



2025 Second Quarter Financial & Investment Management General Commentary

This is our second-quarter commentary report for 2025. Although the quarter had a good rebound from the drop in the first quarter, there is great speculation involving market direction being influenced by tariffs, wars, interest rates, inflation and changes in legislation. If these issues do stabilize it should temper volatility, but these issues are constantly moving. This also carries over to planning as they impact savings, spending and taxes. Following the second quarter, there have been changes, especially in taxes. These changes are still developing and below we address what we know so far.

Market Overview:

Q2 2025 was marked by dramatic shifts in market sentiment, driven by trade policy developments, geopolitical tension, and strong corporate earnings—especially in the technology sector. Despite early volatility, markets ended the quarter at record highs, with digital assets and international equities showing notable strength. As we enter the second half of the year, evolving Federal Reserve policy, inflation dynamics, and global risk factors will shape investor positioning.

Market Recap

Tariffs - The second quarter of 2025 was marked by heightened market volatility, driven primarily by uncertainty surrounding U.S. tariff policy. The sharp selloff following the so called “Liberation Day” tariff announcement on April 2nd rattled both equity and bond markets. However, investor confidence was gradually restored as the administration softened its stance and reversed course on several key policy measures in including tariffs.

Geopolitical tensions flared – “In June with the outbreak of conflict between Iran and Israel added uncertainty, though the market’s reaction to this development was relatively restrained.

Legislation - On the domestic front, the introduction of the budget reconciliation proposal - dubbed the “Big Beautiful Bill” -provided a meaningful boost to market sentiment. By reinforcing the 2017 tax cuts and signaling continued support for pro-business policies, the bill acted as a catalyst for risk assets.

Market Factors - Robust corporate earnings, particularly from the technology sector, further underpinned market performance. As a result, equity indices not only recouped their earlier losses but ended the quarter at new record highs. While hard economic data has remained resilient to date, the true economic consequences of the tariff regime are likely to become more evident in the second half of the year.

Asset Class Performance

Equities:

Domestic Stocks - Equity markets in 2025 reflected two distinct narratives between the first and second quarters. The first quarter was characterized by defensiveness and caution, with investors favoring low-volatility stocks amid rising trade tensions and concerns about a potential economic slowdown. However, the second quarter brought a complete reversal.



Tariff Policy Reversal - It began with a dramatic April 2 announcement from President Trump, unveiling sweeping tariffs on nearly all U.S. imports. The news triggered an immediate market selloff, with the S&P 500 falling roughly 10% over two days. Just a week later, the administration reversed course, announcing a 90-day pause on the tariffs. This de-escalation, particularly in trade relations with China, combined with better-than-expected corporate earnings, sparked a swift resurgence in investor confidence.

Risk appetite returned, fueling a strong rally in growth and high-beta stocks. The S&P 500 rebounded with a 10.9% gain in Q2, recovering from a 4.3% decline in the first quarter. Large cap growth equities led the charge, driven by renewed enthusiasm for artificial intelligence, returning 18.9% for the quarter, compared to 3.7% for the value counterparts. Small- and mid-cap stocks also performed well, with S&P SmallCap 600 and S&P Mid-Cap 400 returning 4.9% and 6.7%, respectively.

Sectors driving performance were Communication Services thanks to AI and semiconductors, Defense and Utilities. Weakness came from Consumer Discretionary as consumers were more careful with spending and Energy as oil prices dropped.

- **S&P 500:** Q1 -4.3% → Q2 +10.9%
- **S&P 500 Large-Cap Growth:** +17.8% in Q2, led by AI and tech enthusiasm
- **S&P 500 Large-Cap Value:** +3.8%
- **Mid-Caps:** S&P Mid-Cap 400 +6.7%
- **Small Caps:** S&P SmallCap 600 +4.9%

Despite the market's strength, valuation concerns remained. The S&P 500's forward price-to-earnings ratio climbed to 22.8, significantly above its long-term average of 14.8. At the same time, market concentration remained elevated, with the top 10% of companies accounting for more than 75% of the index's total market capitalization, raising questions about the sustainability of recent gains.

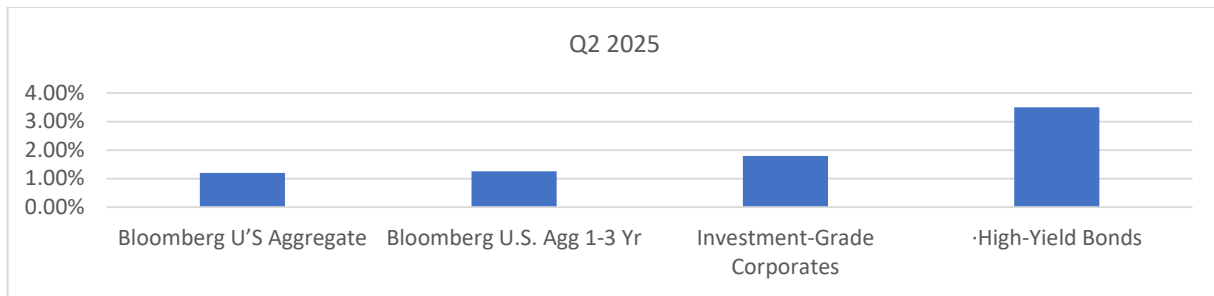
International Stocks - International equities extended their outperformance from the first quarter, supported by continued U.S. dollar weakness. The MSCI EAFE Index rose 11.8% in Q2, bringing its year-to-date return to 19.5%. Emerging markets also delivered strong results, gaining 12.0% for the quarter and 15.3% year-to-date, buoyed by both local equity strength and currency appreciation.

- **MSCI EAFE:** +11.8% in Q2, +19.5% YTD
- **MSCI Emerging Markets:** +12.0% in Q2, +15.3% YTD

Fixed Income: The fixed income market delivered mixed results in the second quarter, reflecting diverging forces across the yield curve. The yield curve steepened as short-term yields declined in anticipation of future rate cuts, while longer-term yields rose in response to fears of inflation and ballooning federal debt.

The Bloomberg U.S. Aggregate Bond Index posted a gain of 1.2% for the quarter, six basis points lower than the short-term index, Bloomberg U.S. Aggregate 1–3 Yr. Investment-grade corporate bonds outperformed Treasuries, supported by strong earnings, healthy balance sheets, and improving investor sentiment. High-yield bonds performed strongly with a 3.5% return, outperforming investment-grade bonds' 1.8% return.

With a yield-to-maturity of 4.51%, core fixed income, as measured by the Bloomberg Aggregate Index, continues to offer attractive income potential and diversification benefits in a still-uncertain environment.



Real Assets: The Bloomberg Commodity Index declined 3.1% in the second quarter. The energy sector was the main detractor, falling 10.9% over the period. Escalating conflict risks in the Middle East briefly pushed oil prices higher amid concerns about shipping disruptions, but an oversupply of oil kept prices contained.

Precious metals and livestock were the only sectors to post positive returns for the quarter. Gold continued its upward trajectory, gaining 5.0% in Q2 - though this was notably weaker than the 19% surge seen in the first quarter. Elevated levels of macroeconomic risk, including trade tariffs and geopolitical tensions, continued to drive investor demand for the relative safety of precious metals.

- **Commodities (Bloomberg Index):** -3.1% in Q2
- **Energy:** -10.9% in Q2
- **Gold:** +5.0% in Q2
- **Livestock:** Positive in Q2

Bitcoin: In the second quarter, Bitcoin surged 30.7%, rebounding sharply from the -11.8% loss in Q1. The rally coincided with easing macroeconomic pressures.

This past year, regulated Bitcoin-tracking ETFs became available. For those who do not want to purchase and store actual Bitcoin, these ETFs allow them to purchase the tracked performance of Bitcoin without owning Bitcoins.

In 2025, we witnessed several additional positive developments for the crypto industry, reinforcing Bitcoin's growing legitimacy within U.S. policy. The U.S. established a Strategic Bitcoin Reserve, the SEC dropped most of its lawsuits against crypto firms, and both the FDIC and SEC eased restrictions on banks holding digital assets. Meanwhile, Bitcoin's status as a macro asset continued to strengthen, with futures trading volume and open interest reaching all-time highs.

We have added a small position of a Bitcoin ETF in some of our clients' portfolios. For personalized insights on digital assets, our team is available to discuss portfolio strategies. Our investment team includes certified professionals with expertise in blockchain and digital assets, ensure a well-informed approach.

Economic Outlook

Inflation

Inflation dynamics remained complex and somewhat contradictory. On one hand, inflation expectations have risen meaningfully in recent months, influenced by tariffs and escalating geopolitical risks. On the other hand, actual inflation data has remained relatively muted.

For example, the Consumer Price Index (CPI) rose just 0.1% in May, with annual inflation at 2.4% - slightly below expectations. This was largely due to pre-tariff inventory stockpiling and declining energy prices. The impact of tariffs is likely not yet fully reflected in the inflation report, as it takes time for cost pressures to work their way through supply chains. It's also likely that companies are absorbing a portion of the costs to maintain competitiveness. The upcoming earnings season is expected to shed more light on these dynamics.

Nevertheless, the Federal Reserve remains concerned about the potential inflationary effects of tariffs and recently raised its year-end inflation forecast to 3.1%.

Interest Rates

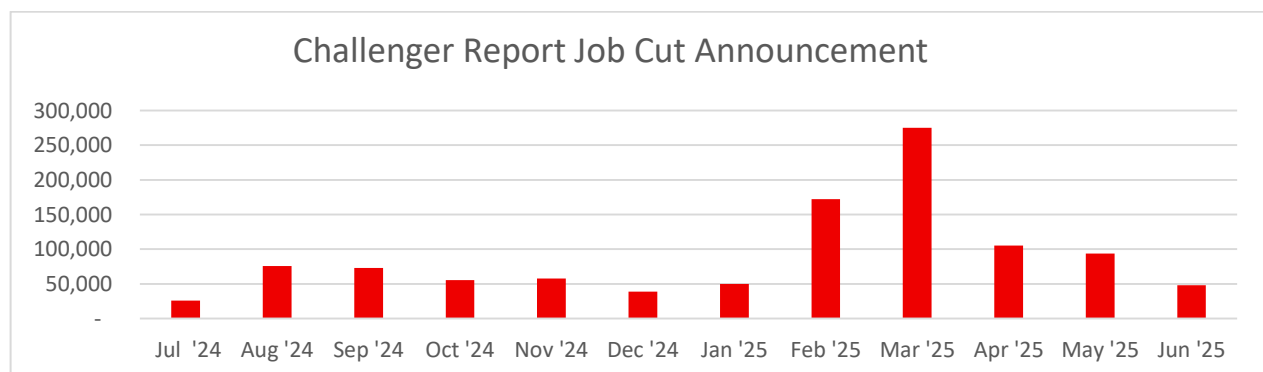
Monetary policy remained on hold through the second quarter as the Federal Reserve adopted a cautious, data-dependent approach. With its benchmark rate held steady at 4.25%-4.50%, the Fed emphasized the need for more clarity on how tariffs and slowing growth would impact the broader economy. Core inflation remained above the 2% target, especially in shelter and services, while Q1 GDP contracted by 0.3%, marking the first negative quarter since 2022. The Futures markets going into the second quarter priced in a 60–70% chance of a July rate cut, with another possible in September. So far this does not appear to be the case.

Chairman Powell came under political pressure, with President Trump openly criticizing the Fed's reluctance to cut rates and suggesting a change in leadership. Market expectations shifted over the quarter, with one to two rate cuts now forecast for the remainder of the year. Futures markets now anticipate the first cut in September, followed by a gradual pace of easing through 2026. These forecasts remain fluid and contingent on inflation trends, trade developments, and economic performance in the coming months.

Jobs

The economy added 147,000 jobs in June, surpassing the estimated 110,000. The unemployment rate decreased from 4.2% to 4.1%, a slight reversal from last quarter. The private sector added just 74,000 jobs, which is the smallest monthly gain in eight months. State and local governments contributed 73,000 jobs, helping offset a decline in federal employment.

Per the Challenger Report, US-based employers announced 47,999 job cuts in June, bringing the 2025 total to 744,308. According to Andrew Challenger, Senior Vice President and workplace expert for Challenger, Gray & Christmas," The bulk of companies cited economic conditions last month. We saw some DOGE (Department of Government Efficiency) activity and have tracked over 2,000 jobs directly attributed to tariffs this year, but for the most part it was a quiet June."



The planned layoffs announced by the Department of Government Efficiency (DOGE) now total 286,679 it remains unclear whether all proposed government job cuts will take effect, as ongoing judicial challenges seek to block or overturn DOGE initiatives and department downsizing is subject to legislative approval.

Overall, the labor market remained resilient, continuing to serve as a stabilizing force for the economy. However, hiring has slowed compared to last year, as businesses adopt a more cautious stance amid ongoing trade policy uncertainty. The Federal Reserve has identified the labor market as a key indicator to monitor, particularly if economic growth softens further and results in reduced hiring or increase in unemployment in the second half of the year.

Strategic Outlook:

Looking ahead to the rest of 2025, we're closely monitoring:

- Impact of tariff delays on inflation and earnings
- AI expansion and sector-specific leadership
- Fed policy decisions and interest rate trajectory
- Currency trends and opportunities in emerging markets
- Continued development in digital assets and blockchain infrastructure

Financial Planning and Services:

The One Big Beautiful Bill (OB BB) is dominating the news and has very significant changes for us to consider related to our tax and financial planning work.

It's "Big," so we've worked hard to distill it to relevant points and provide links you can follow for more details. We realize the Bill is contentious and polarizing, as those in favor and those opposed are following party lines for the most part.

We are tasked with reporting in a non-political manner, and that is our intention. We will be subject to the outcome of this bill and will design client financial plans with the changes in mind. Therefore, we believe our clients are best served by our simply reporting on the details of the bill, ensuring we are all clear on what the changes entail. Nothing you read here is opinion, nor are we convinced that some of the projections listed will indeed become reality. These are, instead, statements that were posited in the final bill.

Legislative Update: The One Big Beautiful Bill (OB BB)

- **Overview of the Bill:** Signed into law by President Trump on July 4, 2025, the One Big Beautiful Bill Act (H.R. 1) is a comprehensive reconciliation package that finalized and expands tax cuts from the 2017 Tax Cuts and Jobs Act (TCJA), implements \$1.6 trillion in mandatory spending reductions, promotes energy dominance through deregulation, enhances border security, and addresses fiscal policy to reduce deficits by approximately \$2 trillion over the next decade. It is projected to boost GDP by up to 5.2% in the short term and create over 4 million jobs long-term, though it adds \$2.4 trillion to primary deficits (or \$3 trillion including interest) from 2025-2034, per fiscal analysis. For the full text, visit [Congress.gov](https://www.congress.gov).
- **Tax Relief for Individuals and Families:** The bill makes TCJA individual tax rates permanent, increases the standard deduction to \$23,625 for joint filers and \$15,750 for singles (inflation-adjusted), and enhances

the child tax credit to \$2,200 per child. It introduces no taxes on tips (up to \$25,000 deduction), overtime pay (up to \$12,500 deduction), Social Security benefits for most seniors (via a \$6,000 deduction for singles and \$12,000 for joint filers), and interest on Made-in-America auto loans (up to \$10,000). These measures are stated as potentially increasing take-home pay by \$7,600-\$10,900 for a family of four and providing relief to middle-class workers, although they add complexity and incur a cost of \$350 billion over four years. Additional details at [Tax Foundation Analysis](https://taxfoundation.org).taxfoundation.org

- **Business and Investment Tax Reforms:** Permanently extends full expensing for business assets and R&D costs, boosts the qualified business income deduction for pass-through entities to 20%, and raises the estate tax exemption to \$15 million (\$30 million for joint filers). Small businesses benefit from a doubled Section 179 expensing cap to \$2.5 million and permanent TCJA marginal rate cuts. These provisions aim to enhance neutrality, stability, and investment, potentially raising long-run GDP by 0.7%, but include carveouts that may distort economic decisions. See fiscal breakdown at [CRFB.org](https://crfb.org).crfb.org
- **Energy and Environmental Policy Shifts:** Repeals or phases out many Inflation Reduction Act green energy credits (e.g., for electric vehicles and residential clean energy), while extending clean fuel production credits to 2029 and restricting foreign involvement in energy projects. It mandates expanded oil, gas, and coal leasing on federal lands, rescinds funds for emissions reduction programs, and promotes fossil fuel development to achieve energy independence, which could lower costs but reduce incentives for renewables. More on energy provisions at [USAFacts](https://usafacts.org).usafacts.org
- **Spending Cuts and Fiscal Measures:** Implements \$1.6 trillion in cuts, including rescissions from green initiatives, Medicaid work requirements, SNAP administrative reductions, and limits on federal programs like student loan forgiveness. It raises the debt ceiling by \$5 trillion and adds offsets like new immigration fees and spectrum auctions. While aimed at fiscal sanity, the net effect increases debt by \$3 trillion (or \$5 trillion if temporary measures are extended), with major cuts in healthcare (\$890 billion deficit impact) and agricultural programs. Explore impacts at [White House Summary](https://whitehouse.gov).whitehouse.gov
- **Border Security and Immigration Funding:** Allocates over \$100 billion for border walls, detention facilities, hiring 10,000+ agents, and deportation efforts, including \$10 billion in state grants. New fees on asylum and work authorizations fund enforcement, potentially resulting in the deportation of 1 million individuals annually, with economic implications for labor markets and remittances. Details are available at [Congress.gov](https://congress.gov).
- **Implications for Investors and Markets:** The bill's tax stability and deregulation could enhance corporate profitability and energy sector growth, but increased deficits may pressure interest rates and inflation. Health and education cuts could impact consumer spending, while border investments may stabilize supply chains. For pros and cons, see [Tax Foundation](https://taxfoundation.org).

Another topic that is emerging everywhere is the increasing dominance of Artificial Intelligence (AI) in our everyday lives.

Once again, this is a big topic, so we went to work to try and focus our efforts on a primer that would help our clients better understand this revolutionary technological development.



Understanding AI: A Primer

Artificial Intelligence (AI) is technology that allows computers and machines to mimic human-like thinking and problem-solving. At its heart, AI utilizes algorithms...a simple set of rules and large amounts of data to learn patterns, make predictions, or automate tasks that once required human intervention.

For instance, when a banking app detects suspicious activity on your account or suggests options based on your spending habits, that's AI in action, analyzing information quickly and responding.

Enhanced Tools for Better Decisions: Artificial Intelligence (AI) acts as a powerful assistant, utilizing intelligent algorithms to quickly and accurately process vast amounts of data. This helps create tools that make decision-making easier, faster, and more reliable – at least that is the promise, and so far, it is playing out that way.

For more detailed information, explore these resources:

- [What is AI? Definition, Types, Examples & Use Cases](#)
- [AI Explained for Beginners](#)

Financial Planning Issues of Concern

Housing Affordability Crisis: The ever-widening gap between home prices and incomes, the worst in years, continues to be a significant drain on the economic health of many, particularly younger people. See [Solving the Housing Affordability Crisis](#) for more details.

Tax Planning: The OBDD that was recently passed continues the higher standard deduction amounts, increases the state and local tax (SALT) deduction cap, adds a charitable deduction even for non-itemizers, as well as a host of other planning issues we'll be addressing based on a given financial planning client's specific profile. Roth conversions is another item we're looking at closely. [Backdoor Roths](#) are still available, and by permanently extending lower tax rates from the 2017 TCJA, it reduces the urgency to convert before potential 2026 hikes, shifting focus to long-term planning at stable, and now knowable, lower rates. New deductions, such as \$6,000 for seniors (phasing out at higher incomes), increased SALT caps to \$40,000, and exclusions for tips and overtime, as well as charitable contributions, all serve to expand opportunities for larger Roth conversions by lowering effective tax brackets. However, the added complexity from new deduction interactions and phase-outs may create hidden tax hikes (e.g., an effective 10.5% increase in some scenarios) if not carefully modeled.

If you are a financial planning client, please send us a complete copy of your 2024 tax return as soon as it is finalized.

Generational Wealth Transfer: There will come a day when your children may inherit the residual amount of invested assets that remain after you pass on. And they will need to decide whether to continue using our services for their benefit, leave and take their inheritance elsewhere, or perhaps go it alone without a relationship with a financial planning firm.

Why would they stay with us? Do we have a relationship with them? Do they even know who we are?



The first priority is to ensure that the financial resources are sufficient to meet the surviving spouse's needs. As financial planners, we are witnessing an unprecedented rise in life expectancy. Therefore, we must consider the longevity risk - how long a couple and later a surviving spouse can [expect to live](#), and whether there are sufficient funds to meet that life expectancy.

Suppose the financial plan has demonstrated a high level of confidence that there are sufficient funds. In that case, the issue will eventually evolve to the distribution of the remaining funds upon the death of the last surviving spouse, which is a key aspect of this generational wealth transfer.

We meet with the children of our clients, who will someday be the beneficiaries of these remaining assets, whenever possible, to introduce ourselves and demonstrate our ability to remain involved if that is their desire. We will discuss how the planning initiated by their parents' decades earlier, in some cases, can continue in a new and different world, a world of AI, digital assets such as Bitcoin, the changing occupational landscape, new beliefs around higher education, alternative investments in more non-traditional markets, and more.

If this appeals to you, please let us know, and we'll be happy to discuss further how we can help establish the beginnings of a generational relationship, rather than what might be a less-than-optimal alternative.

Financial Services Issues of Concern

Tax withholding with half the year behind us. As the tax year progresses, we have more data to work with, but less time to act. We ask our planning clients who are retired to reach out if they have tax withholding concerns. You can use your Social Security benefit as a source of withholding, or an IRA, where distributions go directly to the IRS on your behalf. Estimated taxes must be paid by the client at least quarterly if you choose not to use either of these options, or you can use a combination of these.

If you are still working, verify that you have withheld the correct amount of taxes from your paycheck. Your withholding is likely understated if you expect to have a significant tax bill. In this case you might need to adjust your withholding amounts. A similar concern is likely if you received a large refund.

Financial plan update. If you have a significant life event (such as a job change or loss, a significant unforeseen expense, buying or selling a home, or any major unplanned cost), please let us know. If you are concerned, don't wait to contact us about running an updated plan for you. We review client plans regularly, but we can only utilize the financial resources we are aware of – the managed accounts at Fidelity to update the plan results. Any "held away" assets, these are accounts not at Fidelity, and therefore we can't see the balances or how they are invested, need to be updated by you providing us the details.

Please don't hesitate to contact us with any questions or concerns you may have regarding this matter.



MARKET INDEX RETURNS

Below are the returns for index categories making up the broader markets. Morningstar sourced these index returns. Returns beyond one year are annualized.

Asset Class	Benchmark	Q2 2025	1 Year	3 Year	5 Year	10 Year
US Equity	DJ Industrial Average	5.46	14.72	14.99	13.52	12.06
	Russell 1000	11.11	15.66	19.59	16.30	13.35
	S&P 500	10.94	15.16	19.71	16.64	13.65
	S&P 500 Growth	18.94	19.88	23.39	17.29	15.95
	S&P 500 Value	3.69	9.63	14.89	15.02	10.41
	S&P MidCap 400	6.71	7.53	12.83	13.44	9.25
	S&P MidCap 400 Growth	3.00	9.63	14.89	15.02	10.41
	S&P MidCap 400 Value	3.73	11.09	11.70	15.50	8.95
	Russell 2000	8.50	7.68	10.00	10.04	7.12
	S&P SmallCap 600	4.90	4.60	7.65	11.68	8.02
	S&P SmallCap 600 Growth	7.25	4.75	9.41	10.64	8.61
	S&P SmallCap 600 Value	2.52	4.26	5.75	12.53	7.24
	Russell 3000	10.99	15.30	19.08	15.96	12.96
	S&P 500 Equal Weighted	5.46	12.73	12.76	14.38	10.70
Non-US Equity	MSCI World	11.47	16.26	18.31	14.55	10.66
	MSCI EAFE	11.78	17.73	15.97	11.16	6.51
	MSCI EAFE Growth	12.07	18.33	16.57	11.72	7.03
	MSCI EAFE Value	10.11	24.24	18.38	14.29	6.05
	MSCI Emerging Markets	11.99	18.70	15.73	11.51	6.65
Real Assets	Bloomberg Commodity	-3.08	5.77	0.13	12.68	1.99
	LBMA Gold Price	5.03	40.80	21.80	13.4	10.80
	DJ US Real Estate	-0.44	11.24	4.30	6.76	6.52
Fixed income	Bloomberg US Agg Bond	1.21	6.08	2.55	-0.73	1.76
	Bloomberg US Agg 1-3 Yr	1.27	5.95	3.77	1.57	1.83
Cash	Fidelity Money Market	1.00	4.42	4.42	2.66	1.86

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