



Market Update

Second Quarter 2025

As readers may recall, U.S. stocks closed out the first quarter on a weak note, with the S&P 500 down about 4%, driven by a bout of concern over AI spending and premonitions that the Trump administration may not be as business friendly as many investors had hoped.

At the beginning of the second quarter, President Trump announced wide-reaching tariffs on substantially all the U.S.'s trading partners. This caused the S&P 500 to drop sharply, declining over 11% between April 1 - April 8. At the April 8 lows, the S&P was down 15% for the year and 19% from its prior February high, narrowly averting bear market territory.

Despite the tumultuous start to the quarter, markets staged a remarkable recovery after the Trump administration granted a 90-day reprieve on tariffs and expressed a willingness to negotiate with global trading partners. By the end of the quarter, the S&P 500 rebounded nearly 25% from its April low, achieving a new all-time high.

Equity Markets (Total Return)	2Q'25	1-Year
Dow Jones Industrial Average	5.5%	14.7%
S&P 500	10.9%	15.1%
S&P 400 Mid-Cap	6.7%	7.5%
S&P 600 Small-Cap	4.9%	4.6%
MSCI All-Country World	11.7%	16.7%
MSCI Foreign Developed Markets	12.0%	18.4%
MSCI Foreign Emerging Markets	12.2%	15.9%
US Bond Markets (Total Return)	2Q'25	1-Year
Bloomberg US Treasury	0.8%	5.3%
Bloomberg US Municipal	-0.1%	1.1%
Bloomberg US Corporate Investment Grade	1.8%	6.9%
Source: Bloomberg		

Global Trade Negotiations

Trade negotiations continue to be a central consideration for investors. As of this update, the U.S. has finalized a trade agreement only with the U.K. and a preliminary agreement with Vietnam is in place. The U.S. and China reached a tentative framework in June, but several key issues remain unresolved. Notably, aspects of the Vietnam agreement could complicate negotiations with China, adding potential risk to an already delicate situation.

The temporary suspension of tariffs initially expired on July 8, though as the deadline approached President Trump signed an executive order with a new August 1 deadline, providing additional time to reach agreements.

The shifting trade environment has also driven some investors to increase allocations to foreign markets, which have outperformed U.S. equities this year—a rare occurrence. To put this into

perspective, developed foreign markets, as measured by the MSCI EAFE Index, have outpaced the S&P 500 in only three of the past fifteen years.

Earnings and AI Investment

First-quarter earnings results for the S&P 500 were strong, increasing approximately 12.7% year-over-year, meaningfully above analysts' expectations of a 7.2% gain. Corporate investment in technology, particularly in artificial intelligence (AI), remained robust despite market volatility, reinvigorating the Technology sector which surged nearly 24% during the quarter and an impressive 42% from the April lows.

We continue to view AI investment as essential for many companies to remain competitive. While some have signaled that the pace of AI-related spending will moderate moving forward, this slowing is neither unexpected nor concerning. Rapid capital expenditure growth in recent years has been unsustainably high, and a moderated pace will help improve corporate cash flows, ultimately supporting equity valuations.

Fixed Income Market Dynamics

Fixed income markets experienced some volatility due to evolving macroeconomic expectations. By the quarter's-end, the yield curve had steepened, with the 2-year Treasury yield decreasing 16 basis points to 3.72% and the 30-year Treasury yield rising 20 basis points to 4.79%. A steeper yield curve is more "normal" and is traditionally indicative of stable growth expectations and contained inflation.

The Federal Reserve has indicated it will pause further rate cuts until there is greater clarity on trade outcomes. The recent strong employment report in early July supports the Fed's cautious approach, diminishing the likelihood of near-term rate cuts.

Currency and Fiscal Policy Developments

The U.S. dollar weakened significantly, declining about 10% year-to-date against a basket of major currencies. Factors driving the decline include uncertainty surrounding U.S. trade policies, expectations for future Fed rate cuts, and growing concerns regarding the expanding U.S. budget deficit. Also, the dollar outperformed significantly last year.

On July 4, the "One Big Beautiful Bill" was signed into law, addressing a range of issues from taxes and spending to defense and border security, energy, and environmental policies. The bill notably raised the debt ceiling, accommodating its \$2.4 trillion estimated cost over the next 10 years, and heading off the tiresome recurring threat of government shutdowns. This increased borrowing expectation contributed to rising long-term bond yields as investors sought compensation for heightened inflation and debt-related risks.

Overall consumer sentiment has softened in recent months, reflecting ongoing pressure on lower-income households which are likely to come under additional pressure due to provisions of the bill that reduce Medicaid and Supplemental Nutrition benefits. However, upper-income

consumer spending will likely continue to be robust due to the tax cut extension, providing essential support to the broader economy. Other macroeconomic indicators have similarly shown moderation, consistent with the current mid-to-late phase of the economic cycle.

Looking Forward

We continue to monitor developments related to trade negotiations and expect clarity on tariff resolutions soon. We expect the Federal Reserve to begin reducing interest rates later this year, with additional cuts likely in 2026, helping sustain economic momentum. AI investments are expected to continue being a significant catalyst for growth and productivity across all sectors of the economy.

We are closely monitoring potential risks, including unresolved trade disputes, geopolitical tensions, and the possibility of a softening in consumer spending, though our investment approach remains focused on long-term fundamentals rather than daily noise.

As companies begin reporting second-quarter earnings, some temporary disruptions related to trade developments may emerge. Nonetheless, we believe underlying economic fundamentals remain strong, and we anticipate greater stability in the coming months as companies adjust to a clearer policy environment.

The information contained in this market update has been taken from sources which we deem reliable. We do not represent that it is accurate or complete, and it should not be relied upon as such. Any opinions expressed herein reflect our judgment at this date and are subject to change.