

FROM THE OFFICE OF THE CIO

Quarterly Market Commentary

2Q 2025 Review

KEY TAKEAWAYS

- Economic data continued to paint a mixed picture amidst the tariff backdrop with a stable U.S. job market, declining inflation and weakening GDP. The tariff narrative continues to cast a shadow on markets and the global economic outlook.
- Global equity markets saw a strong rebound across regions. The S&P 500 surged in Q2 driven by growth stocks and strong performance from the “Magnificent 7.” Market breadth narrowed, but overall investor sentiment improved significantly. International equities were positive amidst broad-based strength across Europe and the Pacific, with a weakening dollar providing a tailwind. Emerging market equities finished the quarter strong with contributions from technology and growth sectors.
- Fixed Income markets produced gains as the U.S. Treasury curve steepened. Investment grade credit and high yield both recorded positive returns. Non-dollar debt rallied as the U.S. dollar weakened. Municipal debt posted positive returns but lagged taxable markets.
- Commodities generated mixed returns. Gold and precious metals rallied, while energy prices finished lower after experiencing a volatile quarter. Real Estate generally lagged broader equity markets.

Overview

The second quarter was a whirlwind for the economy and financial markets. On April 2, 2025 — the date President Trump proclaimed as Liberation Day — the administration announced sweeping tariffs aimed at reshaping decades of U.S. trade policy. A 10% minimum tariff was introduced on all goods imported into the United States, along with reciprocal tariffs targeting countries with the

largest trade deficits with the U.S. Overall, the announced tariffs were broader and higher than most economists had forecast. Financial markets reacted swiftly and forcefully, with global equity, fixed income, commodities, and the U.S. dollar plunging in a major risk-off move. Several U.S. equity indices quickly entered correction territory, experiencing drawdowns of more than 10% from their February peaks.

In the aftermath of the market sell-off, the administration postponed country-specific reciprocal tariffs until July 8, 2025, while keeping the 10% baseline tariff in effect. This was welcome news for investors, as sentiment quickly turned positive and equity markets rallied sharply. Despite the rebound, caution within the markets remained, as it was clear that trade policy would weigh heavily on businesses and consumers amid ongoing shifts in the tariff narrative.

As the quarter progressed and tariff tensions eased somewhat, investor attention was reoriented from trade to fiscal policy. President Trump's tax cuts and spending package narrowly passed through the House of Representatives in May, squeaked by one vote through the Senate on July 1, and was signed into law on July 4. Although it was viewed as positive to economic growth, the plan is also projected to add more than \$2 trillion to the federal deficit over the next decade. At a time when consumers and investors were already weighing the inflationary impact of tariffs, the prospect of additional inflationary pressure from the fiscal deficit remained a topic of concern amongst fixed income investors.

As we move into the second half of 2025, uncertainty surrounding tariff and fiscal policy continues to cast a long shadow over the economy and markets. Although the U.S. has negotiated trade deal frameworks with some of its trading partners — most notably China and the United Kingdom — helping to ease trade tensions, several deals are yet to be formalized with other countries. Expectations are that the effective tariff rate will settle between 10% and 15%, significantly lower than the worst-case scenario of 25%-30%, indicated by President Trump on Liberation Day, but still higher than the pre-Liberation Day rate of approximately 5%. Though the exact impact on economic growth is heavily debated, the consensus among economists is that higher tariffs will reduce growth and increase inflation.

U.S. GDP contracted at an annual rate of 0.5% in the first quarter of 2025. For comparison, real GDP increased by 2.4% in the fourth quarter of 2024. The first quarter de-

cline primarily reflected a surge in imports, as companies and households front-loaded purchases ahead of tariff rate increases. This is largely considered an anomaly, as imports are a subtraction in the calculation of GDP. As of this writing, the Atlanta Fed's GDPNow model estimates real GDP growth of 2.54%¹ in the second quarter of 2025, reflecting a return of economic growth after the first quarter drawdown.

While equity markets reached new highs and recession fears that spiked in the wake of Liberation Day fade, the overall economic outlook remains mixed. The labor market and consumer spending, two traditional pillars of economic strength, are showing signs of softening as consumers and businesses await further clarity. Although we expect the U.S. economy to avoid a recession in the near term, the margin of safety for policy error is narrowing. Resolutions on trade negotiations could pave the way for redirected focus on monetary policy easing and further deregulation, as pro-growth agendas may stimulate the economy in the second half of the year.

The Fed

As widely expected, the Fed held its policy rate unchanged at its May and June meetings. The Fed has now maintained the federal funds target range at 4.25% to 4.50% for four consecutive meetings. Although there have been vocal challengers to the Fed's decision to keep its policy rate restrictive, Fed Chair Powell has emphasized the high level of uncertainty surrounding the labor market and inflation outlook from trade policy, the federal budget and immigration reform.

The Fed's updated Summary of Economic Projections (See Figure 1 on the next page), released after its June meeting, reflects a growing concern among economists and strategists: stagflation or some degree of stagnant economic growth accompanied by inflation. Policymakers revised their GDP growth estimates downward for the next two years and raised their inflation estimates for the next three years.

¹Data as of July 1, 2025

Figure 1: Federal Open Market Committee Summary of Economic Projections – June 2025

Variable	Median			
	2025	2026	2027	Longer Run
Change in real GDP	1.4	1.6	1.8	1.8
March projection	1.7	1.8	1.8	1.8
Unemployment rate	4.5	4.5	4.4	4.2
March projection	4.4	4.3	4.3	4.2
PCE inflation	3.0	2.4	2.1	2.0
March projection	2.7	2.2	2.0	2.0
Core PCE inflation	3.1	2.4	2.1	
March projection	2.8	2.2	2.0	
Federal funds rate	3.9	3.6	3.4	3.0
March projection	3.9	3.4	3.1	3.0

Source: Federal Reserve

Fixed income

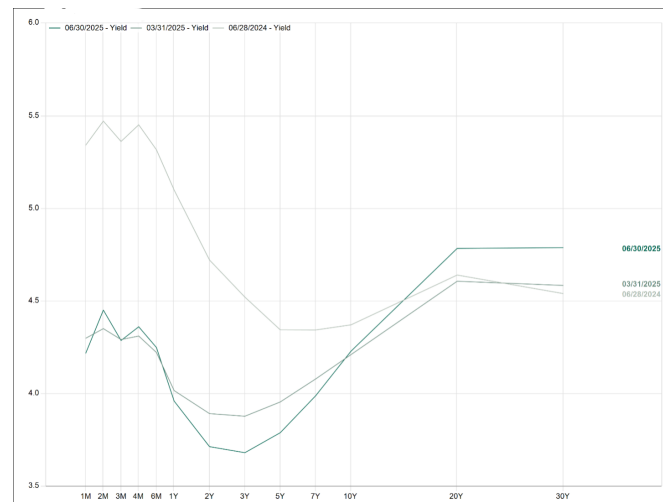
Despite challenges from an evolving tariff policy, growing U.S. government debt and economic uncertainty, the Bloomberg U.S. Aggregate Bond Index produced a total return of 1.21% in the second quarter, bringing its YTD total return to 4.02%. The U.S. Treasury yield curve steepened throughout the quarter, influenced by tariff uncertainty and fiscal policy, with significant upward pressure exerted on longer duration Treasury yields. Within the government bond space, the Bloomberg U.S. Treasury Index returned 0.85%, while the Bloomberg U.S. Treasury Inflation Protected Securities (TIPS) Index returned 0.48%, with U.S. TIPS underperforming nominal Treasuries.

U.S. Treasury yields experienced significant volatility in April, spiking higher following President Trump's Liberation Day tariff announcements, questions about Fed independence and growing concerns over foreign demand for U.S. debt. Volatility and yields eased somewhat after the U.S. postponed the effective date of reciprocal tariffs by 90 days and struck trade frameworks with China and the United Kingdom. However, yields surged again in May amid mounting deficit unease and rising yields overseas. Fiscal concerns intensified after President Trump's "One Big Beautiful Bill" passed through the

House of Representatives, raising questions about the size of the U.S. government deficit and long-term borrowing needs. A downgrade of the U.S. sovereign rating by Moody's added to the pressure, pushing the 30-year Treasury yield above 5%, its highest level since 2007. U.S. Treasury yields retreated in June amid better-than-expected inflation data and softer-than-expected consumer and labor data.

Taking a closer look at Treasury yields, the yield on the 2-year, 5-year, and 7-year U.S. Treasury fell by 18 basis points, 16 basis points and 9 basis points, respectively, in the second quarter (See Figure 2). In a stark contrast, the yield on the 10-year, 20-year and 30-year U.S. Treasuries rose by 2 basis points, 17 basis points and 21 basis points, respectively. As a result of this steeper yield curve, longer maturity Treasuries were a detractor from fixed income returns.

Figure 2: U.S. Treasury Yield Curve



Source: FactSet data as of March 31, 2025

The municipal bond market reflected many of the same themes as the taxable market. However, recent legislative developments have brought some clarity for municipal issuers as there was no change to the tax-exempt status of municipal interest. Elevated supply has been the main challenge for the tax-exempt market in the first half of 2025. Last year, new issue supply set a record at approximately \$500 billion, while YTD

Figure 3: Fixed Income Market Performance

Index	Q2 2025	YTD 2025	Total Return Trailing 1 Year
Bloomberg U.S. Aggregate Bond Index	1.21%	4.02%	6.08%
Bloomberg Municipal 1-10Y Blend 1-12Y TR	1.04%	1.75%	3.47%
Bloomberg U.S. Treasury	0.85%	3.79%	5.30%
Bloomberg U.S. Treasury U.S. TIPS	0.48%	4.67%	5.84%
Bloomberg U.S. Corporate Bond	1.82%	4.17%	6.91%
Bloomberg High Yield Corporate	3.53%	4.57%	10.29%
FTSE WGBI Non-USD (unhedged)	7.37%	9.87%	10.87%

Source: FactSet. All data as of June 30, 2025.

2025 issuance is meaningfully exceeding that pace. The Bloomberg Municipal 1-10 Year Index advanced 1.04% in the second quarter, bringing its YTD total return to 1.75% (See Figure 3).

The U.S. corporate credit landscape continued to be a bright spot, delivering higher returns than government debt. Excess returns were driven by credit spread compression. The Bloomberg U.S. Corporate Bond Index returned 1.82% in the second quarter, bringing the index's YTD total return to 4.17%. De-escalation of trade tensions helped reduce the risk of recession while boosting risk sentiment, contributing to the outperformance in lower quality credit over higher quality. High yield bonds and leveraged loans were two of the top performing fixed income sectors in the second quarter. The Bloomberg U.S. Corporate High Yield Index and Morningstar LSTA U.S. Leveraged Loan Index advanced 3.53% and 2.32%, respectively, bringing their YTD total returns to 4.57% and 2.81%.

Foreign debt markets delivered strong returns in the second quarter aided by waning inflation, easing monetary policy and a weaker U.S. dollar. The FTSE WGBI Non-USD Index, a measure of fixed rate, investment grade non-U.S. sovereign debt, generated a total return of 7.37%, bringing its YTD return to 9.87%.

Global equities

U.S. equity markets

U.S. equity markets rebounded in the second quarter, supported by easing tariff volatility, strong corporate earnings, and moderating inflation. The S&P 500 achieved record highs by the end of June, while smallcaps staged a partial recovery after briefly entering bear market territory in April. Investor sentiment improved as concerns surrounding trade policy and inflation subsided. Although consumer confidence remained subdued and macroeconomic data was mixed, investors were encouraged by a resilient labor market, slower core inflation trends, and corporate earnings that largely exceeded expectations. Market leadership rotated back toward growth and largecap sectors, while defensive stocks and early-year outperformers lagged. (See Figure 4.)

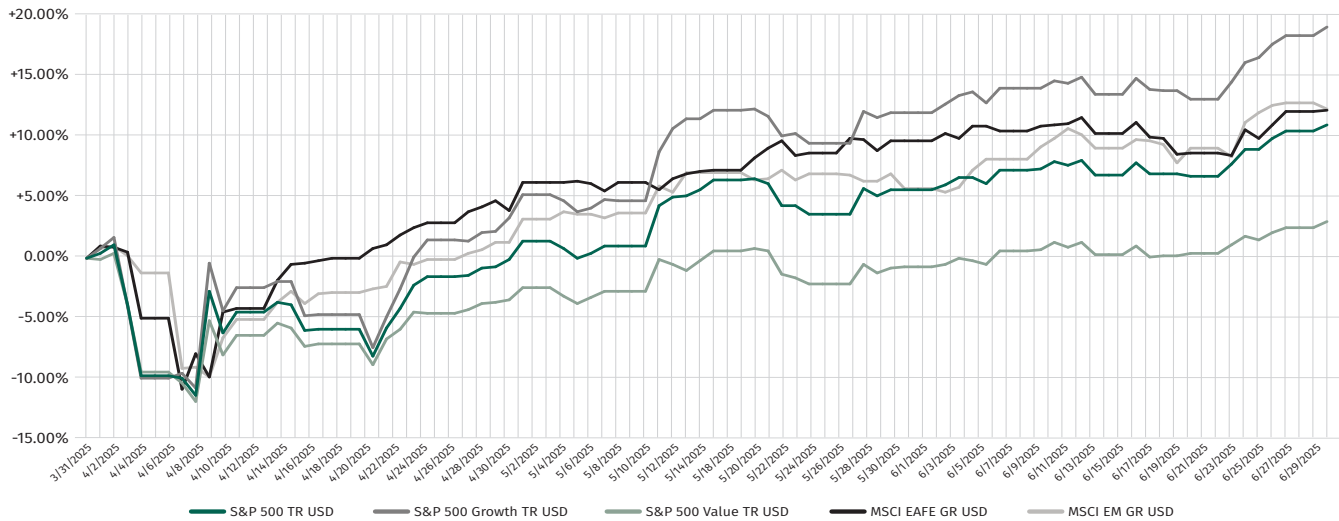
Figure 4: U.S. Equity Market Performance

Index	Q2 2025	YTD 2025	Total Return Trailing 1 Year
S&P 500	10.94%	6.20%	15.16%
S&P 500 Value	3.00%	3.28%	9.63%
S&P 500 Growth	18.94%	8.86%	19.88%
Russell 2000	8.50%	-1.79%	7.68%
Russell 2000 Value	4.97%	-3.16%	5.54%
Russell 2000 Growth	11.97%	0.48%	9.73%

Source: FactSet. All data as of June 30, 2025.

The S&P 500 Index posted a return of 10.94% for the quarter, offsetting its Q1 decline and generating a modest YTD return of 6.20%. Markets initially sold off sharply following the Trump administration's April 2nd Liberation Day tariff announcement, but quickly rebounded as investors interpreted the tariff framework as less disruptive than initially feared. (See Figure 5 on next page.) The Nasdaq Composite rallied over 17.9% for the quarter, driven by robust technology earnings and renewed enthusiasm for AI investments. Smallcap stocks also rebounded, and though the Russell 2000 remains negative YTD, it climbed 8.50% in the quarter. The equal weighted

Figure 5: Equity Performance (Q2 2025)



Source: FactSet. All data as of June 30, 2025.

S&P 500 underperformed its capweighted counterpart, underscoring the narrow breadth of market leadership concentrated in large-cap growth names.

With a shifting sentiment, growth stocks outperformed value in a reversal from Q1. Technology and Communication Services sectors led the market higher, buoyed by earnings strength and optimism linked to AI investments. Energy stocks were notably volatile as WTI crude oil prices fluctuated sharply — from the \$60s to above \$75 and back — amid escalating Middle East conflict. The energy sector ended lower by 8.5% for the quarter. Defensive sectors such as Health Care and Consumer Staples lagged as investors shifted away from lower-growth, defensive exposures. Within small caps, value stocks initially outperformed early in the quarter but lagged by June as risk appetite broadly returned. By quarter-end, the S&P 500 traded around 22.2² forward earnings, above its 5-year and 10-year historical averages. Mid- and smallcap valuations also moved higher, though the broader market rally was predominantly driven by large-cap names.

Corporate results continued to underpin market strength. S&P 500 earnings grew 12.9% in Q1 (and after several downward revisions are projected to rise 5.0%³ in Q2), primarily led by technology and communication services companies. Estimated earnings for the S&P 500 for the second quarter are lower compared to where expectations were at the start of the quarter. Several companies indicated that demand was likely pulled forward in anticipation of tariff increases, potentially resulting in softer results or more cautious guidance in the second half of the year. With this in mind, it is not a surprise that full-year 2025 S&P 500 earnings forecasts continue to trend downward with analyst estimates currently calling for Q3 growth of 7.3%, Q4 growth of 6.4%, and full-year growth of 9.1%. This scenario potentially creates a lower bar for upside earnings surprises heading into the latter half of this year. Initial expectations for the calendar year 2026 suggest earnings growth of approximately 13.7%, indicating elevated expectations for the coming year.

Looking ahead, markets will remain focused on developments related to tariffs, inflation data, second-quarter earnings outcomes and potential shifts in Federal Reserve

²FactSet Estimate as of July 3, 2025.

³FactSet Estimate as of July 3, 2025.

policy. Further moderation in core inflation could bolster the case for interest rate reductions, benefiting the smaller cap segments of the market, while ongoing pricing pressures — especially those stemming from tariffs — may complicate monetary policy decisions. Investors will closely monitor whether first-half earnings strength proves to have been front-loaded. This could potentially negatively impact the earnings outlook in the coming quarters. Given this volatile landscape, investors should remain diversified across U.S. market capitalization and styles, focusing on long-term outcomes.

International developed

International developed equity markets posted strong returns in the second quarter, navigating a complex backdrop of Central bank policies, persistent geopolitical risks and ongoing trade uncertainty. The MSCI EAFE GR USD Index advanced 12.07% and remained the best performing equity segment through midyear, up 19.92%. A weaker U.S. dollar provided a significant tailwind for U.S. based investors as the euro climbed to multi-year highs and the Japanese yen remained resilient despite ultra loose monetary policy. When measured in local currency, the MSCI EAFE advanced just 4.80% for the quarter, aligning more closely with slower economic activity and cautious earnings expectations for the segment.

International developed equities experienced a volatile quarter, with early losses eventually leading to a strong rebound that brought the market near record levels by the end of June. The aftershocks of the Liberation Day tariffs created an unsettling backdrop for risk assets, leading to the MSCI EAFE's largest weekly decline in over two years. Markets gradually regained their footing following a temporary pause in reciprocal tariffs, allowing investors to refocus on underlying fundamentals. In the final weeks of the quarter, military action in the Middle East caused brief volatility, but a ceasefire agreement and falling oil prices helped restore calm and supported a strong finish. (See Figure 6.)

Central bank policy across Europe remained supportive of growth as inflation remained subdued. The European

Central Bank reduced its benchmark rate to 2.0% and signaled that additional cuts could follow if disinflation persists, and growth remains sluggish. The Bank of England surprised markets by lowering its rate to 4.25%, reflecting a cautious stance toward future tightening. In contrast, the Bank of Japan maintained its accommodative policy but announced a slower pace of bond tapering, which provided stability to Japanese equities and limited currency fluctuations.

The economic growth outlook in Europe and Japan remains challenged, but early signs point to potential stabilization. The Organisation for Economic Co-operation and Development (OECD) modestly upgraded its 2025 growth forecast for the Eurozone, citing an improved inflation backdrop, resilient labor markets and the potential boost from increased fiscal spending. Germany's announced stimulus and higher defense outlays across NATO members further support these projections. More importantly, the growth gap between the U.S. and international developed markets is expected to narrow this year. For investors, this reinforces the importance of maintaining global diversification to capture potential shifts in market leadership as conditions evolve.

Figure 6: International Equity Market Performance

Index	Q2 2025	YTD 2025	Total Return Trailing 1 Year
MSCI EAFE	12.07%	19.92%	18.33%
MSCI Europe	11.80%	23.69%	19.13%
MSCI Japan	11.39%	11.95%	14.29%
MSCI United Kingdom	8.72%	19.27%	19.97%
MSCI China	2.08%	17.76%	34.11%
MSCI Emerging Markets	12.20%	15.57%	15.97%

Source: FactSet. All data as of June 30, 2025 and shown as Gross Returns (GR).

Emerging markets

Emerging Markets was the top-performing equity segment in the second quarter, driven by supportive policy and strong corporate earnings. The MSCI Emerging Markets GR USD Index climbed 12.20% in the quarter, finish-

ing the first half of the year up 15.57%. While a softer U.S. dollar provided a tailwind, it was not the primary catalyst for these strong results. Corporate earnings in emerging markets surpassed expectations with positive earnings revisions elevating the 2025 growth rate to 17%, exceeding the projected growth rate of the S&P 500. Robust earnings results and a weaker U.S. dollar have created a positive environment for investors, allowing them to overlook trade uncertainty.

Trade developments significantly influenced performance and sentiment across emerging economies. The aforementioned temporary 90-day pause in tariffs provided a brief relief rally. However, the U.S. and China exchanged progressively higher rounds of retaliatory tariffs, eventually reaching a tentative framework in May that de-escalated tensions and revived risk appetite during a period of fragile sentiment.

Emerging market central banks responded to moderated inflation data with coordinated monetary easing measures. The People's Bank of China implemented larger-than-anticipated cuts in short-term interest rates and lowered the reserve requirement to stimulate lending and consumption. The Reserve Bank of India reduced its repo rate, signaling readiness to take further actions despite limited flexibility. Brazil's central bank adopted a flexible stance, indicating the potential for additional rate cuts if disinflation persists. These policy measures further addressed economic weaknesses and uncertainties surrounding global demand.

Global economic conditions and equity market performance varied by region. In its June update, the OECD modestly downgraded global growth projections but highlighted areas of resilience within emerging economies. India's growth forecast was upgraded due to robust domestic demand and infrastructure spending, while Brazil's outlook improved due to stronger commodity exports and fiscal stimulus measures. In contrast, China's projections were reduced due to persistent weaknesses in the property sector and subdued consumer spending.

Looking ahead, ongoing trade uncertainty and policy shifts are likely to maintain a wide range of economic outcomes reinforcing significant regional disparities in growth and performance creating opportunities for actively managed strategies.

Alternatives

Real estate

The FTSE Nareit All Equity REITs Index declined 0.93% in the second quarter, trailing the broader U.S. equity market (See Figure 7). REITs faced numerous macroeconomic challenges and were not immune to the broader risk-off environment in April, brought on by President Trump's Liberation Day tariff announcements. However, unlike the broader equity markets, which rallied swiftly off their lows, REITs were slow to rebound. Concerns about tariffs were quickly replaced with worries over the growing fiscal deficit and mounting inflationary pressures, which pushed long-end U.S. Treasury yields higher. Higher bond yields present two main issues for REITs: Higher borrowing costs make it more expensive to finance debt and higher bond yields offer strong competition for investor capital. Within the REIT segment, data centers and specialty sectors outperformed, while residential and industrials posted negative returns.

Figure 7: Public Real Estate and Commodity Performance

Index	Total Return Trailing Month Year	Total Return YTD	Total Return Trailing 1 Year
FTSE Nareit All Equity REITs Index	-0.93%	1.8%	9.20%
Bloomberg Commodity Index	-3.08	5.53%	5.77%

Source: FactSet. All data as of June 30, 2025

Commodities

Following a strong first quarter where commodity prices surged higher amid optimism for the new presidential administration's pro-growth policies, prices slumped in the second quarter. Concerns over escalating trade tensions, their potential to reignite inflation, and slow

economic growth weighed heavily on the markets. The Bloomberg Commodity Index posted a total return of -3.08% in the second quarter, trailing global equity and fixed income returns.

Commodity sector returns were mixed, with two sectors advancing and four declining. Livestock was the best performing sector, returning 8.57%, followed by precious metals at 4.88% and industrial at -0.42%. Precious metals, namely gold and silver, continued to benefit from the flight to safety amid tariff uncertainty and rising geopolitical tensions. The price of gold rose 5.00%, hitting a new record high of \$3,453 per ounce in mid-June before retreating to close the quarter at \$3,308. The price of silver rose 4.51%, ending the quarter at \$36.17.

Crude oil prices experienced significant volatility throughout the second quarter, driven by tariff developments and geopolitical tensions in the Middle East. In April, benchmark crude oil prices fell to their lowest levels since 2021 following the sweeping tariffs announced by President Trump on Liberation Day. From May through early June, oil prices remained rangebound as trade tensions eased after the United States postponed certain reciprocal tariffs. However, in mid-June, global oil markets were rattled when Israel launched airstrikes against Iran, prompting retaliatory attacks. Although oil production facilities were largely unaffected, prices spiked amid fears that Iran might close the Strait of Hormuz, a critical chokepoint for global oil transport. Tensions quickly de-escalated after the United States conducted coordinated bombing raids on three Iranian nuclear facilities, leading to a ceasefire between Iran and Israel and a subsequent retreat in oil prices. WTI crude closed the quarter at \$65.11 per barrel, with a low of \$57.13 on May 5 and high of \$73.50 on June 18, ending the quarter 8.91% lower than it began.

Private markets

Private market investment performance numbers are only available on a lagged basis. Based on commentary and discussions with managers, private markets appear to have been impacted by the same factors that drove public mar-

ket volatility, but at somewhat reduced levels. We expect to see a muted rebound as Q2 numbers come in.

In private equity, we would like to highlight two areas of particular interest. First, recent events are validating our enthusiasm for secondaries. We had leaned into opportunities in the secondary market at the start of the year, noting that large institutional investors' pent-up demand for liquidity provided tailwinds for secondary buyers. We have since seen headlines showing multi-billion-dollar secondary sales by Ivy League endowments, boosting secondary market volume to record levels. Second, although macro uncertainty has kept the M&A and IPO markets disappointingly muted, the success of recent high-profile IPOs provides support for private market valuations and spurs and uptick in deal activity.

Within private credit, direct lending continues to provide stable distributions and total returns in excess of public credit markets (e.g., annualized 9-10% distribution yields). Spreads of new direct loans have been relatively stable through the macro instability, though there has been more spread compression in the higher quality segments. Direct loan deal volumes were modestly suppressed during the macro uncertainty (alongside bank loans, whose syndications ground to a halt for two weeks in April). Overall, we expect direct lending returns to remain relatively buffered through brief periods of volatility, like the environment seen in the second quarter.

Finally, based on preliminary estimates, hedge funds captured approximately half the upside of the U.S. equity market in the second quarter, in line with our expectations. The weakest performing strategy was Macro, which typically gets "whipsawed" in market reversals such as those we saw in the second quarter, while Multi-Strategy funds performed best. Overall, hedge fund returns this year have been notable for their correlation to U.S. equities, rather than diversification. Although they have delivered positive returns YTD, we see this year's performance validating our prior belief that other alternatives offer better diversification value.

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