

Market Commentary

Q2 2025



- Global equity markets delivered strong gains in the second quarter of 2025, with the S&P 500 returning 10.9% and the MSCI ACWI ex USA Index up 12.0%, reflecting investor optimism despite geopolitical tensions and evolving economic policy paths.
- The Federal Reserve held rates steady at its June meeting, emphasizing economic resilience but signaling growing debate within the committee about the timing and scale of future cuts amid evolving data and political pressures.
- The U.S. dollar index has declined year-to-date as shifting interest rate expectations and concerns over fiscal policy weighed on sentiment, prompting some global investors to diversify reserves and seek other portfolio diversifiers such as gold.

Total Market Returns

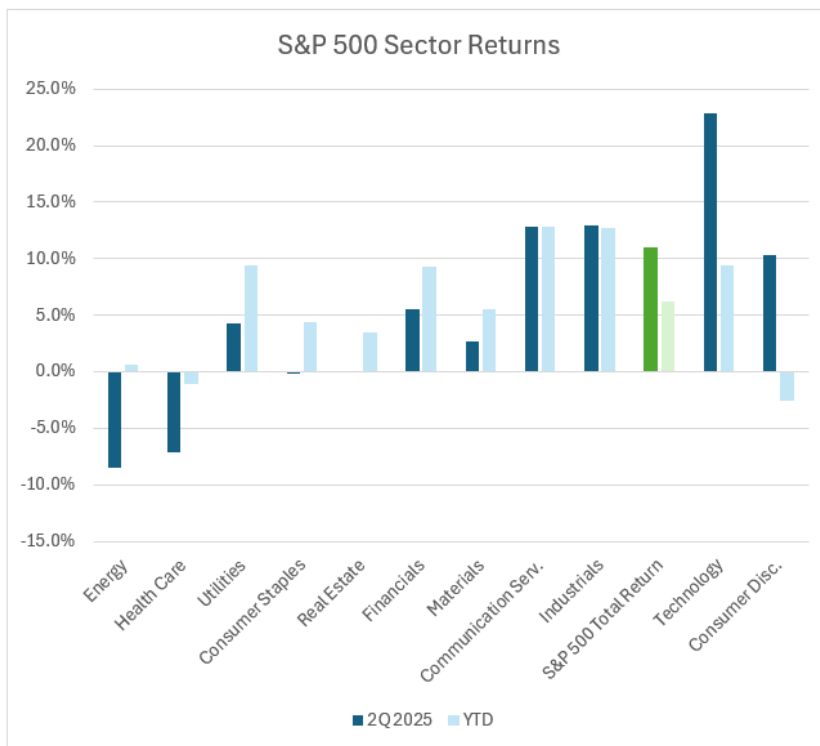
	Month %	QTD %	YTD %	1 Year %	3 Year %	5 Year %	10 Year %
S&P 500 TR USD	5.09	10.94	6.20	15.16	19.71	16.64	13.65
DJ Industrial Average TR USD	4.47	5.46	4.55	14.72	14.99	13.52	12.06
NASDAQ Composite TR USD	6.64	17.96	5.85	15.68	23.66	16.03	16.20
Russell 2000 TR USD	5.44	8.350	-1.79	7.68	10.00	10.04	7.12
MSCI EAFE NR USD	2.20	11.78	19.45	17.73	15.97	11.16	6.51
MSCI EM NR USD	6.01	11.99	15.27	8.09	1.44	7.94	3.71
Bloomberg US Agg Bond TR USD	0.04	2.78	2.78	4.88	0.52	-0.40	1.46

Source: Morningstar Direct

U.S. Equities Retreat on Tariff and Growth Concerns

U.S. equities staged a strong rebound in the latter half of the second quarter of 2025, as the S&P recovered to its previous February all-time highs at the quarter's end. Gains were primarily driven by the continued strength in technology and growth stocks, contributing to renewed optimism following a volatile end to the first quarter and the start of the second quarter.

Technology led all sectors for the quarter with a 22.9% return, followed by Industrials at 12.9% and Communication Services at 12.8%. In contrast, more defensive and rate-sensitive areas lagged, with Energy falling 8.5% and Health Care down 7.2%.



Source: Morningstar Direct

Market performance remained notably concentrated. According to FactSet, analyst expectations and earnings growth forecasts are heavily skewed toward a handful of mega-cap companies, many of which are in the technology and AI space. While the names of the Magnificent Seven continue to appear in the list of most “Buy” ratings, FactSet shows that analysts are most optimistic about the energy sector, with roughly 68% of the S&P 500 energy companies receiving a “Buy” rating. This is followed by the communication services and information technology sectors, which have buy ratings on 64% of the stocks for both.

The Russell 1000 Growth Index surged 17.8% in Q2, while Mid Cap Growth outperformed all major style segments with an 18.2% quarterly gain and remains the leader for the year with a return of 9.8% through June 30th. Broader measures such as the Russell 3000 rose a solid 11.0%, underscoring the outsized influence of large-cap leaders.

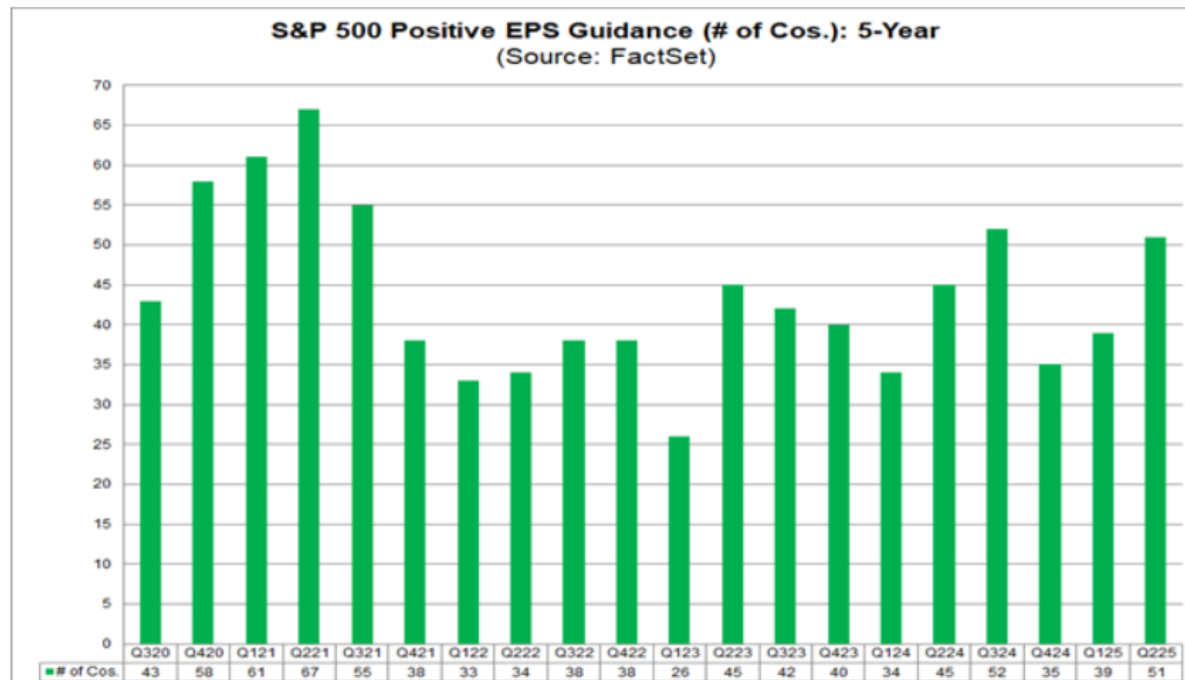
Small caps participated in the rebound but trailed their large-cap counterparts, with the Russell 2000 returning 8.5%. Value-oriented strategies continued to lag behind growth, both in the large- and small-cap segments. The Russell 1000 Value Index gained only 3.8% during the quarter, highlighting persistent investor preference for growth exposures despite shifting macro risks.

	Q2 2025			YTD		
Large Cap	3.8%	11.1%	17.8%	6.0%	6.1%	6.1%
Mid Cap	5.3%	8.5%	18.2%	3.1%	4.8%	9.8%
Small Cap	5.0%	8.5%	12.0%	-3.2%	-1.8%	-0.5%
	Value	Core	Growth	Value	Core	Growth

*Index returns are reflective of the Russell 1000, Russell 2000, and Russell Mid Cap

Source: Morningstar Direct

[FactSet noted](#) a higher proportion of S&P 500 companies issuing positive EPS guidance for Q2 than average, suggesting some resilience in corporate fundamentals despite macro uncertainties.

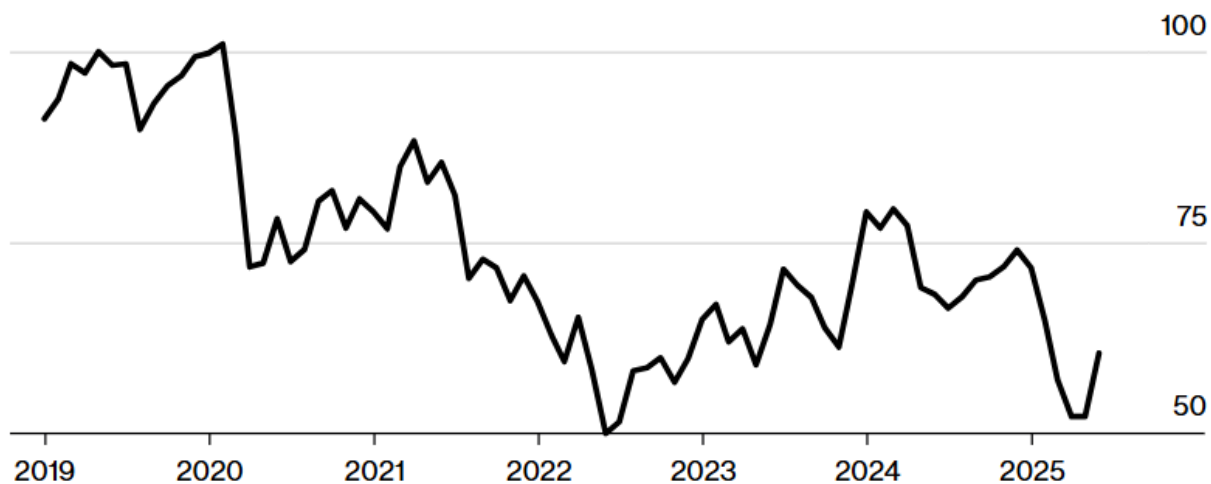


Source: Morningstar Direct

However, recent soft economic data paints a more cautious backdrop. While hard indicators, such as employment, remain solid, measures of consumer sentiment have deteriorated notably. The University of Michigan Index of Consumer Sentiment fell 29% in the first four months of 2025. It remained near historic lows through the spring, marking one of the sharpest declines in the survey's 79-year history. Historically, such swift drops have often preceded recessions. [Joanne Hsu](#), director of the University of Michigan's Surveys of Consumers, cautioned, "When all signals are pointing the same way, I think we need to take the consumer seriously... it's just really dangerous to overlook".

Americans' Mood Has Soured in 2025

Consumer sentiment index



Source: University of Michigan Surveys of Consumers

Note: June 2025 is preliminary

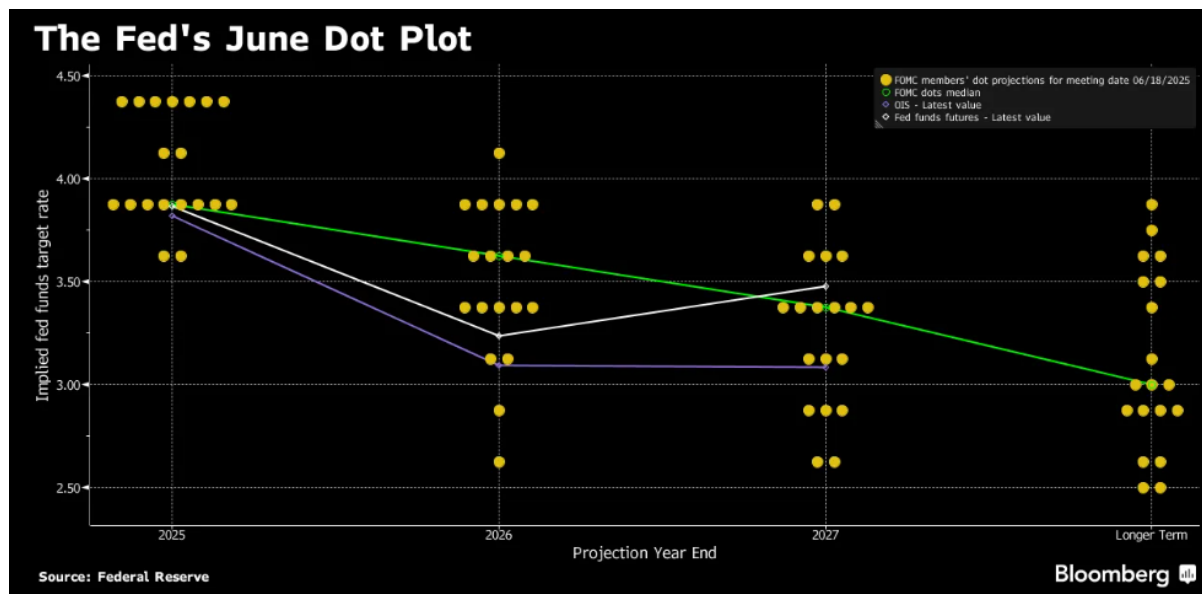
While Wall Street has largely looked past these signals amid enthusiasm for technology and AI-driven earnings growth, the stark contrast between market momentum and weakening sentiment highlights potential vulnerabilities if economic data were to turn more decisively negative.

Despite the rally's ability to rekindle optimism, questions remain about sustainability given elevated valuations and concentrated leadership. Broader participation may be needed for market momentum to carry into the second half of the year.

Fixed Income – Fed Holds Steady, Markets Wait for the Next Move

The fixed income landscape remained marked by shifting signals during the second quarter of 2025. The Bloomberg U.S. Aggregate Bond Index advanced 1.2% for the quarter and is up 4.0% year-to-date, reflecting modest gains amid continued uncertainty over monetary policy and inflation trends.

At the Federal Reserve's June meeting, policymakers held rates steady as widely anticipated but signaled that cuts could arrive as soon as July. The updated "dot plot" revealed growing division within the committee over the policy path for 2025. Seven officials now foresee no cuts this year, up from four in March, while two members see room for only a single reduction. Conversely, ten officials continue to expect at least two rate cuts before the end of the year.



Chairman Powell defended the central bank's cautious stance, noting that the committee seeks clearer evidence of how White House trade policies, particularly new tariffs, might filter through to the broader economy. In post-meeting remarks, Powell observed that while uncertainty around the outlook has eased somewhat, it remains elevated. [He added](#) "Ultimately the cost of the tariff has to be paid and some of it will fall on the end consumer...we know that because that's what businesses say, that's what the data say from the past. We know that's coming and we just want to see a little bit of that before we make judgments prematurely."

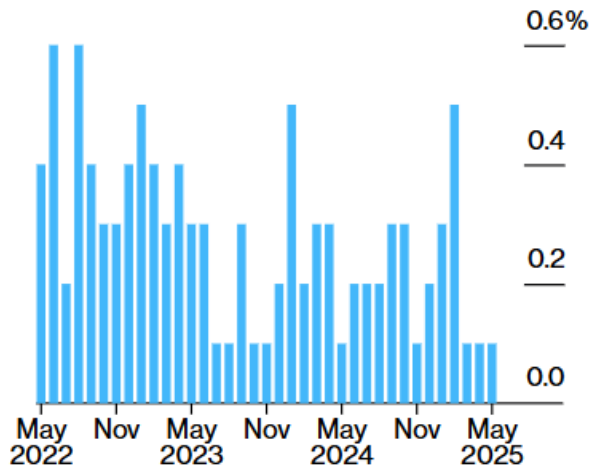
Despite legal challenges to the initial rounds of tariffs, the White House has reportedly been exploring additional measures that could impact critical sectors, such as semiconductors, pharmaceuticals, and essential minerals, fueling uncertainty in both economic forecasts and market expectations.

[The Fed raised its year-end inflation projection](#) to 3.0% from 2.7%, even as the core Personal Consumption Expenditures (PCE) index—excluding food and energy—[rose by just 0.1% in May](#), marking the tamest three-month stretch since the pandemic five years ago. At the same time, economic growth projections were trimmed to 1.4% from 1.7%, and the unemployment forecast ticked slightly higher to 4.5% by year-end, underscoring concerns of a potential stagflationary backdrop.

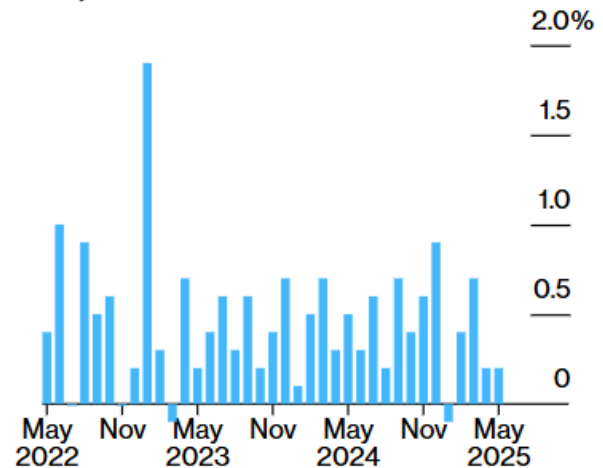
US Inflation in Last Three Months Tamest Since Pandemic

Economists also see a second month of modest consumer spending

Change in core PCE price index (MoM)



Change in personal spending (nominal, MoM)



Source: Bureau of Economic Analysis

Note: Core personal consumption expenditures excludes food, energy

Amid this policy uncertainty, fixed income sectors delivered mixed results. U.S. Treasuries posted modest gains across shorter maturities, while longer-duration bonds were more volatile. The Bloomberg U.S. Convertible Index rose 8.1% during the quarter, benefiting from equity market strength, while municipal bonds slipped slightly, down 0.1% in Q2, as rate expectations shifted.

High-yield bonds advanced 3.5% for the quarter, supported by investor appetite for yield amid moderate credit spreads, while agency and mortgage-backed securities saw smaller gains. The divergence in Fed views and the potential for geopolitical shocks continue to create an uncertain outlook for fixed income markets as the second half of the year unfolds.

Select Fixed Income Returns	2Q 25	YTD
Bloomberg US Convertible Comp TR USD	8.10	6.71
Bloomberg US Corporate High Yield TR USD	3.53	4.57
Bloomberg Treasury 5-7 Yr TR USD	1.82	5.28
Bloomberg 1-5 Yr Treasury TR USD	1.39	3.46
Bloomberg US MBS TR USD	1.14	4.23
Bloomberg US Treasury Bill 1-3 M TR USD	1.07	2.13
Bloomberg Treasury 7-20 Yr TR USD	0.24	4.53
Bloomberg Municipal TR USD	-0.12	-0.35
Bloomberg US Treasury 20+ Yr TR USD	-1.92	2.59
Bloomberg US Agg Bond TR USD	1.21	4.02

Source: Morningstar Direct

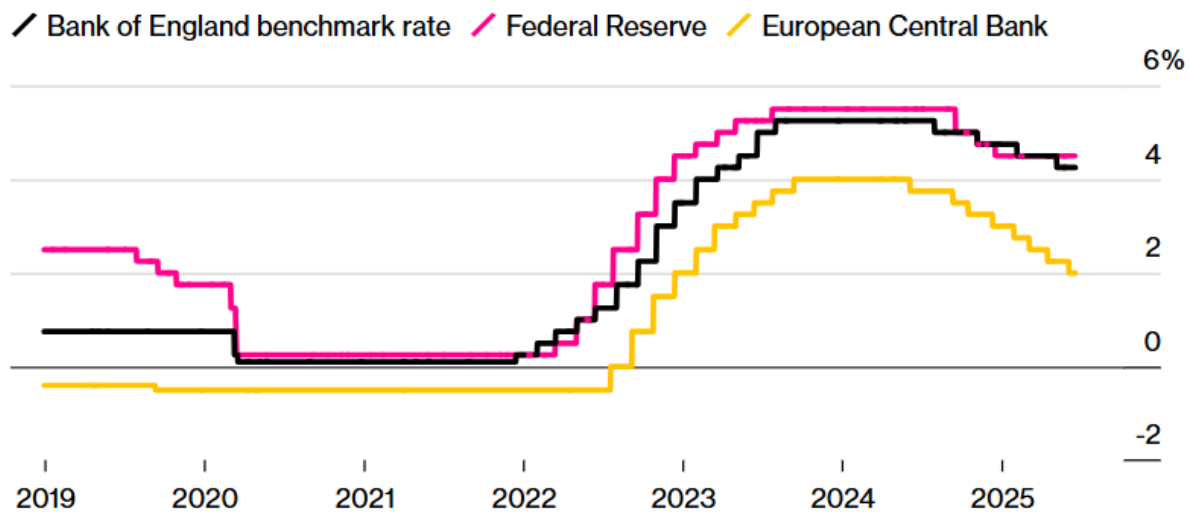
International markets – Divergent Paths Shape International Market Performance

International equity markets delivered strong results in the second quarter of 2025, often outpacing U.S. benchmarks as monetary policy paths diverged and economic recoveries varied across regions. The MSCI ACWI ex USA Index rose 12.0% in Q2 and 17.9% year-to-date (Source: Morningstar Direct).

Eurozone equities posted robust gains, fueled by expectations of continued policy support from the European Central Bank. Germany, France, Italy, and Spain all delivered double-digit returns for the quarter, with Spain leading at 17.2%. The ECB reduced rates again during the quarter as inflation trended closer to target, lowering its main refinancing rate to 2.0% by quarter-end. Policymakers remain cautious, balancing the need to ease inflation pressures against the risk of softer economic growth across the bloc. Concerns persist around industrial output and broader sentiment amid global trade uncertainties.

In the UK, equities also advanced, with the S&P United Kingdom BMI gaining 10.6% in Q2 and 19.6% year-to-date. The Bank of England implemented a rate cut earlier in the year. Still, it held rates steady at 4.25% during its June meeting in a dovish 6-3 vote, signaling caution as inflation shows signs of easing while economic growth remains modest. Investors continue to watch domestic political developments and shifting economic indicators for potential impacts on market sentiment.

The BOE Is On a Path Closer to the US Than the Euro Area



Source: Bloomberg

Select Developed and EM Country Returns	2Q 25	YTD
S&P Korea BMI NR USD	34.5	40.0
S&P Taiwan BMI NR USD	23.9	9.5
S&P Argentina BMI TR USD	22.9	26.8
S&P Mexico BMI NR USD	19.7	28.5
S&P Spain BMI NR USD	17.2	42.0
S&P Italy BMI NR USD	16.5	34.7
S&P Germany BMI NR USD	16.5	34.1
S&P Hong Kong BMI NR USD	15.4	19.9
S&P Brazil BMI NR USD	14.9	31.5
S&P Japan BMI NR USD	11.3	12.5
S&P United Kingdom BMI NR USD	10.6	19.6
S&P France BMI NR USD	9.6	20.8
S&P Colombia BMI NR USD	7.0	43.0
CSI 300 NR USD	3.5	3.2
<i>Benchmark 1: MSCI ACWI Ex USA NR USD</i>	12.0	17.9

Source: Morningstar Direct

China

China's markets delivered more muted gains, with the CSI 300 Index up just 3.5% for the quarter and 3.2% year-to-date. Ongoing challenges in the real estate sector have weighed on confidence, despite multiple rounds of policy easing by the People's Bank of China (PBOC) aimed at stabilizing credit markets and supporting domestic demand. Tariff tensions with the U.S. also remain an overhang, with new measures announced earlier this year still being implemented and affecting supply chains and investor sentiment.

Emerging Markets

Emerging markets were standouts in the second quarter. Korea surged 34.5%, Taiwan gained 23.9%, and Latin American markets delivered robust returns as well, with Argentina up 22.9%, Mexico rising 19.7%, and Brazil climbing 14.9%. A weaker U.S. dollar has provided a tailwind for many EM currencies and asset flows, though political risks and inflation concerns continue to shape outlooks across the region.

Oil markets added another layer of complexity to the global picture late in the quarter. Prices spiked following U.S. strikes on strategic sites in Iran but retreated as immediate supply disruptions failed to materialize. However, concerns remain elevated about potential retaliatory action and possible disruptions in the Strait of Hormuz, a vital corridor for roughly a quarter of global seaborne oil trade and a significant channel for liquefied natural gas. Even brief blockages could trigger sharp price increases. As Kpler Ltd. analyst Muyu Xu noted, "If Iran blocks the Strait of Hormuz, even for one day, oil can temporarily hit \$120 or even \$150 a barrel. And if it attacks major oil production or export facilities in neighboring countries, it may drive up prices higher for longer." Such developments could have significant ripple effects on global inflation, trade flows, and investor sentiment heading into the second half of 2025.

2025 - Navigating the Second Half: Opportunities and Uncertainties Ahead

As markets enter the second half of 2025, optimism around resilient earnings and easing inflation remains tempered by significant uncertainties. While the U.S. economy has thus far avoided recession, questions persist about the sustainability of growth amid restrictive monetary policy, potential impacts from new tariffs, and geopolitical risks in Eastern Europe and the Middle East. Equity markets have delivered strong year-to-date gains, but leadership has remained narrow, and elevated valuations leave little margin for disappointment. In the fixed-income market, diverging views within central banks underscore the challenges of forecasting interest rates and inflation trajectories. At the same time, the dollar's recent weakness could influence global capital flows and asset allocation decisions. Investors are navigating an environment that calls for a balance between participating in potential upside and preparing for bouts of volatility.

- **Global Diversification:** Differences in monetary policy paths and economic conditions across regions suggest potential benefits in maintaining globally diversified exposures to manage both opportunity and risk.
- **Geopolitical Watchpoints:** Energy markets, currency volatility, and global trade dynamics remain key variables for the second half of 2025, highlighting the importance of monitoring geopolitical developments and their potential market ripple effects.

FOOTNOTES:

Past performance is no guarantee of future returns.

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The information here is not intended to constitute an investment recommendation or advice.

Sources:

1. Data from Morningstar. Returns over one year are annualized.

Returns are based on the S&P 500 Total Return Index, an unmanaged, capitalization-weighted index that measures the performance of 500 large capitalization domestic stocks representing all major industries. Indices do not include fees or operating expenses and are not available for actual investment. The hypothetical performance calculations are shown for illustrative purposes only and are not meant to be representative of actual results while investing over the time periods shown. The hypothetical performance calculations for the respective strategies are shown gross of fees. If fees were included returns would be lower. Hypothetical performance returns reflect the reinvestment of all dividends. The hypothetical performance results have certain inherent limitations. Unlike an actual performance record, they do not reflect actual trading, liquidity constraints, fees and other costs. Also, since the trades have not actually been executed, the results may have under- or overcompensated for the impact of certain market factors such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. Returns will fluctuate and an investment upon redemption may be worth more or less than its original value. Past performance is not indicative of future returns. An individual cannot invest directly in an index.

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