Investment Update

July, 2025

2025 Second Quarter Update

Review: The S&P 500 closed out the quarter in positive territory, despite the sharp selloff due to the tariff announcement on April 2. International equities delivered another positive quarter, with returns boosted by a continued decline in the US dollar. Bond yields finished the quarter mostly unchanged, leading to a modestly positive return in the US Aggregate Bond Index. The Federal Reserve continues to wait on any additional rate cuts, due to the uncertainty around the potential impact of tariffs on inflation.

	2Q25	1Q25	2024
S&P 500	10.9%	-4.3%	25.0%
MSCI EAFE[1,2]	12.1%	7.0%	4.3%
MSCI Emerging Markets[2]	12.2%	3.0%	8.1%
Bloomberg U.S. Aggregate Bond	1.2%	2.8%	1.3%
Bloomberg Municipal Bond	-0.1%	-0.2%	1.1%

[1] Europe, Australasia, Far East

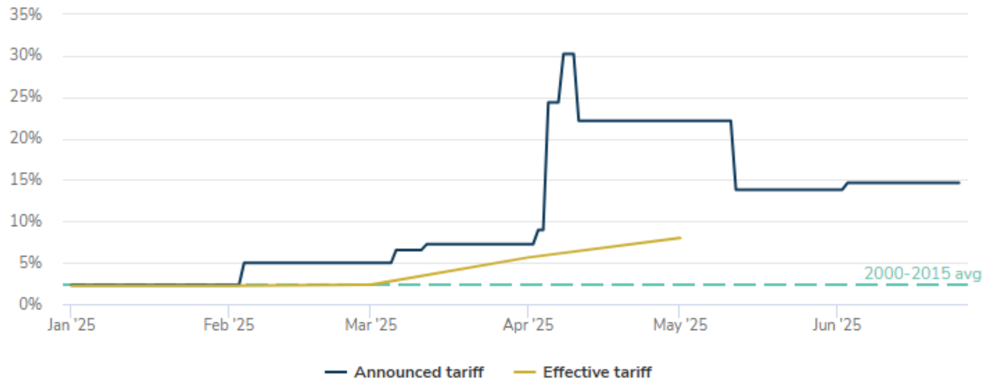
[2] MSCI returns are in U.S. Dollars

Is Tariff Volatility Behind Us?

The S&P 500 reached a new all-time high on June 30, representing a remarkably fast rebound from its ~20% peak-to-trough decline from February 19 through April 8. Tariff announcements, particularly those made on April 2, drove the selloff. The April 9 pause on "reciprocal" rates and the May 12 détente with China drove the recovery. With the July 9 expiration of the 90-day reciprocal rate pause rapidly approaching, it is worth asking whether the worst of the tariff-induced volatility is behind us. Equity markets certainly appear to be priced as if that is the case.

The chart on the following page shows the weighted average of announced tariffs this year (dark blue line), the effective tariff (a government estimate based on actual tariffs collected per month), and the 2000-2015 average US tariff rate of 2.5%. The dark blue line illustrates the rapidly shifting tariff policies that businesses and consumers have faced this year. With the possible exception of a return of >20% reciprocal rates, the lack of clarity around steady-state rates may be more economically damaging than the actual level of tariffs since it makes it difficult for businesses to plan investments in inventory and capital expenditures and disrupts household consumption patterns. Since it is almost certain that tariffs will end the year higher, the upside case for the economy would likely be a scenario where tariffs are set at some level (maybe 10% or less) across the board for some period of time (at least 12 months), while actual longer-term deals are negotiated. Though this would be a net negative for economic growth this year, it is possible that the deceleration would be manageable and a recession avoided. However, in the event that such a scenario does not occur, prolonged uncertainty would likely be more negative for corporate earnings and economic growth.

US Tariff Rates, Announced and Effective Weighted Averages, 2025ytd



Source: Minneapolis Fed (https://www.minneapolisfed.org/article/2025/tariff-impacts-delayed-or-avoided)

Outlook: US GDP growth is now expected to be 1.5% in 2025, down from the 2.1% estimate at the beginning of the year. Estimates for all key components have been revised lower, but personal consumption is the metric to monitor. At ~2/3 of GDP, not only is it the biggest driver of US economic growth, it also represents, in our opinion, the biggest source of uncertainty in near-term forecasts due to tariff policies. Lower-income households are already showing signs of financial stress—e.g. increased debt delinquency rates—making higher prices particularly burdensome. If market volatility returns, due to tariff uncertainty or other reasons, a reversal of the "wealth effect" may negatively impact spending by higher-income households, who drive a disproportionate amount of total consumption. The labor market will also have an impact on consumer spending, and though the monthly jobs numbers have remained generally healthy, there are clear signs of softening.

Estimates for international GDP growth in 2025 have also been lowered since the beginning of the year, in large part due to the potential impact of US trade policies. However, the decline in the US dollar against most major currencies has boosted returns of international equities. Also, investors have become more bullish on the potential for accelerating earnings growth in international developed markets in 2026, particularly in Europe, where monetary and fiscal policy has become increasingly stimulative.

Strategy: While there are attractive opportunities at the individual stock level—as is almost always the case—the valuation multiple of the overall market is elevated and does not appropriately account for potential downside risks in the near term. We continue to have a bias towards higher quality companies with strong underlying growth trends that are better equipped to weather near-term volatility. Additionally, fixed income proved to be a useful buffer in the recent selloff, and we continue to view the risk-reward in high quality bonds as attractive relative to equities.