# COMMENTARY
# Q2 2025

The second quarter opened on a volatile note after reciprocal tariff declarations on April 2nd, triggering a sharp pullback in both equity markets and bond yields. However, the downturn proved short-lived. Major U.S. equity indices fell over 15% before rebounding rapidly, ultimately closing the quarter at new all-time highs—marking one of the fastest market recoveries in recent memory. Concerns over tariffs have receded somewhat, with markets largely dismissing the likelihood of a worst-case scenario. Current equity valuations suggest that companies are expected to pass on higher costs to consumers. That said, the effects of trade policy remain uneven across sectors, with pricing power and end-user demand continuing to play a key role.

Interest rate volatility remained a persistent theme, though the U.S. 10-Year Treasury yield finished the quarter largely unchanged. The bond market continues to reflect uncertainty around the future path of monetary policy. While inflation is gradually easing, it remains above the Federal Reserve's 2% target. As a result, expectations for additional rate cuts have been pushed further out.

International equities maintained a year-to-date lead over their U.S. counterparts, with European markets showing notable strength. Optimism has been fueled by expansionary fiscal policies across the region, where governments are increasing spending on defense and infrastructure, sparking investor confidence in growth prospects.

Nonetheless, U.S. equities rallied during the quarter, closing some of the performance gap. Additionally, hard economic data—particularly in labor markets and consumer spending—continued to outpace softer sentiment surveys, reinforcing investor confidence.

The U.S. Dollar experienced significant weakness, declining 10.8% through June vs a basket of 6 major currencies—its steepest first-half drop since the end of the Bretton Woods system - boosting international equities and revenues for U.S. companies with global exposure. However, a weaker dollar also poses risks, including potential inflationary pressure, heightened market volatility and higher costs for imports and overseas travel.

Policy remains a wildcard, with negotiations over the proposed "Big, Beautiful Tax Bill" drawing investor scrutiny. The bill is projected to add trillions to the federal deficit over the next decade, contributing to volatility in both Treasury yields and currency markets. As the second half begins, markets remain focused on fiscal direction, inflation data, and the evolving timeline for rate cuts.