QUARTERLY MARKET REPORT

SECOND QUARTER 2025

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Second Quarter Highlights

Markets were particularly volatile due to the tariff shock and mixed economic data

Financial Markets

- More aggressive than expected U.S. tariff announcements on Liberation Day set-off a sharp selloff across global financial markets. The S&P 500 dropped 12% and the 10-year Treasury bond yield rose (prices fell) a half percentage point over the four trading days until President Trump announced a 90-day pause on reciprocal tariffs. Foreign markets reacted similarly. Risk assets quickly rebounded on improved sentiment, strong earnings reports, better than expected inflation and labor market data, and new government policies such as tax cuts, defense and infrastructure spending increases, and subsidy measures. Several equity indices including the S&P 500 and the Australia stock market index (S&P ASX 200) hit new record highs by the end of the quarter.
- Oil prices ended the quarter lower despite a brief spike during the Israel/Iran conflict because production increased while global economic activity slowed. The U.S. dollar weakened about 10%.

Overview of the Economy

- The inflation rate slowed slightly in the U.S. and Europe and was stable in Canada, China, and Japan.
- U.S. economic data continued to show resilience in key areas such as the labor market even though the housing sector continues to be weak and the tariff uncertainty is disrupting the industrial sector. Some improvement was reported in other regions, such as the Eurozone and China manufacturing purchasing managers indices (PMI) inching up. However, the services PMIs weakened in those regions.

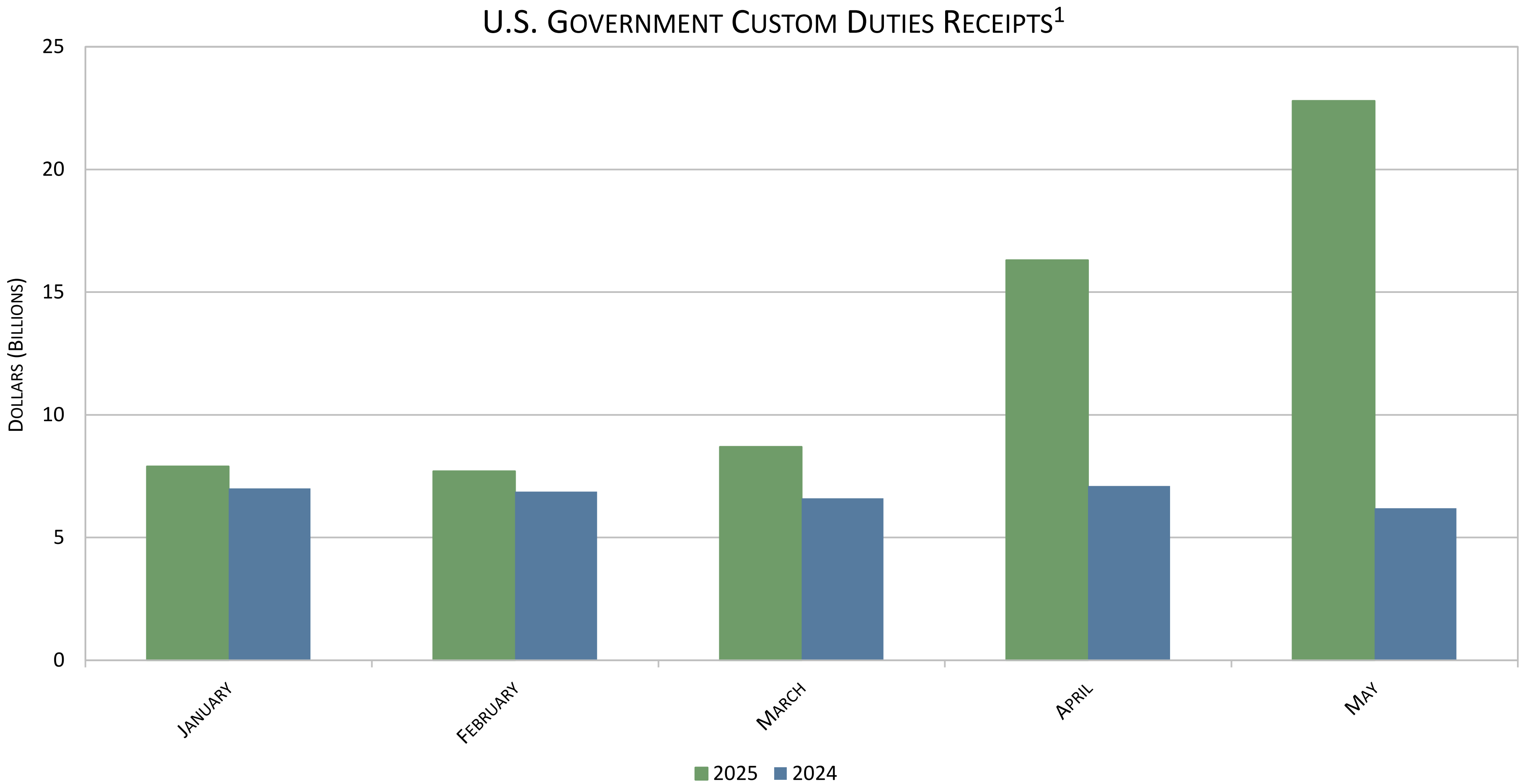
Notable Events

- The Federal Reserve (Fed) held rates steady citing resilient economic activity and a higher inflation outlook related to tariffs. Several other countries cut interest rates to support their economies amid tariff uncertainty.

SECOND QUARTER HIGHLIGHTS

CUSTOM DUTIES RECEIPTS SURGED SINCE LIBERATION DAY BUT TARIFFS HAVE NOT RAISED INFLATION YET

A sweeping package of stiff tariffs was announced by President Trump on April 2 - Liberation Day. The announcements created severe angst about the impact on supply chains, prices, and profits. Even with a temporary pause on certain tariffs, tariff revenue has spiked higher. Despite the sharp rise in tariff rates, inflation has remained relatively stable. Uncertainty about the impact of tariffs remains high until key trade deals are finalized.



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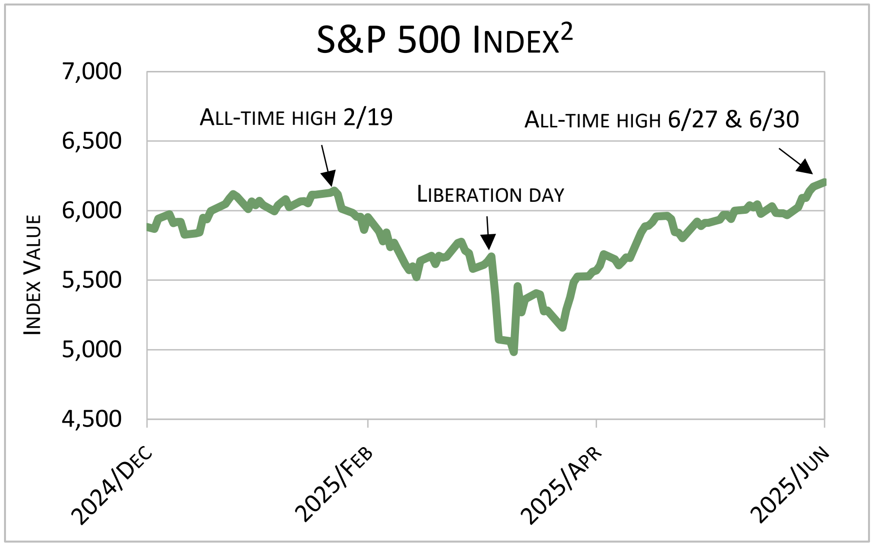
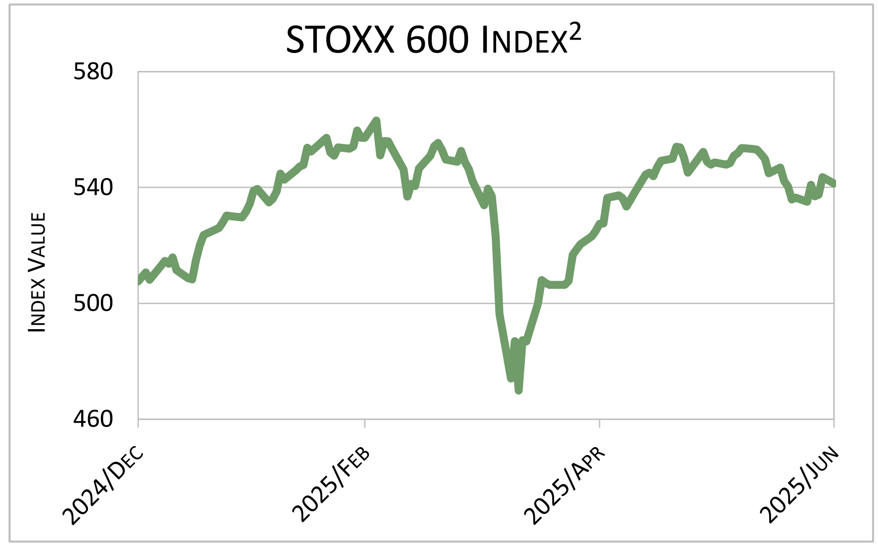
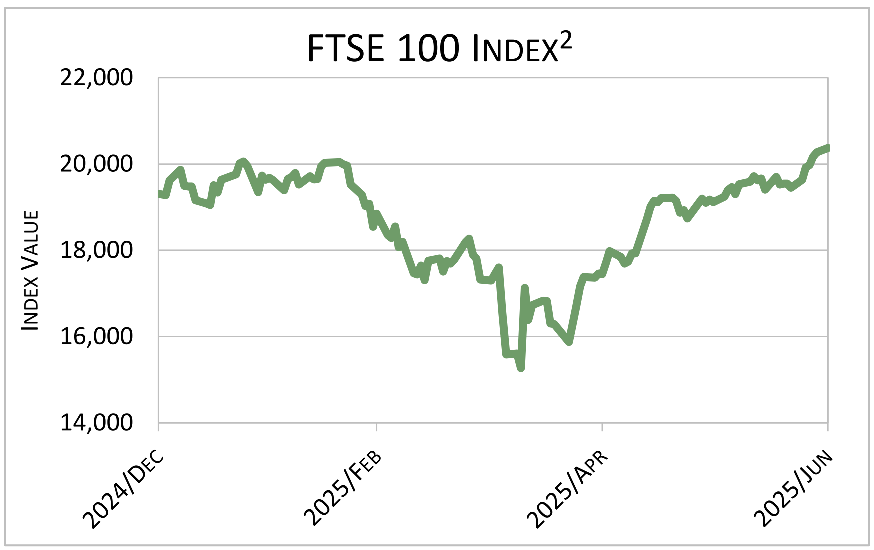
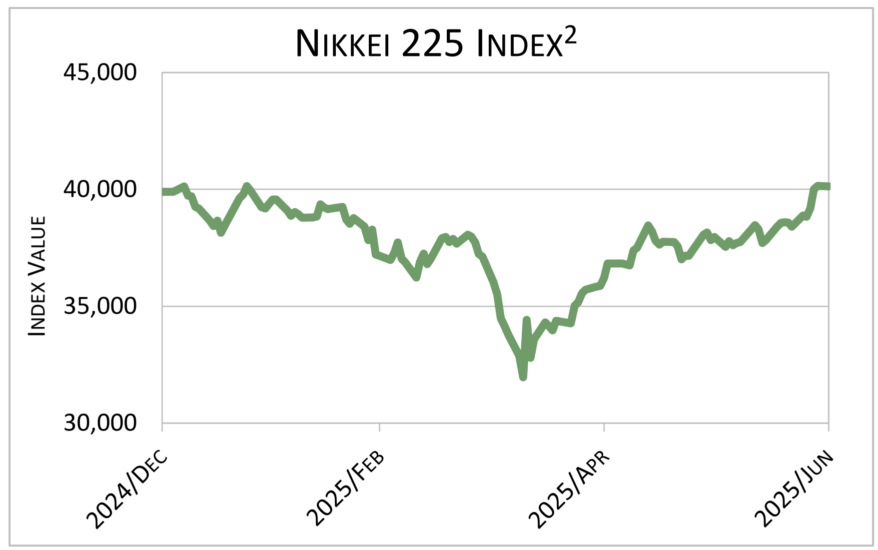
Second Quarter Highlights

Aggressive tariff policies and select pauses resulted in heightened stock volatility









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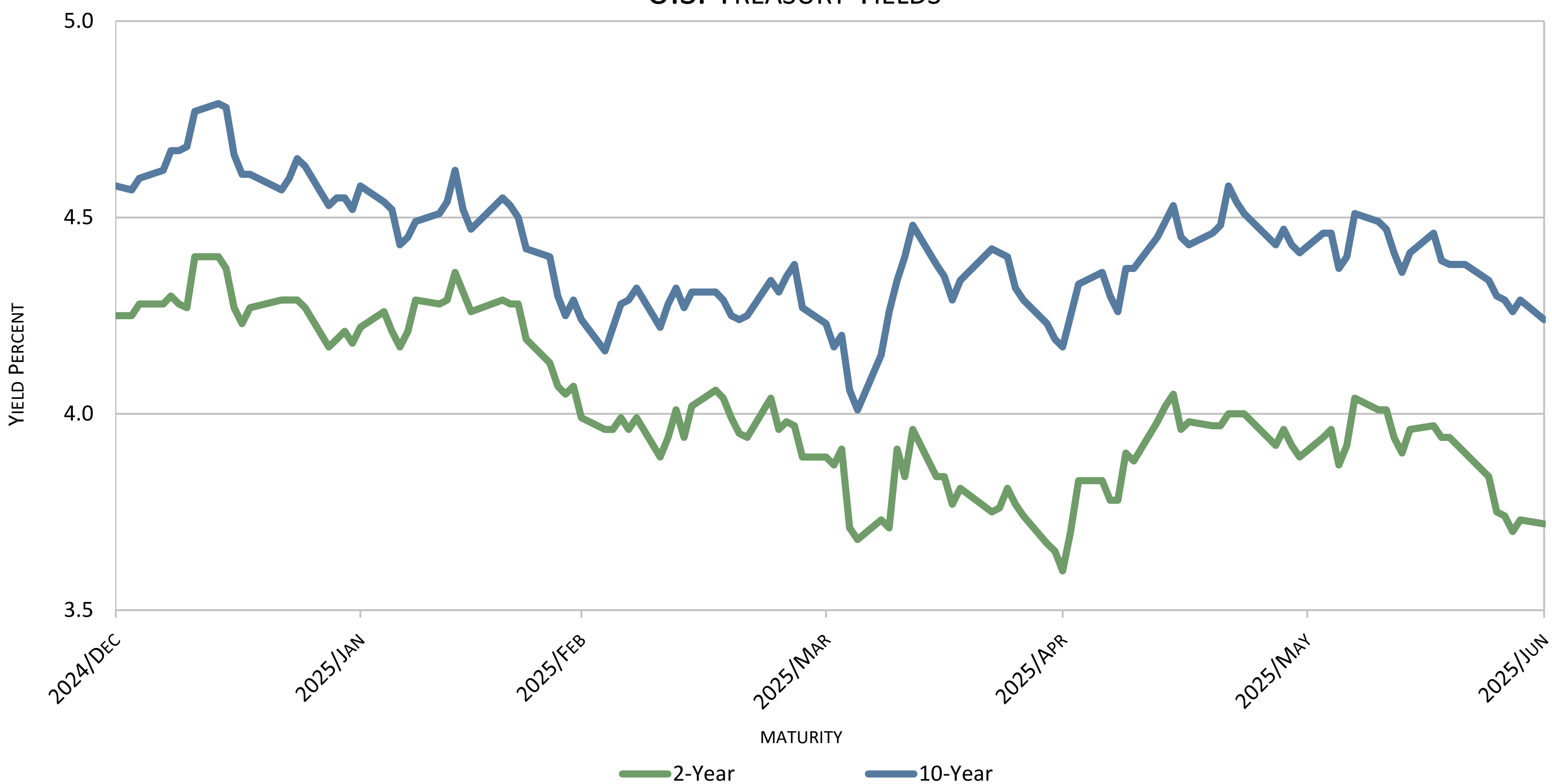
Second Quarter Highlights

Bond yields rose after Liberation Day but retreated to end little changed

Despite some choppiness in reaction to tariff and geopolitical news, bond yields ended the quarter slightly lower than at the end of the first quarter due to softening inflationary data.

U.S. Treasury Yields[3]



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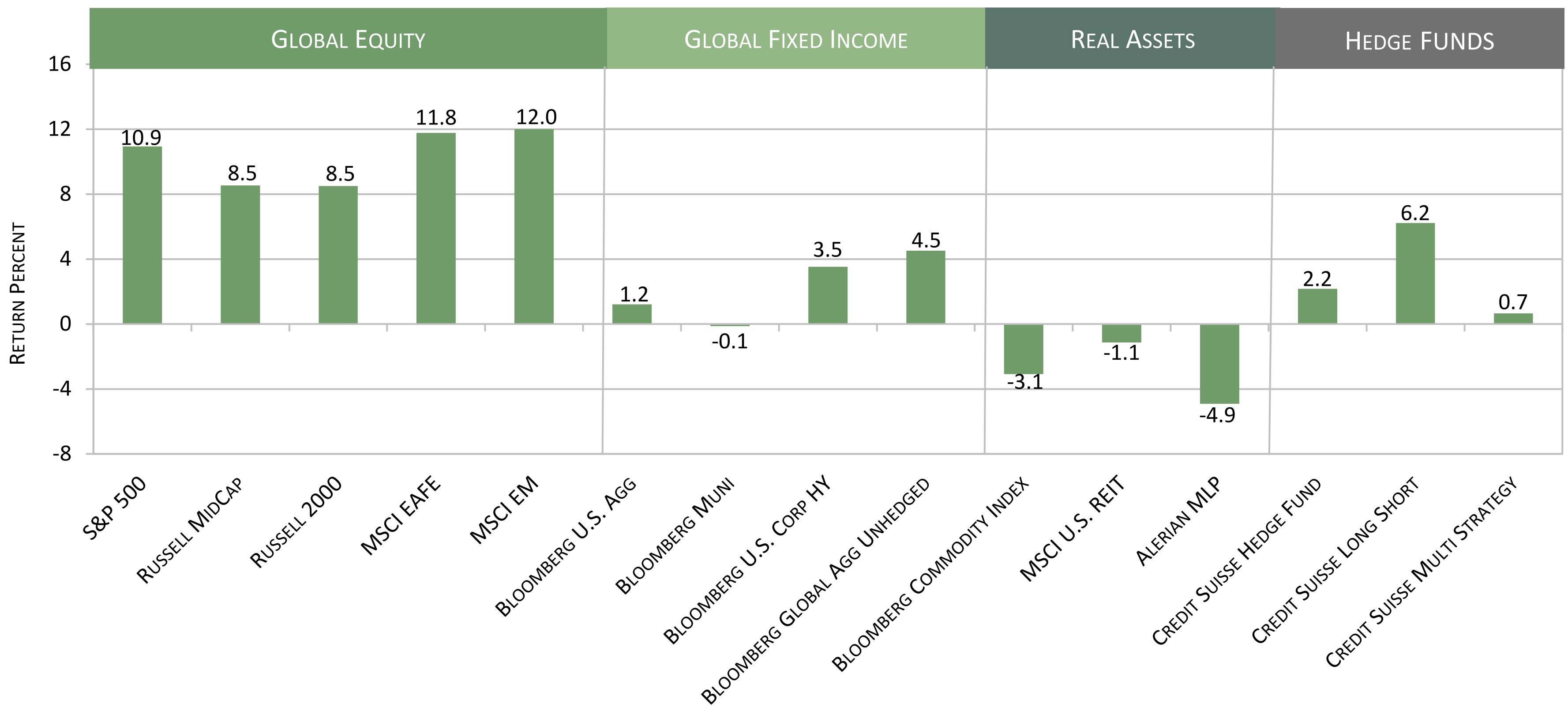
Second Quarter Highlights

Despite a sharp sell-off early, global equities rallied and outperformed bonds and real assets

After the initial global market disruptions caused by the Liberation Day tariff announcements, most markets rebounded fueled by the temporary tariff pause and some progress in trade talks in addition to robust corporate earnings reports, a renewed interest in artificial intelligence related opportunities, and new defense spending and tax cut plans. Commodities were weak due to high inventories.

Market Returns: Second Quarter 2025[4]



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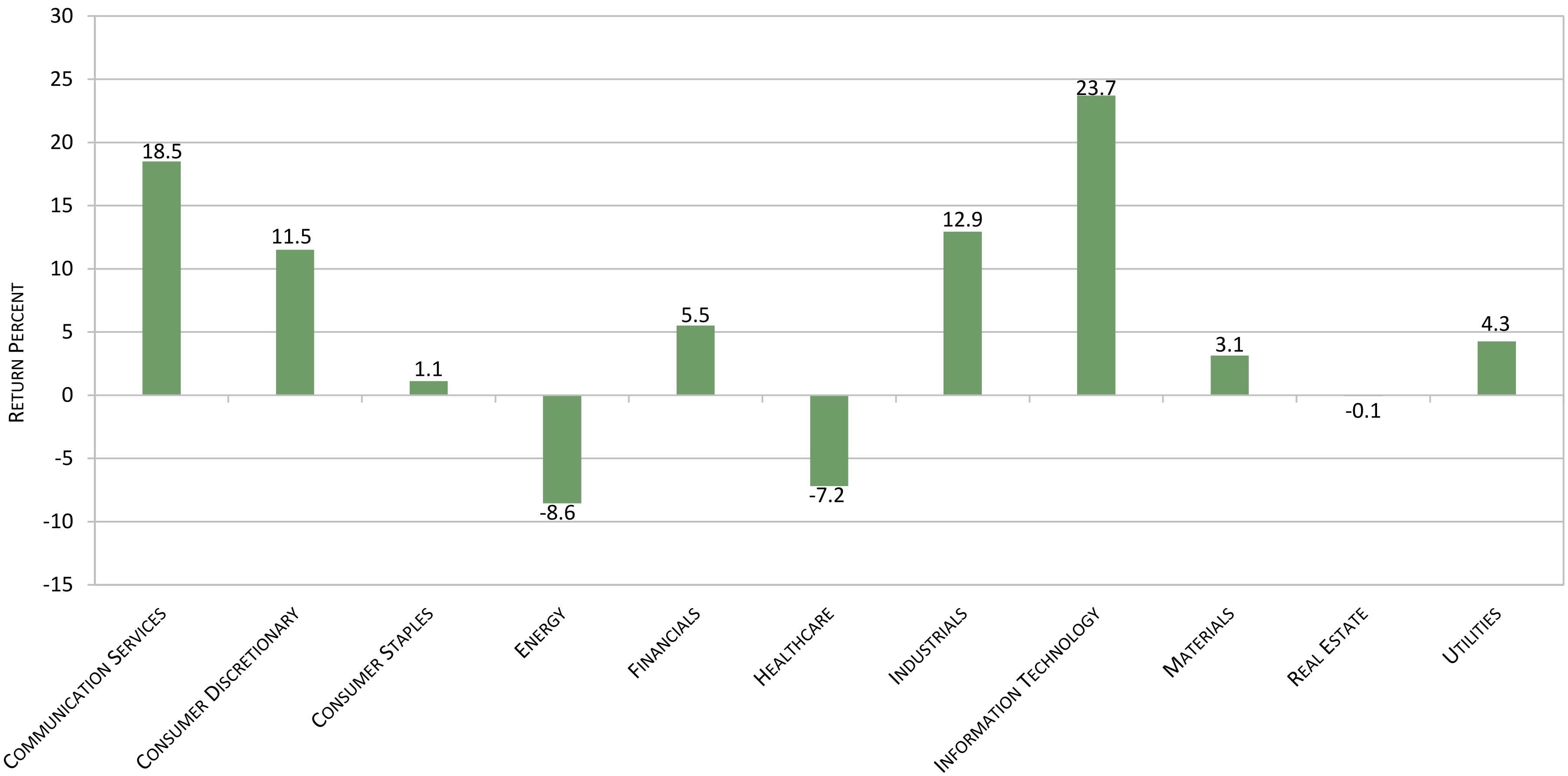
Second Quarter Highlights

Growth sectors led for the quarter fueled by the return of AI enthusiasm

Good earnings reports and positive product news reignited investors' appetite for artificial intelligence (AI) related stocks driving the technology and communication sectors to double-digit gains. Healthcare and energy lagged with negative returns. Government pressure for lower drug prices hurt the healthcare sector while high production at a time of slowing global economic growth sent oil prices down.

S&P 500 Sector Returns: Second Quarter 2025[4]



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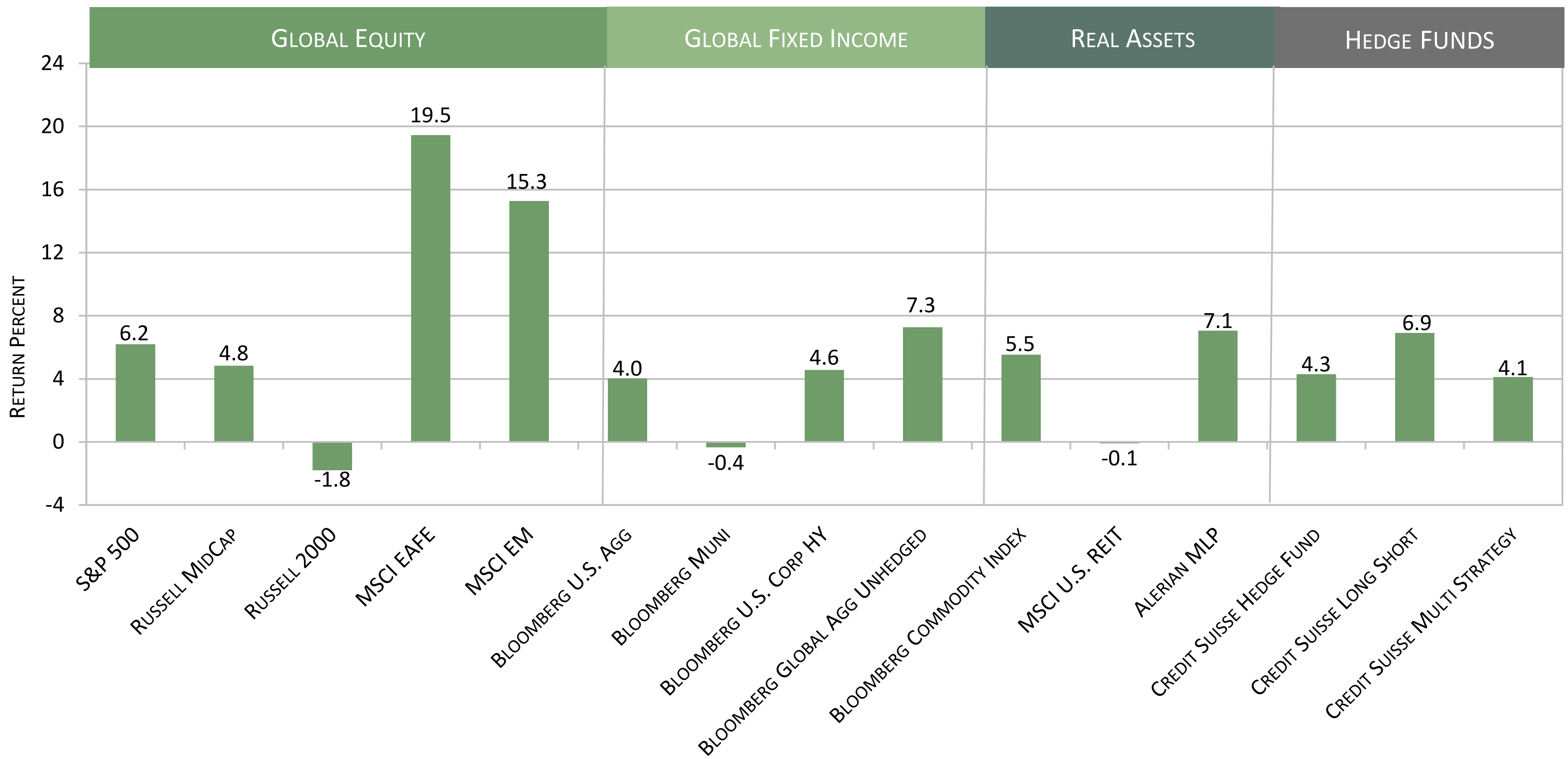
Second Quarter Highlights

Most asset classes had gains in 2025 despite high volatility from policy and geopolitical events

U.S. stocks rebounded on the tariff pause and resilient economic data and offset first quarter declines. Foreign stocks added to first quarter gains driven in large part by stimulus plans. Global bond prices rallied on easing inflation. The 10% drop in the value of the dollar in 2025 helped international assets outperform U.S. returns. The rally in gold to all-time highs was a main driver of the gain in the commodity index.

Market Returns: First Half 2025[4]

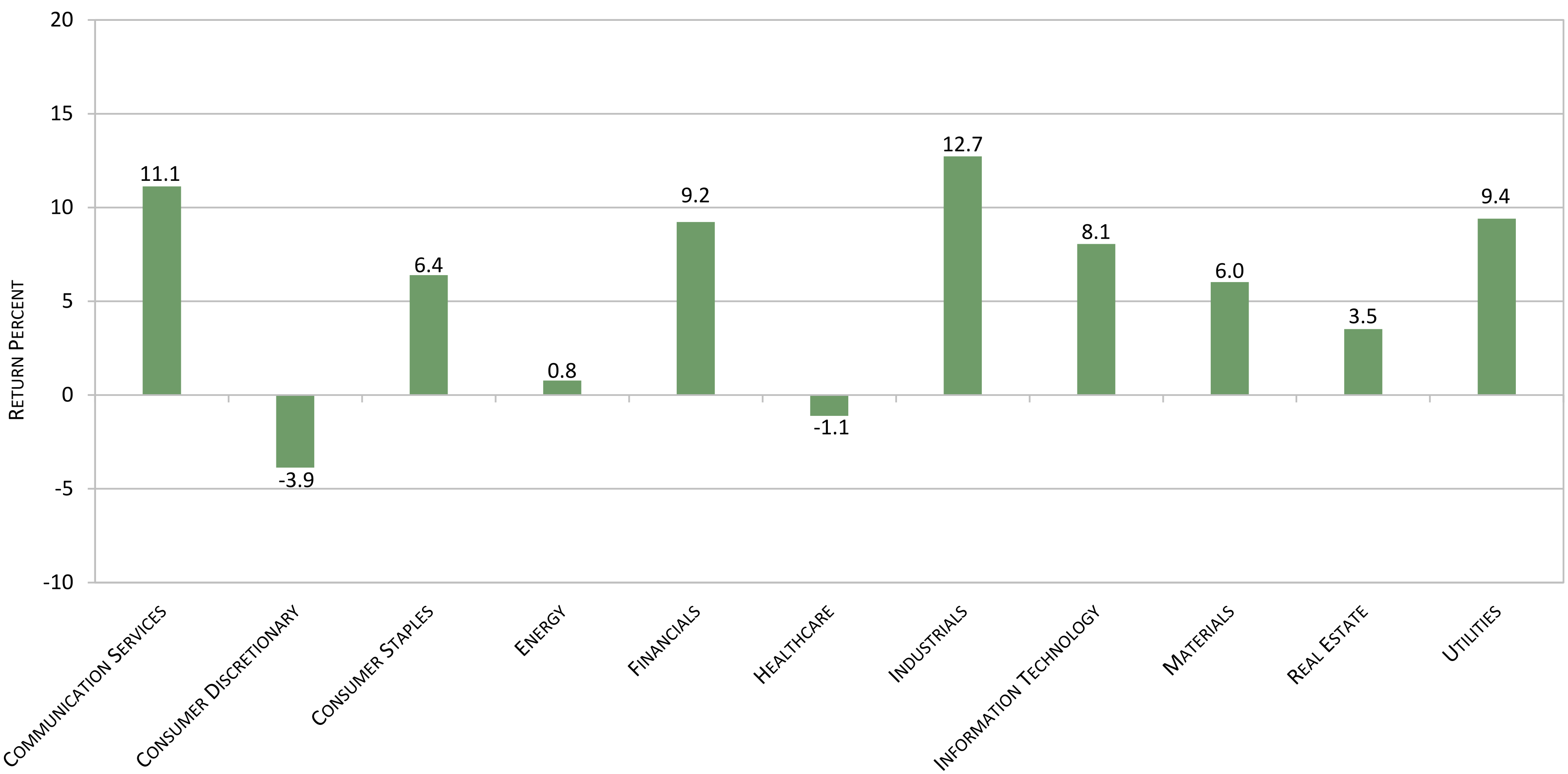


Second Quarter Highlights

First half 2025 sector returns varied widely due to heightened uncertainty

Increasing demand for AI infrastructure and aerospace companies boosted the industrial sector to the top of the performance chart for the first half. Consumer discretionary was the laggard dragged down by tariff related weak consumer sentiment.

S&P 500 Sector Returns: First Half 2025[4]



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Second Quarter Highlights

Fed on hold while several other central banks cut rates citing growth risks from tariffs

Various central banks cut key interest rates after inflation rates slowed and/or to support economic growth particularly with the current trade policy uncertainty. However, the U.S. Fed left its key rate unchanged based on expectations for tariff fueled inflation.

Select Monetary Policy Headlines in the Second Quarter	
Country	**Policy Decision**
Australia	• Cut rate by a quarter of a percentage point to 3.85%.
China	• Cut key lending rates by a tenth of a percentage point in May.
Emerging Markets	• Columbia, Czech Republic, India, Peru, the Philippines, South Korea, and Thailand each cut a key rate by a quarter of a percentage point.
European Central Bank	• Cut key rate by a quarter of a percentage point in both April and in May. Rate is now 2.0%.
Mexico	• Cut rate by half of a percentage point to 8.5% in May.
New Zealand	• Cut rate by a quarter of a percentage point to 3.25% in May.
Switzerland	• Cut rate to 0% in June.
United Kingdom	• Cut the Bank Rate by a quarter of a percentage point to 4.25% in May.
United States	• No Change. Fed funds rate at 4.5%.

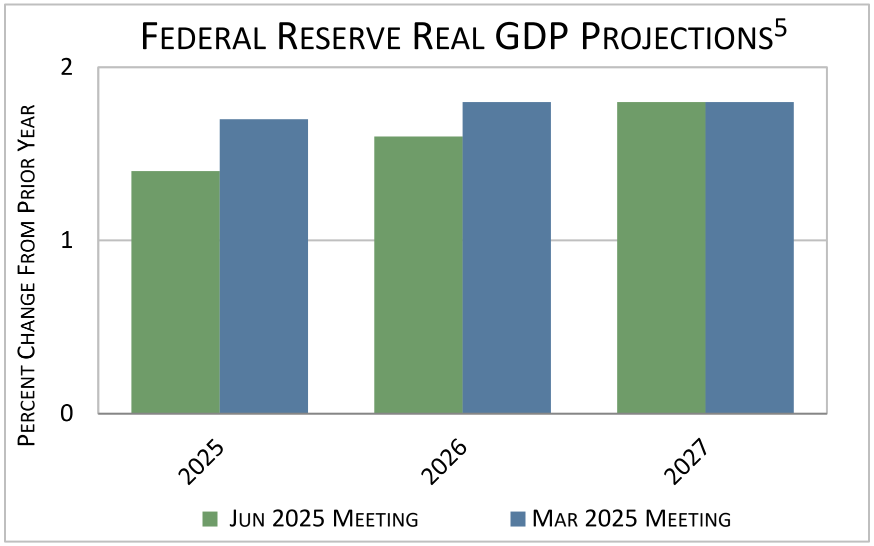
Outlook

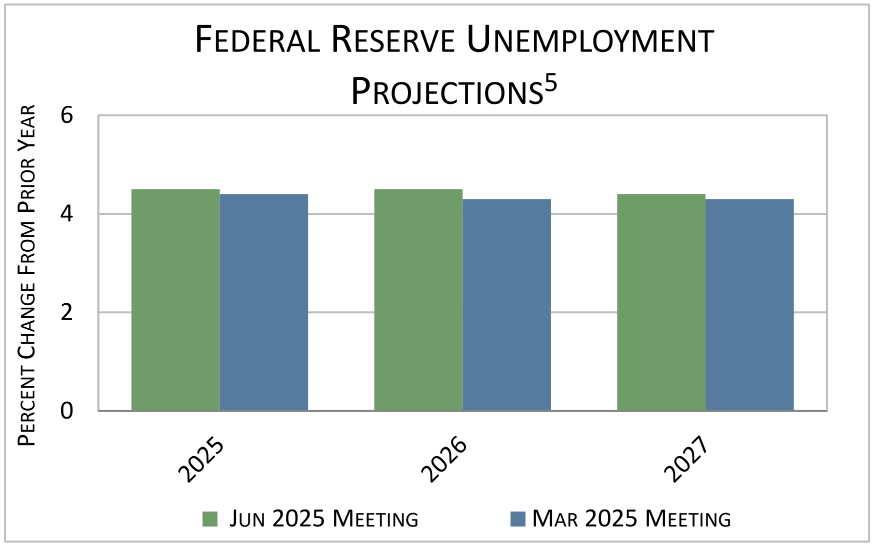
Heightened uncertainty is likely to continue to cause markets to be highly volatile

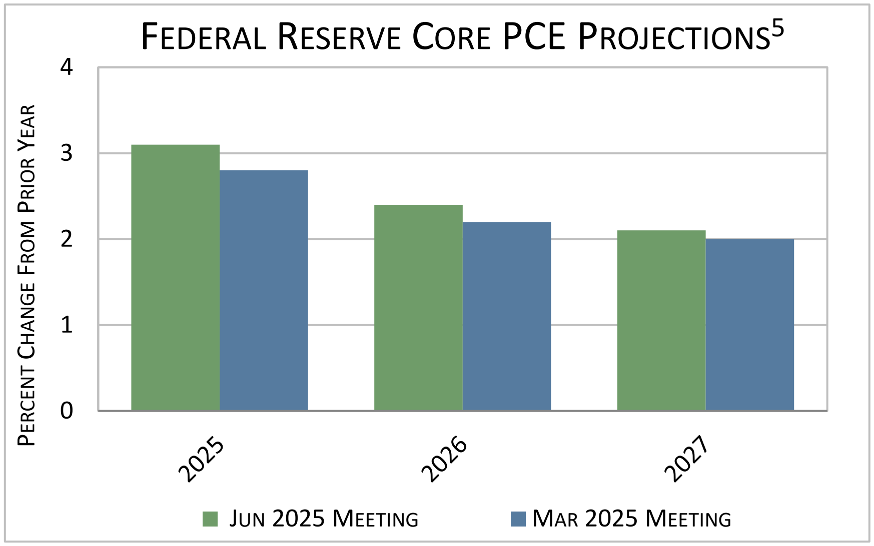
- Even though the initial shock of Liberation Day tariff rates eased, tariff related uncertainty is likely to continue to result in periods of volatility in financial markets.
    - President Trump has commented that deals are coming, but with which countries and at what terms is still uncertain as we enter the third quarter.
    - Having deals in place would ease some uncertainty and help businesses to be able to plan.
        - But how the agreed upon tariff and other trade policies will flow through to the U.S. inflation rate and to U.S. and foreign corporate earnings is highly uncertain.
    - The Fed is in a wait and see mode before loosening monetary policy because of the uncertainty about the tariff impact on inflation. The Fed's latest projections point to modestly higher unemployment and inflation and lower economic growth.
- For now, the U.S. economy appears solid enough to withstand the current uncertainty but some cracks are starting to show. Analysts have lowered their corporate earnings estimates but are still expecting positive growth in 2025.
- Tariff policies will impact U.S. trading partners as well and the impacts are not fully known yet. Various regions have taken steps to shore up their economies given the uncertainty by cutting interest rates and pledging to increase fiscal spending.
- Valuations across financial markets are elevated again after a brief dip. Therefore, markets could be choppy in reaction to disappointing tariff news, central bank comments, economic data reports or corporate leader comments.

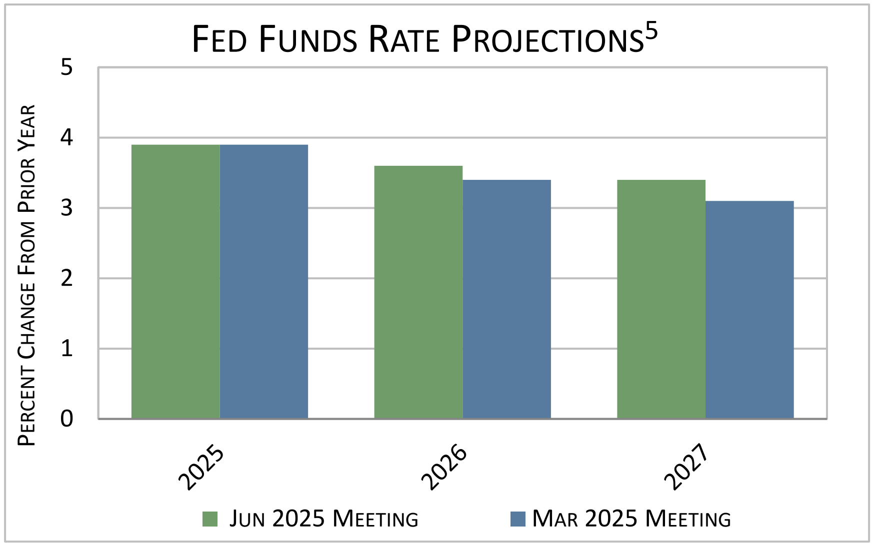
OUTLOOK

FED'S NEW PROJECTIONS POINT TO STAGFLATION AND HIGHER FOR LONGER INTEREST RATES









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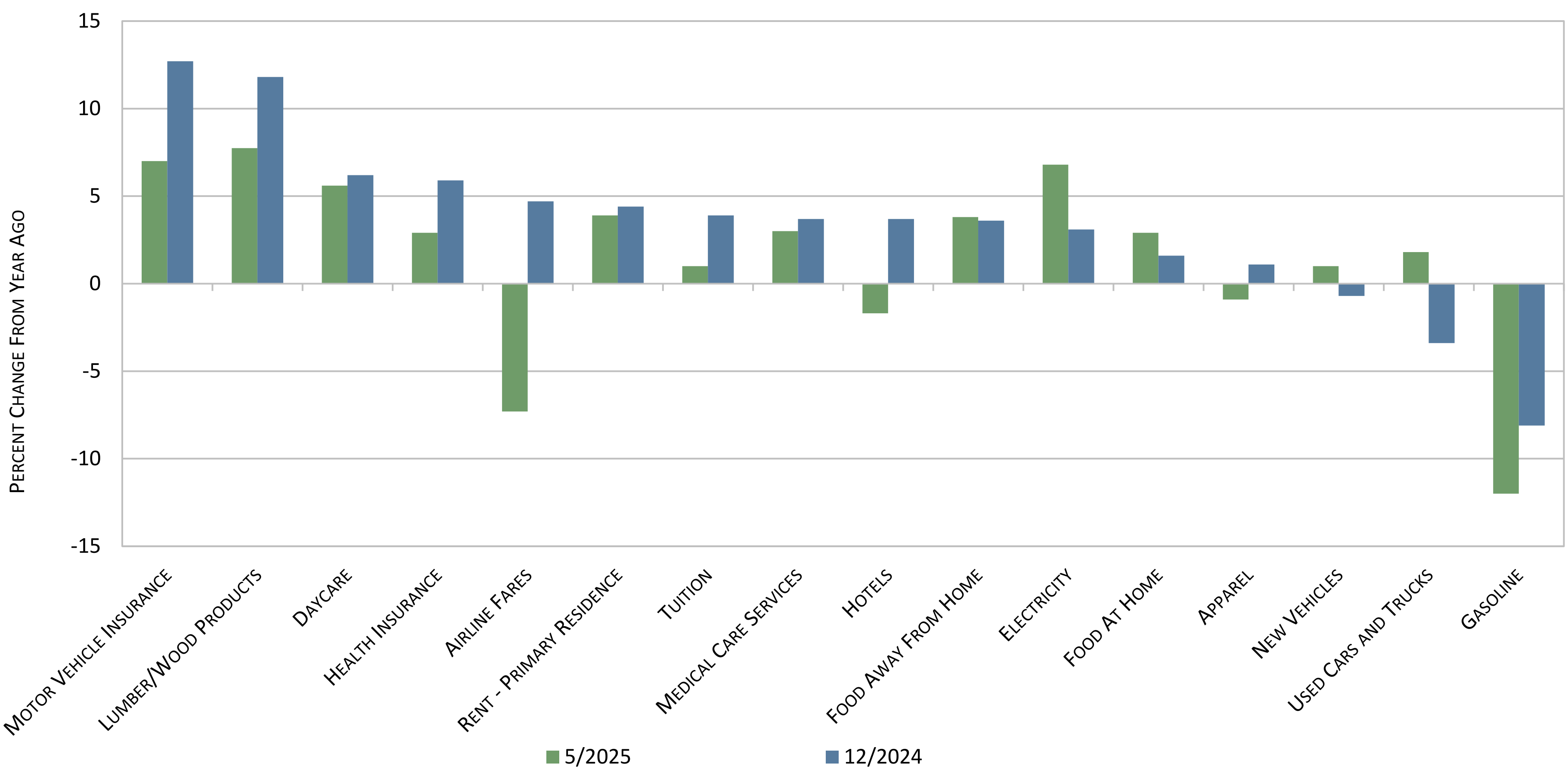
OUTLOOK

THE RATE OF INFLATION HAS SLOWED IN KEY CATEGORIES BUT NOT ALL

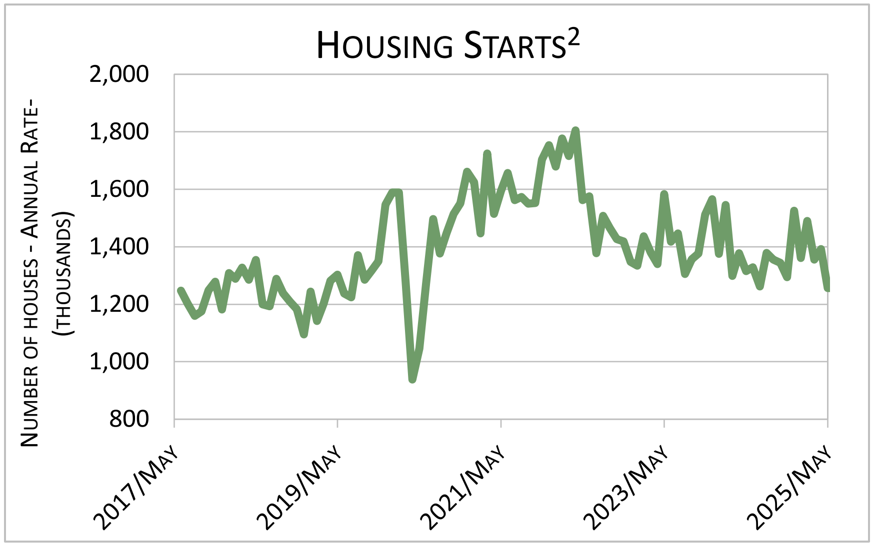
Inflation in various categories is trending lower but a boost from businesses passing on tariff costs is still a risk until more is known about pending trade agreements. The labor market is another key to the inflation outlook. Any weakness in labor demand could slow wage growth and cool upward pressure on prices.

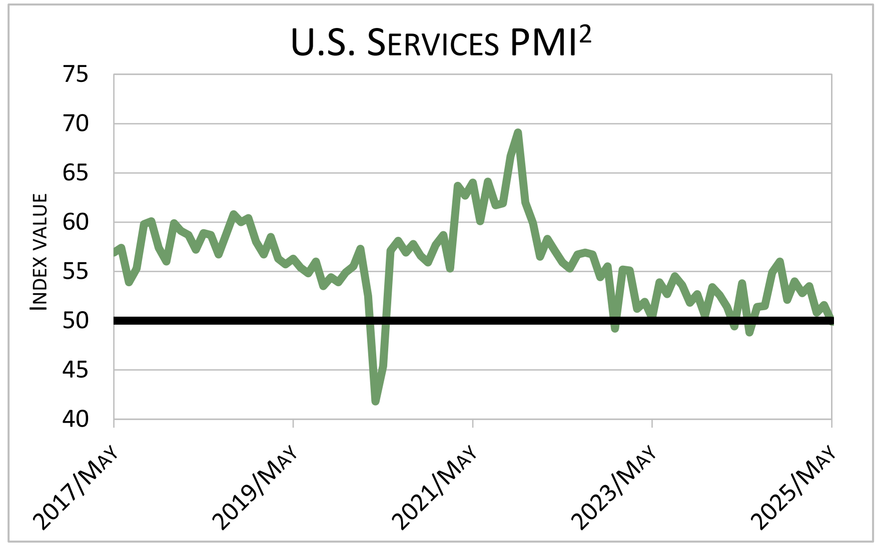
CONSUMER PRICE INDEX BY EXPENDITURE CATEGORY[6]

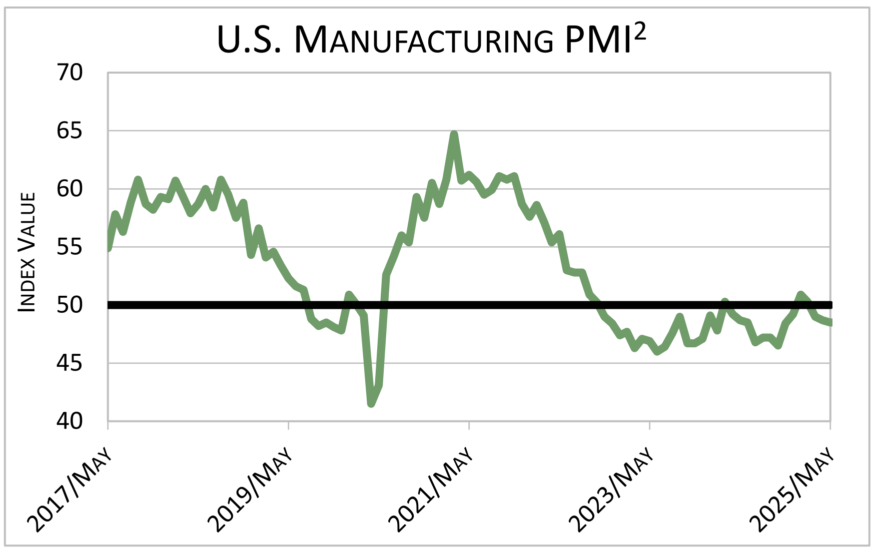


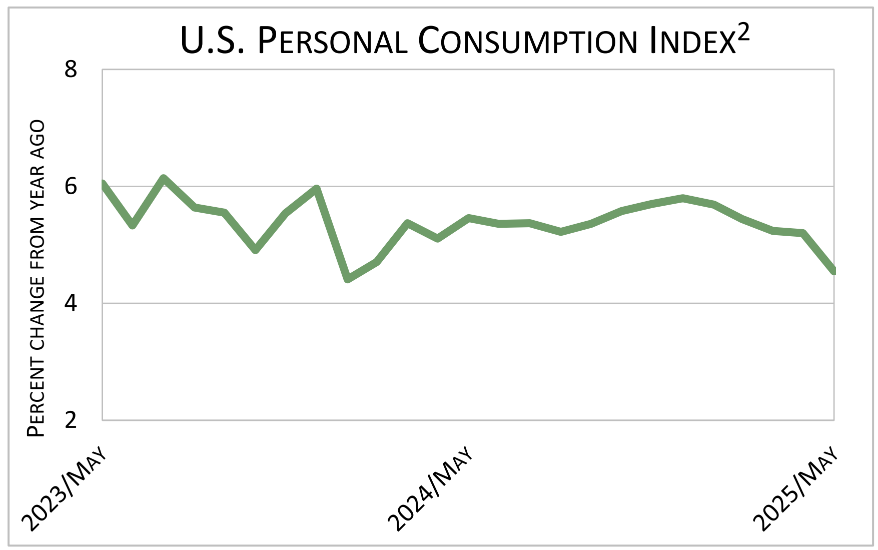
Outlook

If signs of slowing economic activity persist, the Fed may cut rates before year-end









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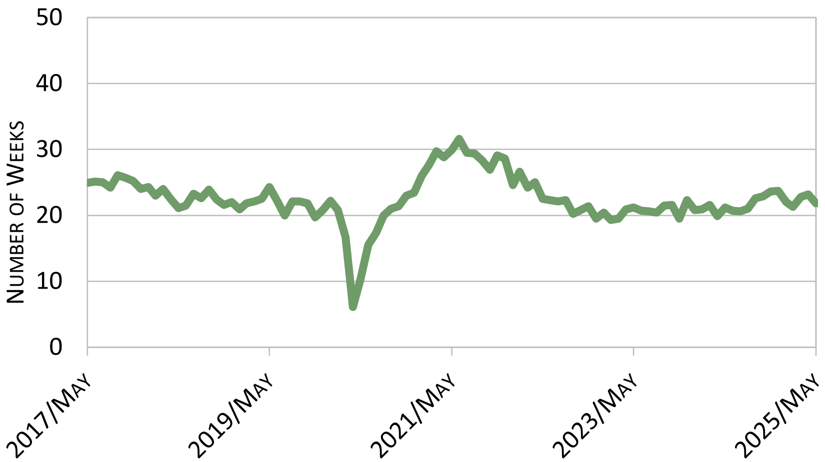
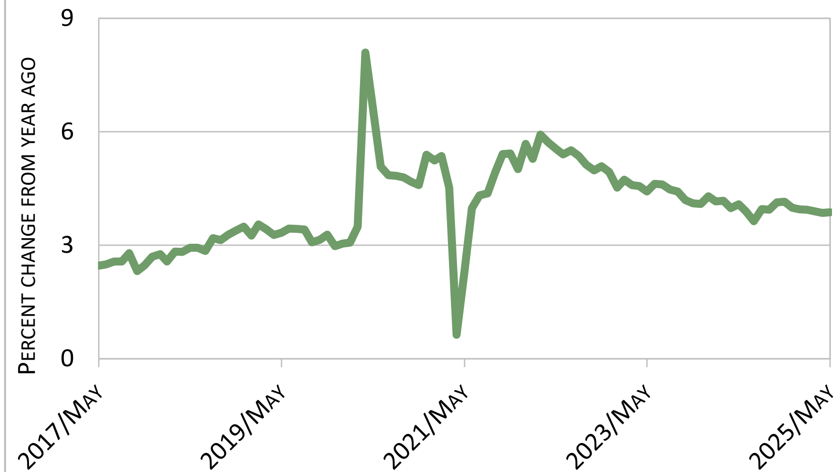
Outlook

The labor market is still solid but some cracks are showing and the Fed is watching

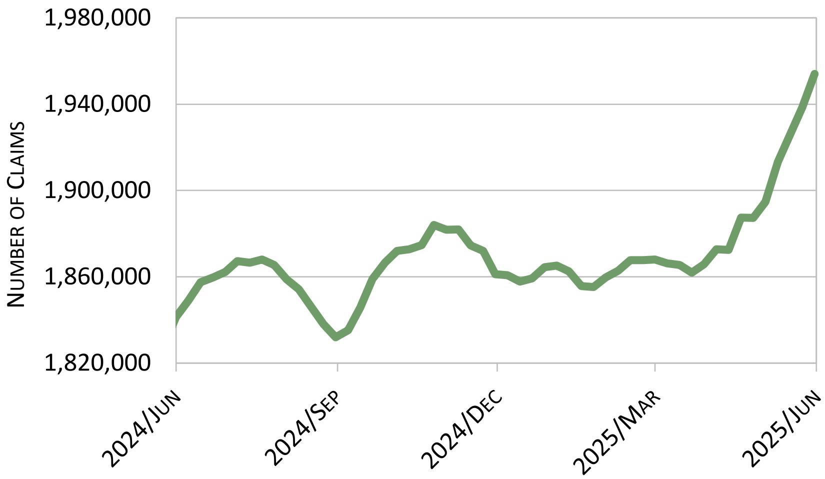
Average Weeks Unemployed[2]



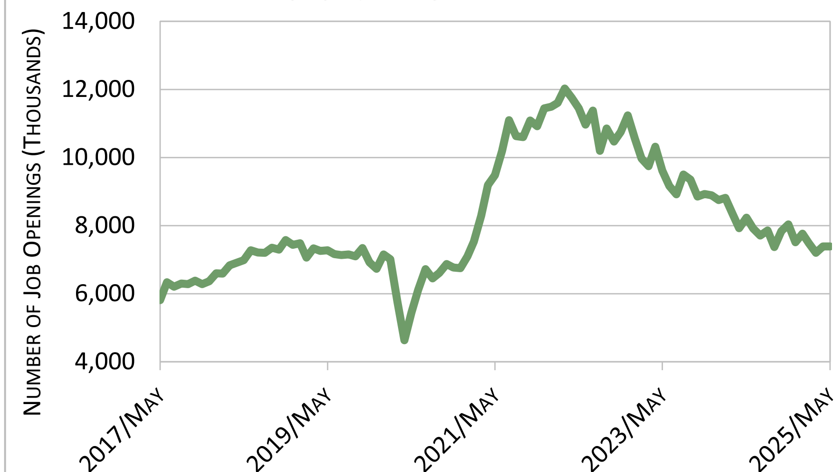
Hourly Earnings[7]



Continued Unemployment Claims[8]



U.S. Job Openings[2]



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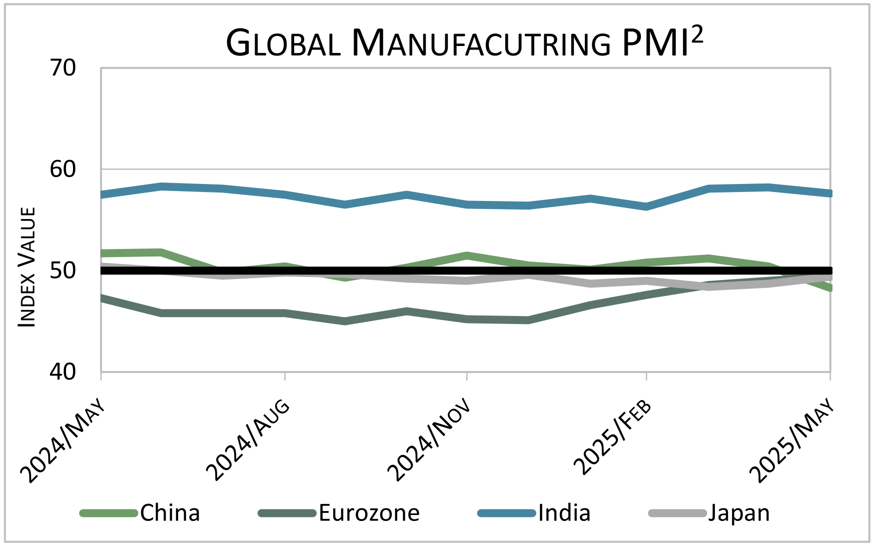
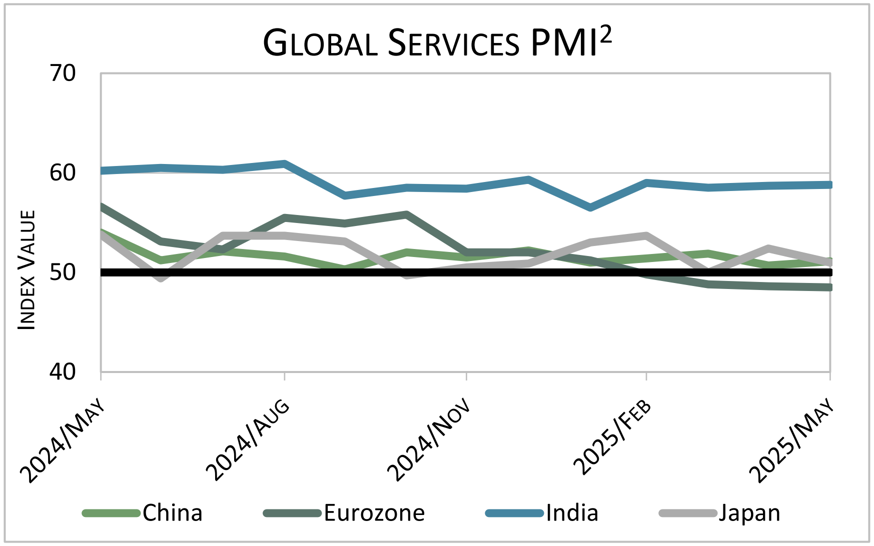
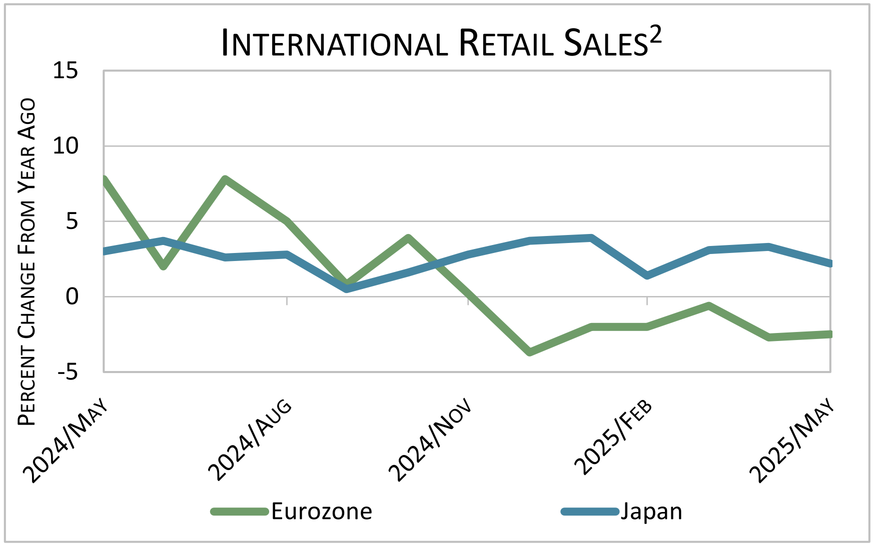
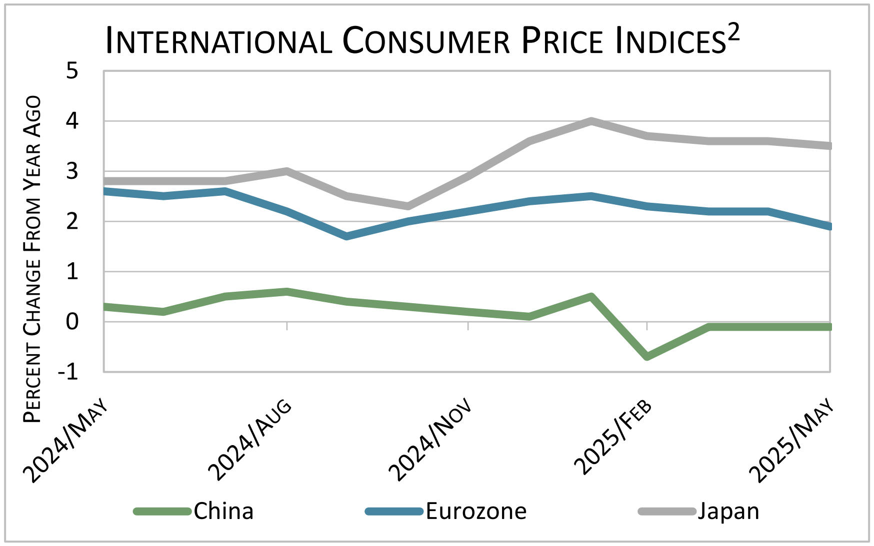
Outlook

Economic data outside U.S. is also mixed









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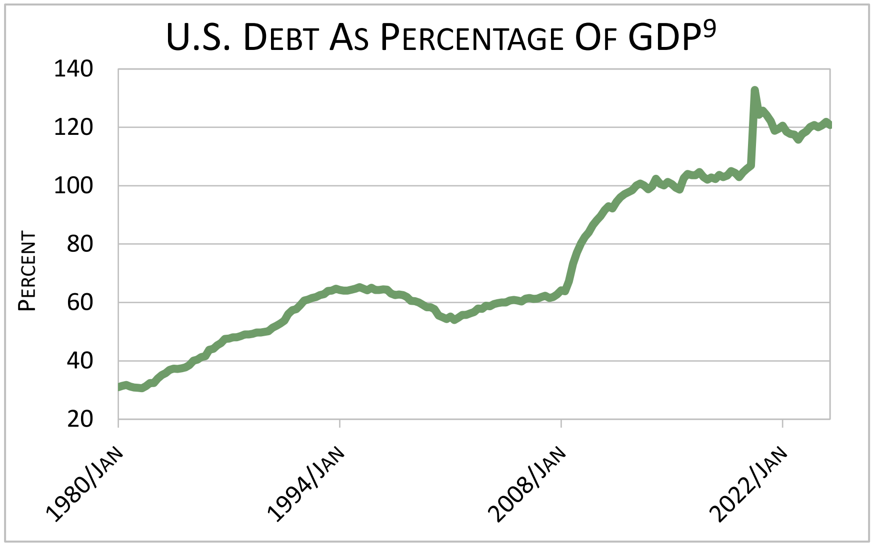
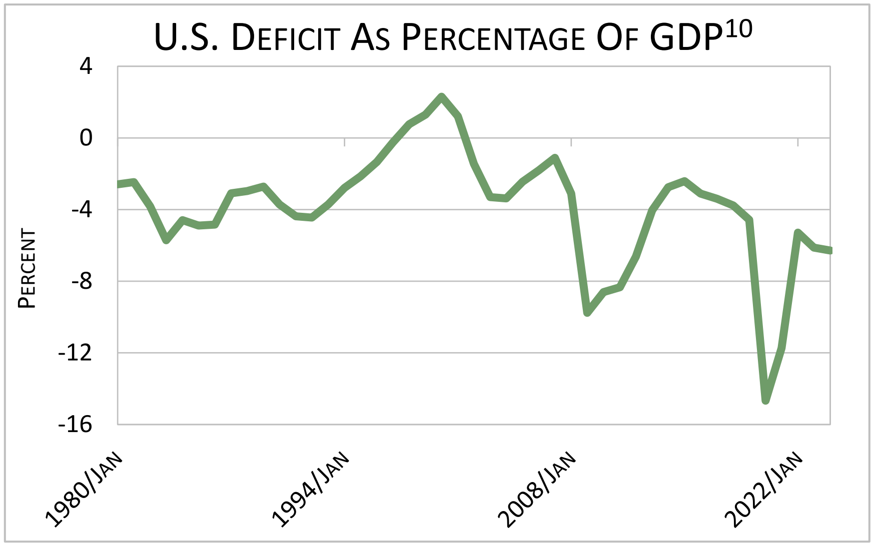
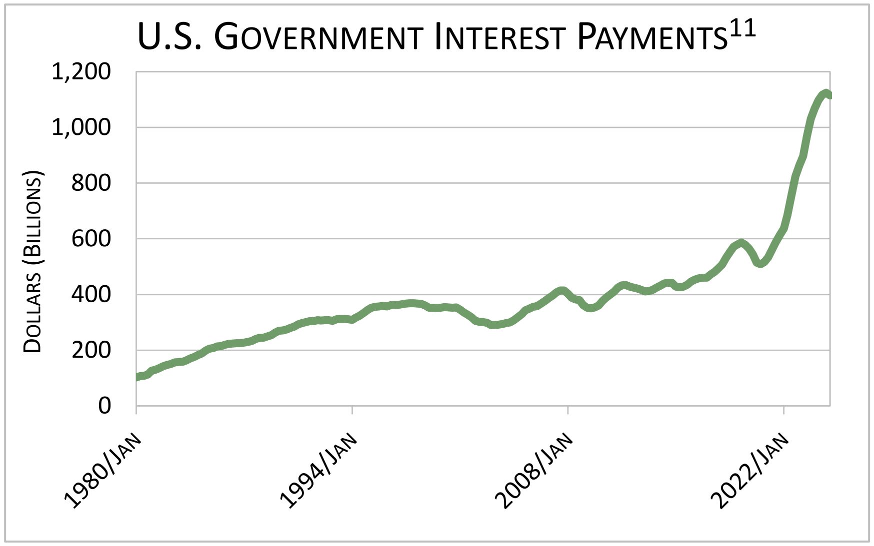
Outlook

As the cost of Federal debt rises, Treasury yields may remain "higher for longer"

The U.S. fiscal outlook in 2025 is characterized by record-high debt levels, rising interest costs, and a Federal Reserve balance sheet that remains historically elevated. Interest payments are among the fastest-growing federal expenses, driven by the compounding effects of higher rates and persistent deficits. The "One Big Beautiful Bill" includes some spending cuts, but the deficit is still expected to grow. The ongoing need for increased borrowing may keep upward pressure on Treasury yields, as markets demand higher returns to absorb the growing supply of U.S. debt.







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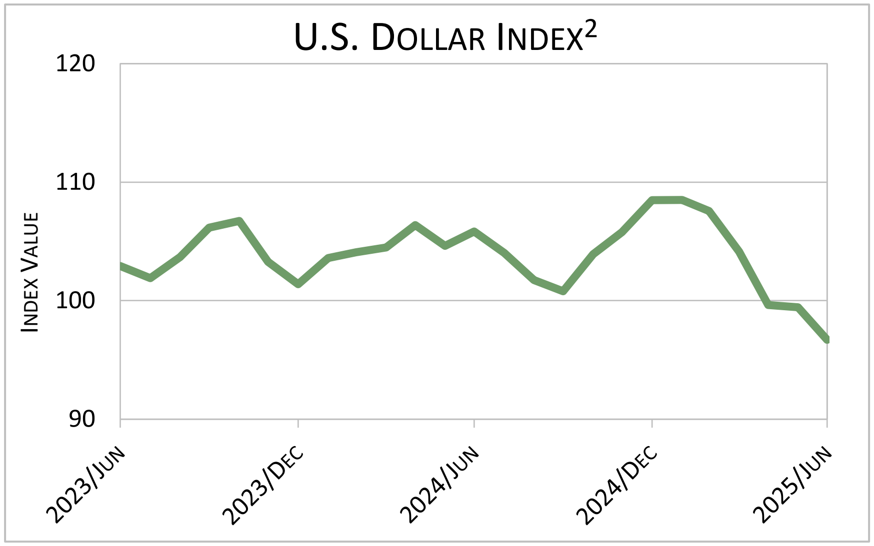
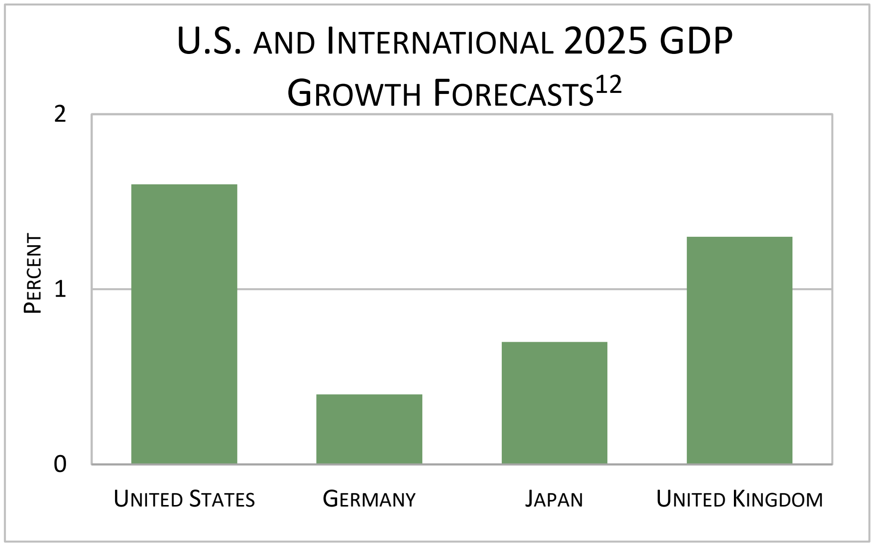
Outlook

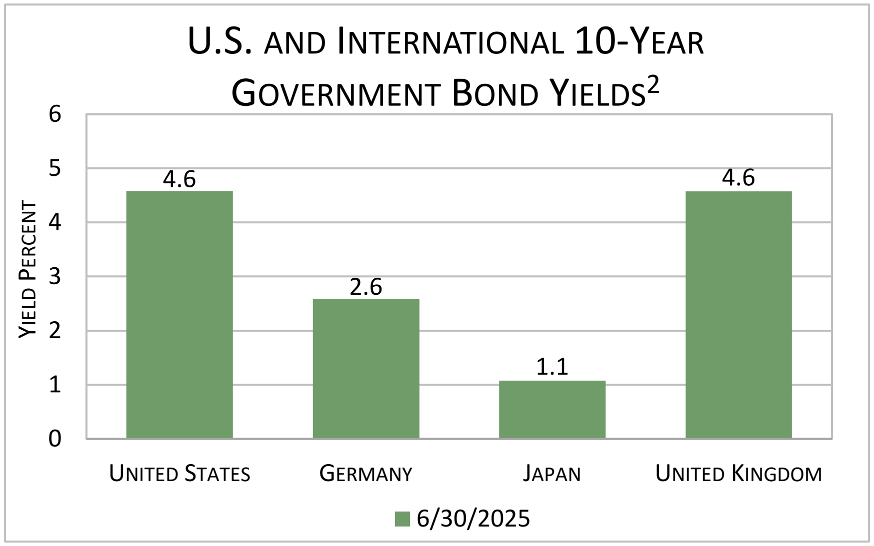
The declining U.S. dollar boosted international returns in 2025, but that may not continue

Trade policy uncertainty, capital shifting to gold and Swiss francs, and eurozone equities gaining favor due to interest rate cuts and increasing fiscal spending pressured the U.S. dollar in the first half of 2025.

That pressure may ease with the dollar stabilizing in the second half of the year due to the stronger economic growth outlook for the U.S. and reduced policy uncertainty as trade deals are finalized. However, the dollar may decline more if the Fed begins to cut rates which would reduce the interest rate differential between the U.S. and other countries.







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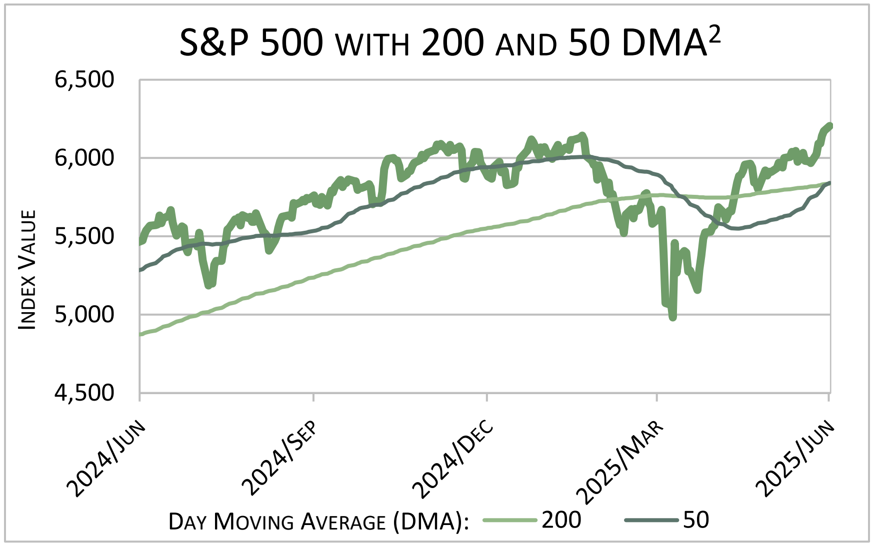
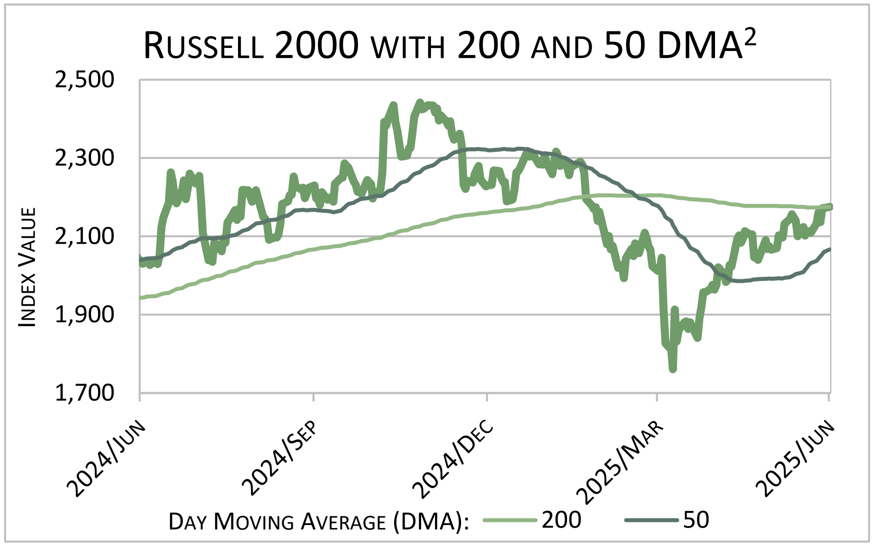
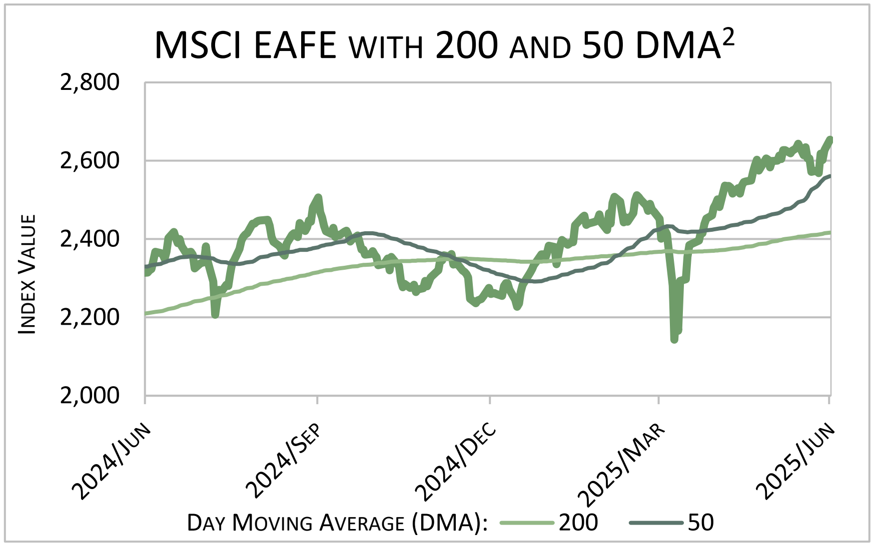
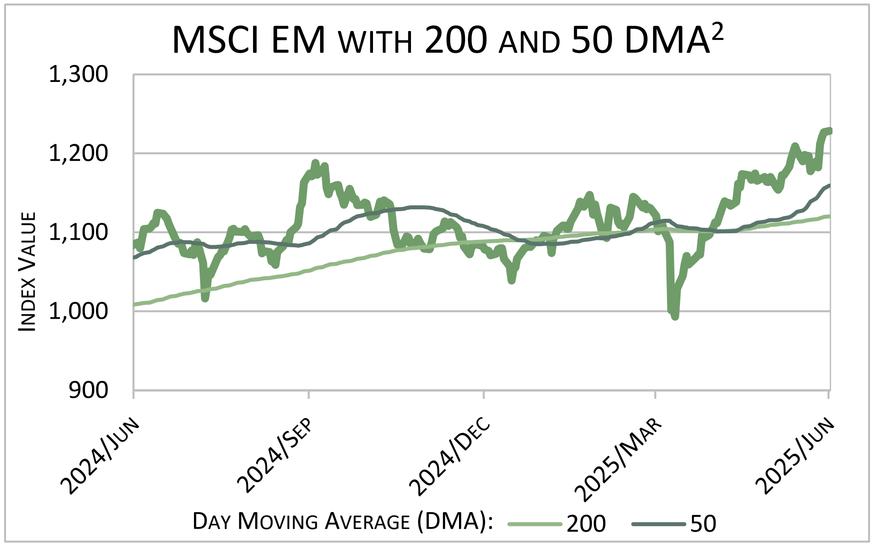
Outlook

Technical and momentum indicators are bullish but some are nearing overbought levels









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Vogel Tactical Recommendations

Neutral view on most asset classes. Retain overweight to cash due to volatility risk.

Asset Class	Action	Commentary
Domestic Large-Cap Equity	Equal weight	Valuations elevated when there is a risk of slowing earnings growth due to lower but sticky inflation pressures, higher for longer interest rates, stretched consumers, and trade policy uncertainty. Secular trends are supportive for some sectors.
Domestic Mid-Cap Equity	Equal weight	Valuations elevated when there is a risk of slowing earnings growth due to lower but sticky inflation pressures, higher for longer interest rates, stretched consumers, and trade policy uncertainty. Secular trends are supportive for some sectors.
Domestic Small-Cap Equity	Equal weight	Deregulation moves or a pick-up in acquisition activity could provide a boost to small-cap prices, but uncertainly about macroeconomic conditions increases volatility risk.
International Developed Equity	Equal weight	More rate cuts are expected since concerns remain about weakness in exports and manufacturing and about the impact of trade policy. New government stimulus measures are expected to provide a boost especially to European industrial and materials sectors. Valuations still at a discount to U.S. equity markets.
International Emerging Market Equity	Underweight	Trade policy uncertainty is likely to have a dampening effect but will vary by country. Optimism about Chinese stimulus measures is a boost but structural issues remain in that economy. Easing dollar valuation is a tailwind for returns for U.S. investors.
Fixed Income	Equal weight	The high yields are a source of income and diversification. Fundamentals are still solid so default risk is low, but valuations are high so limited price appreciation likely.
Hedge Strategies	Underweight	The flexibility to position for various risk scenarios can provide return opportunities, but rapid and sharp market swings can be challenging for some strategies.
Real Assets	Equal Weight	High income potential for real estate assets is attractive. Demand is driving prices for precious metals but valuations are high.
Cash	Overweight	Yields are attractive. Cash still provides a hedge against macro risks.

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DISCLOSURES

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Sources: *Number below corresponds to the superscript notation in chart titles and text blocks*

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