

Economic Overview

The second quarter kicked off raucously with President Trump's "Liberation Day" proclamation on April 2nd that laid out historically high tariff rates derived from questionable calculations with U.S. trading partners globally. Market participants panicked and swiftly ran for the gates, resulting in a near bear market in the S&P 500 with a drawdown of 18.9% through April 9th. This drawdown was uncharacteristically swift as the S&P experienced consecutive days of 4.5% declines, only the fifth time in 80 years. Not to be outdone, the recovery was the swiftest on record for a 15% drawdown, taking just 55 trading days to get back on equal footing. The recently dubbed "TACO" trade calmed markets as the President and his trading envoy initially delayed implementation of said tariffs until July 9th initially, and as we go to press, to August 1st in the hopes that

deals with countries will progress considerably or outright be completed. "Peak" tariff panic looks to be in the rearview mirror as the S&P has rebounded notably off the April 9th lows and ended the quarter at a new all-time high.

The Federal Reserve held the federal funds rate steady at 4.25%-4.50% throughout the quarter. The Fed's updated projections as of the June 18th meeting indicate expectations for slower economic growth, higher core inflation and slightly higher unemployment by year-end, due to the potential aftereffects of U.S. tariffs and retaliatory measures. The Fed, per their projections, is not envisioning any more rate cuts for the year given that core inflation is still above their target coupled with the fact that economic ramifications (growth, inflation, and unemployment) are still



"RECIPROCAL" TARIFFS

"I do not think that word means what you think it means."

Inigo Montoya

unknown variables. However, that projection is borne from a growing divide amongst FOMC members with one camp envisioning no rate cuts this year and another anticipating 50bps of cuts by year-end. This divergence could translate to further policy uncertainty surrounding the future path of rates and differing views on how inflation and the economy will evolve.

Outlook

Bullish Narratives

- Potential forthcoming business friendly deregulation and a recently completed U.S. budget deal should bolster growth dynamics in the U.S.
- Growth, employment, and the business cycle look to be cooling rather than falling into prevailing recession narratives.
- Peak tariff panic, while not over, is likely in the rearview as extraneous forces (admin officials, financial markets, and public opinion) push for resolutions to trade disputes and policy uncertainty.

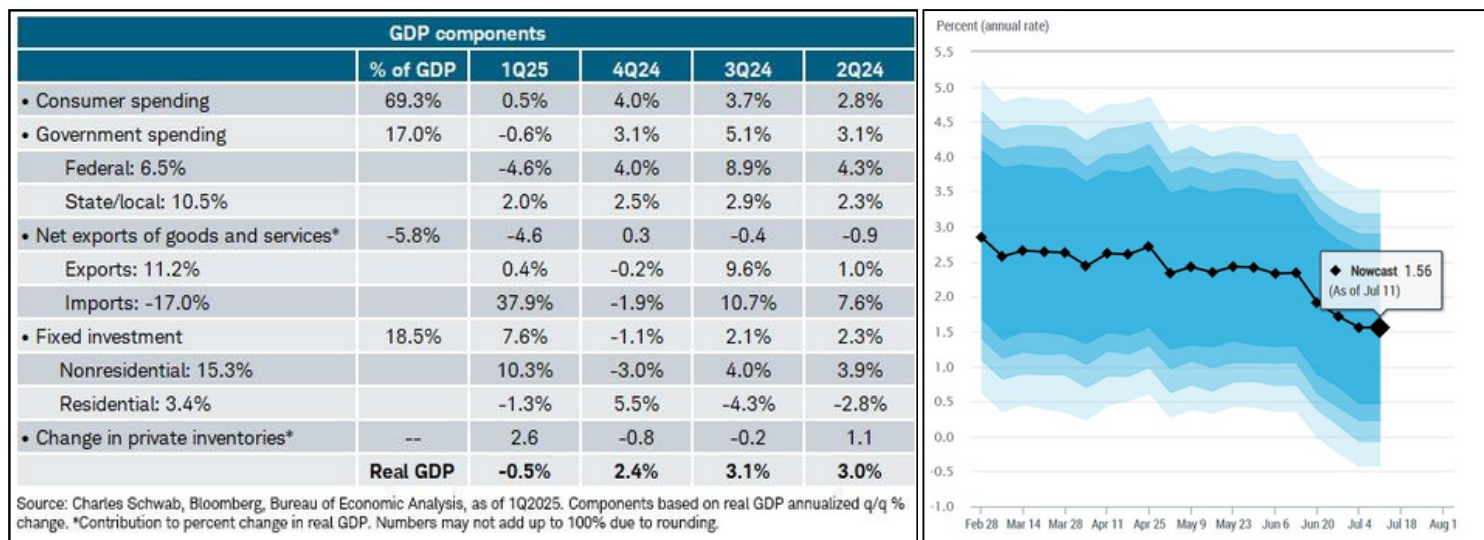
Bearish Narratives

- The Fed may be required to maintain restrictive monetary policy with inflation still running above target, tariff inflation pressures, and resilient growth and labor market.
- Potential for longer-term upward pressure on U.S. interest rates due to fundamental and technical factors may present challenges for the broad economy.
- Policy uncertainty leading to negative business and consumer sentiment poses risks to employment (deferred hiring), business capital expenditures, and personal consumption.

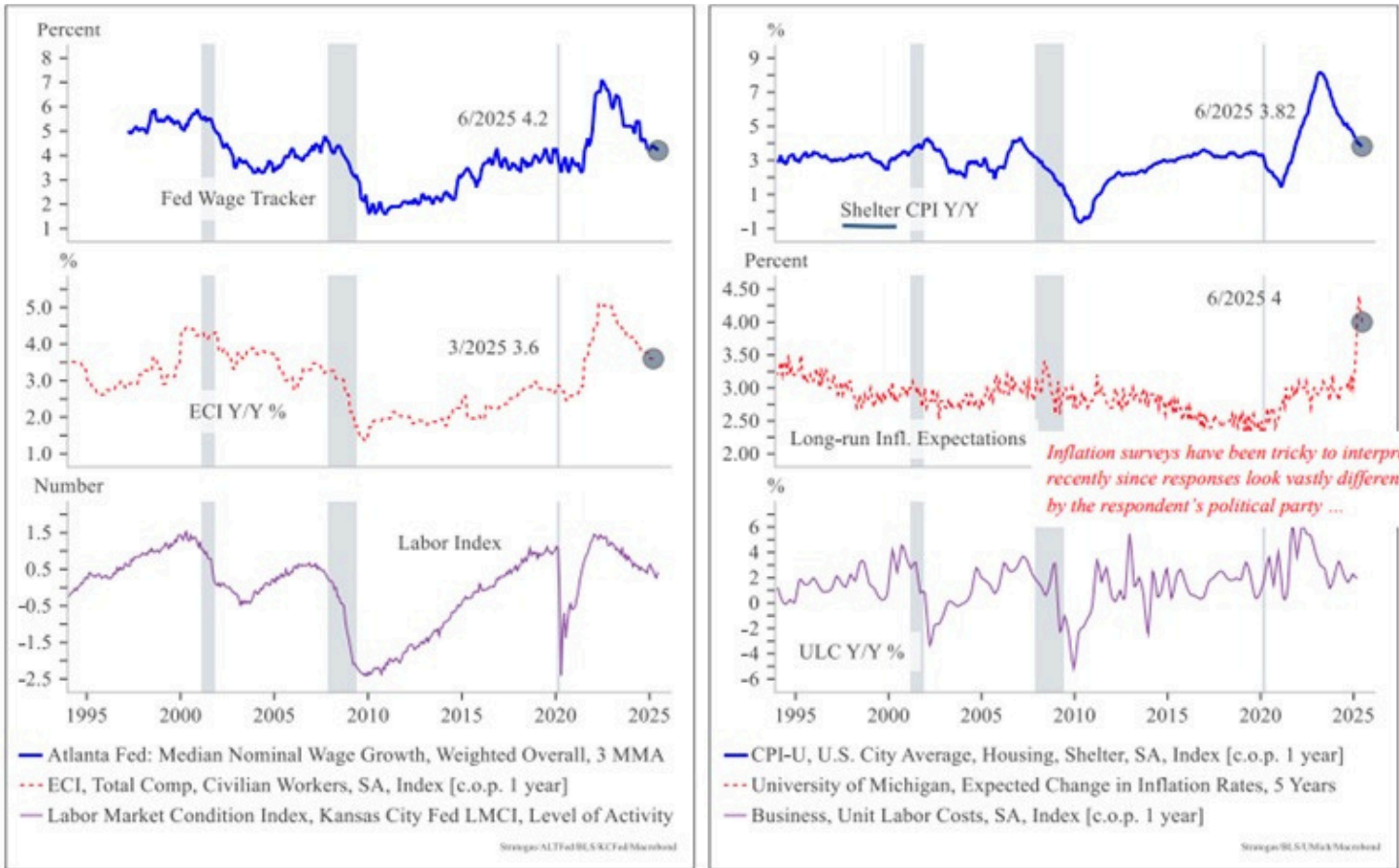
Looking ahead, growth and inflation will be influenced by a combination of trade, fiscal, monetary, and regulatory policies, as well as trends in employment, wages, and capital investment. Although trade policy is currently a dominant concern, we believe its effects will be short-term in nature and unlikely to trigger a recession over the intermediate to long term.

We are maintaining a modestly constructive view on equity markets over the next 12-24 months. Our positioning favors value stocks over growth stocks and a preference for U.S. markets over broad international equities. From a fixed income perspective, we are holding a neutral duration stance given the potential for continued trade and geopolitical disruptions.

Macro Overview



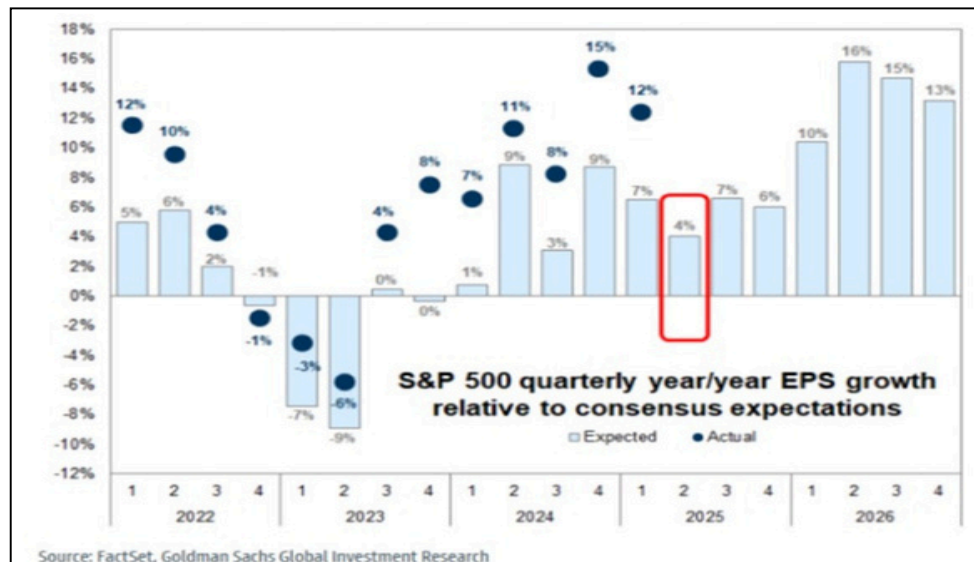
- U.S. Real GDP contracted by 0.5% in Q1 2025, down from 2.4% in Q4. The decline was fueled by a historic surge in imports as businesses sought to front run potential tariffs. Personal consumption increased 0.5%.
- The New York Fed projects U.S. Q2 2025 GDP growth at 1.6%. Growth expectations have rebounded as net exports normalize and personal consumption continues to remain a positive.



Macro Overview

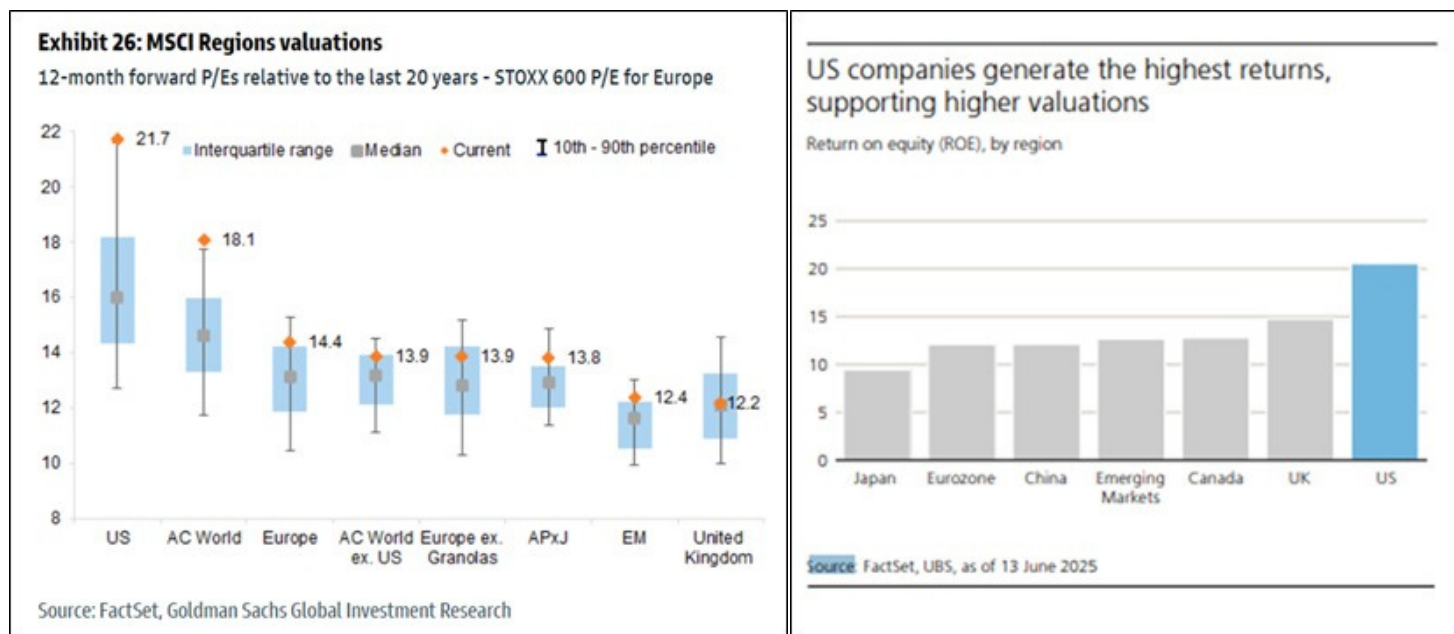
- Inflationary pressures continued to ease across the board throughout the quarter. Wages grew at a modest 4.3% clip, the ECI continued to moderate, and labor market conditions loosened but still remain tight in absolute terms. Longer-term inflation expectations, which spiked in Q1 due to tariff-related fears, peaked and appear to be rolling over as progress on deals continues.

Equity Overview



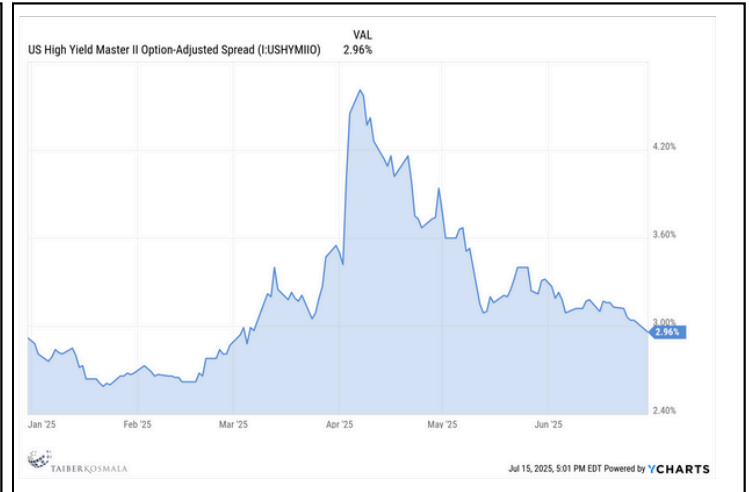
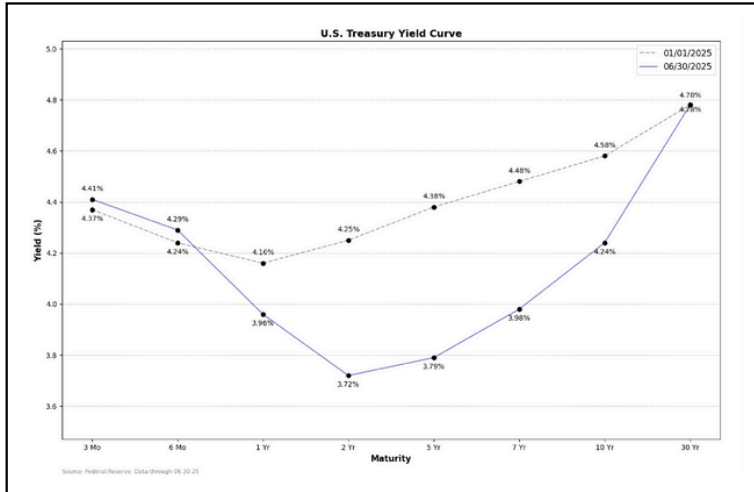
- Following a dismal first quarter which saw domestic equity markets finish largely in the red, the second quarter displayed robust returns, especially for growth-oriented segments of the market, as tariff-related fears dissipated. This fueled a near 11% return for the S&P 500 bringing its year-to-date return up to 6.2%. Communication services, consumer discretionary, and technology, all of which posted the worst returns in Q1, were the biggest gainers (along with industrials) in the quarter. Cyclically oriented sectors were a mixed bag as materials posted a positive return for the quarter but energy and healthcare were both laggards.
- Value stocks gained 3.8% during the quarter, underperforming growth stocks, which rose 17.8%. Small caps enjoyed a nice rebound as well, with the Russell 2000 Index appreciating 8.5%.
- Performance from the “Magnificent 7” mega-cap technology stocks, up 21%, was superb and helped many of the growth-oriented sectors and S&P 500 as noted above. In contrast, the average stock, as measured by the Equal-Weighted S&P 500, was up 5.3% for the quarter.
- Looking ahead, Wall Street has a low bar for Q2 earnings with the street looking for year-over-year growth of just 4% for the S&P 500.

Equity Overview



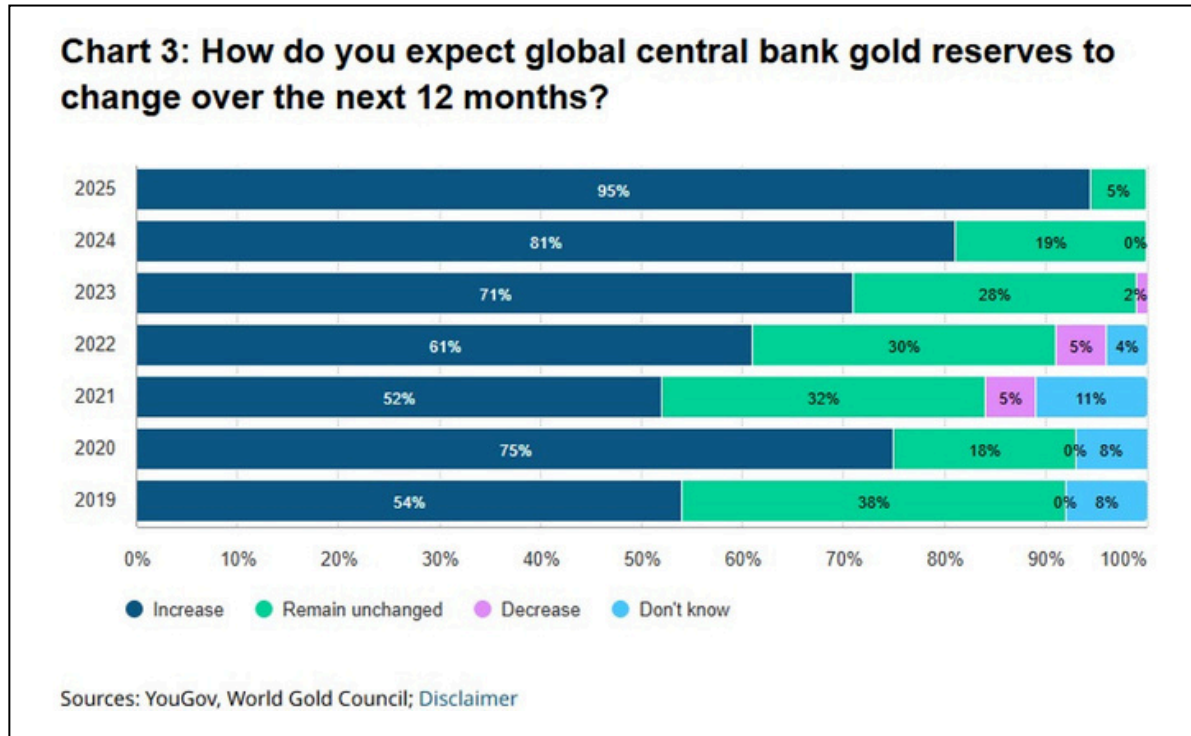
- International equity markets during the second quarter continued their strong start to the year driven largely by currency tailwinds. With the dollar depreciating north of 7% in the quarter, both the MSCI EAFE and EM Indices rose 12%.
- European markets, which have been relatively cheap compared to their U.S. counterparts, ended the quarter expensive relative to their own historic norms.
- Emerging markets performance was widespread as both Asian markets (+12.6%) and Latin American markets (+15.4%) were up in the quarter. Continuing signs of stabilization in China have been a welcome sight to broader Asia while central bank cutting campaigns that have begun or are continuing for a swath of Latin American countries have translated to equity market tailwinds.

Fixed Income Overview



- Bond market returns were positive throughout the quarter as short-to-intermediate term rates were largely rangebound. The 10-year Treasury yield rose to an intra-quarter high of 4.58% but settled in at 4.24% to end the quarter. Longer-term rates rose notably by as much as 20-25 bps in the 20- and 30-year maturities on the back of concerns surrounding the legislation passed to add trillions to the precarious U.S. fiscal situation. These same concerns fueled a Moody's credit downgrade in May which had depreciating ripple effects on the trade-weighted dollar in Q2.
- The yield curve still remains inverted in the belly of the curve (1-5 year maturities) as the Fed held rates steady throughout the quarter. Yields saw a brief selloff in mid-May as fiscal policy negotiations progressed and fears surrounding the fiscal deficit rose.
- Credit spreads spiked around Liberation Day and the ensuing market bottom on April 8th but restarted their tightening campaign as tariff enforcement was continuously pushed back, settling in back below 3%.
- In aggregate, short-term Treasuries were up 1.20%, intermediate-term Treasuries gained 1.40%, and long-duration Treasuries lost 1-2% depending on maturity. The broad-based Aggregate Bond Index 1.21%, while TIPS returned 0.48%. High yield bonds finished up 3.57% as spreads calmed and risk appetite reignited. Bank loans and investment-grade floating rate debt posted gains of 0.80% and 1.16%, respectively. Emerging market debt also rallied, with sovereign bonds up 4.45% and local currency debt gaining 7.99%, supported by favorable currency dynamics and easing policies in select markets.

Real Assets Overview



- Behind a backdrop of geopolitical uncertainty and trade tensions, certain real asset segments like infrastructure and gold demonstrated notable resilience. Gold gained 6% for the quarter, driven largely by sustained central bank demand—particularly from Asia. This sustained accumulation across all central banks has stemmed from a multitude of factors including current interest rate levels, inflationary concerns, the current geopolitical climate, and potential trade conflicts (tariffs).



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