

# Quarterly Commentary

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Q2 2025

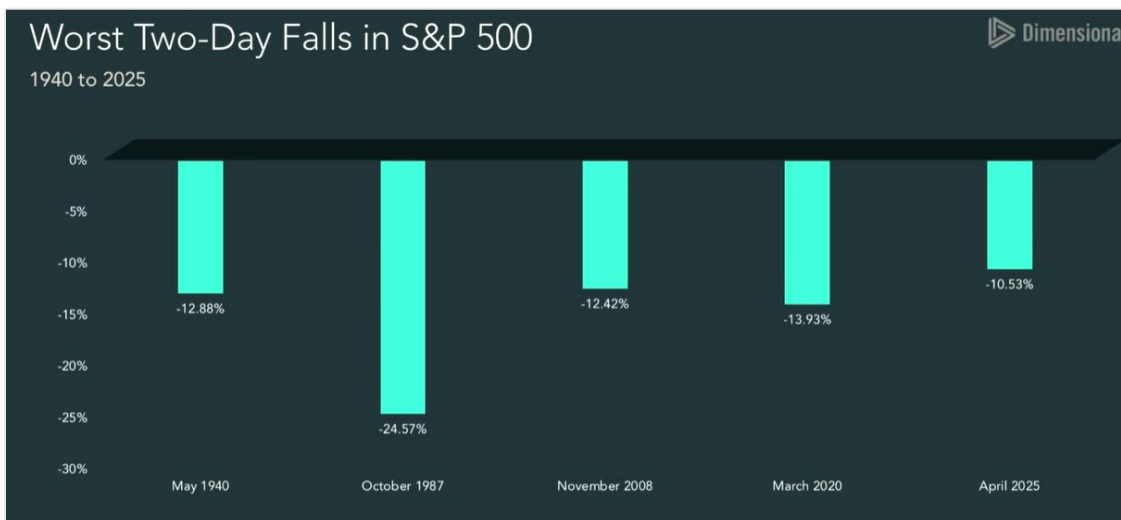


## Summary and Implications

- The U.S. economy remains resilient but is showing signs of softening following the Trump Liberation Day shock of higher tariffs on U.S. imports. The risk of an enduring recession remains at low probability levels. Safe-haven and defensive assets such as U.S. Treasuries and precious metals that initially benefited from the volatility later gave way to a surge in market risk appetite, especially for AI-fueled technology plays.
  - Overseas cyclical tailwinds and AI-driven productivity gains will likely continue supporting long-term corporate profitability and economic growth while a weaker dollar could benefit U.S. multinationals.
- Long-term investors should remain neutral on equity positioning with a preference for high quality U.S. stocks with strong balance sheets and reasonable valuations. We would likely need to see a broadening in market breath outside of the narrow leadership of Mag7 and speculative high beta technology stocks for the bull run to continue. Hard assets like real estate and natural resources can still provide inflation protection.
- Fixed income remains attractive from a real yield standpoint. Investors still have an opportunity to lock in moderately high real rates by extending the maturity profile of their fixed income allocation, although maturities could be scaled back with the decline in real rates.

## Investment Summary and Outlook

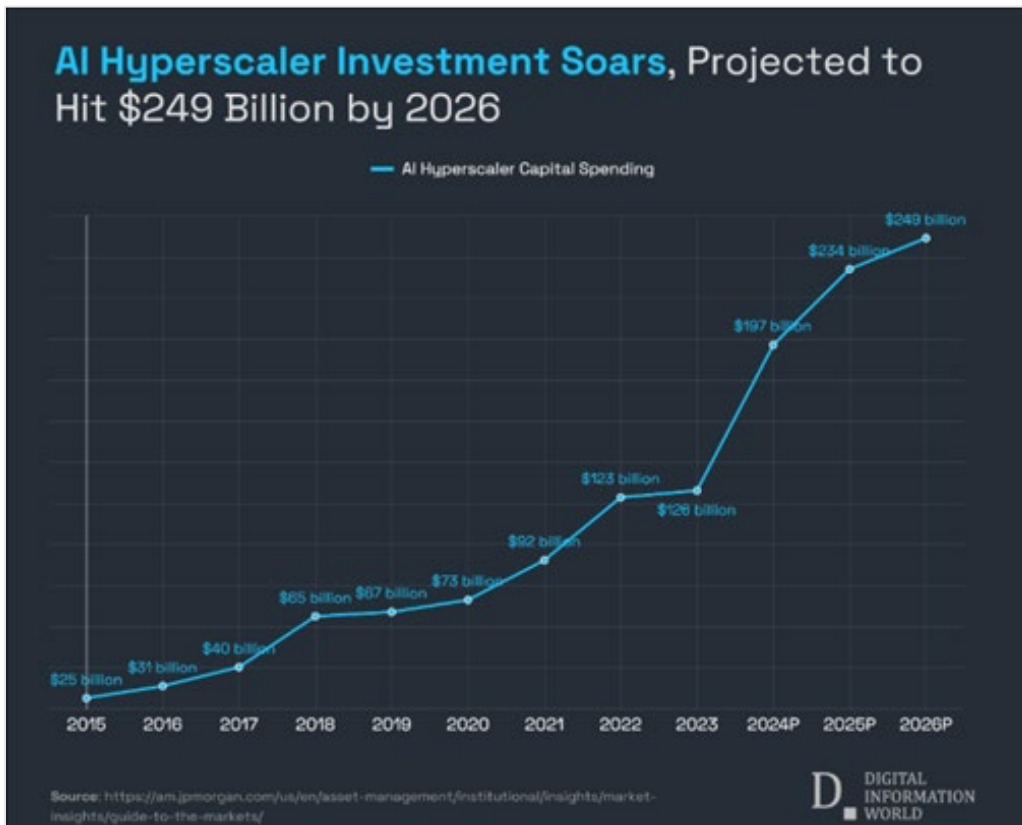
For the 2nd quarter 2025, the U.S. stock market experienced significant volatility following President Trump's Liberation Day announcements that threatened to significantly hike global tariffs on U.S. imports. Indeed, the S&P 500 Index experienced one of its worst 2-day sell-offs going back to 1940, according to Dimensional Funds. Since volatility tends to cluster, selling had beget selling as global investors rushed for the exits selling off risk-based assets. The Trump Administration would face an acid test on its global tariff proposal, producing the so-called TACO (Trump Always Chickens Out) trade as market volatility inevitably forced a policy shift that would 'delay' the imposition of punitive tariffs, opening the door for more comprehensive trade agreements to be negotiated later in the year.



Source: Dimensional Funds

The early April sell-off was short-lived as investors 'bought the dip' despite the negative implications of a historic hike in U.S. tariffs on consumer inflation and company profit margins. The 2nd quarter ended on a strong note, with major stock market indexes reaching record highs while long-term interest rates settled back down following an initial spike over the threat of foreign capital outflows from U.S. assets. The S&P 500 rose nearly 11%, the Nasdaq Composite surged 18%, and the Dow and Russell 2000 gained 5% and 8.3%, respectively, marking the best quarter for U.S. stocks in over a year.

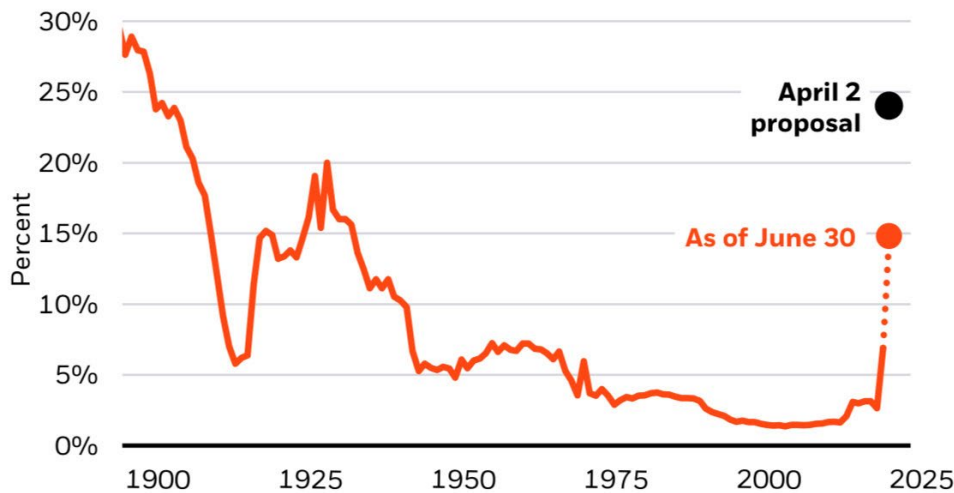
As trade tensions eased, strong corporate earnings (notably from the technology sector) and optimism about negotiations with major trading partners contributed to the abrupt shift in investor sentiment from risk-off to risk-on. Technology and AI stocks led the rally, alongside sectors like industrials and financials, though concerns persisted about the increased narrowness of market gains concentrated in a handful of megacap tech stocks (the so-called Mag7). The narrative around AI-driven capital spending is proving to overcome any near-term slowdown concerns as AI hyperscaler spending is expected to reach \$249 billion by 2026. The removal of the Section 899 "revenge tax" proposal in the Big Beautiful Bill (BBB) that had been worrying the business community also improved sentiment toward US assets.



Globally, trade tensions created uncertainty, though optimism grew around potential U.S.-China and U.S.-EU trade deals following a trade agreement with the U.K. that would help serve as a template for future negotiations. China's industrial activity continues to expand fueled by export orders but also generating increased backlash (notably out of Europe) to China's reliance on mercantilist policies to make up for weak domestic demand. Global growth forecasts were downgraded throughout the quarter due to trade tensions as Trump's 2nd round of tariffs threaten to raise the overall effective rate well beyond post-war levels.

## Tariffs here to stay

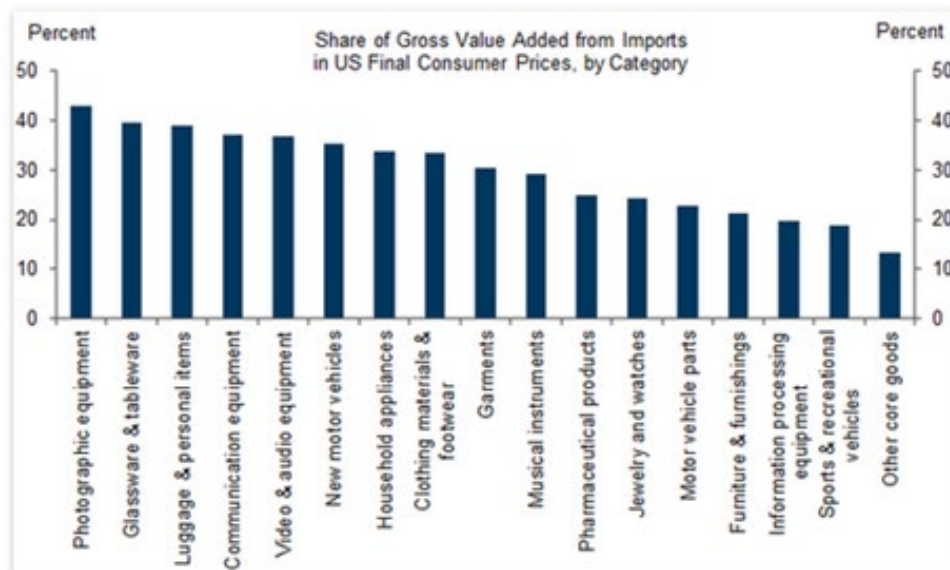
U.S. effective tariff rate, 1900-2025



Source: BlackRock Investment Institute, Census Bureau, Historical Statistics of the United States, with data from Haver Analytics, June 2025. Note: The line shows the historic effective U.S. tariff rate, with two dots for the effective tariff rate including tariffs as of June 30 and what the tariff rate would be if April 2 "reciprocal tariffs" came into effect.

Economically, the U.S. showed mixed signals as Q1 GDP contracted at a 0.5% annual rate, revised down from earlier estimates, due to tariff-related import surges. However, Q2 GDP growth was forecasted to rebound 2.5% per the Atlanta Fed GDPNow model (as of 6/27/2025). Consumer spending continues to show signs of slowing, possibly because of purchasing ahead of projected tariffs as the longer-term impact on consumer demand from tariff hikes is still unknown. Inflation remained sticky, with the PCE price index at 2.3% annually in May, although the increase in tariffs has yet to show up in final prices so far. Labor markets are also softening as indicated by rising continuing jobless claims, but the migrant crackdown could be shrinking the labor pool, reducing pressure on the unemployment rate.

**Exhibit 4: We Expect Modest Upward Pressure From Tariffs on Categories That Are Particularly Exposed**



Source: Goldman Sachs Global Investment Research

The 2nd Quarter FOMCs saw the Fed continuing to pause on further rate cuts as the tariff and fiscal (Big Beautiful Bill) impacts on final prices remain uncertain. Fed Funds futures still indicate two rate cuts in 2025 with the first cut to occur at the September FOMC. However, recent comments from Fed governors Christopher Waller and Michelle Bowman point toward the possibility of cutting sooner if there is a meaningful deterioration in the labor market as current inflation readings continue to soften.

The Fed also updated its Summary of Economic Projections (SEP) at the June meeting to account for lower economic growth and sticky inflation throughout 2025 and into 2026. Specifically, the Fed lowered its 2025 GDP forecast from 2.1% growth last December to 1.4%, while 2026 was revised from 2.0% to 1.6%. For 2025 inflation, core PCE projections rose from 2.5% to 3.1%, with progress towards reaching the Fed's long-term target expected to stall temporarily due to tariff risks. The Fed also raised its inflation projections for 2026 and 2027 core PCE projections (2.4% and 2.1%, respectively from 2.2% and 2.0%, respectively last December).

With increasing anxiety over Liberation Day tariffs amid a slowdown in U.S. economic activity, interest rate traders are pricing in expectations of two rate cuts in 2025, starting in September.

Region: United States »			Instrument: Fed Funds Futures »		
Target Rate	4.50		Pricing Date	06/30/2025	
Effective Rate	4.33		Cur. Imp. O/N Rate	4.330	
Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
07/30/2025	-0.212	-21.2%	-0.053	4.278	0.250
09/17/2025	-1.135	-92.3%	-0.284	4.047	0.250
10/29/2025	-1.862	-72.7%	-0.465	3.865	0.250
12/10/2025	-2.664	-80.2%	-0.666	3.665	0.250
01/28/2026	-3.152	-48.8%	-0.788	3.543	0.250
03/18/2026	-3.750	-59.8%	-0.937	3.393	0.250
04/29/2026	-4.072	-32.2%	-1.018	3.313	0.250
06/17/2026	-4.579	-50.7%	-1.145	3.186	0.250
07/29/2026	-4.922	-34.3%	-1.230	3.100	0.250
09/16/2026	-5.234	-31.2%	-1.308	3.022	0.250
10/28/2026	-5.302	-6.8%	-1.325	3.005	0.250
12/09/2026	-5.404	-10.2%	-1.351	2.979	0.250
01/27/2027	-5.422	-1.8%	-1.355	2.975	0.250

Source: Bloomberg World Interest Rate Probability

For the 2nd half of 2025, the bullish case hinges on 1) the U.S. economy remaining resilient in the face of slowing consumer spending and labor hiring, 2) corporate earnings continuing to grow and exceed expectations despite the potential impact on profit margins from tariffs, and 3) Fed policy easing starting in September. The narrowness of tech leadership will need to give way to a broadening in market breadth for this bull cycle to continue, which may enjoy some additional tax and spending tailwinds from the Big Beautiful Bill currently debated in Congress.

The bearish case emphasizes risks from ongoing tariff issues that have yet to be resolved and the continued narrowness of technology leadership without a broadening of corporate growth prospects. Investors should monitor trade negotiations, shifts in Fed policy, and further deterioration in labor market data.

## U.S. Fixed Income Markets

Index Performance as of 6/30/2025	2Q2025	YTD	1-Year	3-Year (Ann)
Bloomberg US Agg Bond TR USD	1.21	4.02	6.08	2.55
Bloomberg US Treasury Bill 1-3 M TR USD	1.07	2.13	4.75	4.66
Bloomberg 1-5 Yr Treasury TR USD	1.39	3.46	6.12	3.24
Bloomberg Treasury 5-7 Yr TR USD	1.82	5.28	6.88	2.45
Bloomberg Treasury 7-20 Yr TR USD	0.24	4.53	4.72	-0.15
Bloomberg US Treasury 20+ Yr TR USD	-1.92	2.59	0.32	-4.93
Bloomberg US Agency TR USD	1.30	3.44	5.82	3.21
Bloomberg ABS TR USD	1.38	2.93	6.33	4.30
Bloomberg US MBS TR USD	1.14	4.23	6.52	2.32
ICE BofA US Corporate TR USD	1.79	4.20	7.03	4.47
Bloomberg US Corporate High Yield TR USD	3.53	4.57	10.28	9.93
Bloomberg US Convertible Comp TR USD	8.10	6.71	16.22	10.82
Bloomberg Municipal TR USD	-0.12	-0.35	1.11	2.50

Source: Morningstar Direct

Even though long-term interest rates fluctuated throughout the 2nd quarter, U.S. fixed income posted positive returns with the U.S. Aggregate Bond Index up 1.21% for the quarter, as U.S. interest rates settled down on expectations that the Federal Reserve will cut its benchmark rate starting in the fall. U.S. long maturity bonds initially responded negatively to the potential inflationary impact following the April 4th Liberation Day tariffs as well as the massive tax and federal spending bill (Big Beautiful Bill) expected to add up to \$5 trillion to U.S. debt, pushing total debt to \$39-41 trillion by 2034 according to the CBO. Despite excess fiscal borrowing concerns, increasing signs of a slowdown in U.S. consumption and hiring as well as a lack of meaningful tariff pass-throughs to final prices (so far) opened the window for the Fed to consider cutting short-term rates starting this fall. Intermediate (5-7 year) U.S. Treasuries benefited the most as the yield curve is anticipating about 1.5% in rate cuts through the end of 2026.

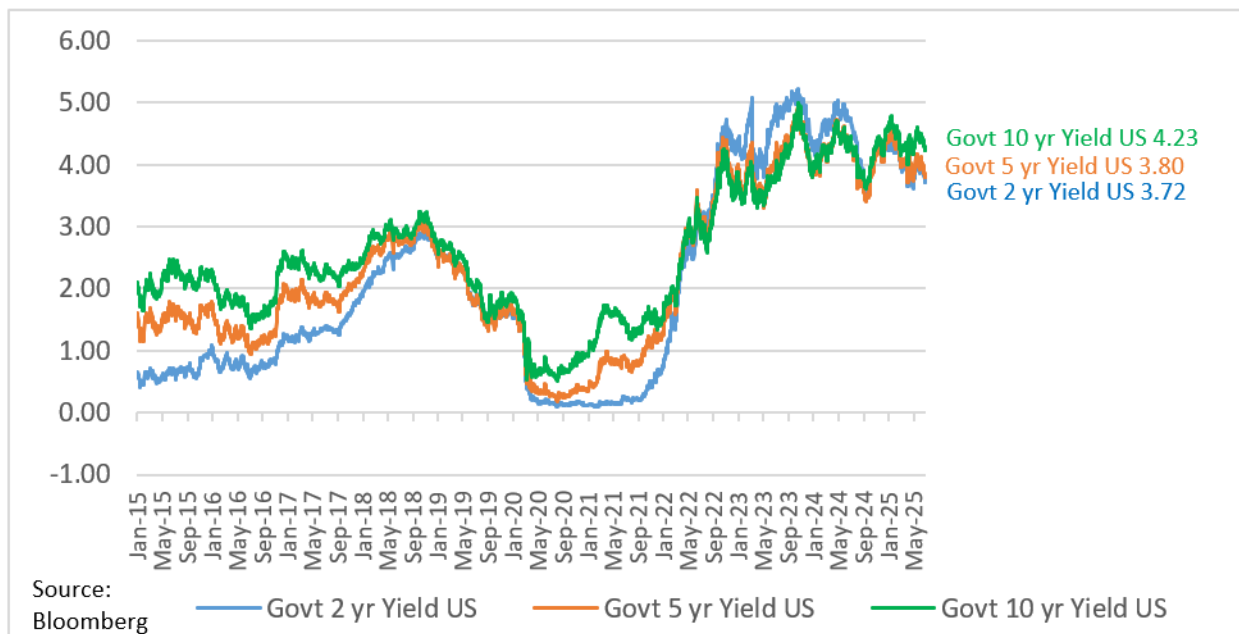
Corporate bonds (both investment grade and high yield) outperformed the broader fixed income market as borrowing spreads narrowed throughout the quarter, healing from the initial sell-off stemming from early April Liberation Day tariff jitters. U.S. mortgage-backed spreads underperformed weighed down by interest rate volatility and uncertainty over the rating implications of the Administration's proposal to private the federal housing agencies overseeing mortgage market. Municipal bonds continued their underperformance due to a combination of higher supply from state and local issuance and lower federal spending support with the end of pandemic-era emergency stimulus.



## Implications: Real Rates Continue Decline Even as U.S. Inflation Remains Sticky Over Tariffs and Fiscal Policy

Duration or Rate-Sensitivity drove the bulk of this quarter's positive performance as intermediate maturity bonds most benefited from the fall in interest rates. The 10-Year Treasury yield rose as high as 4.50% before settling at 4.20% at the end of the quarter, unchanged from the beginning. The spread between short-term and long-term borrowing rates widened in anticipation of a dovish shift in Fed policy that would see the short maturity rates drop ahead of anticipated Fed rate cuts, while long-term break-even inflation rates are near the high end of their post-COVID range at 2.25% above the Fed's long-term policy target of 2%.

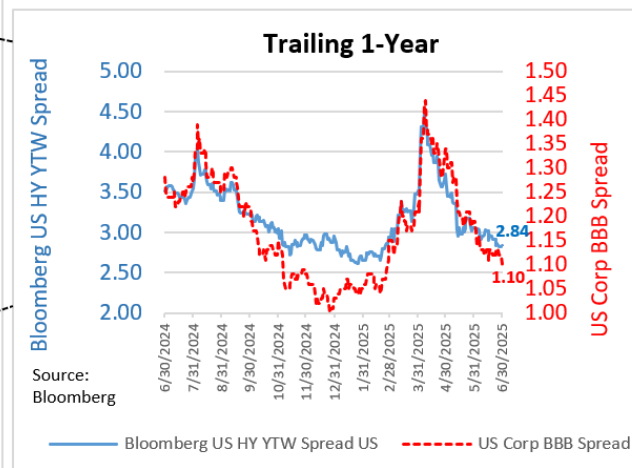
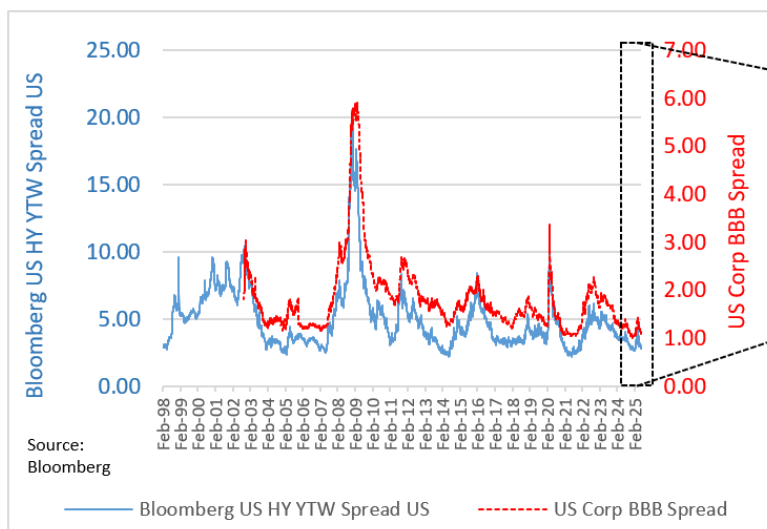
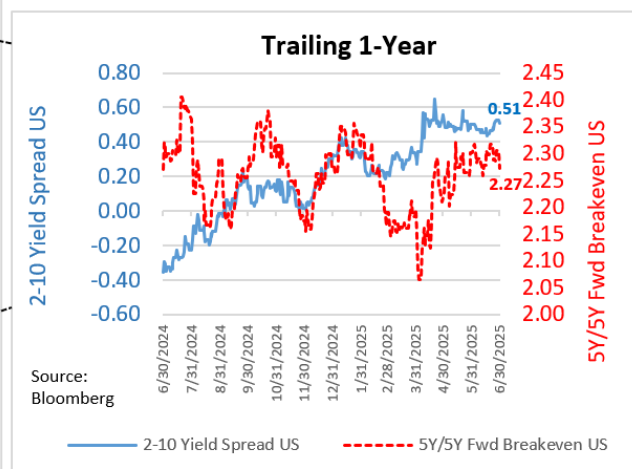
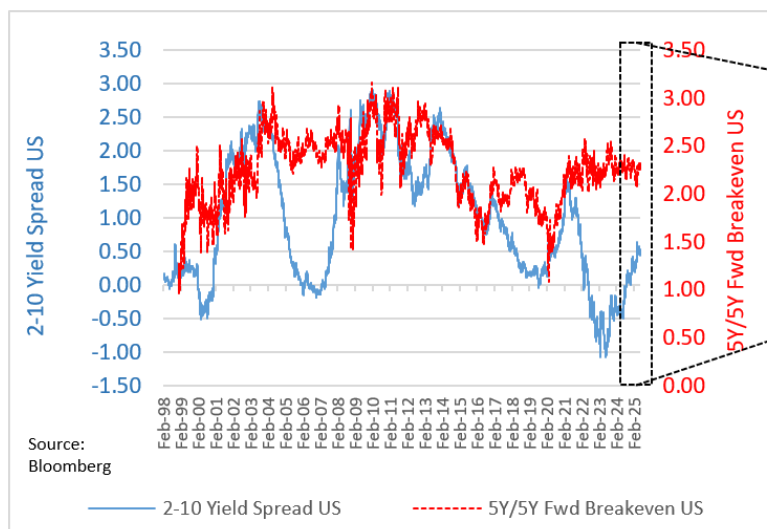
Long-term inflation-adjusted (real) rates dropped throughout the quarter even though core inflation metrics remain stubbornly above the Fed's long-term target. Further fixed income gains would likely need a significant economic slowdown that would prompt the Fed to cut rates more aggressively than what the market is anticipating. Corporate bond valuations look stretched as borrowing spreads narrowed to pre-COVID levels. Fixed income does remain attractive from a real yield standpoint but also as a diversifier for pro-cyclical assets such as equities and commodities. Investors still have an opportunity to lock in moderately high real rates by extending the maturity profile of their fixed income allocation, although duration overweights could be scaled back with the decline in real rates. Asset- and mortgage-backed securities also remain attractive as high-quality alternatives to U.S. Treasuries.





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Q2 2025



## International Fixed Income Markets

Index Performance as of 6/30/2025	2Q2025	YTD	1-Year	3-Year (Ann)
Bloomberg Global Agg ex US TR USD	7.29	10.01	11.21	2.74
Bloomberg EuroAgg TR USD	10.57	14.31	14.74	5.50
Bloomberg Asian Pacific Agg TR USD	3.92	5.32	8.06	-0.21
Bloomberg EM Local Currency USD	8.34	12.67	14.25	8.75

Source: Bloomberg

In U.S. dollar terms ("USD"), international bonds performed exceptionally well in the 2nd quarter, primarily from currency appreciation against the U.S. dollar following the early April Liberation Day tariff announcements. The Bloomberg Global Aggregate Bond ex US Index (USD) and the Bloomberg EM Local Currency Index (USD) returned 7.29% and 8.34%, respectively. European rates declined as the European Central Bank (ECB) lowered its deposit facility to 2% amid falling inflation. Furthermore, investors viewed German fiscal stimulus, including constitutional reform to loosen debt rules, as generally supportive of euro area growth, contributing to the perception of greater stability versus the U.S. Overseas bonds also benefited from a reversal of portfolio flows from U.S. assets to local markets, especially across Asia.

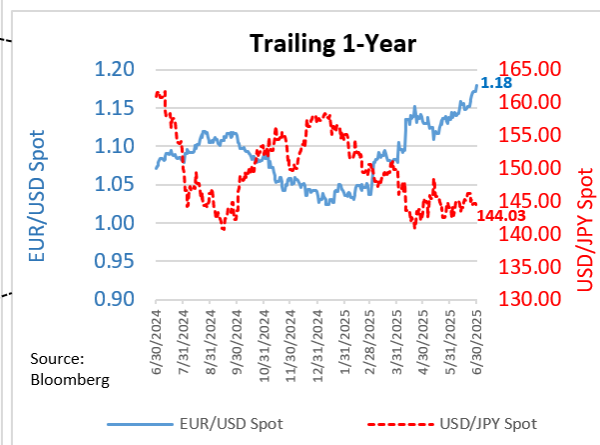
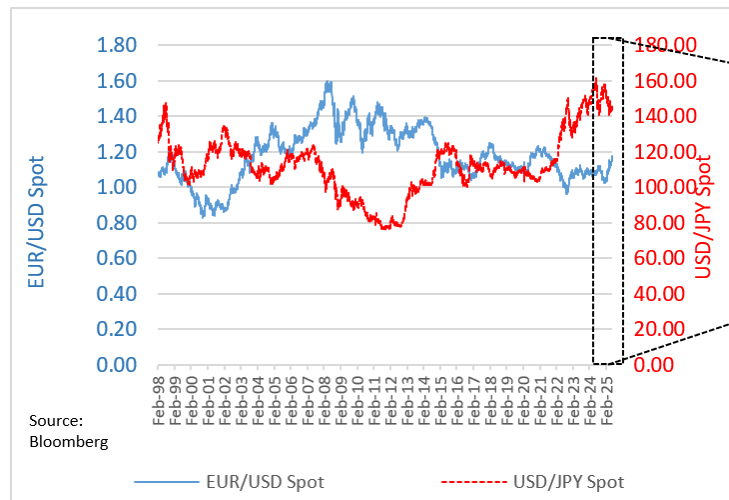
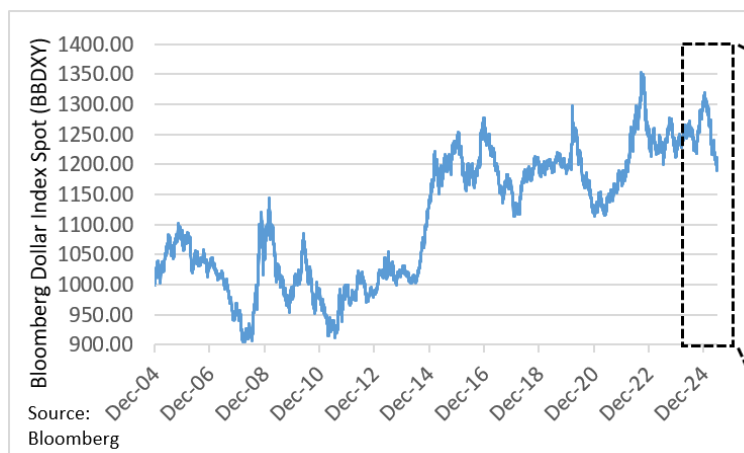
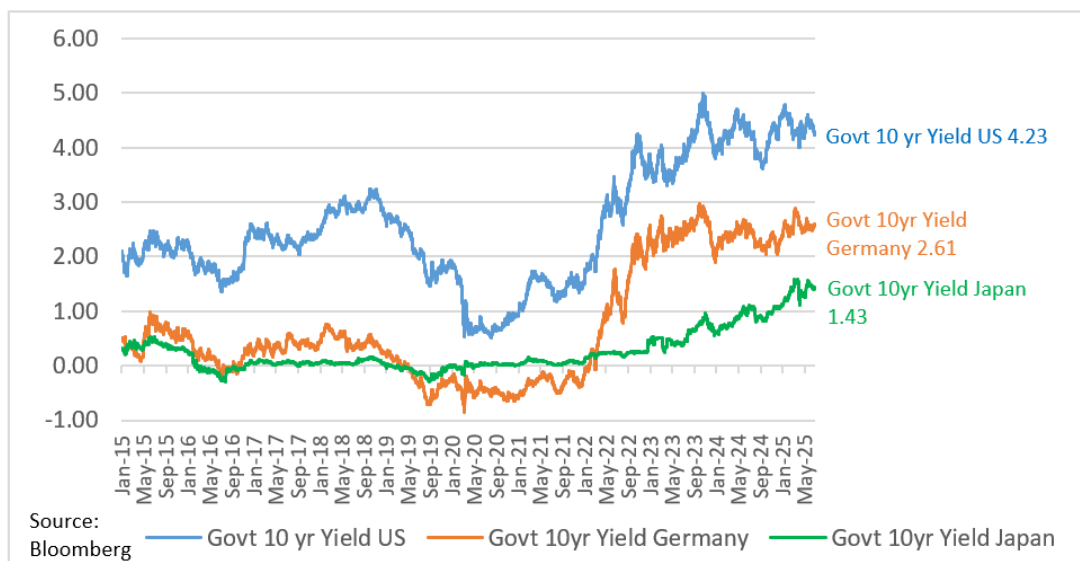
The 10-year German Bund yield rose in sympathy with other long-term sovereign bond yields such as the Japanese 10-year bond as global investors generally pulled back from holding long maturity sovereign debt. Higher proposed U.S. tariffs on global trade contributed to the drop in the Bloomberg Dollar Spot Index, returning -2.73% for the quarter and -9.12% YTD, with more of the dollar depreciation coming against western European and emerging market currencies than Asian currencies.

Asian currencies did not fare as well as European currencies, primarily because the region's major U.S. trading partners (Japan, China, and South Korea) continue to bear the brunt of U.S. tariff rhetoric impacting the outlook for Asian economic growth. Rising geopolitical tensions and higher energy prices also pressured Asian sentiment. In addition, selling of foreign currencies back into the Taiwanese dollar by Taiwanese insurers contributed to significant volatility and appreciation that had to be arrested with central bank intervention.

### Implications: The USD Remains Under Pressure Over U.S. Trade and Fiscal Policy

Ex-U.S. fixed income performance will continue to be influenced by the timing and scope of U.S. trade policy with respect to tariffs. Investors will likely retain a defensive posture with respect to holding U.S. assets if trade tensions do not deescalate from the tariffs threatened on Liberation Day. Beyond the tariff headlines, USD saw further depreciation over the optics of excess (unsustainable?) borrowing levels stemming from the Republican-sponsored tax and spending plan.

The main risk to USD-denominated international fixed income is that the U.S. economy remains on firm footing but with the Fed politically pressured to cut rates even with inflation remaining at uncomfortable levels as excess borrowing becomes an increasing concern for long-term maturities. In addition, the pro-cyclical tailwinds enjoyed by Europe and Asia could weigh on the U.S. dollar in the intermediate term. The U.S.'s persistent trade deficit (4.2% of GDP as of September 2024) and rising fiscal deficits (exacerbated by BBB) could further weaken long-term sentiment that could overwhelm cyclical trends. Canada and Mexico remain most exposed to an escalation in trade tariffs as these two countries represent the largest trading partners with the U.S. besides China. However, foreign currency weakness against USD could be offset by lower rates if pro-cyclical forces pushing up rates to begin with do not pan out.



## US Equity Markets

Index Performance as of 6/30/2025	2Q2025	YTD	1-Year	3-Year (Ann)
S&P 500 TR USD	10.94	6.20	15.16	19.71
Russell 1000 Growth TR USD	17.84	6.09	17.22	25.76
Russell 1000 Value TR USD	3.79	6.00	13.70	12.76
Russell Mid Cap Growth TR USD	18.20	9.79	26.49	21.46
Russell Mid Cap TR USD	8.53	4.84	15.21	14.33
Russell Mid Cap Value TR USD	5.35	3.12	11.53	11.34
Russell 2000 Growth TR USD	11.97	-0.48	9.73	12.38
Russell 2000 TR USD	8.50	-1.79	7.68	10.00
Russell 2000 Value TR USD	4.97	-3.16	5.54	7.45
S&P Cmmnctn Svces Select Sector TR USD	12.83	12.83	28.26	27.37
S&P Cons Staples Select Sector TR USD	-0.13	4.34	8.52	6.81
S&P Consumer Disc Select Sector TR USD	10.36	-2.58	20.41	17.66
S&P Energy Select Sector TR USD	-8.47	0.66	-3.83	9.70
S&P Financial Select Sector TR USD	5.52	9.23	29.45	20.75
S&P Health Care Select Sector TR USD	-7.18	-1.11	-5.90	3.46
S&P Industrial Select Sector TR USD	12.94	12.72	22.89	21.12
S&P Materials Select Sector TR USD	2.69	5.48	1.50	8.32
S&P Real Estate Select Sector TR USD	-0.07	3.51	11.66	4.17
S&P Technology Select Sector TR USD	22.90	9.37	12.83	26.97
S&P Utilities Select Sector TR USD	4.26	9.41	23.40	8.62
S&P 500 Dividend Aristocrats TR USD	-0.75	2.42	7.33	8.32
S&P 500 Low Volatility TR USD	-1.97	5.15	14.43	8.09
S&P 500 High Beta TR USD	24.86	10.52	16.48	19.70
S&P 500 Momentum TR USD	21.88	18.98	29.70	31.19
S&P 500 Quality TR USD	7.94	7.12	13.79	21.25
DJ US Select Dividend TR USD	-0.10	3.15	14.54	8.65

Source: Morningstar Direct

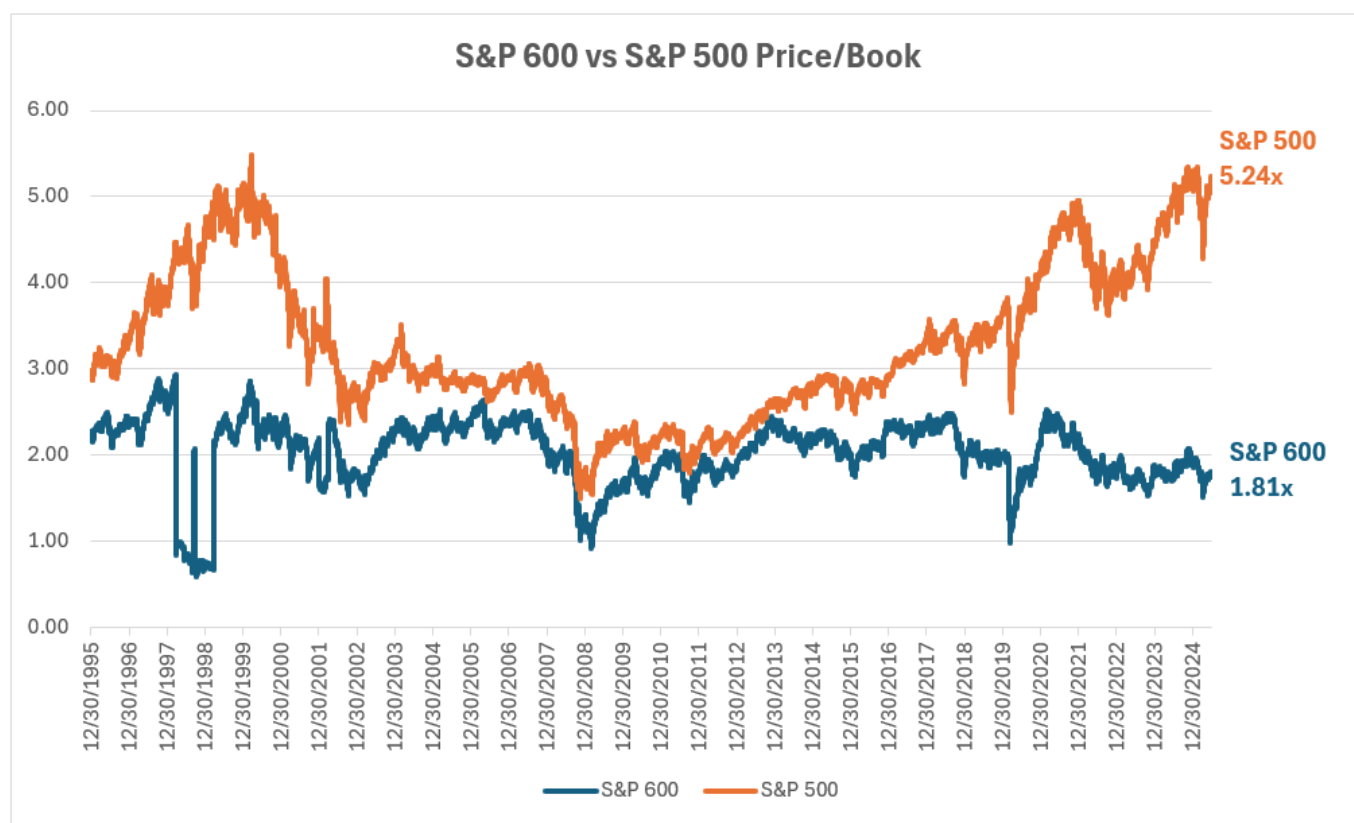
Following a sharp sell-off induced by the Liberation Day Tariff announcement in early April, U.S. stocks quickly recovered to make new highs as the outlook for technology spending propelled premium growth stocks, especially the Mag7, despite the ongoing uncertainty over U.S. trade policy and further signs of slowdowns in labor hiring and consumer spending. The S&P 500 rose 10.94% for the quarter as growth stocks handily outperformed value stocks. U.S. mid- and small cap stocks lagged the S&P 500 advance but the gap between growth and value performance was just as wide as in large caps. Indeed, even with the overhang of historically high global tariffs, sentiment across the technology sphere masks underlying weakness seen across the non-tech sectors, especially consumer-facing companies most exposed to higher tariffs. While S&P 500 earnings announced in the 2nd quarter grew 5.0% YOY (well below the 5-year average of 12.7%), earnings are now only expected to grow 9.1% in CY-2025, down from 14-15% growth that was expected at the beginning of the year.

Small caps and value stocks both underperformed large cap growth following the broader market recovery from Liberation Day. Energy and material stocks came under pressure with the former dragged down by a sell-off in energy following hostilities between Israel and Iran that didn't spread across the Middle East. As the market looked forward to robust technology spending and tax benefits from the BBB, investors rotated out of defensive dividend-yielding stocks into speculative high beta stocks.

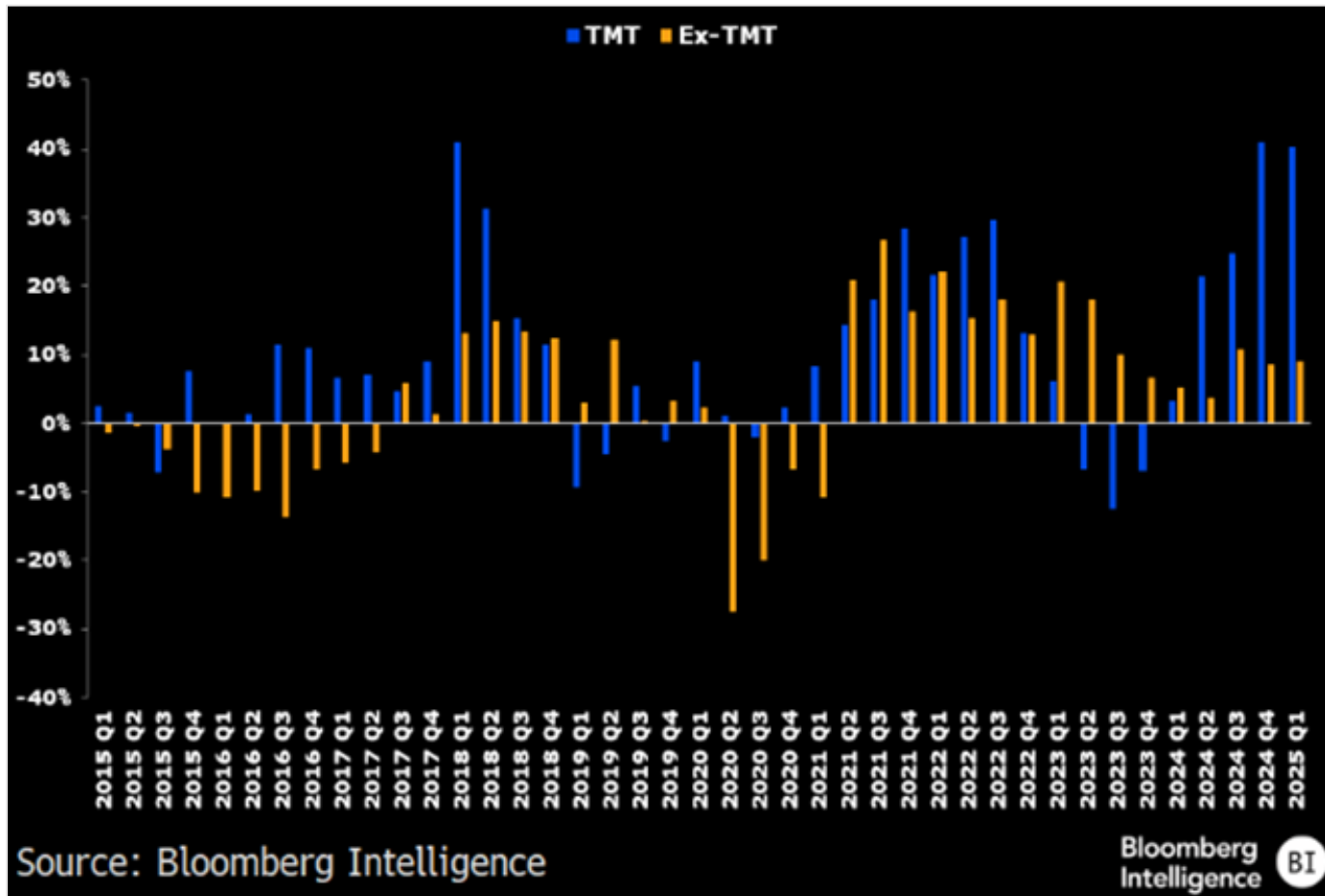
## Implications: Stick with High Quality and Value and Hedge Tariff-Driven Inflation Risk with Hard Assets

With the sharp recovery in U.S. stocks, especially across speculative high-risk segments, the S&P 500 Index now trades at the higher end of its 10-year valuation range with the forward price/earnings ratio hovering at 22.1x next 12-month earnings according to Bloomberg estimates. U.S. valuations could be at risk of earnings disappointments, especially if analysts continue to revise down their expected earnings growth for this year. The valuation gap between large cap growth and small cap value also remains historically wide with the former trading at 13.3x price/book versus 1.3x price/book for the latter.

Although Freedom Investment Management remains of the view that we are in the mid-cycle to late-cycle phase of the post-pandemic period, we hold our neutral position on U.S. equities versus the rest of the world. We continue to favor U.S. stocks with strong balance sheets and durable profitability trading at reasonable valuations even as investor sentiment has shifted towards highly speculative stocks. We remain neutral on relative positioning between large and small caps as well as between value and growth stocks. We also advise investors to investigate hard asset plays across natural resources and real estate as a potential hedge against inflation re-accelerating.



## Year-Over-Year Growth in Capital Spending (Technology (Blue) vs Non-Technology Companies (Orange))



## International Equity Markets

Index Performance as of 6/30/2025	2Q2025	YTD	1-Year	3-Year (Ann)
MSCI ACWI NR USD	11.53	10.05	16.17	17.35
MSCI ACWI Ex USA NR USD	12.03	17.90	17.72	13.99
MSCI ACWI Ex USA Growth NR USD	13.67	15.90	14.15	12.42
MSCI ACWI Ex USA Value NR USD	10.42	19.90	21.42	15.62
MSCI ACWI Ex USA Mid Growth NR USD	17.11	20.41	22.33	13.64
MSCI ACWI Ex USA Mid NR USD	15.70	20.69	22.52	14.31
MSCI ACWI Ex USA Mid Value NR USD	14.39	20.89	22.63	14.92
MSCI ACWI Ex USA Small Growth NR USD	19.12	17.14	17.85	12.33
MSCI ACWI Ex USA Small NR USD	16.93	17.68	18.34	13.46
MSCI ACWI Ex USA Small Value NR USD	14.82	18.20	18.82	14.58
MSCI China NR USD	2.01	17.33	33.78	3.06
S&P Japan BMI NR USD	11.33	12.48	15.29	14.68
MSCI AC Asia NR USD	12.08	13.53	15.78	11.32
MSCI Europe NR USD	11.38	23.05	18.38	17.21
MSCI EM NR USD	11.99	15.27	15.29	9.70

Source: Morningstar Direct

In USD terms, international equities marginally outperformed the U.S. market in the 2nd quarter, driven by strong market advances across Europe and Asia (ex China) as well as benefiting from U.S. dollar (USD) weakness. The MSCI All-Country World ex-USA Index (ACWI Ex USA) returned 12.03%, outperforming the U.S. market (the S&P 500 returned 10.94% for the quarter). As with the U.S., growth outperformed value across major regions and market cap bands. Unlike the U.S., small and mid-caps outperformed large caps pro-cyclical tailwinds are benefiting the growth outlook for smaller international companies.

MSCI China gave back its 1st quarter leadership to lag the rest of the world in the 2nd quarter, returning 2.01%. China was specifically targeted by the Trump administration on tariff policy and has borne the brunt of additional tariffs imposed by the U.S. A 90-day trade truce was announced in May, reducing U.S. tariffs on Chinese goods to 30% and Chinese tariffs on U.S. goods to 10%, but uncertainty around future tariff hikes (potentially up to 60% in Q3 2025 if an agreement is not reached) dampened investor confidence. A lack of follow through on fiscal stimulus announced in 2024 and the ongoing property market crisis are also weighing on Chinese stocks, except for the country's technology champions benefiting from the buildout of their own AI capabilities. Hong Kong stocks bucked the mainland underperformance, helped by a recovery in the real estate and technology segments.

European stocks continue to benefit from a stronger currency and fiscal stimulus/defense spending commitments led by Germany. Eastern European emerging stocks were also standout performers despite the ongoing Russia/Ukraine conflict, benefited from increased investor interest driven by a robust technology sector and ongoing economic reforms. Germany's announcement of a €500 billion infrastructure and defense spending package in 2025 had positive spillover effects across Eastern Europe.

Across pan-Asia, it was mixed performance with Singapore and Vietnam outperforming other peripheral markets such as Thailand, the Philippines, and Malaysia as the region continues to deal with the fallout from Liberation Day that has cut into their trade flows. As with the global market, the region's technology sector, notably semiconductors and small caps, drove most of the positive gains although the banking sectors also performed well.



## Implications: Questions Surrounding Future U.S. Trade Policy and Weak Domestic Demand Will Likely Remain Overhangs Despite the Strength Across Global Technology

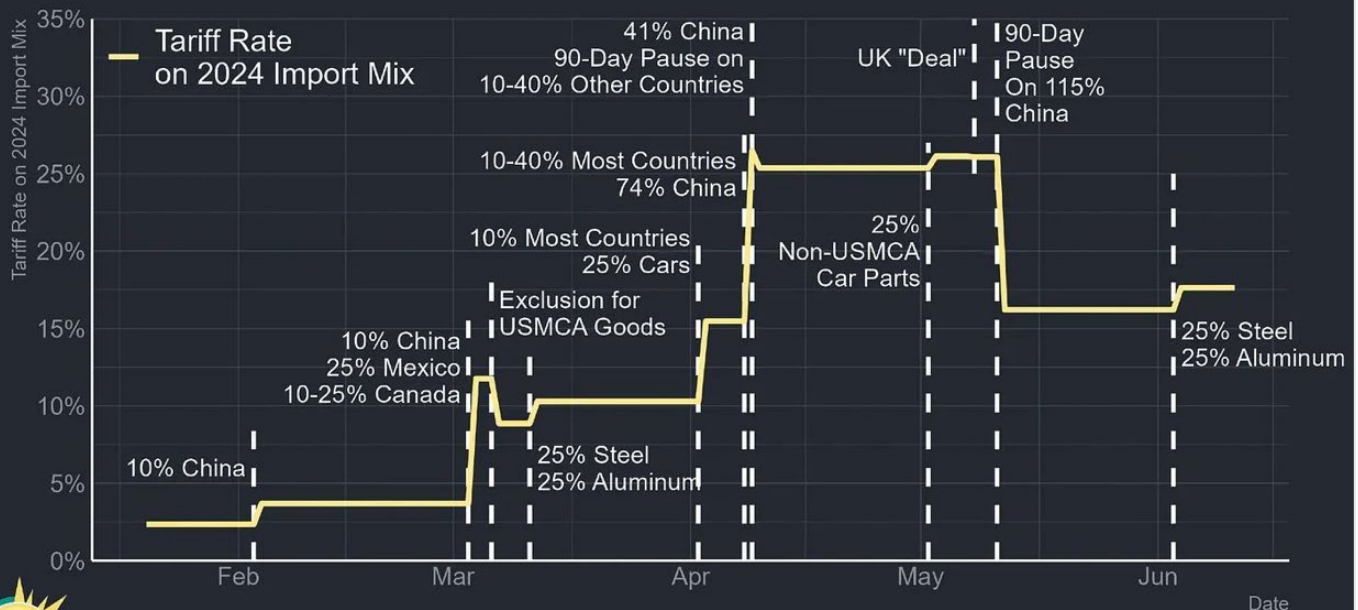
The pendulum swing benefiting international markets over the U.S. is starting to lose some momentum as valuations converge between the U.S. and ex-U.S. markets. After over a decade of U.S. dominance, international stocks are benefiting from a rebound in both equities and currencies versus U.S. assets.

Despite the outperformance, global markets continue to be valued at a discount to the U.S. although those discounts have narrowed this year. Developed markets, as proxied by the MSCI EAFE Index, and emerging markets, as proxied by the MSCI EM Index, are now trading at 15.2x and 12.7x forward 12-month earnings, respectively. This valuation discount will likely persist as the rest of the world is expected to grow earnings at a slower rate versus the U.S. due to the dominance of U.S. tech sector earnings growth. Overall, international stock markets are projected to see earnings growth in 2025 ranging from mid-single digits (e.g., 7-10% in Europe and Asia) to low double digits (e.g., 11%+ in China), although these estimates remain fluid given the uncertainty over the global trade environment.

Attractive valuations offset by weaker profitability keep us neutral on regional allocations, as investors maintain a watchful eye on the sustainability of international market recovery and whether international economic growth does begin to outpace the U.S. As with the U.S. market, we emphasize positioning in high quality stocks trading at reasonable valuations and that fundamental price discrimination should provide a tailwind for active stock pickers.

## A Timeline of Trump's 2nd-Term Tariffs

In His 2nd Term, Trump Has Imposed Tariffs On Trillions of Dollars in US Trade



Graph created by @JosephPolitano using US Census data.

## Conclusion

Investor sentiment rotated sharply from extreme risk aversion following the Liberation Day tariff announcement to euphoria over the prospects of increased technology spending and tailwinds from the Big Beautiful Bill. Following the easing of trade tensions, we turn cautiously optimistic on global equities although elevated market valuations (especially for U.S. stocks) mean future earnings growth have a higher hurdle for meeting expectations. The consensus outlook remains mid- to late cycle, as there are increasing signs of a spending and hiring slowdown in the U.S. offset by cyclical tailwinds enjoyed overseas, primarily in Europe which is supporting euro-based assets.

Fixed income investors continue to have opportunities to secure moderately high real rates by extending maturities, although high grade sectors (corporate, asset- and mortgage-backed securities) are trading at richer valuations following the initial post-Liberation Day sell-off. For investors with significant foreign currency exposure, hedging to the USD or reallocating to U.S.-based fixed income is advised, as USD weakness incorporates much of the tariff uncertainty until some clarity is reached sometime in the 2nd half of this year.

Although we are neutral across major equity regions, we continue to favor U.S. equities, particularly those with strong balance sheets and sustainable profitability, trading at reasonable valuations. Until the earnings landscape broadens out beyond AI-driven sectors, small and mid-caps will be challenged to match the pace of large caps even as speculative high beta stocks are driving overall market gains. In addition, investors are encouraged to explore hard assets like natural resources and real estate to hedge against inflation risks as current inflation readings remain elevated.

Global markets, while trading at a discount to the U.S., continue to face subdued profitability, will need to demonstrate greater growth potential versus the U.S. to maintain their leadership. This keeps regional allocations neutral until further clarity is reached on the global trade front. Across both U.S. and global markets, a focus on high- quality, reasonably valued stocks, coupled with active stock picking, is emphasized for future returns.



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Except as otherwise specifically stated, all information and portfolio manager commentary are as of July 2, 2025.