales Plummet

According to estimates released jointly by the U.S. Census Bureau and the Department of Housing and

Urban Development, sales of new single-family houses in May 2025 reached a seasonally adjusted annual rate of 623,000. This figure represents a 13.7% decline from the April 2025 rate of 722,000 and a 6.3% decrease from the May 2024 rate of 665,000.

The inventory of new houses for sale at the end of May 2025 was estimated at 507,000, reflecting a 1.4% increase over the April 2025 total of 500,000 and an 8.1% rise compared to the May 2024 figure of 469,000. At the current sales pace, this inventory represents a 9.8-month supply, which is 18.1% higher than April 2025's 8.3-month supply and 15.3% above the 8.5-month supply recorded in May 2024.

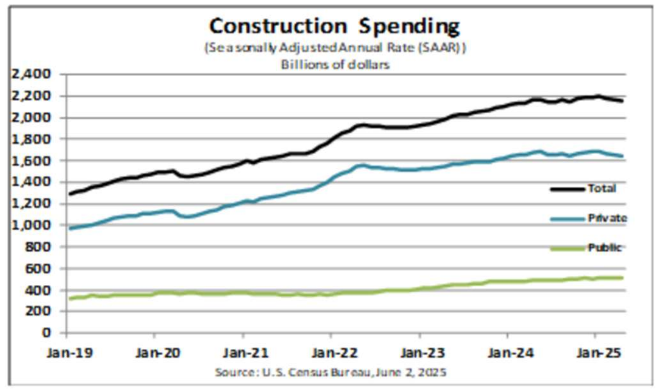
In terms of pricing, the median sales price of new houses sold in May 2025 was $426,600, marking a 3.7% increase from April 2025's $411,400 and a 3.0% rise from the May 2024 median of $414,300. The average sales price in May 2025 was $522,200, up 2.2% from April 2025's average of $511,200 and 4.6% higher than the May 2024 average of $499,300.



Construction Spending Dips

In April 2025, total construction spending in the United States was estimated at a seasonally adjusted annual rate of $2,152.4 billion. This marks a slight decline of 0.4% from the revised March estimate of $2,162.0 billion and a 0.5% decrease compared to April 2024's figure of $2,163.2 billion. Despite this monthly dip, cumulative construction spending for the first four months of 2025 reached $660.2 billion – 1.4% higher than the $651.3 billion spent during the same period in 2024.

Private construction accounted for the majority of activity, with spending totaling $1,638.9 billion on a seasonally adjusted annual basis – down 0.7% from March. Within this category, residential construction fell 0.9% to $892.8 billion, while nonresidential construction slipped 0.5% to $746.0 billion. In contrast, public construction saw modest growth, rising 0.4% to a seasonally adjusted annual rate of $513.5 billion. Educational construction held nearly steady at $110.9 billion, just 0.1% below the previous month, while highway construction increased 0.5% to $146.3 billion, reflecting ongoing investment in infrastructure.



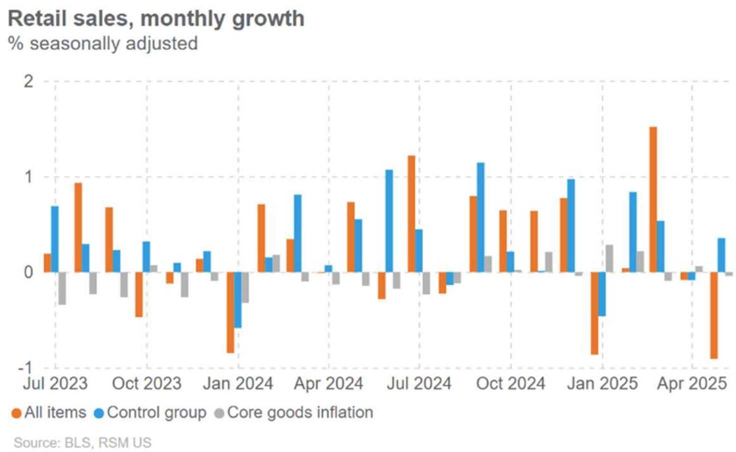
Retail Sales Drop

The May 2025 report showed a 0.9% decline in retail and food services sales from the previous month, totaling $715.4 billion – the largest drop since May 2023. The decline was driven largely by a 3.5% dip in motor vehicle sales, following a surge earlier this year as consumers rushed to beat expected tariffs on imports.

Other categories – like home improvement, electronics, and grocery stores – also posted declines. Still, some segments showed strength: nonstore retailers (e.g., e-commerce) reported an 8.3% year-over-year gain, while food services and drinking places rose 5.3% compared to May 2024.

Despite the overall decline, the "control group" – which excludes autos, gas, building materials, and food services – rose 0.4% in May.

This suggests stable core consumer spending, in line with forecasts, and supports expectations for 2% annualized GDP growth in Q2. Analysts believe the May dip may be temporary, influenced by early-year spending ahead of tariffs and unseasonably wet weather.



Looking Ahead

As we move into the second half of 2025, markets remain supported by easing inflation, steady earnings, and measured Fed policy. While sentiment has improved, the outlook will depend on macro trends, geopolitics, and the pace of disinflation..

Key themes we are watching in the second half of 2025 include:

Federal Reserve policy direction: Will additional inflation data give the Fed confidence to begin easing rates, or will the current policy stance persist?

Corporate earnings durability: Can companies sustain margin growth and meet elevated earnings expectations amid mixed economic signals?

Labor market resilience: How long will employment strength support consumer spending and overall economic momentum?

Global trade and supply chain shifts: Will tariff developments and re-shoring efforts continue to impact key sectors like tech, manufacturing, and energy?

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***Sources**: bea.gov; conference-board.org; census.gov; bls.gov; umich.edu; msci.com; fidelity.com; nasdaq.com; wsj.com; morningstar.com; census.gov; bls.gov*

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