

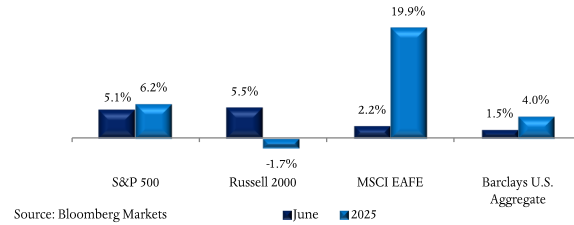


## MARKETS

The S&P 500 index ended the second quarter at a new all-time high, a herculean rebound after having declined -21% from its February high through the second week of April on uncertainty over the Trump administration's "Liberation Day" tariff policy. Given the stresses to the financial system, the administration quickly reversed course by postponing "reciprocal tariffs" for ninety-days. Subsequently, investor confidence returned, recession fears faded, and a strong earnings season drove the S&P 500 to strong monthly gains in May +6.3% and June +5.1% (+11.0% in Q2; +6.2% ytd). First half increases were driven by Industrials (+12.7%), Financials (+9.1%) and Technology (+8.1%), signaling a healthy economy. Smaller capitalization stocks in the Russell 2000 index (+5.5% in June, +8.6% in Q2; -1.7% ytd) exhibited greater volatility during the aforementioned drawdown and have yet to fully recover, with the growth oriented sub-index outperforming its value counterpart by +2.7% in the first half.

Overseas equities in the MSCI EAFE index have been consistently strong thus far in 2025, rising +2.2% in June (+12.0% in Q2; +19.9% in H1), additionally boosted by appreciating local currencies versus the US Dollar. Year-to-date, MSCI Europe led major indexes with a +20.7% return, followed by China at +15.5%. Easing trade tensions were an additional tailwind for emerging market equities which generated a total return of 12.2% in dollar terms over the past quarter.

In fixed income markets, the 10-year US Treasury Note yield declined 31 basis points (bps), to 4.23%, during the first half of 2025 and remains 79 bps below the cycle high (5.02%) reached in late 2023. This led the Barclays US Aggregate bond index higher by +1.5% in June (+1.2% in Q2; +4.0% ytd). In currencies, the decline in the greenback has been dramatic with the Dollar Index



(DXY) dropping -10.7% during the past two quarters. This marks the index's worst first-half decline since the 1970's, and the index's highest rolling six-month slump since August 2009 (-11.2%) and February 2004 (-11.0%).

With regard to commodities, the S&P GSCI index declined -3.1% last quarter, bringing year-to-date returns to +1.9%. The energy component was particularly volatile, with crude oil spiking from \$68 to \$80 per barrel, as escalating conflicts in the Middle East caused a brief oil price surge amid worries about disruption to shipping, before settling back down to \$65. Further capping prices, Opec+ announced another increase in oil production for July, following two other recent increases. Ex-energy, agriculture components were weak, while livestock, and industrial/precious metals advanced. The weak US Dollar and geopolitical instability acted as a tailwind for gold and bitcoin, which rose +5% and +30% in Q2 (+26% and +15% ytd), respectively.

## GEOPOLITICS

The Trump Administration's "One Big Beautiful Bill Act," its flagship tax and spending legislation, was signed into law on July 4th. Its extraordinary breadth and ambition position it as one of the most consequential pieces of legislation in recent congressional history. The bill extends tax cuts passed in 2017, increases defense spending, and fine-tunes spending on programs such as Medicaid (including increased verification of eligibility and fraud prevention). Notably, it does not include Section 899, the so-called "Revenge Tax" on

foreigners, and reduces funding for renewable energy projects. The CBOE estimates that the bill could add \$3.25 trillion to the US Federal debt over the next 10 years, before accounting for any tariff revenue offsets, leaving unanswered questions about the sustainability of US Federal finances.

The Israel-Iran war continued, including numerous Israeli air strikes and missile exchanges, culminating in an attack on Iranian nuclear facilities, later added-to by the US with precision strikes on fortified underground bunkers. Iran retaliated by striking a US military base in Qatar. Subsequently, Israel and Iran announced a ceasefire, pending further negotiations.

## US

US economic data generally remained resilient, although Q1 GDP was finalized at -0.5%, a technicality, due to higher imports in the quarter, driven by concerns around future tariffs. The Atlanta Fed's GDPNow forecast calls for a second quarter rebound in economic growth to 2.6%, on an annualized basis. US GDP is expected to grow 1.4% in 2025 and 1.6% in 2026, according to a survey by the Philadelphia Fed.

Employment data has also largely remained buoyant since the start of the year. An initial string of below trend job gains was followed by a robust 147,000 hires in June, concentrated in local government and healthcare, while manufacturing saw declines. Wage growth decelerated to 3.7% in June from 3.9% prior. As a result of fewer people looking for work, the unemployment rate fell to 4.1% from 4.2%. A study by the Brookings Institution concluded that net immigration to the US this year will likely fall to zero or be negative. As a result, the US will require a mere 10,000 to 40,000 job additions per month in the second half of 2025 to keep the unemployment rate steady.

On the inflation front, the May consumer price index and its core measure increased at annual rates of 2.4% and 2.8%, respectively, above Federal Reserve targets, still showing limited pass-through from tariffs. While

**June 2025 Economic Statistics**

	Jun-25	Dec-24	Dec-23
Federal Funds Target Rate	4.25 - 4.50%	4.25 - 4.50%	5.25 - 5.50%
Consumer Confidence Index	93.0	104.7	110.7
Manufacturing PMI Index	49.0%	49.3%	47.4%
Unemployment Rate	4.1%	4.2%	3.7%
JPY/USD	143.76	157.18	141.06
USD/EUR	1.1786	1.0353	1.1036
Gold/oz.	\$3,303.31	\$2,623.81	\$2,062.59
Oil (WTI)/bbl	\$65.11	\$71.72	\$71.65

Sources: see disclosure \*

core goods (such as vehicles and apparel) prices fell, they will be susceptible to tariff-related hikes later in the year.

Since "Liberation Day," the Trump administration has reached some form of trade agreement with the UK, China and Vietnam. It appears other trade partners, such as the EU, India, Japan and South Korea, are all striving to secure the best deal with the US before the 90-day postponement of reciprocal tariffs which was to end on July 9, now August 1.

## EUROPE

The Eurozone economy grew by 0.6%, annualized, in the first quarter of 2025, faster than expected and marking the strongest expansion since Q3 2022. Second quarter GDP is expected to remain constant, accelerating thereafter, leading to 0.9% growth expectations in 2025 and 1.6% in 2026, according to Eurostat.

Eurozone inflation eased to 1.9% in May from 2.2% in April, below the European Central Bank's (ECB) target, mainly due to a decline in energy prices and services inflation. This allowed the central bank to cut interest rates twice last quarter, by 25 basis points each time, bringing the deposit rate down to 2.0%, with ECB President Christine Lagarde indicating that the central bank had "nearly concluded" its rate-cutting cycle.

The Bank of England cut interest rates by 25bps to 4.25% in May, even as inflation of 3.4% remained above the central bank's 2% target.

## ASIA

China's manufacturing activity contracted for a third straight month in June, amid deflationary conditions driven by a dearth of domestic buyers and sluggish overseas demand due to trade tensions. Consumer prices continued to decline, falling 0.1% year-over-year (yoy) in May, the fourth straight negative monthly reading. Industrial profits also fell by a sharp 9.1% yoy, reversing a two-month growth streak due to weak demand and falling industrial product prices.

In Japan, core inflation slowed to 3.1% yoy in June but remained above the Bank of Japan's (BoJ's) target. Manufacturing activity finally recovered, with the PMI rising to 50.4 after nearly a year in contraction, but the outlook remains clouded by US tariffs and corresponding demand. The BoJ kept interest rates steady at 0.5% and signaled an increasingly conservative approach to normalizing monetary policy.

## OUTLOOK

Investors will have to contend with a range of uncertainties, including trade tensions, US fiscal sustainability and the Federal Reserve's lack of urgency to cut rates on account of a convergence of economic crosscurrents affecting inflation and growth. In addition, ongoing geopolitical conflicts in the Middle East and Eastern Europe are likely to keep financial markets on edge.

Now that the US fiscal budget has been passed, attention will turn to the revenue generating portion of the Trump administrations' agenda. The July 9 expiration (now August 1) of the reciprocal tariff postponement looms large. With few trade deals secured so far, there is the risk of significant increases in tariffs, including a doubling on steel and aluminum imports as well as the potential for China levies to rise to 55%. The ultimate goal is to reduce the \$3 trillion worth of goods that the US imports annually, while restoring American manufacturing and production. In the intermediate term, these actions are likely to be inflationary, while reducing GDP. By way of illustration, mega-retailer Walmart warned of price hikes on catego-

ries such as toys, technology and food, later this summer, which is likely to pinch consumers' wallets.

With regard to monetary policy, the Federal Reserve faces a delicate balancing act between the economy and inflation. Currently, the Fed and the bond market are in sync forecasting two 25bp rate cuts by year-end. This will be welcomed by the US Treasury, given the \$37 trillion of debt that it has amassed, on account of large fiscal deficits, which are set to persist. As a result, fixed income markets have shifted focus from interest rate cuts to worries over debt sustainability. Therefore, we maintain a cautious stance with regard to long duration bonds, instead favoring investing at the short end of the yield-curve.

With second quarter corporate earnings season approaching, FactSet estimates S&P 500 profit growth of 5%, which is down from expectations of 9.4% three months ago. Associated revenues are expected to increase 4.2%, which is down from earlier expectations of 4.7%. In terms of valuation, the S&P 500's forward 12-month price-to-earnings ratio is 21.9 versus the 5 and 10-year averages of 19.9 and 18.4, respectively. Thus, we continue to favor quality investments in both the US and Europe, with a focus on active stock picking given the dispersions underlying the indexes.

Our favored hedge funds and non-market correlated investments continue to produce solid returns thanks to a wide range of opportunities and solid risk management. Precious metal mining equities have yielded the highest returns so far in 2025, yet valuations have shrunk given the strength of associated metals, combined with operating leverage, an indication that more returns are still to come. Given historically tight credit spreads, a commitment to our recommended dislocation fund offers the potential for outsized future returns. For capital appreciation oriented investors, select software equities, with an activist element, offer interesting opportunities after the recent pullback. We have also identified various unique private equity and credit funds focused on the cybersecurity, healthcare, education and natural resource sectors.

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\*Sources: Reuters, Bloomberg, Bureau of Labor Statistics, Conference Board, Federal Reserve, Institute for Supply Management, MSCI, Russell, Standard & Poor's, Financial Times and the Wall Street Journal.