

Market View Quarterly

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Conflicting trade developments, resilient U.S. economic data, and persistent geopolitical tensions characterized the second quarter of 2025. The quarter began with market turbulence following the announcement of sweeping Liberation Day tariffs, which included a 10% universal import duty and a sweeping slate of higher reciprocal tariffs. However, the administration quickly paused the reciprocal tariffs for 90 days and eased investor concerns. Markets further stabilized and gained momentum as the administration continued softening its trade stance and major trading partners, aside from China, avoided retaliation. As equity markets quickly rebounded from year-to-date lows and advanced steadily through the quarter, better-than-expected economic data and easing inflation showed the economy was healthier than many had feared. Meanwhile, the Federal Reserve (Fed) held rates steady at both its May and June meetings, citing ongoing strength in labor markets, steady consumer activity, and potential upside inflationary risks from tariffs. Toward the end of the quarter, rising geopolitical tensions in the Middle East introduced brief periods of market volatility. Still, the overall economic picture remained upbeat, underscoring the continued strength and resilience of the U.S. economy in the face of global challenges.

► Domestic Equities¹

Equity markets faced turbulence early in the second quarter but rebounded and finished positive for both the quarter and the year. The S&P 500 and NASDAQ posted their strongest monthly gains since 2023 in May. Investor attention shifted from headlines to solid economic data and strong first-quarter earnings, which boosted confidence despite ongoing volatility. The S&P 500 Index rose 10.94% led higher by growth stocks, especially the “Magnificent 7” tech giants that rallied

substantially from their early April lows. Value stocks stayed positive but trailed growth, as shown by the NASDAQ’s strong 17.96% gain versus the lagging Russell 1000 Value Index (3.79%). Markets were largely unfazed by the late-quarter escalation in the Middle East, where Israel and the U.S. carried out the largest strike on Iran in decades, followed shortly by a ceasefire. Mid-cap and large-cap stocks continued to outperform smaller companies, bolstered by stronger balance sheets and higher cash positions that provided insulation from headline risk and tariff concerns. With earnings

holding up and growth expectations improving, equities may continue to present opportunities—assuming external shocks do not derail consumer and investor confidence.

► International Equities¹

Developed international equities, as measured by the MSCI EAFE Index, continued to outperform the S&P 500, rising 11.78% in the second quarter. However, the magnitude of outperformance declined, with the index outpacing U.S. equities by only 0.84% and falling short of the growth-driven NASDAQ Index. Although earnings and economic growth forecasts have improved overseas, most of the gains in international markets during the second quarter came from stronger foreign currencies (which is bullish for overall returns) and the expansion of valuations. The early-year enthusiasm around Germany's fiscal stimulus now appears to be spreading across Europe, with the EU considering increased defense spending that could serve as a catalyst for growth. Likewise, the returns for emerging market equities were also strong in the second quarter. South Korean equities, led by tech stocks, were the best performer in the second quarter. China also drove a portion of the return for the emerging markets category after striking a trade deal with the U.S. Despite strong year-to-date returns, concerns remain about whether both developing and developed economies can generate enough consumer demand at home and abroad to support sustained economic growth and boost earnings without facing worsening fiscal conditions.

► Fixed Income¹

Fixed income markets were volatile to begin the second quarter as the 10-year Treasury yield fell below 4% to 3.86% amid economic growth fears. As trade tensions eased in later April and May, growth concerns diminished, and interest rate swings calmed. Broader market risk appetite improved, and bonds took a backseat to equities in the second quarter but still posted positive returns as the Bloomberg U.S. Aggregate Bond Index

returned 1.21%. For the year the index is up 4.02%. In May, Moody's downgraded the U.S. credit rating from Aaa to Aa1, citing expanding fiscal deficits and rising interest payments on federal debt.² While not the first downgrade in recent years, it underscored growing concerns about the country's long-term fiscal health and added uncertainty to the interest rate outlook. Throughout the quarter interest rates remained largely range bound as markets continued to weigh inflation and growth concerns. The Federal Reserve kept rates unchanged in their May and June meetings citing uncertainty from potential tariff impacts. While the Fed didn't act in the first half of the year, the market is currently expecting three rate cuts in the second half of the year, which would lower the Federal Funds rate to 3.50% - 3.75%.³ If inflation from tariffs isn't as bad as feared, these rate cuts should provide a supportive backdrop for fixed income returns.

► Alternatives and Real Estate¹

Oil prices started the second quarter around \$71 per barrel but declined sharply in early April as U.S. tariffs and increased OPEC+ supply raised concerns over weakening global demand. By mid-April, WTI crude fell into the low \$60s and remained range-bound through May amid tepid demand and rising inventories. In June, escalating tensions between Israel and Iran pushed prices higher, lifting WTI into the high \$70s and reintroducing volatility to energy markets. For consumers, this resulted in a brief rise in gasoline prices. However, as tensions de-escalated and a ceasefire was reached, oil prices retreated to \$65.62 by quarter-end.

In housing, the average 30-year mortgage rate rose from the mid-6% range to just under 7% by late May, peaking at 6.94%. Higher rates tempered buyer enthusiasm, yet tight supply helped push the national median existing home price to a record

~\$414,000 in April. Although home price growth is moderating, inventory levels improved modestly, reaching a 4.4-month supply by late spring. This gave buyers slightly more negotiating power, even as builder sentiment and new home sales slowed.

► Conclusion

Equity markets bounced back strongly from early quarter losses, overcoming record policy uncertainty thanks to a solid economic backdrop. By quarter-end, the S&P 500 and Nasdaq reached new all-time highs, with valuations returning to levels where they were at the start of the year. Recently, falling interest rates and equity market strength suggest that investor focus has increasingly shifted toward easing inflation rather than economic growth risks. Looking ahead, markets will closely watch the July 9th deadline for a decision about extending the 90-day pause on reciprocal tariffs or potential new trade agreements. While we hope that the uncertainty from tariff policy diminishes later in the year, a more aggressive stance is likely to weigh on investor sentiment and create volatility. Likewise, any new trade deals are likely to provide a tailwind for markets. Additionally, recent geopolitical tensions serve as a reminder of how unexpected events can potentially lead to economic disruptions; however, both equity and fixed income markets remain well positioned, even as bouts of market instability are likely to continue. As the volatility in April and subsequent bounce back demonstrated, staying invested remains critical. History has consistently shown that maintaining a well-diversified portfolio is the most effective strategy for weathering market fluctuations and achieving long-term investment success.

Economic Definitions

CPI (headline and core): Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

Existing Home Sales: This concept tracks the sales of previously owned homes during the reference period. Total existing home sales include single-family homes, townhomes, condominiums and co-ops. All sales are based on closings from Multiple Listing Services. Foreclosed homes are only counted in the inventory if the bank is working with a realtor. Foreclosed homes that sell via auction (or other closings outside of the Multiple Listing Services) are not included.

Federal Reserve (Fed): The Federal Reserve System is the central banking system of the United States of America.

Retail Sales: Retail sales (also referred to as retail trade) tracks the resale of new and used goods to the general public, for personal or household consumption. This concept is based on the value of goods sold.

West Texas Intermediate (WTI): West Texas Intermediate (WTI) is crude stream produced in Texas and southern Oklahoma which serves as a reference or “marker” for pricing a number of other crude streams and which is traded in the domestic spot market at Cushing, Oklahoma.

Index Definitions

S&P 500®: The S&P 500 is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg Barclays US Agg Bond: The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg Barclays High Yield Corp: The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

Bloomberg Barclays Global Agg: The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Barclays Municipal Bond Index: The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

► Disclosures

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Investing involves risk, including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss. In general, the bond market is volatile; bond prices rise when interest rates fall and vice versa. This effect is usually pronounced for longer-term securities. Any fixed-income security sold or redeemed prior to maturity may be subject to a substantial gain or loss. Vehicles that invest in lower-rated debt securities (commonly referred to as junk bonds or high-yield bonds) involve additional risks because of the lower credit quality of the securities in the portfolio. International investing involves special risks not present with U.S. investments due to factors such as increased volatility, currency fluctuation, and differences in auditing and other financial standards. These risks can be accentuated in emerging markets.

Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors are not able to invest directly into any index. Past performance cannot guarantee future results.

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- 1 Data obtained from Bloomberg Terminal as of 6/30/25,
- 2 2025 United States Sovereign Rating Action - Moody's
- 3 CME FedWatch - CME Events

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