Global Trust Company

Recovery Amid Shifting Risks

Markets experienced a significant rebound in the first half of the year, driven by easing trade tensions, stable economic growth, and geopolitical developments.

MARKET REVIEW
JUNE 2025

Recovery Amid Shifting Risks

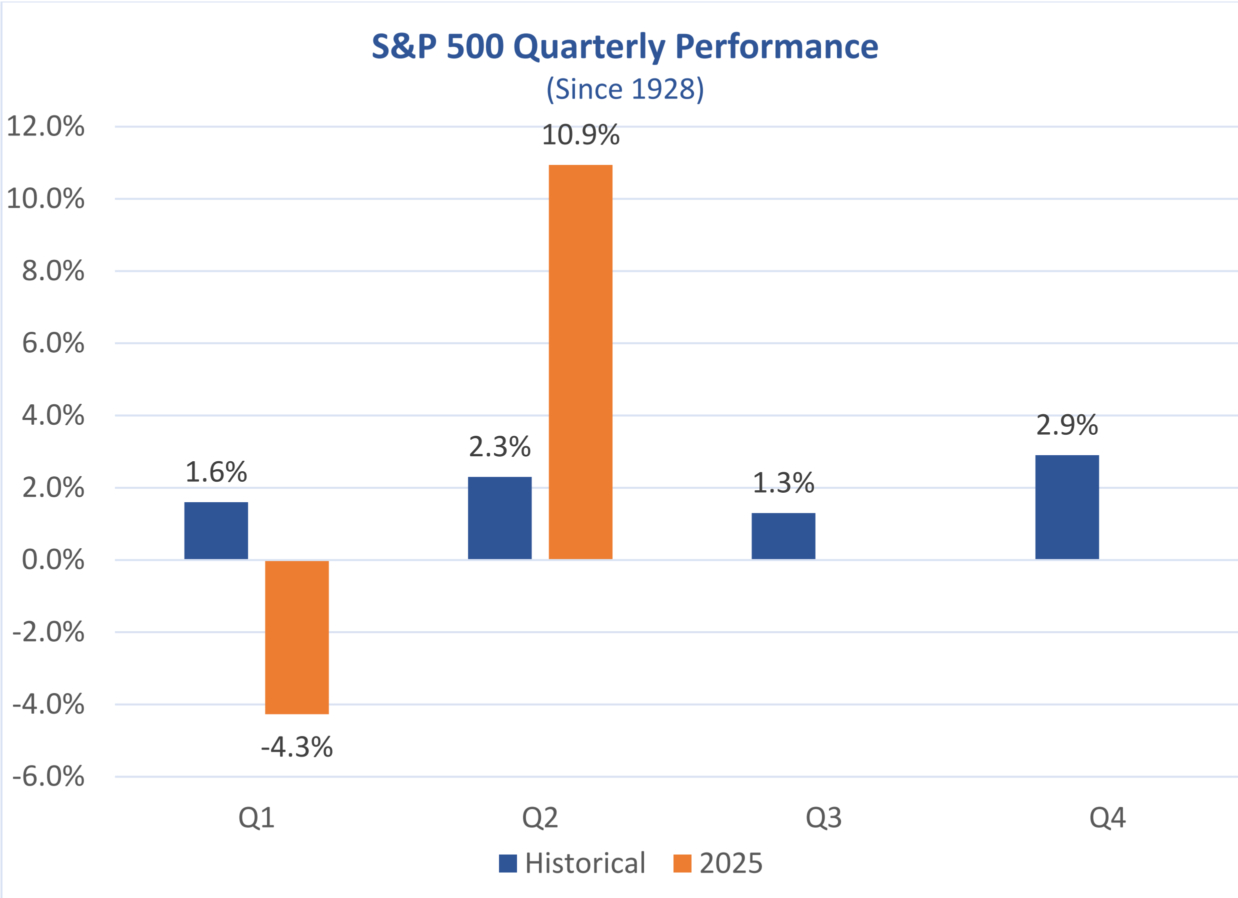
The first half of the year saw a dramatic market rebound, swinging from a roughly -15% drawdown in April to a 6.2% gain by the end of June—a rare turnaround matched only a few times in the past 75 years. The market's recovery has largely been driven by five key macro factors: reduced concern over the near-term effects of U.S. trade policy, increased clarity around the extension of expiring tax cuts, stable economic growth and corporate performance, the continued absence of a major credit event, and the limited yet successful U.S. involvement in the Israel-Iran conflict. While uncertainties remain, these developments have helped support market stability and a generally positive outlook heading into the second half of the year. The key takeaway is the importance of remaining focused and not swayed by headlines, as investor sentiment tends to follow price action rather than lead it.

Equities: Global equities surged in Q2, with the MSCI World Index up 11.5% (USD), driven by President Trump's swift reversal of aggressive tariffs, solid global economic growth, and easing geopolitical tensions, particularly in Iran. U.S. equities initially plunged on tariff fears but rebounded strongly after the tariff rollback, ending the quarter up 11%, led by tech and cyclical sectors. Europe rose 3% in local terms and 11% in USD, aided by improving data and trade optimism. Emerging markets rallied on currency strength, tariff relief, and a 33% gain in Korean stocks. Chinese equities faced headwinds from heightened U.S. tariffs and removal of low-value import exemptions, though a late-quarter trade deal moderated tensions.

Currency markets saw the dollar hit a three-year low due to policy uncertainty and Fed tensions. The euro rallied 9%, emerging market currencies gained 5.3%, and Bitcoin jumped 30%, boosted by growing political support and macro tailwinds.

U.S. market valuations have surged back to their highs, even as earnings growth expectations have weakened. The S&P 500 is trading at roughly 23.0 times trailing earnings and 21.5 times forward earnings at quarter-end—both significantly above the long-term average of 16x since 1950. This suggests investor sentiment remains strong, with valuations reflecting heightened optimism despite softer fundamentals. Concurrently, global demand for the U.S. dollar has waned, and even if sentiment shifts, a flight to quality would likely pose challenges for U.S. exporters and emerging markets. A weaker dollar would ideally result from stronger growth abroad—but current global conditions do not suggest that is underway.

Looking ahead, markets may remain strong through July due to seasonal trends, but potential weakness looms in August and September. Despite progress on trade negotiations, many agreements are still incomplete and uncertain. Persistent supply chain issues could pressure growth and inflation, and key policy challenges—including the debt ceiling, federal budget, and Fed rate decisions—add to the risk landscape, warranting continued investor caution.



Source: Strategas; eVestment

Fixed Income: In June, U.S. Treasury yields declined as inflation data came in slightly cooler than expected and labor market conditions softened. The Federal Reserve held rates steady, with Chair Powell emphasizing a data-driven approach that markets interpreted as dovish. As a result, futures pricing reflected expectations for roughly two and a half rate cuts by year-end. Despite ongoing geopolitical tensions, relatively attractive Treasury yields attracted demand, driving yields lower across the curve. Corporate credit outperformed Treasuries, with strong showings from utilities, financials, and industrials, though communications lagged due to Warner Brothers' restructuring. Asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS) also outperformed Treasuries, buoyed by strong issuance and investor demand. CMBS performance was supported by an increased risk appetite, particularly for office deals. Agency RMBS led all securitized sectors, outperforming as falling rates and reduced volatility boosted performance, especially in lower-coupon 30-year bonds.

U.S. Treasury Yield Changes		
	YTM	Change from Previous Month
3 Month	4.29%	-0.04%
1 Year	3.97%	-0.13%
2 Year	3.72%	-0.18%
3 Year	3.69%	-0.17%
5 Year	3.80%	-0.17%
10 Year	4.23%	-0.17%
30 Year	4.77%	-0.16%

Source: Bloomberg

Real Assets: The initial wave of U.S. inflation appears to have passed, and while history suggests a second wave is possible, it typically takes years to emerge. For now, inflation remains in a lull. However, if current tariff policies remain unchanged, they are expected to put upward pressure on prices in the coming months. Commodity prices are mixed. Energy prices have declined after a brief spike in crude due to Middle East tensions, while gold and silver have continued to perform well. Agricultural commodities are mostly down, except for cattle. REITs were essentially flat in June, underperforming the broader stock market for a second straight month. Telecommunications continues to lead on a year-to-date basis, followed by gaming and health care. Demand for class A office space is strong but broader questions related to CRE remain given the rate environment. The return-to-office trend seems to be picking up steam but it is unlikely it returns to pre-pandemic levels.

Diversifying Strategies: In June, hedge funds delivered their strongest monthly performance since December 2023, capping off a strong first half of the year. This rebound was driven by improving economic conditions, resolution of U.S. tax and spending legislation, and progress in global trade negotiations. The HFRI Equity Hedge (Total) Index led the way, fueled by strong returns in Technology, Fundamental Growth, and Energy sub-strategies. Event-Driven strategies also posted strong gains, led by Special Situations and Multi-Strategy. Meanwhile, Macro strategies recovered from prior losses, helped by Discretionary Thematic and Commodity sub-strategies.

Private equity entered 2025 with strong momentum amid easing inflation and pro-business sentiment, but optimism faded as renewed trade tensions and policy uncertainty slowed investment activity and deal flow. Exit activity has weakened, with IPO enthusiasm muted despite PE-backed companies comprising most new listings, leading to delayed portfolio company sales and limited distributions to LPs. Fundraising remains subdued—only $23 billion raised—due to liquidity constraints and shifting capital flows away from venture and private equity. Despite these headwinds, AI remains a bright spot, attracting 71% of Q1 venture deal value, and PE firms still hold over $1 trillion in dry powder and $500 billion in private credit, offering flexibility to capitalize on dislocations. The second half of 2025 will be pivotal in determining whether PE can regain its footing through renewed exits and deployment or remain constrained by macro uncertainty.

Exhibit 1: Asset Class Returns (2016 – YTD 2025)

2016	2017	2018	2019	2020	2021	2022	2023	2024	YTD
High Yield 17.1%	Intl Equity 27.2%	IG Bonds 0.0%	US Equity 31.5%	US Equity 18.4%	US Equity 28.7%	Cmdty 16.1%	US Equity 26.3%	US Equity 25.0%	Intl Equity 17.9%
US Equity 12.0%	US Equity 21.8%	High Yield -2.1%	REITs 23.1%	60/40 14.0%	REITs 27.2%	Diversifying -1.7%	60/40 18.0%	60/40 15.5%	REITs 6.7%
Cmdty 11.8%	60/40 14.5%	60/40 -2.6%	60/40 22.4%	Intl Equity 10.7%	Cmdty 27.1%	High Yield -11.2%	Intl Equity 15.6%	Diversifying 9.8%	US Equity 6.2%
60/40 8.3%	REITs 11.4%	US Equity -4.4%	Intl Equity 21.5%	Diversifying 8.4%	60/40 16.6%	IG Bonds -13.0%	High Yield 13.5%	High Yield 8.2%	Cmdty 5.5%
REITs 5.0%	Diversifying 7.5%	Diversifying -4.7%	High Yield 14.3%	IG Bonds 7.5%	Diversifying 9.8%	Intl Equity -16.0%	REITs 10.9%	Intl Equity 5.5%	60/40 5.3%
Diversifying 4.8%	High Yield 7.5%	REITs -4.7%%	Diversifying 8.9%	High Yield 7.1%	Intl Equity 7.8%	60/40 -16.1%	Diversifying 7.4%	Cmdty 5.4%	High Yield 4.6%
Intl Equity 4.5%	IG Bonds 3.5%	Cmdty -11.3%	IG Bonds 8.7%	Cmdty -3.1%	High Yield 5.3%	US Equity -18.1%	IG Bonds 5.5%	REITs 2.0%	IG Bonds 4.0%
IG Bonds 2.7%	Cmdty 1.7%	Intl Equity -14.2%	Cmdty 7.7%	REITs -8.2%	IG Bonds -1.5%	REITs -24.4%	Cmdty -7.9%	IG Bonds 1.3%	Diversifying 3.2%

Source: IG Bonds = Bloomberg US Aggregate; US Equity = S&P500; Intl Equity = MSCI ACWI xUS; High Yield = Bloomberg US Corporate High Yield; REITs = FTSE EPRA/NAREIT Developed; Cmdty = Bloomberg Commodity; Diversifying = HFN Hedge Fund Aggregate; 60/40 = 60%S&P500/40%Bloomberg US Aggregate

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