Q2

Economic & Market Review

Second Quarter 2025

Gould Asset Management®

Economic Review

Second Quarter 2025

US Economy Contracts as Consumer and Government Spending Slow

The US economy contracted at a 0.5% annualized rate in the first quarter, marking its first decline since early 2022. The slowdown reflected weaker consumer spending amid falling confidence and a sharp drop in government spending.

Manufacturing activity remained sluggish in June, contracting for the fourth straight month. New orders and factory employment both declined, while input prices crept to their highest level since 2022, when inflation roiled the economy.

The labor market showed continued strength in June. Employers added 147,000 jobs, and the unemployment rate edged down to 4.1%. Average hourly earnings rose 0.3% from the prior month and 3.7% from a year earlier.

The housing market remained stagnant in May, as high prices and elevated mortgage interest rates continued to limit affordability. Existing home sales dropped 0.7% from a year earlier, and the median sale price rose to $422,800, up more than 50% in six years.

Federal Reserve: Patience Amid Uncertainty

The Fed maintained the federal funds rate in the 4.25% to 4.50% range throughout Q2, citing heightened economic uncertainty and uneven inflation progress as reasons for its cautious stance.

The central bank projects two rate cuts by year-end, unchanged from earlier guidance but with growing divergence among the Fed officials. Fed Chair Jerome Powell downplayed the split, citing uncertainty in the economy and saying, “No one holds these rate paths with a lot of conviction.”

Federal Reserve officials anticipate that the administration’s expanded use of tariffs will negatively impact economic growth and lead to higher prices. The Fed’s latest projections show a decline in GDP growth from 1.7% to 1.4% and a rise in inflation, from 2.8% to 3.1% by year-end.

International Developed Economies: Modest Q1 Momentum

Eurozone GDP rose 0.6% quarter-over-quarter in Q1, aided by inventory buildup ahead of anticipated trade disruptions. Ireland's economy was the biggest surprise, growing twice as fast as its first preliminary estimate, expanding 7.4% over the first quarter. While the headline figure was encouraging, the effects of stockpiling are expected to fade over time.

The European Central Bank (ECB) lowered its deposit rate by 0.25% to 2.0%, marking its eighth cut in a year. ECB President Christine Lagarde signaled that the central bank is nearing the end of its rate-cutting cycle, barring significant shifts in the economy. She views Europe's economy as well positioned to navigate the heightened levels of uncertainty.

The ECB now expects European inflation to slow this year to 2.0%, from a 2.3% March estimate. 2025 GDP growth is projected at 0.9%, unchanged from the previous forecast.

Japan's economy posted a flat reading in Q1, a slowing from Q4. Modest gains in consumer spending and business investment helped offset the significant drag from lower exports amid tariff uncertainty. The Bank of Japan (BOJ) held policy rates steady in its most recent meeting, citing instability in the Middle East and tariff uncertainty as reasons to take a cautious approach.

Emerging Markets Economies Post Solid First Quarter Gains Despite Ongoing Challenges

China's economy grew 5.4% year-over-year in the first quarter, driven by robust government spending and a rebound in exports, some of which required rerouting through intermediary nations to sidestep US tariffs.

India's economy grew 7.4% year-over-year in the first quarter, up from 6.4% in the previous quarter. Strong gains in construction and fixed investment propelled growth, while private consumption remained solid.

Brazil's economy grew 2.9% year-over-year in the first quarter, marking the 15th consecutive quarter of expansion, the longest streak since 1996. Growth was driven by private consumption, fixed investment, and exports. The White House recently announced new 50% tariffs on selected Brazilian imports, raising the risk of trade reductions that could weigh on growth in the coming quarters.

Market Review: Stocks

Second Quarter 2025

Stocks Rally in Q2, Capping Volatile Quarter

Global stock markets swung sharply in Q2 2025 after new US tariffs in April triggered a swift sell off. **Markets rebounded once trade duties were paused,** lifted by renewed US tech strength and solid corporate earnings. Despite geopolitical tensions and mixed economic data, sentiment improved over the quarter, even as central banks adopted a more cautious tone on rates.

US large cap stocks, as represented by the S&P 500 Index, **rose 10.9% in Q2, as initially elevated trade tensions gradually subsided** and investor interest in tech and AI-related stocks rebounded. Optimism about potential Fed rate cuts later this year also provided a tailwind. The strong second-quarter rally puts US large cap stocks up 6.2% year-to-date.

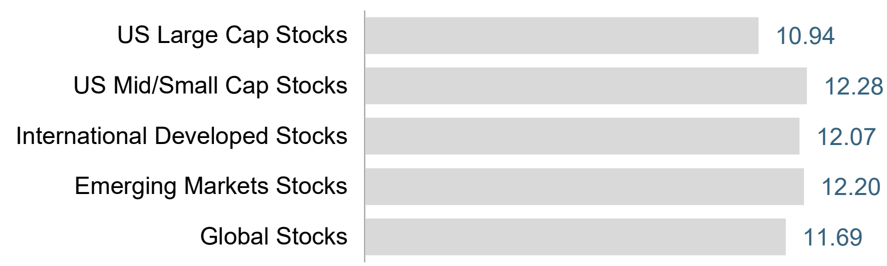
In addition to the Technology sector (up 22.9% in Q2), **Communication Services** (up 18.5%) **also performed well** during the quarter, as did Industrials (up 12.9%). The Health Care sector (down 7.2%) was the weakest performer, as the Trump administration's efforts to lower drug prices in the US put pressure on the share prices of some healthcare companies.

US mid and small cap stocks outpaced large caps in Q2, with the Wilshire 4500 stock index rising 12.3%, though year-to-date gains (up 3.0%) trail large caps. Outperformance stemmed from investors' renewed risk appetite and a favorable rate environment.

International developed and emerging markets were among the top performers on the quarter, with the MSCI EAFE (developed markets) stock index rising 12.1% (up 19.9% year-to-date), while the MSCI Emerging Markets index climbed 12.2% (up 15.6% year-to-date). International stocks have significantly outpaced US stocks in 2025, bolstered in part by a weaker US dollar (down 7.5%). Additional support has come from the European Central Bank (ECB), which has cut interest rates four times in 2025.

The quarter saw a sharp spike in volatility, reaching levels not seen since the early days of the pandemic. Investor concerns over escalating tariffs pushed the VIX index above 50 in early April. **As trade tensions subsided and market sentiment improved, volatility eased,** with the index closing the quarter at a pedestrian 17, roughly its historical average.

Returns for the Quarter (%)



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Large Cap Stocks	6.20	15.16	19.71	16.64
US Mid/Small Cap Stocks	3.03	16.00	15.62	13.29
International Developed Stocks	19.92	18.33	16.57	11.72
Emerging Markets Stocks	15.57	15.97	10.23	7.26
Global Stocks	10.33	16.69	17.91	14.18

Past performance is not a guarantee of future results. Returns for periods longer than one year are annualized. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Large Cap (S&P 500 Index), US Mid/Small Cap (Wilshire 4500 Completion Index), International Developed (MSCI Europe Australasia Far East Index), Emerging Markets (MSCI Emerging Markets Index), and Global Stocks (MSCI All Country World Index). Growth of $1,000 chart market segmentations as follows: US Stocks (Wilshire 5000 Full Cap Index) and Foreign Stocks (All Country World Index ex US).

Market Review: Bonds

Second Quarter 2025

GOULD ASSET MANAGEMENT

Policy Crosscurrents Drive Treasury Yield Swings

The US bond market delivered modest gains despite a flurry of headlines fueling significant interest rate volatility. Market moving developments included the "Liberation Day" tariff notice, a tax bill projected to increase US fiscal deficits by $3.4 trillion over 10 years, and concerns that foreign investors may be reducing exposure to US assets. The 10-year Treasury yield dipped below 4.0% in early April, climbed above 4.5% by mid-May, and ended Q2 little changed at 4.24%. **The Bloomberg US Aggregate Bond Index returned 1.2%,** bringing its year-to-date return to a healthy 4.0%.

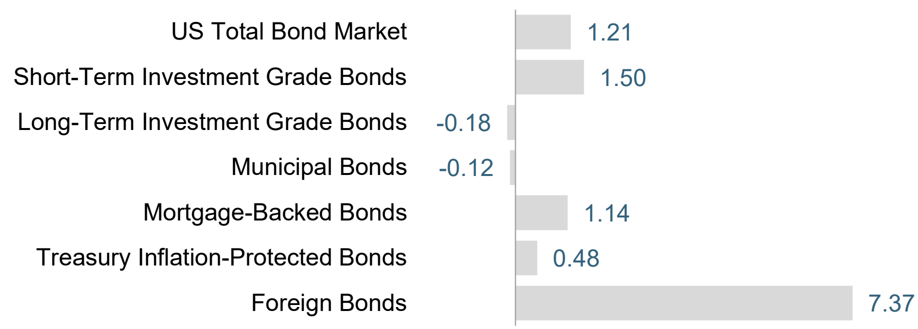
The Treasury yield curve steepened as short-term rates fell in response to growing expectations that the Fed will resume cutting rates, while a worsening fiscal outlook kept longer maturity rates elevated. The 2-year Treasury yield declined from 3.89% to 3.72%, while the 10-year yield rose slightly from 4.23% to 4.24%.

Corporate bonds outperformed other fixed income sectors. US high-yield corporates returned 3.5% as **credit spreads** (the difference between yields on corporate bonds and Treasurys) **narrowed after an initial spike following the tariff news**. Investment grade corporates also posted gains, although more muted. Long-term Treasurys, which are more sensitive to rising rates, declined 2.0%.

Tax-exempt municipal bonds underperformed taxable counterparts, posting a -0.1% return. **Elevated issuance,** particularly from school districts and universities preparing for potential federal funding cuts, **weighed on the muni market.**

Treasury market volatility may persist into the second half of 2025. The timing of the Fed's next rate cut, currently expected in September, will hinge on upcoming inflation and unemployment readings. **Although inflation has recently moderated, tariffs could reignite price pressures or lift inflation expectations, complicating the Fed's policy decisions**. Meanwhile, US fiscal challenges and rising Treasury issuance may extend upward pressure on long-term yields and cause ongoing rate volatility.

Returns for the Quarter (%)



Period Returns (%)

*Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Total Bond Market	4.02	6.08	2.55	-0.73
Short-Term Investment Grade Bonds	3.56	6.42	3.72	1.21
Long-Term Investment Grade Bonds	3.38	3.32	-0.31	-4.93
Municipal Bonds	-0.35	1.11	2.50	0.51
Mortgage-Backed Bonds	4.23	6.52	2.32	-0.60
Treasury Inflation-Protected Bonds	4.67	5.84	2.34	1.61
Foreign Bonds	9.87	10.87	1.83	-3.21

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Market Review: Alternatives

Second Quarter 2025

Gold Edges Ever Higher, but REITs, Energy, and Commodities Disappoint

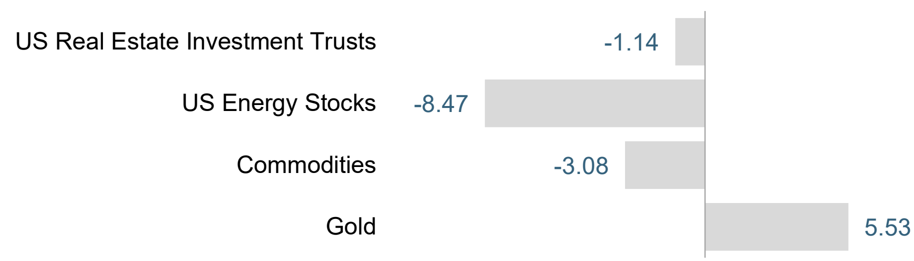
Alternative asset performance was generally lackluster in Q2, with the notable exception of gold, which continued its impressive rally. **Energy, commodities, and REITs all lost ground,** trailing the strong returns seen in equities. Year-to-date, alternative investments have delivered a mixed bag for investors.

Gold continued its strong performance in Q2, rising 5.5% and bringing its year-to-date gain in 2025 to 25.9%. **Since the beginning of 2023, gold has surged more than 80%, a remarkable rally.** Several key factors have fueled this momentum: a weaker US dollar, rising government debt, expectations of looser monetary policy, increased demand for safe-haven assets, and sustained buying by countries bolstering their strategic reserves.

After a strong first quarter, **US energy stocks pulled back in the second quarter,** falling 8.5% and trimming their year-to-date gain to a modest 0.7%. Despite heightened tensions in the Middle East, **oil prices declined during the quarter as supply remained ample,** with OPEC+ increasing production. **The broader commodities sector did modestly better,** posting a 3.1% decline in Q2, paring year-to-date returns to 5.5%. Agricultural commodities were generally weak (with the exception of cocoa), while livestock, industrial metals, and precious metals advanced.

Real estate investment trusts (REITs) underperformed the broader stock market in the second quarter. **High interest rates and elevated commercial vacancy rates continued to weigh on the sector,** making it hard for many REITs to grow earnings. However, data center REITs remained a bright spot, benefiting from AI-driven demand for digital infrastructure. Overall, the REIT sector appears to be in a holding pattern, with many investors waiting for interest rates to come down. Since REITs often rely on borrowing to finance properties, high rates significantly impact their costs and profitability.

Returns for the Quarter (%)



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Real Estate Investment Trusts	-0.09	8.92	5.40	8.63
US Energy Stocks	0.66	-3.83	9.70	22.46
Commodities	5.53	5.77	0.13	12.68
Gold	25.91	41.04	21.85	13.21

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Market Summary

Index Returns

Q2 2025	US Large Cap	US Mid/Small Cap	International Developed	Emerging Markets	US Bond Market	US Dollar
	STOCKS				BONDS/DOLLAR	
	10.94%	**12.28%**	**12.07%**	**12.20%**	**1.21%**	**-5.60%**

Since Jan. 2001	US Large Cap	US Mid/Small Cap	International Developed	Emerging Markets	US Bond Market	US Dollar
Avg. Quarterly Return	2.4%	2.8%	1.8%	2.5%	1.0%	0.3%
Best Quarter	20.5% **Q2 2020**	30.3% **Q2 2020**	25.8% **Q2 2009**	34.8% **Q2 2009**	6.8% **Q4 2023**	7.1% **Q1 2020**
Worst Quarter	-21.9% **Q4 2008**	-27.9% **Q1 2020**	-22.7% **Q1 2020**	-27.6% **Q4 2008**	-5.9% **Q1 2022**	-5.8% **Q2 2009**

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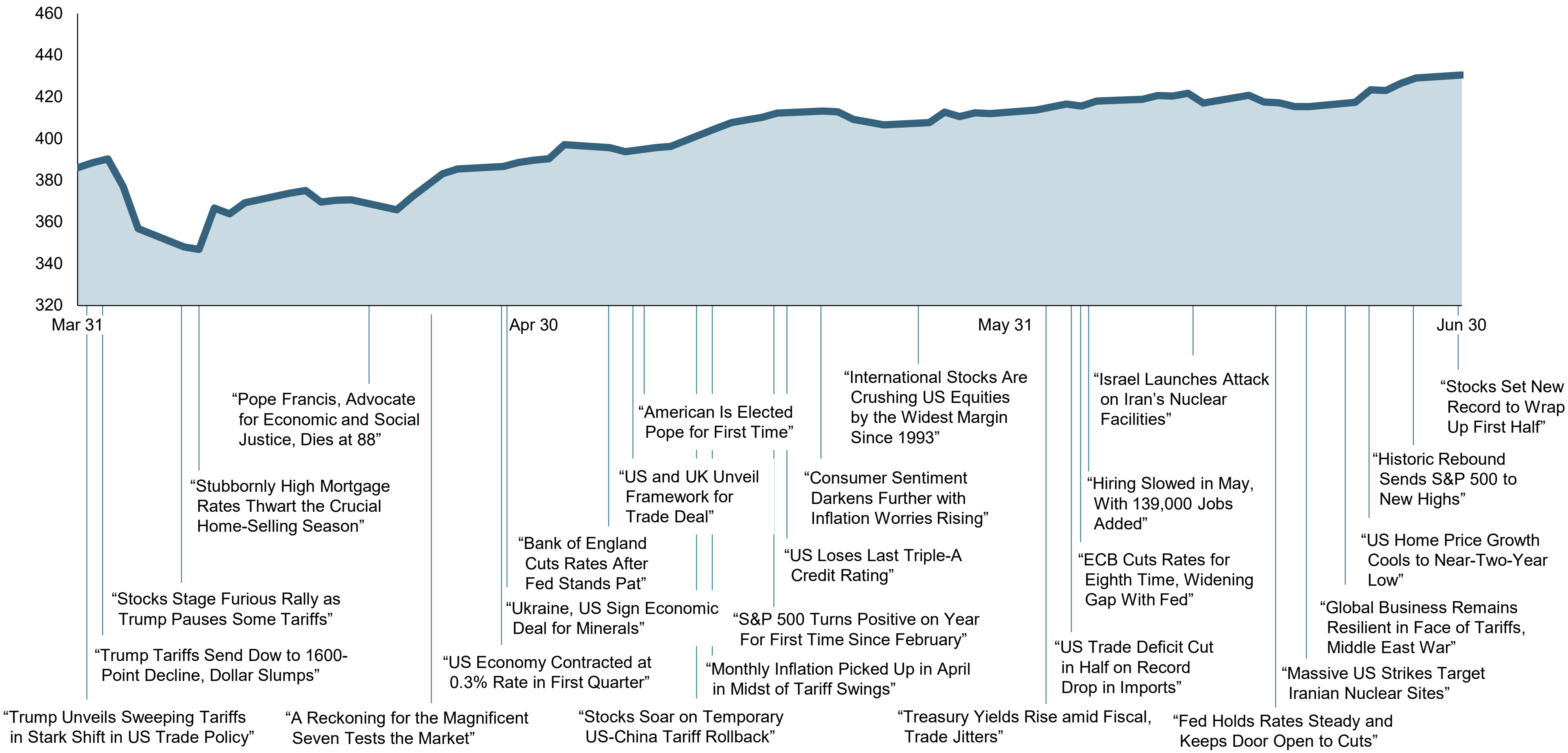
Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data S&P data © 2025 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2025, all rights reserved. Bloomberg data provided by Bloomberg.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q2 2025



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2025, all rights reserved. Index level based at 100 starting January 2000.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

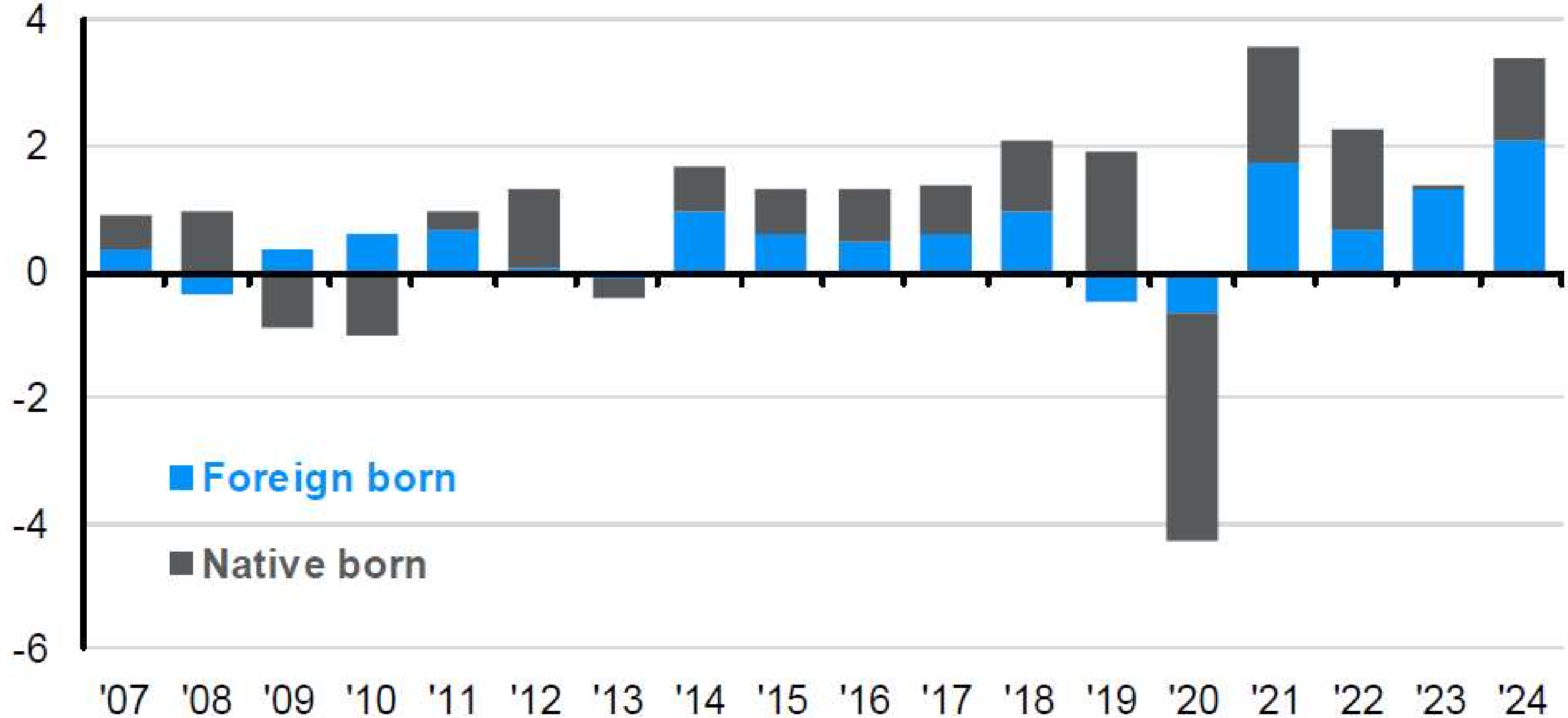
Labor Supply

Second Quarter 2025

Labor force growth is a key component of economic growth. The chart below shows the composition of labor force growth over the past two decades, broken down between US-born (gray bars) and foreign-born (blue bars) persons. The importance of immigrants to US labor force growth is quickly apparent. As an example, immigrants made up about 70% of labor force growth over the past two years.

Labor force growth, native and immigrant contribution

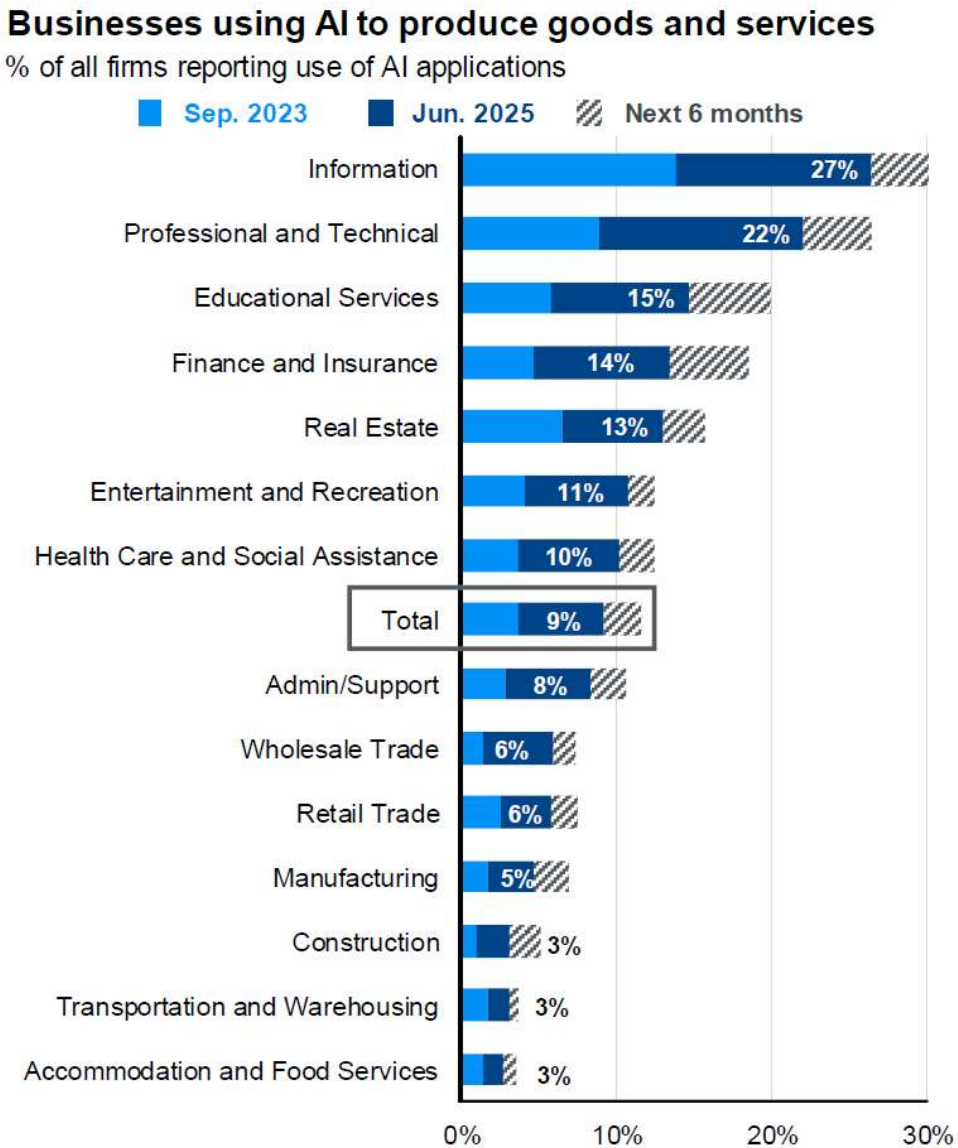
Year-over-year change as of January, aged 16+, millions*



Source: J.P Morgan Asset Management. *Guide to the Markets – U.S.* Data are as of June 30, 2025.

AI: Investment and Implementation

Second Quarter 2025



Artificial intelligence (AI) adoption is exploding across the global economy. The accompanying chart shows that the percentage of businesses using AI to produce goods and services has roughly doubled in less than two years, with substantial additional growth projected by year-end 2025. Our own anecdotal experience suggests these numbers may considerably underestimate actual adoption. While it is likely too early to make definitive statements, we can expect AI to have major positive impact on business productivity and profitability. Similarly big downstream effects can be expected for employment, financial markets, and society, though it remains to be seen whether on balance they will be positive or negative.

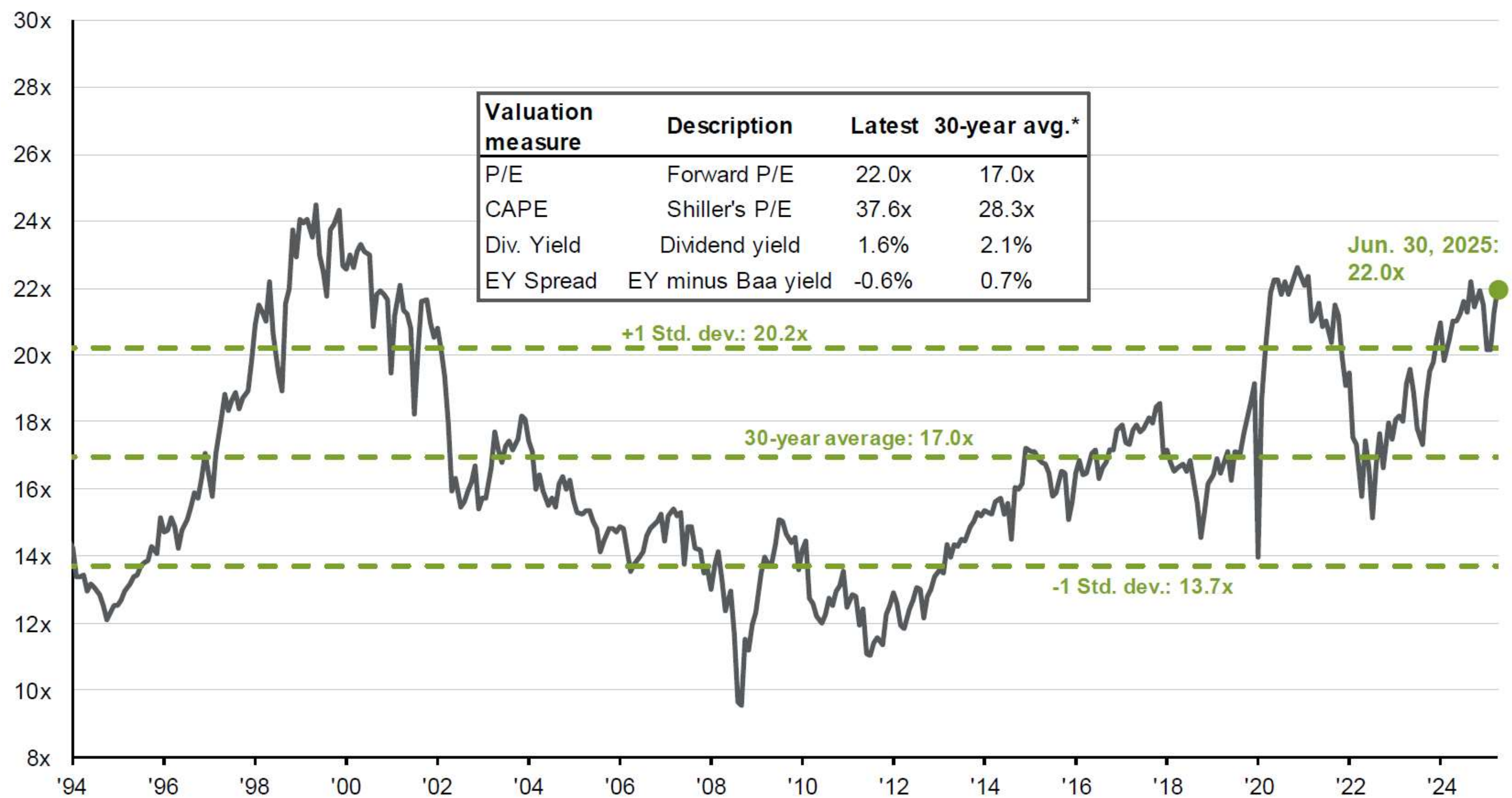
Source: Bloomberg, FactSet, J.P. Morgan Asset Management. *Guide to the Markets – US* Data are as of June 30, 2025.

S&P 500 Valuation Measures

Second Quarter 2025

The chart below shows the historical ratio of price to earnings (P/E ratio) for US large cap stocks. Today's ratio is calculated using estimated earnings per share for the coming 12 months. The P/E ratio tells you how many dollars you must pay (currently, about $22) to acquire a future stream of corporate earnings, beginning with one dollar of earnings in the first year. The current forward P/E ratio is high by historical standards, meaning that in one sense stocks are "expensive"—more than 20% above their 30-year average. A high P/E ratio could be justified if investors expect above-average earnings growth and/or below-average interest rates in coming years. P/E ratios—and stock prices—would likely drop if those expectations are not realized.

S&P 500 Index: Forward P/E Ratio



Valuation measure	Description	Latest	30-year avg.*
P/E	Forward P/E	22.0x	17.0x
CAPE	Shiller's P/E	37.6x	28.3x
Div. Yield	Dividend yield	1.6%	2.1%
EY Spread	EY minus Baa yield	-0.6%	0.7%

Source: Bloomberg, FactSet, Moody's, Refinitiv Datastream, RobertShiller, Standard & Poor's, J.P. Morgan Asset Management. *Guide to the Markets – U.S.* Data are as of June 30, 2025.