June 2025

Market Review

Economy

Job Cut Trends Suggest Decent Economic Backdrop
Job Losers as a % of Total Unemployed

Source: Bloomberg. Past Performance does not guarantee future results.

Labor Department data showed 7.24 million people in the U.S. labor force of 170.51 million were classified as unemployed in May. Of this cohort, 48.2% (or about 3.49 million) were identified as "job losers," workers who lost their job or temporary workers who were not offered further employment upon completion of their contract. Workers who re-entered the workforce (32.5%), new entrants to the workforce (10.0%), and those who voluntarily quit their job (9.8%) accounted for the remainder of unemployed persons in May.

As seen in the accompanying chart, the percentage of "job losers" in the population of unemployed has wavered between 46% and 49% for most of the last 24 months. This measure hit a post-pandemic low of 43.9% in June 2022, when an imbalance in the demand for labor and the supply of workers put substantial upward pressure on wages.

In prior periods of domestic economic stress (1991, 2001, 2008-2009, and 2020), the percentage of "job losers" rose above 50%-52% as the U.S. unemployment rate climbed against a recessionary backdrop. The May reading of 48.2% suggests the domestic labor market remains in decent shape, however, the chances of economic slowdown would rise if this figure approaches 50%.

No Signs Yet of Tariff-Induced Inflation
U.S. Monthly Tariff Revenue and Annual Consumer Inflation

Source: Bloomberg. Past Performance does not guarantee future results.

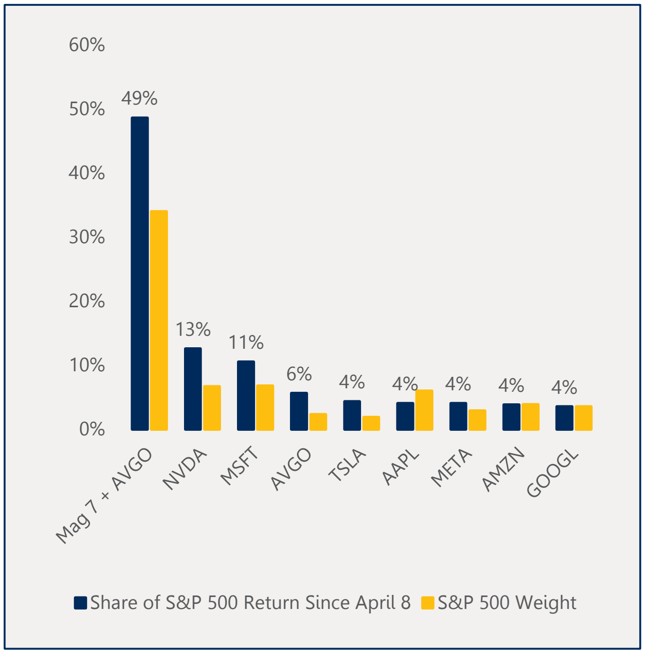
Inflation pressures were largely absent across the U.S. economy in May despite the Trump administration's implementation of reciprocal tariffs of at least 10% on most goods imported into the U.S.

Treasury receipts from customs have surged 200% from $7.3 billion in January to $22.2 billion in May. Meanwhile, the consumer price index (CPI) year-over-year reading has declined from 3% to 2.4% over the same four-month period. According to Bloomberg data, prices for heavily imported goods including cars, clothing, and smartphones were either flat or down in May.

Two months after "Liberation Day," U.S. importers seem to have found a way to shield tariff-related costs from their customers. They have likely engaged in some combination of stocking up on inventories in the first quarter, absorbing a portion of the tariffs, or delaying orders from suppliers. Most economists expect a bout of inflationary pressure to emerge in coming months as U.S. businesses are forced to pass a portion of the tariff costs to consumers this summer.

Equity

Mag 7 & AVGO Drive Market Rebound
Share of S&P 500 Return Since April 8



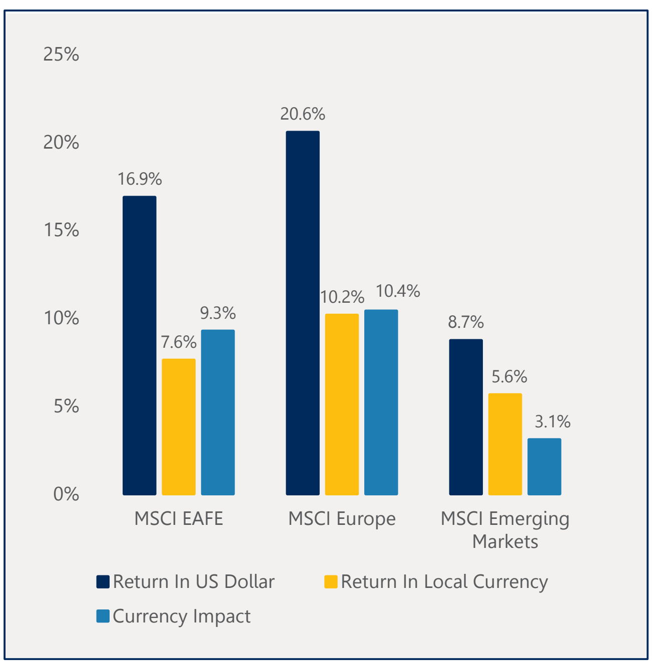
Source: Bloomberg. Past Performance does not guarantee future results.

U.S. equities extended their strong rebound in May with the S&P 500 rising 6.29%, ending a three-month losing streak and moving into positive territory for the year. The index gained 18.87% since its recent low on April 8th. The rally was fueled by easing trade tensions and solid first quarter earnings. President Trump announced a temporary 90-day tariff reduction on Chinese goods from 145% to 30% and delayed tariffs on EU goods.

The S&P 500's first quarter earnings grew 13.6%, the second consecutive quarter with double digit growth and more the double analysts' forecast for 6.6% growth. The strong results were partially overshadowed by cautious outlooks from trade uncertainty. Analysts reduced their full-year earnings growth forecast to 7.2% from 12.5% at the start of the year.

Mega capitalization technology stocks led the rebound as the Magnificent Seven cohort rose 27.47% since the early April low and accounted for nearly 50% of the S&P 500's rally. Tesla (TSLA), Broadcom (AVGO), and NVIDIA (NVDA) led with gains of 56.16%, 55.14%, and 40.32%, respectively. Despite the strong rebound, the Mag Seven group is still down 4.58% this year. Cyclical sectors also performed well during the rebound including industrials (+22.78%) and financials (+15.94%).

US Dollar Weakness Boosts Foreign Stocks
Year To Date Performance



Source: Bloomberg. Past Performance does not guarantee future results.

European stocks have emerged as global leaders this year and are outperforming the S&P 500 by the widest margin (+19.50%) since 1973 through the first five months of the year. Key catalysts for the strong performance include proposals to spend more on defense, solid first quarter corporate earnings growth of 5.3%, and the European Central Bank's interest rate cuts to support their sluggish economy.

The European Commission proposed a plan in March to increase defense budgets by 1.5% of GDP which could increase fiscal spending by €650 billion ($748 billion) over four years and launch a €150 billion ($172 billion) loan instrument. This proposal led to the aerospace and defense industry in the MSCI Europe index rising 62.20% this year. Shares of German arms manufacturer Rheinmetall have surged 237.90% this year.

Another less discussed driver of European stock performance is the weaker U.S. dollar, which boosts returns when translated into dollars for U.S. investors. Concerns about the Trump administration's trade policies and fiscal deficit led to the U.S. dollar declining 8.44% this year against other major currencies, the worst start to a year since 1973. The weaker dollar accounts for around half MSCI Europe index's performance this year and over half for MSCI EAFE.

Core Bonds' Coupon Cushion Grows Steadily
Bloomberg Int. Gov't/Credit Index: Quarterly Returns

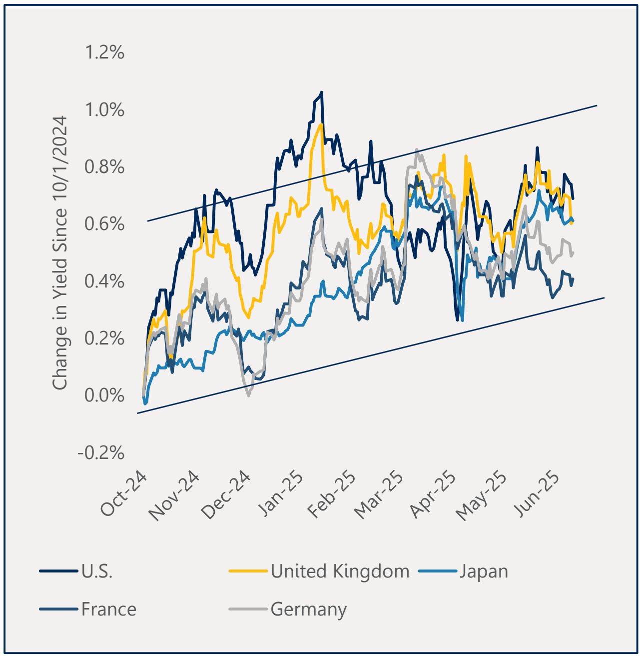
Source: Bloomberg. Past Performance does not guarantee future results.

From the first quarter of 2021 to the second quarter of 2025, the coupon component of the Bloomberg Intermediate Government/Credit Index's quarterly return has increased from 0.51% to an estimated 0.88%. On an annualized basis, this translates to an increase in the so-called coupon cushion from about 2% to 3.5%. The coupon cushion can be thought of as the ability of the income paid to bondholders to offset potential price declines in the underlying security.

Coupons on U.S. government and corporate bonds issued over the last two years have generally trended higher as the Federal Reserve lifted its benchmark policy rate in 2022 and 2023. Higher coupons can help reduce the interest rate sensitivity of a bond portfolio and provide downside protection in a rising rate environment.

During a historically poor stretch for high-quality bonds from January 2021 through September 2022, coupon income offset only a small percentage of negative total returns. With interest rates in a multi-year range between 3.5% and 5% and a Federal Reserve in wait-and-see mode, income has become an increasingly important component of total returns in fixed income portfolios.

Government Bond Yields Have Risen Globally
10-Year Government Bond Yields: Major Developed Nations



Source: Bloomberg. Past Performance does not guarantee future results.

As seen in the accompanying chart, the rise in government bond yields over the last three quarters has been a global development and not just confined to the US. Some investors have begun to demand higher yields due to a combination of debt levels, deficit trajectories, and inflation expectations.

In the US, policy uncertainty surrounding tariffs and the trajectory of the federal deficit have probably contributed to moderately higher Treasury "risk premiums." We can think of "risk premium" as the extra yield that investors tend to demand during periods of elevated policy uncertainty. Persistently higher inflation than in most of the prior 20 years has also supported elevated US yields.

We have also seen higher rates in major economies like Germany and Japan as they pursue greater economic self-reliance amid the shift in U.S. policy priorities under the Trump administration. These governments will likely need to ramp up debt issuance in coming years for big-ticket items like increased military expenditures and infrastructure improvements. Expectations for higher levels of borrowing and spending have probably put upward pressure on their government bond yields over the last 9 months.

Disclosure

IMPORTANT DISCLOSURE INFORMATION