

Second Quarter 2025

Quarterly Market Insights



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Less Uncertainty Lifts Spirits

EXECUTIVE SUMMARY

- Tariff pivot defused April market panic
- China trade truce further stoked market rally
- AI CapEx and tariff pull-forward drove 1Q25 earnings
- Front-loaded OBBBA supported steeper yield curve
- Big Themes: AI Buildout, Reshoring, Deregulation

The second quarter of 2025 will likely be remembered for a dramatic swing in U.S. trade policy and its profound effects on financial markets. The seven-day stretch between the White House's announcement of reciprocal tariffs on all U.S. trading partners on April 2 and President Trump's pivot to a 90-day tariff pause on April 9 probably marked a generational peak in trade policy uncertainty. This sudden shift in tone signaled that the administration was open to negotiation, timelines were fluid, and officials were attuned to acute market responses.

Tensions eased further on May 12, when U.S. and Chinese trade officials agreed to a temporary 90-day truce that reset tariff rates on Chinese imports from a staggering 154% to a more manageable 30%. Although the long-term dismantling of tariffs remains unlikely, this policy shift gave markets room to breathe—effectively pricing out a worst-case scenario that had included triple-digit duties on Chinese goods. This easing of trade tensions lit the fuse for a powerful equity rally. From its 12-month closing low of 4,893 on April 8, the S&P 500 surged by 25% to reach a new all-time high of 6,300 by July 18, propelled by renewed investor confidence and reduced downside policy risk (See Chart 1).

Despite this optimism, the broader economic picture remained mixed. The U.S. economy contracted at an annualized rate of 0.5% in Q1 2025, largely driven by a front-loaded import boom ahead of the April tariffs. Consumer and business confidence remained weak throughout the second quarter, and retail sales data for April and May disappointed. Yet the labor market held firm, with nonfarm payrolls averaging 150,000 new jobs per month in the second quarter. The unemployment rate stood at 4.1% in June, however, continuing jobless claims reached a 3.5-year high of 1.96 million in mid-June. This suggests that while employers have not accelerated the pace of layoffs, displaced U.S. workers have been increasingly struggling to secure new employment.

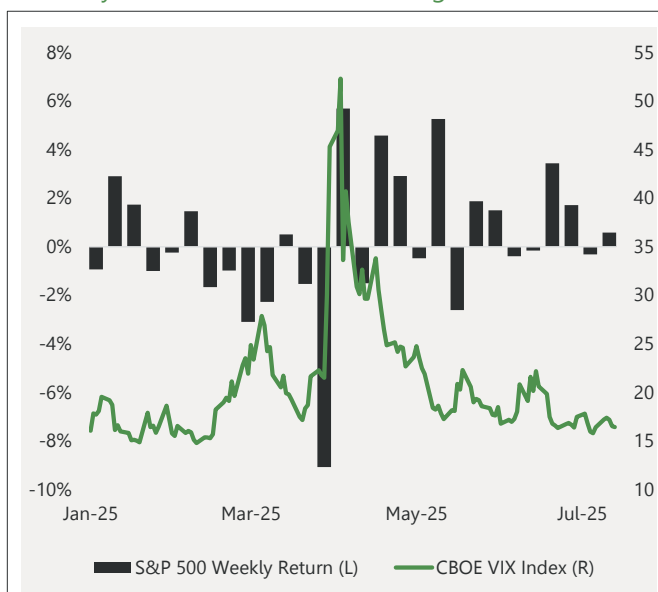
Inflation data remained largely subdued, allowing the Federal Reserve to maintain a wait-and-see posture. Still, signs of tariff-driven price pressures began to emerge in June, keeping policymakers cautious and delaying any resumption of rate cuts.

Corporate earnings in the first quarter delivered a pleasant surprise. S&P 500 companies reported adjusted earnings per share growth of 13% year-over-year, nearly doubling the 7% growth projected at the start of the year. This strength in corporate profits, particularly from the technology, communication services, and healthcare sectors, added fundamental support to the ongoing equity rally. The durability of profit growth could have received a one-time boost, however, from accelerated consumer and business purchases to get ahead of tariffs.

The bond market experienced significant turbulence in April following the tariff shock. Ten-year Treasury yields posted their sharpest weekly rise in 25 years, while the U.S. dollar recorded its worst start to a year since 1973. These dislocations prompted Moody's to downgrade the U.S. sovereign credit rating to Aa1, increasing investor focus on the fiscal outlook and the sustainability of U.S. deficits. By quarter-end, benchmark 10-year yields had returned to near their starting levels, but the yield curve steepened notably, with 30-year yields rising approximately 20 basis points. In credit markets, corporate bond spreads initially widened in April but recovered by quarter-end, benefiting from strong fundamentals, high yields, and reduced new issuance.

Adding further complexity to the policy landscape, the first week of July saw the enactment of the One Big Beautiful Bill—a sweeping legislative victory for the Trump administration. Passed without Democratic support, the bill permanently extended the 2017 tax cuts, introduced new tax relief for hourly and service

CHART 1
Volatility Peaked as the Market Troughed



Bloomberg. Data as of 7/18/25. Past performance does not guarantee future results.

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workers, slashed funding for key social and healthcare entitlements, ramped up defense spending, and realigned federal energy priorities away from renewables.

More than a Relief Rally

The powerful rebound in U.S. equities from their April 8 lows was underpinned by a convergence of strong earnings, easing geopolitical tensions, and improving macroeconomic signals. One of the primary catalysts was renewed optimism surrounding continued investment in AI infrastructure and robust demand for cloud computing. This theme came into sharp focus through standout 1Q25 results from mega-cap tech firms such as Alphabet (GOOGL), Meta Platforms (META), Microsoft (MSFT), Oracle (ORCL), and NVIDIA (NVDA). Over a three-week period starting in late April, these companies helped drive a stronger-than-expected S&P 500 first quarter earnings season. However, this earnings strength was partially tempered by more conservative full-year guidance amid trade policy uncertainty, prompting analysts to lower their 2025 EPS growth projections from 12.5% to 7.2%. The combination of strong 1Q25 results and a cautious outlook for the rest of the year suggests many S&P 500 companies may have benefitted from a pull-forward in orders ahead of tariffs originally scheduled for early April.

Sentiment received a further boost on May 12 with a surprising de-escalation in U.S.-China trade tensions following high-level discussions in Geneva, Switzerland. This unexpected détente reassured markets and injected a fresh wave of confidence into the recovery narrative. The rally was also supported by relatively tame U.S. inflation prints and

labor market data that showed signs of slowing without signaling economic deterioration. This combination raised hopes the Federal Reserve would resume rate cuts in July or September. As a result, equity markets staged a resounding comeback, with the S&P 500 recording a 10.6% return for the quarter. This marked its strongest showing since the fourth quarter of 2023, an impressive feat after suffering a nearly 20% drawdown between February 19 and April 8.

Technology (+23.5%), communication services (+18.2%), and industrials (+12.6%) led S&P 500 sector performance, while energy (-9.4%) and healthcare (-7.6%) lagged. The rally was distinctly led by high beta stocks, which tend to outperform following sharp drawdowns due to short-covering, momentum buying, and sector rotation. Many of the period's top performers had been among the hardest hit earlier in the year, including names like NVIDIA, Royal Caribbean, Super Micro Computer, Micron, Dell, and DoorDash. Meanwhile, defensive areas of the market underperformed, and more balanced indexes like the Dow Jones Industrial Average (+5.0%), the equal-weighted S&P 500 (+4.9%), and the Russell 2000 (+8.1%) all trailed the S&P 500. The Nasdaq, with its tech-heavy composition, surged 17.8%.

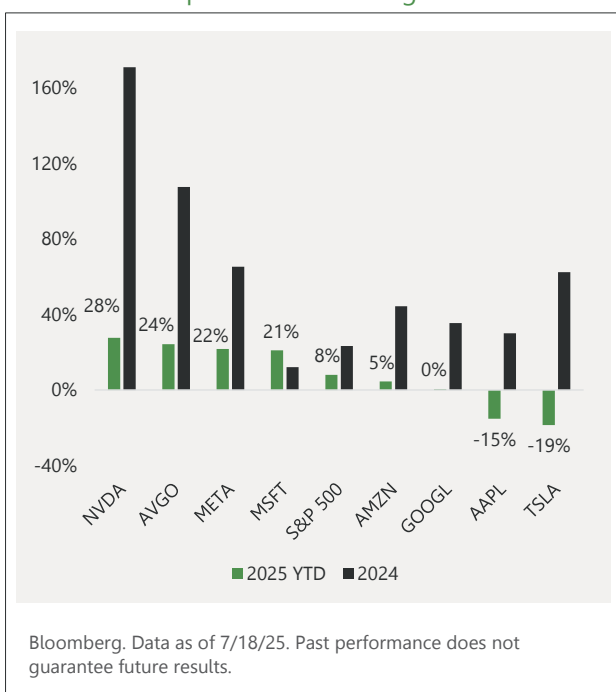
Magnificent 7 Dispersion

In the first half of 2025, a clear divergence emerged in performance among the stocks commonly referred to as the Magnificent 7—now effectively expanded to include Broadcom (AVGO). As seen in Chart 2, Nvidia (NVDA), Microsoft (MSFT), Meta Platforms (META), and AVGO have distinguished themselves as leaders, propelled by their ability to successfully monetize the accelerating demand for computing power driven by generative AI. NVDA has continued to dominate the AI hardware landscape, leveraging the strength of its state-of-the-art Blackwell GPU platform to maintain its leadership in both training and inference workflows. MSFT has seen renewed momentum in its Azure cloud segment, where revenue growth has accelerated due to increased enterprise demand for AI infrastructure and tools. META's substantial investments in AI have translated into greater profitability, with its platforms delivering stronger ad sales performance tied to improved targeting and efficiency. AVGO benefited from surging demand for its AI infrastructure offerings, particularly in networking solutions for workload switching and custom accelerators built for specialized AI computation tasks.

The success of this group contrasts with the other members of the Magnificent 7, whose relative underperformance in 2025 has been largely rooted in slower or less convincing AI monetization, along with a variety of company-specific challenges. Alphabet (GOOGL) has lagged its peers amid concerns that emerging AI-powered consumer tools could cannibalize its core advertising search business. This, combined with heightened regulatory scrutiny and slow progress in extracting value from its Gemini AI Overviews feature, has weighed on the stock. Apple (AAPL) has struggled under the pressure of escalating tariff headwinds tied to its iPhone production footprint in China, while also failing to clearly articulate or execute on a differentiated AI roadmap that could boost its product appeal. Tesla (TSLA), has faced slowing electric vehicle sales and additional turbulence stemming from

CHART 2

YTD Return Dispersion for the Mag 7 + AVGO



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CEO Elon Musk's controversial leadership role in the federal government's short-lived DOGE efficiency initiative. Amazon (AMZN) presents a more mixed picture. While its AWS cloud business continues to grow steadily, investor sentiment has been dampened by the threat of renewed tariff pressures on its global e-commerce operations.

Waiting for Inflation

Following the "Liberation Day" tariff announcements in early April, many economists anticipated a rise in inflation as a direct result of the new trade measures. Yet, for much of the second quarter, inflation data offered little evidence of immediate price pressures. As the quarter wore on, the growing consensus among market participants was that any inflationary impact from tariffs would not materialize until late summer after supply chains and pricing schedules adjusted. In May, the headline consumer price index (CPI) fell to 2.4. This was the lowest reading since the onset of the post-pandemic inflation surge and suggested that pricing pressures were still easing. However, by June, signs of tariff-related price increases began to emerge. Headline CPI rose 2.7% year-over-year, a figure that came in below expectations but indicated a subtle shift. For the first time, companies appeared to be passing along cost increases, particularly for goods produced abroad. Categories such as appliances and toys registered their sharpest price jumps since the inflation spikes of 2021 and 2022.

Several factors may explain the delayed impact on consumer prices. First, the Trump administration has so far shown hesitance in fully implementing the initially announced Liberation Day tariff rates. Instead, it has pursued a more measured approach by engaging in negotiations and forming bilateral trade agreements with key partners. This softer stance has blunted the inflationary blow that markets originally feared. Second, among tariffs already in effect, many firms seem to have absorbed the initial cost burden rather than pass it on to consumers. That said, signs are emerging that this buffer is beginning to erode. Notably, in the first quarter, many businesses were proactive in stockpiling imported goods ahead of anticipated tariff hikes. This inventory build-up was clearly reflected in 1Q25 GDP data, where net exports subtracted a steep 4.6% from overall growth. Third, demand-side dynamics have also played a role. Consumer retrenchment appears to be moderating price pressure, with retail sales falling 0.9% in May and spending on services contributing just 0.3% to 1Q25 GDP—the lowest contribution since the pandemic.

Holding Pattern

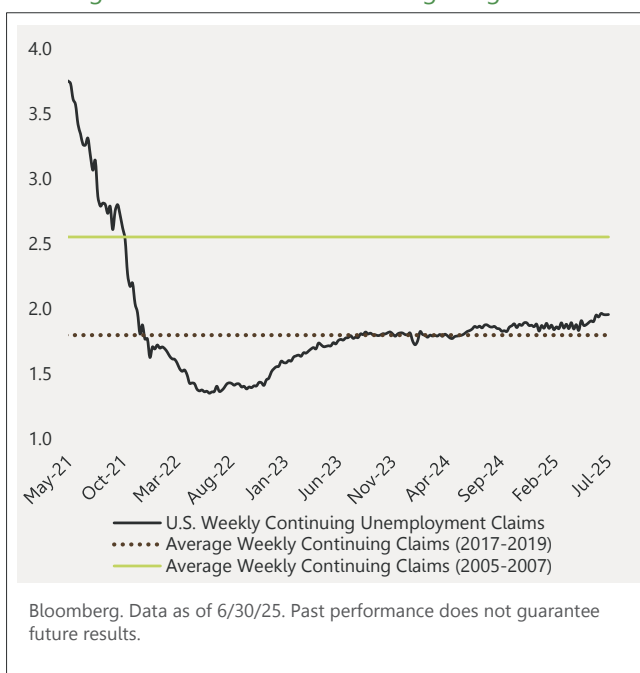
Despite these mixed signals, the absence of a persistent upward trend in inflation has left the Federal Reserve in a difficult position. Policymakers now face a delicate balancing act. If price increases tied to tariffs continue to materialize in the months ahead, cutting rates too soon could destabilize markets and reignite inflationary concerns. On the other hand, maintaining elevated interest rates in an environment marked by a cooling labor market risks undermining growth

and employment. Theoretically, tariffs should act more like a one-time price shock than a catalyst for inflationary pressure which lasts more than a two or three quarters. And so, Fed Chair Jerome Powell and his colleagues remain in "wait-and-see" mode. At the June 17-18 Federal Open Market Committee (FOMC) meeting, officials unanimously voted to maintain the federal funds rate in a range of 4.25% to 4.50% for the fourth straight meeting. The FOMC emphasized a cautious approach to future rate adjustments, indicating that any changes will depend on evolving economic data, particularly regarding inflation and labor market conditions. Powell has publicly noted that he believes the policy rate is in restrictive territory but it remains prudent to refrain from easing policy until the effects of tariffs are better understood.

Less Hiring and Less Firing

The U.S. unemployment rate hovered between 4.0% and 4.2% in the first six months of 2025. By June, it had settled back at 4.1%, exactly where it stood a year earlier. This level remains comfortably below the historical average of approximately 6%, suggesting the labor market is still in relatively strong shape. Job openings have also ticked up in recent months, reaching a 6-month high of 7.77 million in June, nearly matching their level from a year ago. This rebound in openings is a welcome development, as a declining trend in vacancies is often interpreted as a signal of labor market deterioration. Still, several forward-looking indicators are urging investors and policymakers to stay cautiously optimistic. Weekly continuing claims—a gauge of how many unemployed individuals are actively looking for work but remain jobless—have climbed to their highest level since November 2021. As seen in Chart 3, weekly continuing

CHART 3
Rehiring of Laid Off Workers is Taking Longer



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jobless claims rose to 1.95 million in late June above the average from 2017 through 2019 but still well below the 2.55-million average in the three years (2005-2007) leading up to the Global Financial Crisis. This rise could reflect employers' hesitancy to make new hires amid ongoing economic uncertainty. It may also point to a mismatch between the types of jobs available and the qualifications or preferences of job seekers. Taken together, the overall labor market picture suggests a slowdown in momentum, but not a contraction. The current environment is characterized less by layoffs and more by a moderation in hiring activity.

So far, AI has not displaced workers on a large scale. Yet, as the technology matures, it could present real challenges to traditional employment sectors, particularly in routine-based or service-oriented roles. At the same time, the Trump administration's restrictive stance on immigration may tighten labor supply, exerting upward pressure on wages and helping to keep a floor under the unemployment rate. Together, these evolving trends will be critical variables in ongoing assessments of labor market conditions.

One Big, Beautiful, Front-Loaded Bill

In addition to tariffs, the second quarter's other major policy development was the passage of the One Big Beautiful Bill Act (OBBBA), which narrowly cleared both chambers of Congress and was signed into law on July 4. The bill faced Republican dissent and required Vice President JD Vance's tie-breaking vote in the Senate to pass. OBBBA's headline provisions include the permanent extension of the 2017 tax cuts, new deductions for tips and overtime, and an increase in the state and local tax deduction cap to \$40,000. While these measures are expected to have long-term fiscal implications, the legislation is decisively front-loaded in its economic impact. A significant portion of the benefits is concentrated in the early years, aimed at quickly boosting business investment and disposable income.

Importantly, the OBBBA postpones many spending cuts until 2027 but backdates most of the stimulus measures to January 1, 2025. These include a higher standard deduction for most households, higher child tax credits, the elimination, under certain conditions, of taxes on tips and overtime, the deductibility of auto loan interest on domestic vehicles, the increased deductibility of state and local taxes, and a new \$6,000 deduction for senior citizens. The bill also allows firms to take immediate deductions for research and development costs and accelerate depreciation on capital investments. Several tax cuts and spending increases are structured to expire within a few years, magnifying their near-term stimulative effect while containing their longer-run budgetary costs. The OBBBA is projected to increase the federal deficit by \$3 trillion over the next decade, driven largely by reduced tax revenues and higher spending on defense, immigration enforcement, and growing interest obligations. However, this figure does not include the offsetting effect of the Trump administration's tariffs, which are expected to generate \$2.8 trillion in revenue over

the same period. In theory, this would almost fully offset the loss in tax receipts related to the OBBBA, assuming the current tariff regime remains intact. This potential fiscal offset likely helps explain the muted market response to the bill's passage, despite concerns over the growing national debt and the U.S. credit rating downgrade by Moody's.

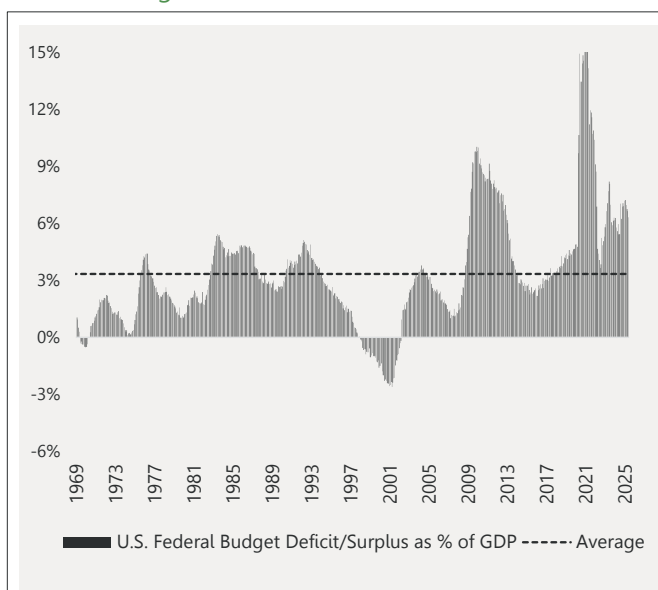
Deficit Dynamics

In the aftermath of the OBBBA, questions about the sustainability of the U.S. federal deficit have come back into focus. Does the federal deficit really matter? The answer depends on the timeframe. In the long term, most economists agree that persistent deficits can pose serious risks. Chief among them is the potential for rising federal debt to crowd out private investment, as the government's borrowing appetite begins to dominate financial markets. This concern could become more acute as interest payments on the national debt are projected to become the single largest line item in the federal budget by the 2030s.

In the short term, the situation is more nuanced. Thanks to the status of the U.S. dollar as the world's reserve currency and the central role of U.S. Treasuries in international finance, the U.S. enjoys an unusual degree of flexibility. Around 60% of the world's foreign exchange reserves are held in U.S. Treasuries, due to their liquidity, stability, and utility as collateral. Until a credible alternative to U.S. Treasuries emerges, the federal government will likely retain the ability to run substantial deficits without triggering a fiscal crisis. Still, the scale of the current deficit is significant. In fiscal year 2024, the U.S. budget deficit, a measure of the gap between federal revenues and outlay, rose to \$1.83 trillion, or 6.4% of GDP. As seen in Chart 4, that's a substantial

CHART 4

The U.S. Budget Deficit Needs to Come Down

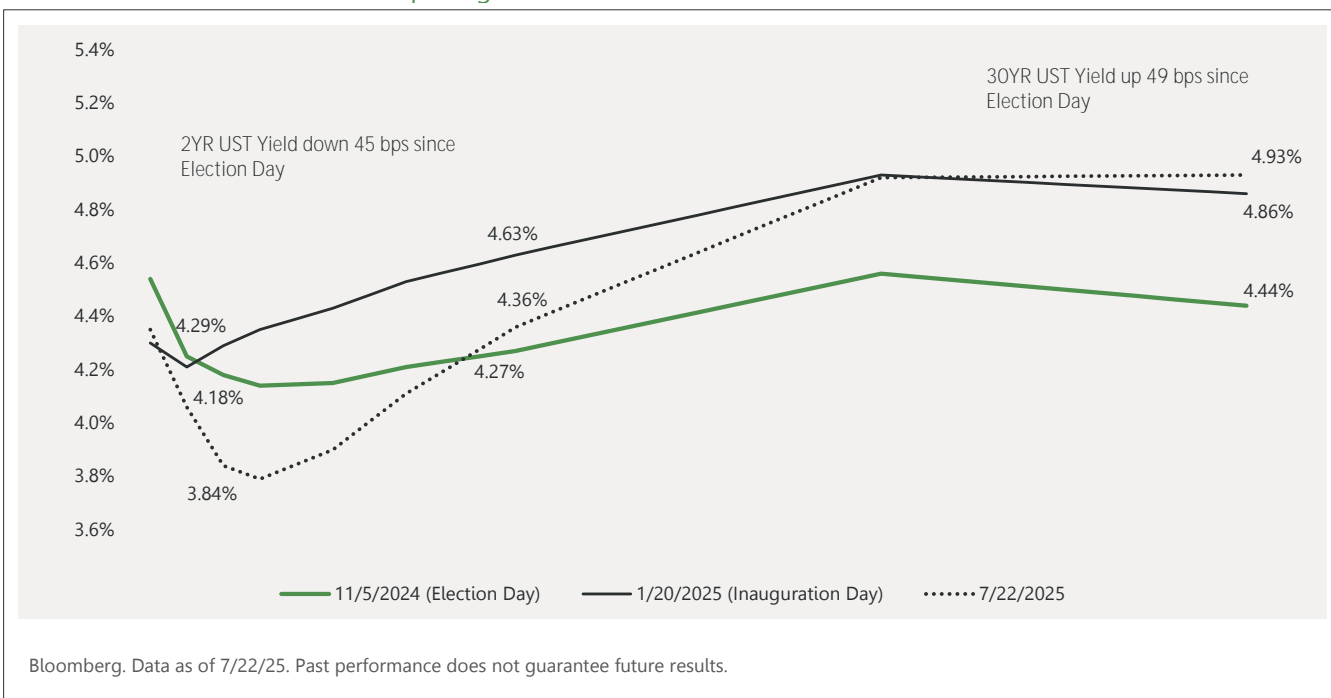


Bloomberg. Data as of 6/30/25. Past performance does not guarantee future results.

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CHART 5
2025: The Year of Yield Curve Steepening



increase from 4.6% in 2019 and 2.8% in 2014. Historically, deficits exceeding 5% of GDP have only occurred during periods of war, economic recession, or national emergency, making today's figures an outlier in peacetime. The Trump administration has articulated a goal of reducing the deficit to 3% of GDP over the coming years.

The OBBBA seems to favor growth-oriented policies over spending cuts to achieve this objective. Rather than imposing widespread austerity, the legislation leans on the idea that expanding the economy's overall output can help lower the deficit as a percentage of GDP. The assumption is that a stronger economy will generate higher tax revenues, reduce demand for safety net programs, and ultimately bring the budget back toward balance.

Steepening Trend

During the second quarter, long-term Treasury yields edged higher, while short-term yields moved lower. This yield curve steepening pattern was widely interpreted as a response to the fiscal expansion implied by OBBBA and President Trump's increasingly public pressure on the Federal Reserve to cut the policy rate. Bond market volatility was elevated early in the quarter, particularly around the April 2 tariff announcements, which rattled markets and sent the 10-year Treasury yield briefly down to 3.9%. But concerns over financial outflows from U.S. markets in the wake of tariffs and the growing federal deficit reversed that move.

The 10-year yield rebounded to 4.6%, before settling at 4.3% by quarter's end, just above its 4.21% level at the end of March.

Though the benchmark 10-year yield ended the quarter essentially flat, the yield curve itself steepened, as longer-dated yields rose more sharply (see Chart 5). The 30-year Treasury yield climbed roughly 20 basis points, reflecting persistent concerns about the U.S. fiscal trajectory, and the potential for waning foreign demand for U.S. debt as the dollar weakened.

The Stablecoin Connection

The recently passed GENIUS Act (General Enabling of Nationally Issued and Utilized Stablecoins) represents a landmark effort by U.S. lawmakers to formally integrate stablecoins into the regulated financial system. The legislation establishes a clear legal framework for the issuance, custody, and use of dollar-backed digital tokens, aiming to foster innovation while safeguarding financial stability. The bill requires stablecoins to be fully backed by high-quality liquid assets (i.e., short-term U.S. Treasuries).

Once a niche product within the crypto ecosystem, these digital dollar tokens are now increasingly used in global payments, cross-border settlements, and decentralized finance. Their appeal lies in combining the speed and programmability of digital assets with the perceived safety of the U.S. dollar as the global reserve fiat currency. A key financial implication of stablecoin adoption is the potential new source of demand for U.S. Treasuries. Since the GENIUS Act mandates that stablecoins be backed by risk-free reserves, most issuers are expected to hold short-duration Treasury securities as their primary collateral. As the market for

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stablecoins expands—driven by payment applications, fintech innovation, and institutional adoption—the resulting reserve requirements could translate into hundreds of billions of dollars in incremental demand for Treasuries. This dynamic could serve as a strategic advantage for the U.S. government. At a time when deficits are large and global appetite for U.S. debt is under scrutiny, stablecoins could offer a new, decentralized, and globally distributed buyer base.

New Market Leadership?

As the Trump administration shifts focus from resetting trade policy toward a more explicitly pro-growth domestic agenda, a new wave of market leadership could be taking shape. We view the financials, industrials, and utilities sectors as well-aligned with the administration's emphasis on policy that seeks to advance U.S. dominance in artificial intelligence, deregulate the financial sector, reshore key manufacturing industries, and expand domestic energy production. Over the 12-month period from July 2024 through June 2025, the S&P 500 Financials sector is up 27%, Industrials have gained 21.1%, and Utilities have advanced 19.8%. To us, this suggests both a broadening of participation and a potential rotation in market leadership (See Chart 6).

Within the financial sector, commercial banks, investment banks, and asset management firms are benefiting from a more relaxed regulatory environment. Eased capital controls and simplified oversight are encouraging more robust capital formation, loan growth, and deal activity, which directly support earnings potential and share price appreciation.

The industrials sector is being driven by companies tied to AI infrastructure and reshoring. Commercial aerospace firms have seen renewed demand from both defense and global travel markets. At the same time, electrical and power infrastructure manufacturers are experiencing increased orders due to the surge in AI data center construction. Machinery producers and commercial HVAC companies are supported by investment in advanced manufacturing and cooling-intensive technologies. In the utilities sector, electric power providers are capturing investor attention due to their critical role in supplying energy to meet the high demands of AI data centers.

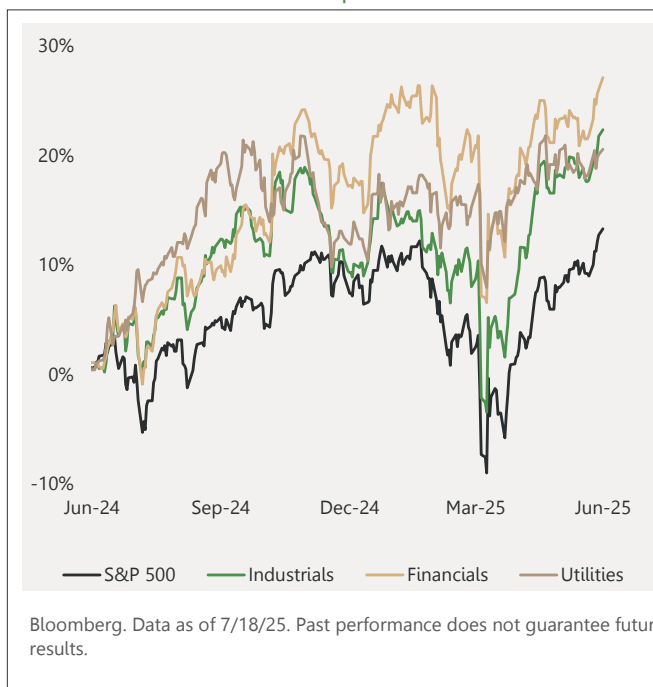
Outlook

We may see further bouts of short-term market volatility as tariff negotiations and fiscal policies are finalized and digested by the market during a historically turbulent portion of the calendar from mid-August through mid-October. Concerns about Federal Reserve independence could put additional pressure on stock and credit markets.

Further over the horizon, however, we see more potential upside to risk assets in the final months of 2025 and heading into 2026. The Federal Reserve is likely to begin easing policy in coming months. Any tariff-driven burst in inflation is likely to be transitory given tariffs are one-time adjustments to

CHART 6

New Stock Market Leadership Candidates



price levels. Corporate earnings growth could surprise to the upside as the AI CapEx, energy grid, and domestic reshoring buildouts continue apace. Meanwhile, S&P 500 companies of the technology sector are likely to begin reaping the efficiency benefits of adopting generative AI usage across their business models. A weaker U.S. dollar should also provide a boost to S&P 500 profits, unlike the headwind of U.S. dollar strength for most of the last 10 years. Financial sector regulation should stoke demand for credit, while initial public offerings and corporate mergers are likely to pick up steam in coming months.

The U.S. labor market is slowing but does not show signs of cracking. As long as U.S. consumers have jobs, they will likely continue to spend their income. We think the ability of U.S. consumers to service their debt remains solid compared to history based on the long-term average of the household debt service ratio. Taken together, these dynamics suggest that investors should anticipate a broadly supportive economic and market backdrop as we move through late 2025 and into what could be a strong start to 2026.

Economic Outlook and Investment Policy

ECONOMIC FACTORS

CURRENT OUTLOOK

U.S. GDP Growth	The domestic economy appears poised for below-trend growth of 1% in 2H25 followed by an acceleration to 2% in 2026.
Federal Funds Rate	We expect the Fed to reduce its policy rate by 50 basis points over the next 6 months with a first cut on September 17.
Inflation	An effective average U.S. tariff rate around 15% will likely cause a temporary uptick of Y/Y consumer inflation toward the 3%-3.5% range.
Employment	We anticipate slower hiring in 2H25 (but not a contraction in payrolls) as U.S. employers adapt to the new policy environment.
Consumer Confidence	Consumer sentiment likely bottomed in late April and could improve steadily as the effects of OBBBA-related stimulus impacts the economy.
Oil	We see WTI crude oil prices between \$65-\$70/barrel as a sweet spot for U.S. energy producer profitability and consumer sentiment.
Housing	Activity in the existing homes market remains suppressed with low inventory levels and the average 30-year mortgage rate near 7%.
International Economies	Fiscal stimulus in Germany, secular growth in India, and corporate reform in Japan should continue to be international bright spots in 2H25.

FIXED INCOME

MINIMUM	NEUTRAL	MAXIMUM

CURRENT OUTLOOK

Core Bonds				
TIPS				
Non-Investment Grade				
International				

In early April we reduced credit exposure in portfolios by redeeming high yield bond positions and reallocating to Treasuries. We do not think high yield bond valuations appropriately compensate investors for their embedded risk in the current environment. High yield credit spreads remain tight compared to historical ranges despite recent widening. High yield issuers could face a more challenging market in the 2H25 and 1H26 as a wave of 2021 issuance will need to be financed.

We prefer to hold short to intermediate-term US government bonds and investment-grade corporate bonds. We expect this posture will benefit from a continued steepening of the yield curve (when the gap between short rates and long rates expands). Shorter duration exposure also limits potential volatility related to periodic flareups about the U.S. budget deficit.

High quality bonds are likely to play a key role in dampening the volatility of diversified portfolios in the second half of 2025 and beyond due to 1) significant coupon income and 2) price appreciation potential in the event of another "growth scare" similar to what we saw in the summer of 2024.

EQUITIES

MINIMUM	NEUTRAL	MAXIMUM

CURRENT OUTLOOK

Large Cap				
Mid Cap				
Small Cap				
Developed International				
Emerging Markets				

We think target equity weightings should be retained in portfolios following the powerful recovery following the early-April lows. Policy risk remains elevated but has diminished with recent trade deals and passage of the tax-and-spending bill. We would consider increasing equity allocations in the event of a late-summer correction if economic fundamentals do not show imminent signs of deterioration.

Valuations in U.S. large cap stocks are full compared to history, so profit growth will likely have to perform the heavy lifting for further index-level gains. While 2025 earnings growth could be limited by the effects of tariffs, investors will likely turn their focus to what could be an improved trajectory for 2026 profit growth.

Given the balance of risks and opportunities, we think it makes sense to keep equity allocations focused on areas of the market that exhibit quality characteristics in terms of leverage, earnings volatility, and return on capital. Small cap, value style, and international stocks could become more appealing if we see signs of a durable cyclical reacceleration in the global economy accompanied by lower interest rates and subdued inflation.

ALTERNATIVES*

MINIMUM	NEUTRAL	MAXIMUM

CURRENT OUTLOOK

	Cap Pres	IWSG	Balanced	GWSI	Growth
Gold					
Hedged Equity					
Arbitrage					

Most portfolios should maintain a moderate allocation to gold given our assessment that the economic, policy, and geopolitical backdrops remain well suited for the precious metal. A likely resumption of Fed rate cuts, an active war in Ukraine, dollar weakness, and strong global central bank demand outside the U.S. should enable gold to improve the risk-adjusted returns of portfolios in coming quarters. Our alternatives allocations, as seen in the table to the left, are designed to decrease the overall risk profile of our five investment objective-based portfolios (CAP PRES, IWSG, BAL, GWSI, and GROWTH.)

The above minimum/neutral/maximum recommendations represent MainStreet Advisors' current positions relative to our Strategic Asset Allocation ranges. Views expressed have a 6-12 month horizon and are those of the MSA Investment Committee.

*Cap Pres: Capital Preservation, IWSG: Income with some growth, GWSI: Growth with some income

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