June 2025

MONTHLY MARKET INSIGHTS

Key takeaways:

- Market action was dominated by developments in global trade negotiations, a dynamic we expect to persist through the year.
- The Federal Reserve ("Fed") maintains a "wait-and-see" approach towards monetary policy, and we continue to expect two 25-basis-points cuts for 2025.
- US Equity and Fixed Income market turbulence warrants increased diversification in investment portfolios. Private markets may provide attractive diversification opportunities for investors.

May proved to be another volatile month for markets as shifting trade rhetoric and mixed economic data whipsawed US stocks. Nonetheless, major equity indexes rallied sharply and closed the month above pre-"Liberation Day" levels. The S&P 500 returned 6.15% for the month, while the Nasdaq gained 9.04%, bolstered by recent strength in the tech sector.[1] Small-cap stocks similarly posted strong returns of 5.02%, although they still trail large-cap equities year to date. Treasury yields rose considerably despite starting the month near the year's lowest levels, as investors sought a safe haven during the late-April growth scare. The 10-year Treasury yield ended the month at 4.40%, while the 2-year Treasury yield ended at 3.90%, as investors priced in a later start to Fed rate cuts.[2] The recent rebound in equities was a welcome reprieve, but the environment remains shrouded in uncertainty, which we believe warrants a cautious approach to risk assets.

Trade news dominated market action as stocks seesawed dramatically on each development in the US's tariff disputes. In early May, investor sentiment was weighed down by looming China tariffs, only for equity markets to surge when news broke of high-level trade talks between the US and China. A string of positive trade developments perpetuated the rally as the US struck a trade truce with China, with both nations agreeing to pause new tariffs and even roll back some duties for 90 days. Simultaneously, the US struck a bilateral trade agreement with the UK, easing tariffs between the two allies. Equity markets were able to recoup early-April losses, with Mega-cap technology stocks leading the charge. However, the market was again faced with resistance when President Trump abruptly threatened massive tariffs on Europe, proposing a 50% tariff on all EU imports, sending global stocks tumbling on the low-liquidity Friday before Memorial Day. Only days later, Trump walked back the initial threats and delayed the 50% European tariffs until July 9, allowing markets to stabilize heading to month-end. Trump's constant capitulation towards draconian tariff implementation has given rise to the TACO trade moniker, an acronym for "Trump always chickens out." While buyers of trade-related weakness have certainly been rewarded year to date, the President's displeasure with the acronym may encourage a more staunch approach towards policy implementation going forward.

The push-pull of tariff turmoil versus truce hopes made for a choppy but ultimately positive month for the stock market. We expect this dynamic to continue as the trade saga endures, even as the legality behind tariff policy is increasingly scrutinized. On May 29, a decision by the US Court of International Trade argued that the International Emergency Economic Powers Act did not permit such sweeping levies without input from Congress.[3] The decision would void many of the Trump tariffs currently in effect, but alas, a Federal appeals court ruled that the

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1. Bloomberg
2. Id.
3. Barbusica, Davide, and Pushkala Aripaka. "Moody's Cuts America's Pristine Credit Rating, Citing Rising Debt | Reuters." Reuters, 2025, www.reuters.com/markets/us/moodys-downgrades-us-aa1-rating-2025-05-16/.

tariffs can remain in place while legal challenges proceed. Nonetheless, the court's ruling would appear to create only a minor speed bump for the White House. Trump appears steadfast in his trade agenda, and his trade adviser, Peter Navarro, has hinted that there are a range of mechanisms the White House can invoke to impose tariffs. A provision in Trump's tax bill, announced at the end of the month and dubbed the "revenge tax," would give the US the power to impose new taxes of up to 20% on foreigners with US investments.[4] We believe the "revenge tax" provides further evidence that Trump will stop at no length to implement his agenda. While the trajectory of trade policy seems impossible to forecast, we remain confident that it will continue to be the primary catalyst for market returns through year-end.

On a brighter note, first-quarter earnings season was solid, which seemed to bolstered investor confidence and contributed to the May rebound. Broadly, first-quarter corporate earnings beat consensus expectations, providing a floor to stock prices. Many US companies reported resilient profits and even raised guidance. On the other hand, many companies warned of tariff-related cost pressures and even withdrew guidance due to uncertainty. While solid first-quarter earnings have supported the markets, we believe the detrimental effects of tariffs have yet to fully permeate the business environment. We expect corporate profits to weaken as trade policy uncertainty increasingly weighs on business operations. At the same time, the recent market rally has caused valuations to appear stretched. Moderate equity returns remain a possibility, but the abundance of downside risk has led us to retain a prudent approach toward further equity investment at this juncture.

Economic data continues to send a mixed signal as hard data has yet to turn negative while sentiment data continues to falter. First-quarter GDP contracted at a -0.3% annualized rate; however, it was revised up to -0.2% later in the month.[5] US economic growth was significantly weighed down by businesses front-loading imports ahead of tariffs. While the surge in imports pushed the economy into contraction, we believe this data point to be skewed and will normalize through the year. Still, underneath the surface, there are aspects of the GDP print that give us concern. Notably, consumer spending was revised down to 1.2% on an annualized basis, a steep dropoff from the 4% annualized growth observed in the fourth quarter.[6] Consumer sentiment held steady in May as the University of Michigan index held at 52.2; however, it remains significantly below the 69.1 level observed in May 2024.[7] As sentiment continues to wane, we will closely monitor any deterioration in consumer spending as a harbinger of a broader economic slowdown. Inflation continues to cool, as the April core Personal Consumption Expenditure index came in at 2.52% year-over-year, down from a revised 2.67% the month prior.[8] Core services inflation still looks relatively restrained, and evidence of tariff-related price pressures is beginning to creep into core goods inflation. Taken together, we still believe the Fed will face challenges in bringing inflation back to its 2% target, and we retain our view that inflation risk skews to the upside.

Federal Reserve policy remains on hold as the central bank maintained its policy interest rate at its May meeting. The Fed has indicated a cautious approach to monetary policy as it continues to assess the impact of trade policy amid an uncertain economic environment. The central bank appears caught in a crosscurrent as recent policies have created risks to both sides of its dual mandate. We believe the Fed will maintain a "wait-and-see" approach as trade negotiations unfold, leading us to maintain a forecast of two 25-basis-point cuts for the year, barring a deep recession.

Treasury yields fluctuated within a wide range amid shifting rate expectations and an uncertain economic outlook. Rates began the month at relatively low levels due to the market's dovish interpretation of the Fed's comments following its April meeting. However, positive trade developments caused the benchmark 10-year rate to climb back up, while the 2-year, which is sensitive to Fed policy, followed suit as traders

4. Dulaney, Chelsey. "Global Investors Suddenly Have a New Concern: A U.S. 'Revenge Tax.'" The Wall Street Journal, 30 May 2025, www.wsj.com/livecoverage/stock-market-today-tariffs-trade-war-0530-2025/card/global-investors-suddenly-have-a-new-concern-a-u-s-revenge-tax--nYGAhWiLzZ7zpnn9227a?gaa_at=eafs&gaa_n=ASWzDAibHW29uMQm7ej9kPQJd04yLxSVeJd28iBzDHdonVlKRqeNAU546V_bW7Ans3D&gaa_ts=683db64d&gaa_sig=uqGNkniD7kEmEml6ZNzR6AbX3gtlCujT_ohnbm_Gz23-_L-aZqrHTnoubSvSli4wa-srf4eI75oLr5gQXMfRyg%3D%3D.

5. Hatzius, Jan, et al. "USA: Q1 GDP Revised Up but Revision Details Softer; Initial Claims Rise." Goldman Sachs, 29 May 2025, www.gspublishing.com/content/research/site/search.html?facets=()&limitTo=%5B%22%22%5D&filter=(title+EQ+$%7B(briefly)%7D$+AND+sources+EQ+$%7B(%22ad68d69c-e1fd-4a2a-a90d-eae33ee4442c%22)%7D$+AND+totalPages+IN+%5B1,99999%5D)&page=1&sort=time&language=%5B%22en%22%5D.

6. Id.

7. Federal Reserve Economic Data

8. Hatzius, Jan, et al. "USA: Personal Income Rises; Goods Trade Deficit Narrows Sharply; Boosting Q2 GDP Tracking to +3.3% on Tariff-Related Distortions." Goldman Sachs, 30 May 2025, www.gspublishing.com/content/research/site/search.html?facets=()&limitTo=%5B%22%22%5D&filter=(title+EQ+$%7B(briefly)%7D$+AND+sources+EQ+$%7B(%22ad68d69c-e1fd-4a2a-a90d-eae33ee4442c%22)%7D$+AND+totalPages+IN+%5B1,99999%5D)&page=1&sort=time&language=%5B%22en%22%5D.

began pricing in a later start to rate reductions. Yields were again whipsawed as escalating trade tensions with Europe and a US credit rating downgrade sparked a flight to quality. Moody's downgraded the US sovereign credit rating in mid-May, from Aaa to Aa1, citing the country's rising debt and interest costs, which are higher than those of other top-rated nations.[9] This was the first time Moody's had ever removed the US's top rating since its initiation in 1919, which rattled markets briefly and raised concerns about US fiscal sustainability.[10] The downgrade led to dollar weakness while paradoxically resulting in an inflow into Treasuries, which are viewed as a safe haven. Yet, signs of risk premia were evident as yields on longer-dated Treasuries inched up relative to comparable German or Japanese bond yields, reflecting a higher perceived credit risk. Fed officials initially downplayed the bond market stress; however, the fiscal outlook amid rising deficits has become another factor that bond traders will closely monitor. The current relatively high levels of Treasury yields have caught the attention of many Wall Street strategists who see an investment opportunity if yields retrace. However, a deteriorating fiscal outlook, a potential reacceleration of inflation, and continued tensions with foreign Treasury buyers lead us to believe that rates are biased to the upside. With interest rate volatility in a heightened state, we have opted to trade interest rate risk for credit risk in our Fixed Income portfolios and maintain a short duration.

The volatile and unpredictable nature of US equity and bond markets over the past few months have reinforced our belief that the current environment warrants increased diversification in investment portfolios. On the equity side, international developed markets continue to post strong returns and serve as a healthy diversifier to domestic markets. The MSCI EAFE Index returned 4.70% in May, buoyed by strong returns from Japan, which rose 5.33%, as measured by the Nikkei 225.[11] Within developed markets, we continue to favor Europe, which returned 4.02% in dollar terms and has outperformed US markets year to date.[12] Europe trades at a lower valuation than the US, while currency diversification could prove favorable if the dollar continues to weaken. Private markets have increasingly provided investors with avenues to diversify from their public portfolios. Private credit continues to provide healthy yield spreads over public credit markets while offering a low correlation to both public credit and equity markets. The traditionally institutional asset class of private Infrastructure is becoming increasingly accessible to non-institutional investors. Core and core-plus private Infrastructure can offer consistent income streams from contracted revenues often embedded with provisions to protect against inflation. Amid fears of growing economic strain and a reacceleration of inflation, private Infrastructure looks to be an interesting diversifier in this macroeconomic environment.

As geopolitical tensions loom and economic activity slows, we maintain a cautious outlook for markets over the coming months. Our portfolio construction is focused on allocating to high-quality assets with diversified return streams to mitigate downside risk during periods of heightened volatility. Our team maintains a vigilant eye on economic and political developments to make the appropriate tactical adjustments, aiming to enhance the risk-adjusted returns of our clients' portfolios.

9. Knauth, Dietrich, and Sarah Marsh. "Trump's Tariffs to Remain in Effect after Appeals Court Grants Stay | Reuters." Reuters, 30 May 2025, www.reuters.com/business/us-ruling-that-trump-tariffs-are-unlawful-stirs-relief-uncertainty-2025-05-29/.

10. Id.

11. Bloomberg

12. Id.

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