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A tumultuous second quarter ended with US stocks setting fresh records. The quarter started with President Trump's sweeping tariffs announcements that wreaked havoc in markets, sending the S&P 500 to the brink of a bear market. Shortly afterwards, the president announced a 90-day pause on many of his planned tariffs, which was followed by a swift recovery in the stock market. Continued trade negotiations between the US and trading partners including China and the European Union have also boosted market sentiment ahead of the looming deadline for tariff hikes. Since the lows on April 8th, the broad index has gained 23% through the end of June, which marked the swiftest-ever recovery back to a record high after a decline of over 15%. The S&P 500 finished up 10.9% in Q2 and 6.2% YTD, respectively. The Nasdaq Composite Index hit a new record, returning18% during the quarter and 5.9% YTD. The Dow Jones Industrial Average returned 5.5% and 4.6% in Q2 and YTD, respectively.

The economy and consumers have been resilient amid heightened policy uncertainty. Companies in the S&P 500 delivered healthy pre-Liberation Day median earnings growth of 12%. More importantly, guidance was better than expected at a time when the implied tariff rate was above 20%. Magnificent 7 companies in aggregate delivered better than expected earnings growth of 28% and 12% revenue growth. In particular, their guidance on AI-related capital expenditure helped drive a V-shaped recovery in the technology sector and industrials that are tied to AI. The AI theme and related capital spending boom remain robust.

Not all market participants are optimistic. Some of them fear that the US tariff policies remain highly uncertain, and it is just a matter of time before tariffs hurt economic growth, rekindle inflation and add pressure to both corporation and consumers. These concerns have led the Federal Reserve to pause its interest rate cuts, while concerns about President Trump "Big Beautiful Bill" and the massive US deficit have weakened the dollar.

Despite concerns surrounding the US deficit, the yield on the benchmark 10-year Treasury note settled at 4.23% and the end of June, down from 4.58% a year ago.

So far in 2025, developed non-US equities are outperforming US large cap stocks by the widest margin since 1993. The MSCI EAFE index delivered a return of 19.9% year to date, including a 12.1% gain in the second quarter, aided by a weakening US dollar. Monetary policy has eased significantly in the Euro area and the UK. Rate cuts in the Euro area have been made possible given relatively subdued inflation. In terms of fiscal policy, Germany has made a significant shift in its spending in defense and infrastructure by removing the ceiling that was tied to its GDP. As a result, Europe is seeing improving manufacturing activity. European equities have rallied this

Second Quarter Market Watch

	Date	1 Quarter Ago		1 Year Ago	
	6/30/2025	3/31/2025	% chg	6/30/2024	% chg
DJIA	44,094.77	42,001.76	5.5%	39,118.86	14.7%
S&P 500	6,204.95	5,611.85	10.9%	5,460.48	15.2%
NASDAQ Composite	20,369.73	17,299.29	18.0%	17,732.60	15.7%
Russell 2000	5,405.51	5,000.11	8.5%	5,089.03	7.7%

	Date	1 Quarter Ago		1 Year Ago	
	6/30/2024	3/31/2024	% chg	6/30/2023	% chg
Japan Nikkei 225	40,487.39	35,617.56	17.7%	39,583.08	18.1%
MSCI EM (Emerging Markets)	1,222.78	1,101.40	12.2%	1,086.25	16.0%
MSCI EAFE	2,654.79	2,400.82	12.1%	2,314.63	18.3%
MSCI AC World	917.89	827.15	11.7%	802.01	16.7%
FTSE 100	9,923.86	9,616.97	9.6%	8,916.48	29.1%
SSE Composite Index	3,444.43	3,335.75	4.5%	2,967.40	14.6%

US Equity Sector

	Q2	1-yr ret.
Consumer Discretionary	11.5%	14.0%
Consumer Staples	1.1%	11.6%
Energy	-8.6%	-4.6%
Financials	5.5%	23.9%
Health Care	-7.2%	-7.1%
Industrials	12.9%	19.8%
Information Tech	23.7%	9.8%
Materials	3.1%	-0.4%
Communication Services	18.5%	22.2%
Utilities	4.3%	21.0%

US Equity Style

	Q2	1-yr ret.
Russell 1000 Value	3.8%	10.7%
Russell 1000 Growth	17.8%	13.1%
Russell 2000 Value	5.0%	4.6%
Russell 2000 Growth	12.0%	14.6%

Commodity Prices

	Jun 2025	Dec 2024	1 Yr. Ago
Gold	3,307.70	2,641.00	2,339.60
Crude Oil	65.11	71.72	81.54
UD Dollar Index	96.49	108.30	105.55
Commodity Index	102.02	98.76	100.99

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year, especially among defense, industrials, and construction markets.

China's domestic policy is contingent on uncertain external events, in which trade war risk has escalated again under Trump's second term. The Chinese government has remained accommodative in both fiscal and monetary policies, but the magnitude of policy easing will depend on the evolution of tariff war and the impact on the economy.

The US dollar has seen the largest decline to start the year since 1973, when the OPEC oil embargo caused a 9% surge in inflation. Despite 2025's underperformance and Moody's recent downgrade of US credit, the US dollar is still the leading reserve currency. While 2025 highlights the importance of global diversification, investors should resist the urge to drastically change US vs. non-US allocations.

The price of bitcoin has surged back above $100,000, with the President reaffirming his promise to make the US the "crypto capital of the planet" and the Congress seeking to advance legislation to integrate crypto into the mainstream financial system. Coinbase led the recovery from the April lows, gaining 130%.

Beyond the short-term spike induced by geopolitics, crude oil prices have remained weak, driven by the supply-demand balance. Global oil inventories have risen by almost 240 million barrels since February 2025. Based on the forward physical oil balances, the market is expecting over 2.2 million barrels per day in surplus over the second half of 2025. This suggest that crude oil prices will likely be range bound in the low-to-mid $60's for the remainder of the year.

We are at the start of the second quarter earnings season. Analysts expect the S&P 500 to earnings growth of 9.4% this year, below the 14% expected at the start of the year. Still, analysts project earrings growth of 13.7% next year. Many remain optimistic that the trade negotiations will mitigate the impact

US Treasury Bond Yields

	Jun '25	Dec '24	1 Yr. Ago
90 Day	4.29	4.32	5.36
2 Year	3.71	4.24	4.72
5 Year	3.79	4.38	4.34
10 Year	4.23	4.57	4.37
30 Year	4.79	4.78	4.54

Interest Rates

	Jun 2025	Dec 2024	1 Yr. Ago
Prime Rate	7.50	7.50	8.50
Federal Funds Rates	4.33	4.58	5.33
30 Year Fixed Mortgage Rate	6.77	6.91	6.86

Exchange Rates

	Jun'25	Dec'24	1 Year Ago
Euro per U.S. Dollar	0.933	0.905	0.917
British Pounds per U.S. Dollar	0.791	0.784	0.787
China Renminbi per U.S. Dollar	7.266	7.092	7.264
Indian Rupee per U.S. Dollar	83.388	83.214	82.036
Japanese Yen per U.S. Dollar	160.860	140.980	144.535

Economic Data

	Jun '25	Dec '24	Jun '24
Unemployment Rate	4.10	4.10	4.10
Avg Single Family Home	401,600	401,600	401,600

of tariffs. The past earnings season provided support for equities, with S&P 500 companies delivering outstanding Q1 results with positive earnings surprises and better-than-expected guidance amid high global trade uncertainty. While Q1 earnings season helped investors remain confidence that growth remains intact, we are cautious on some of the pull-forward demand and inventory stocking related to tariffs. Another reason for caution on the broad market is valuations. The S&P 500 recently traded about 22 times its projected earnings over the next 12 months, above a 10-year average of 19. With trade negotiations still unfolding, it is too soon to know how global trade policies will settle. This lingering uncertainty, along with a scarcity of high-quality assets, leads to a continued preference for high quality companies with stable and growing earnings power.

The first half of 2025 saw signs of slowing economic growth, uneven inflation data, and evolving expectations for the US Federal Reserve rate cuts. In addition, the on-again, off-again tariff announcements from the US have made it difficult for investors and companies to forecast future earnings. As we move past the midpoint of 2025, we expect markets will continue to be affected by ongoing headline risk. The US policy shifts that encompass trade, fiscal, and monetary will continue to impact consumer, business, and market sentiments. In the second half of the year, the persistent backdrop of policy uncertainty, along with geopolitical risks, portends higher market volatility. As we navigate market uncertainties, our investment professionals continue to see opportunities, which include quality assets at attractive prices, and the ongoing surge in artificial intelligence. However, we remain disciplined in deploying capital and rebalancing where appropriate in a higher volatility regime.

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