

# Market Review

## Summer Heatwave

*Markets blaze ahead*

June 2025

### ***Key Observations***

- ***Markets Advance in June*** – Despite geopolitical tensions and mixed policy signals, stocks powered higher with technology and industrials leading performance while small caps lagged.
- ***International Leads the Year*** – Robust local performance and a weakening U.S. dollar has buoyed returns in markets abroad.
- ***When Uncertainty is High, Context is Grounding*** – Recent price moves may cause investors concern, but additional context may provide perspective on the weaker U.S. dollar and rising oil prices in June.
- ***Big Bill, Big Deficit*** – According to the Congressional Budget Office, the “Big Beautiful Bill” will increase the deficit by more than \$2 trillion over the next ten years<sup>1</sup>. Expanding fiscal spending in a growing economy raises questions about long-term debt sustainability and funding sensitivity.

<sup>1</sup>Source: Congressional Budget Office. H.R. 1, One Big Beautiful Bill Act (Dynamic Estimate).

## Market Recap

Markets gained ground in June, extending the year's mostly positive performance despite geopolitical uncertainty and evolving policy signals. Volatility surfaced briefly following Middle East tensions, but sentiment stabilized quickly and showed evidence of investor resilience in the face of ongoing global uncertainty.

Investor muscle-memory kicked in, and, once again, technology stocks, and AI-centric constituents of the

“Magnificent Seven,” ticked higher. The sector

climbed an impressive +9.8%, once again making it the biggest gainer for the month. On the other hand, industrial stocks have quietly emerged as a top-performing sector this year, up +12.7%. That strength appears tied to investor optimism around pro-manufacturing policy goals from the current administration. Small caps struggled during the first half of the year with the biotech sector declining on anticipated scrutiny from U.S. policy and inflationary pressures.

The S&P 500 outpaced the MSCI EAFE by +2.9% and lagged the MSCI EM by -0.9% for the month. Year-to-date, international exposures remain ahead, supported by robust local market performance and a weaker U.S. dollar, which has enhanced returns.

Treasury yields declined across the curve in June. The 2-year yield ended the month at 3.7%, as markets priced in a higher likelihood of near-term Fed easing in response to softer growth data and a weaker-than-expected inflation print. Credit spreads also tightened, supported by steady demand and a favorable risk backdrop despite mixed economic signals.

Commodity prices advanced in June, with gains across energy and metals offsetting weakness in grains and softs. Oil and natural gas rose early in the month on heightened tensions in the Middle East, though prices moderated later while ultimately finishing higher.

REIT returns were down in June with a notable divergence across property types. Office and lodging/resort sectors led performance, benefitting from a modest rebound in demand and relative value interest. In contrast, data centers, self-storage, and single-family rental REITs underperformed, reflecting concerns around elevated valuations and sensitivity to shifting growth expectations.

Financial Market Performance		
Index	June	YTD
S&P 500	5.1%	6.2%
Russell 2000	5.4%	-1.8%
MSCI EAFE	2.2%	19.4%
MSCI EM	6.0%	15.3%
Bloomberg U.S. Agg Bond	1.5%	4.0%
Bloomberg U.S. HY Corp Bond	1.8%	4.6%
FTSE NAREIT All Equity REITS	-0.1%	1.8%
Bloomberg Commodity	2.4%	5.5%

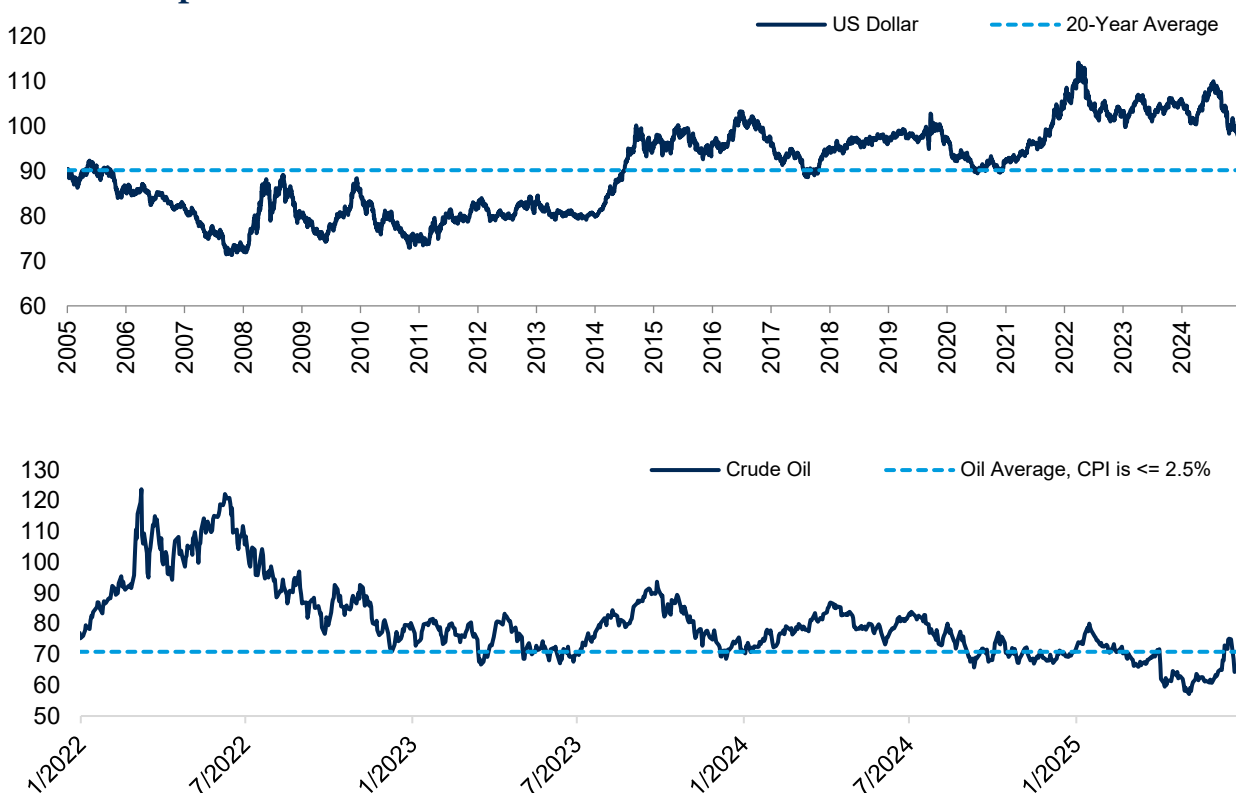
Source: Morningstar Direct. As of June 30, 2025.

## When Uncertainty is High, Context is Grounding

In a market environment that often reacts faster than it reflects, uncertainty is an almost constant companion. Today, that uncertainty is elevated, and understandably so. Fiscal dynamics are rapidly shifting, inflation is caught between opposing forces, and policy is in flux. It is a time that calls for clarity, not certainty. And when clarity is hard to come by, context becomes our foundation.

Much has been made of recent U.S. dollar weakness and grumblings of the potential for the U.S. losing its reserve currency status (a topic for another day). Similarly, with rising tensions in the Middle East, oil has moved upward over the month adding to inflation concerns. At first glance investors may have concern, but with a bit of context that concern may abate.

### Prices in Perspective



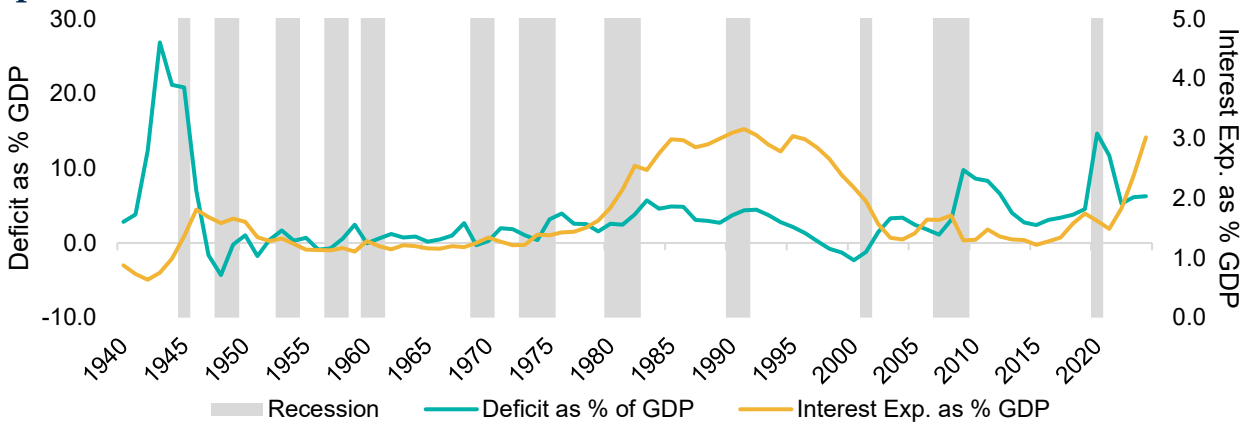
Source: FactSet, as of June 30, 2025.

If we were to rephrase “U.S. dollar weakens -11% year-to-date” to “U.S. dollar retraces back to 2022 levels, remains over 7% above the 20-year average” it may elicit different levels of concern. Or, if we mention that oil is below average historical levels where inflation was around 2.5%, that may also elicit different levels of concern. Context matters.

## Big Bill, Big Deficit

Treasury markets have long absorbed large issuance volumes, though with recent lack of clarity buyers are asking for more compensation (i.e. higher rates). The context on why brings us to the so-called “Big Beautiful Bill”. As proposed, the U.S. will be expanding its deficit in a non-recessionary environment. Typically, the government tends to spend more in recessionary periods to offset lower consumer spending and cushion the blow. The opposite *should* hold true in periods where markets are growing. With interest expense over 3% of GDP and no recession in sight this combination is historically rare<sup>2</sup>. With debt levels elevated and rolling into higher rates, the long-term sustainability of U.S. borrowing is beginning to re-enter investor conversations.

### Expansion Meets Costs

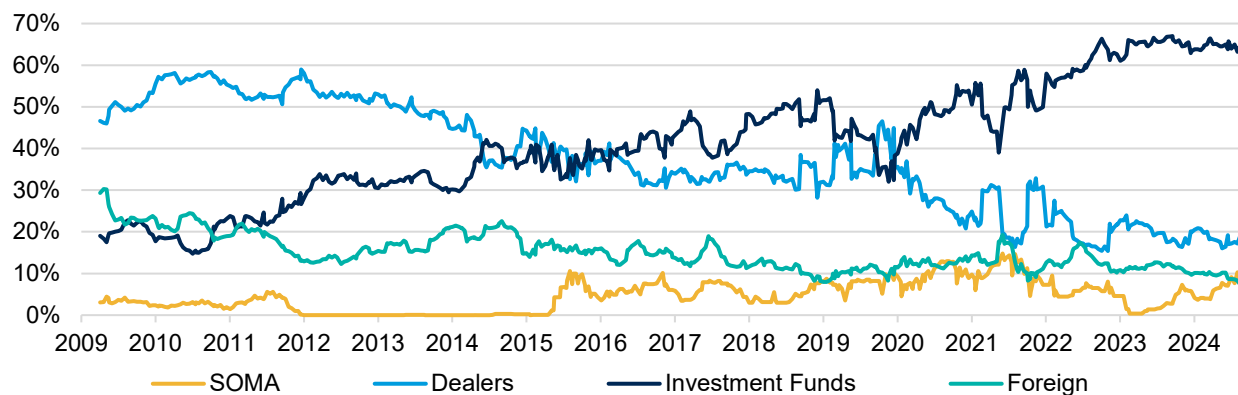


Source: Federal Reserve Bank of St. Louis; U.S. Office of Management and Budget via FRED, as of January 1, 2024.

Additionally, investment funds now dominate at Treasury auctions rather than obligated buyers like central banks or dealers. This has the potential to make Treasury markets more sensitive to sentiment and flows which can impact the cost of funding a large deficit. For investors without explicit clarity on the future direction of rates, or all of us, the long-end of the Treasury market may present as more volatile in this period of uncertainty.

<sup>2</sup> Federal Reserve Bank of St. Louis; U.S. Office of Management and Budget via FRED, as of January 1, 2024.

## Key US Treasury Auction Buyers



Source: US Department of the Treasury, as of June 2, 2025. "SOMA", or the System Open Market Account, is a key tool used by the Federal Reserve to manage monetary policy and liquidity.

## Outlook

The dollar is weakening. The deficit is growing. The curve is steepening. Rates remain elevated. These signals are not pointing in one direction, but they are flashing that the market is uncertain and deeply sensitive to fiscal and monetary decisions.

Our process is not about predicting every market twist, but rather aligning positioning with the underlying incentives that shape policy, capital flows, and investment behavior. When uncertainty is high, context is grounding. And context today tells us that even with policy rates likely to fall at some point, the path there may not be smooth, especially if the market starts asking harder questions.

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- **The S&P 500** is a capitalization-weighted index designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.
- **Russell 2000** consists of the 2,000 smallest U.S. companies in the Russell 3000 index.
- **MSCI EAFE** is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the U.S. and Canada. The index covers approximately 85% of the free float-adjusted market capitalization in each country.
- **MSCI Emerging Markets** captures large and mid-cap representation across Emerging Markets countries. The index covers approximately 85% of the free-float adjusted market capitalization in each country.
- **Bloomberg U.S. Aggregate Index** covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.
- **Bloomberg U.S. Corporate High Yield Index** covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included.
- **FTSE NAREIT Equity REITs Index** contains all Equity REITs not designed as Timber REITs or Infrastructure REITs.
- **Bloomberg Commodity Index** is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification.