

# Capital Markets Review | 2nd Quarter 2025

June 30, 2025



## Overview

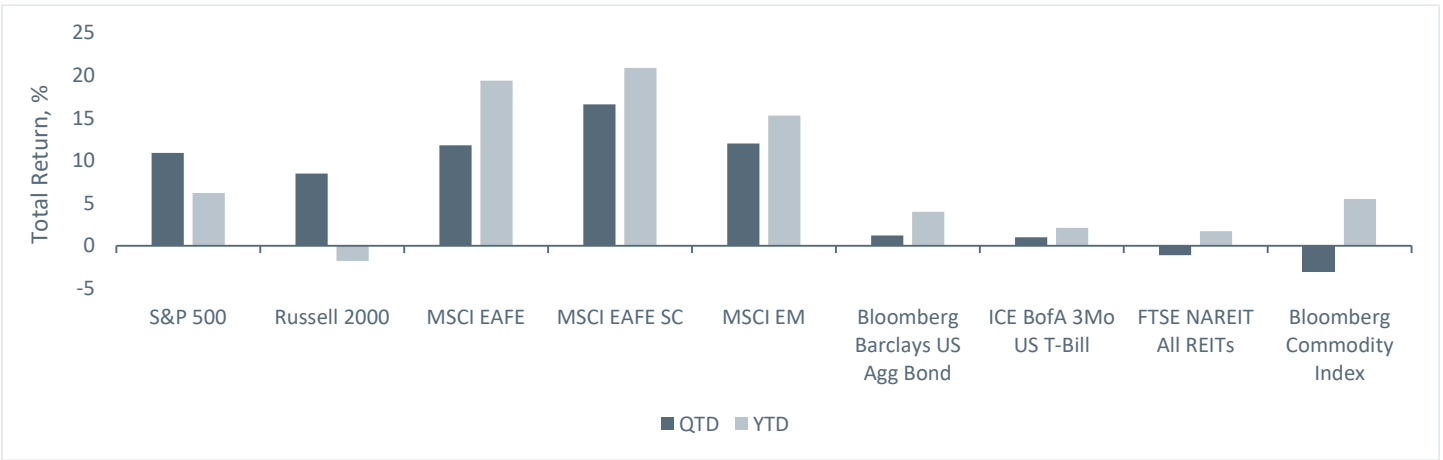
Trade policy announcements and negotiations drove capital market price movements throughout Q2. The unexpected breadth and scale of the tariffs announced on April 2nd triggered a sharp drop in equity markets and dislocations in the US Treasury market. A 90-day tariff pause was declared on April 9th, reducing tariffs for most countries to the previously established 10% rate. Generally, investor sentiment improved during Q2 due to increased confidence that market stability would be a consideration throughout trade policy negotiations.

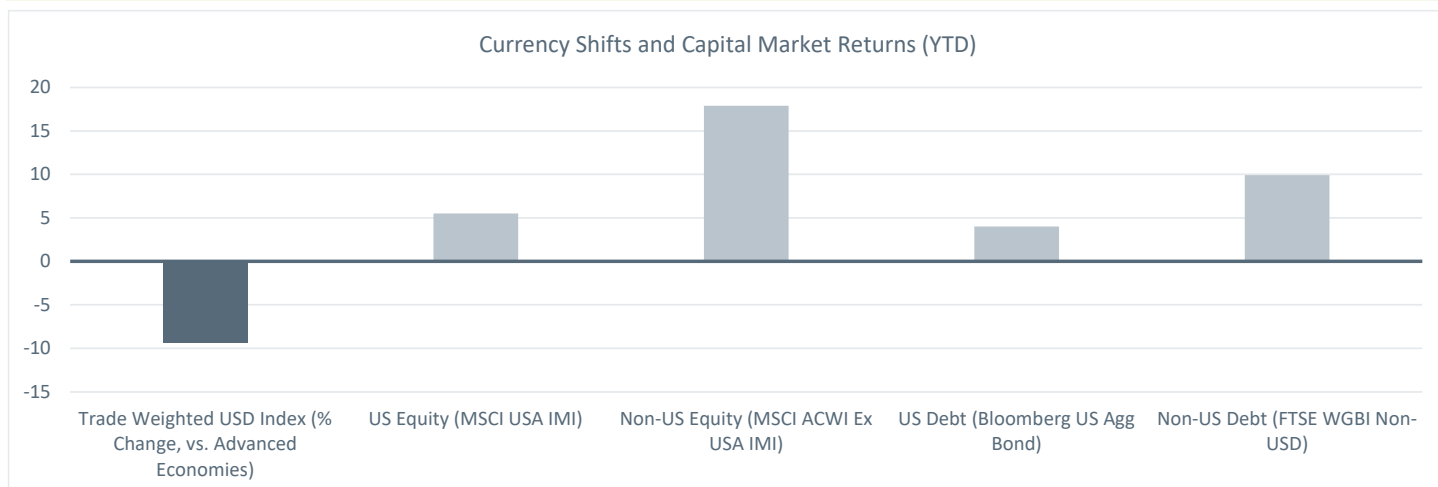
Global equity markets finished Q2 with returns of 11.6%, as measured by the MSCI All Country World Investable Market Index. Developed international and emerging market equity returns outpaced the US equity market with contributions from a weakening US Dollar and economic stimulus within major countries. Global bond markets, amid the volatility in Q2, delivered positive performance during the quarter. While US Treasury yields were volatile in early April, rates broadly declined in June as geopolitical tensions boosted demand for safe-haven assets and longer-duration debt.

GDP growth and inflation also garnered investor attention, especially following the negative GDP growth of -0.5% experienced by the US in Q1 and the recent June release of the Consumer Price Index (CPI) indicating annual headline inflation of 2.7%, the highest reading since February. Concerns about inflation persist as companies work through past inventories that were built up prior to the onset of the trade policy negotiations and the potential that tariffs could impact future CPI releases more significantly. In its latest economic outlook released in June, the Organisation for Economic Cooperation and Development (OECD) projected headline inflation for OECD countries of 4.2% in 2025, up from forecasts of 3.7% released in December 2024.

The US Federal Open Market Committee (FOMC) maintained its policy rate range of 4.25%–4.50% despite increasing political pressure to move toward a more accommodative policy stance. At present, the FOMC forecasts indicate a continued expectation for rate reductions totaling 50 basis points by the end of 2025. The FOMC remains focused on reaching target levels of inflation while maintaining a healthy labor market. While the June US labor market report found that the labor market added 147,000 jobs, exceeding the average economist forecast, there were signs of softening in certain sectors, such as manufacturing, professional services, and wholesale trade. *(continued on next page)*

## Quarter-to-Date (QTD) and Year-to-Date (YTD) Performance



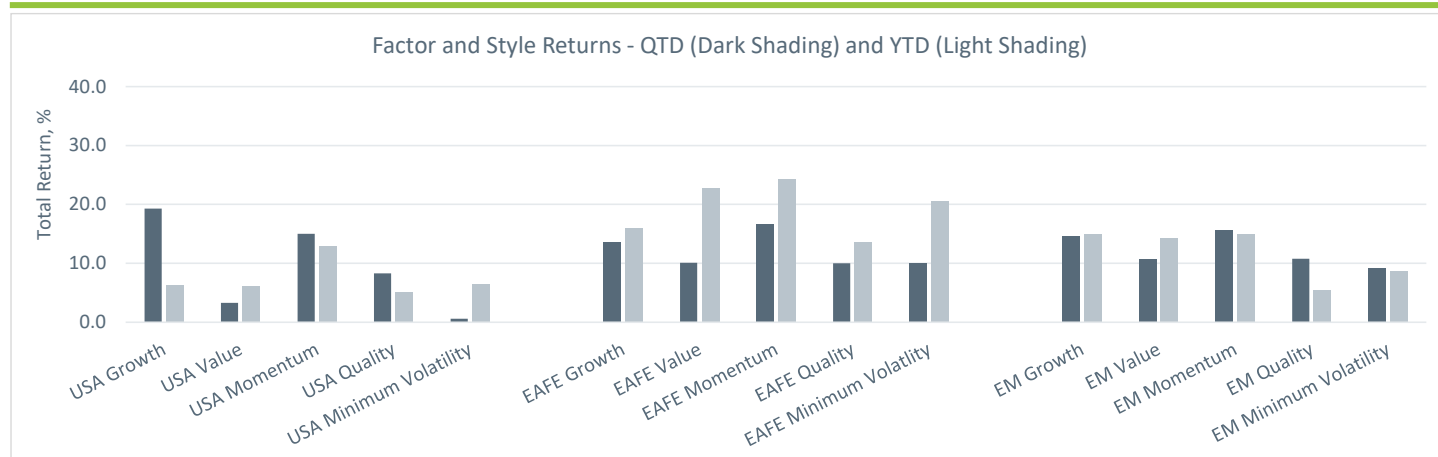


In another notable development, in June, Federal Reserve policymakers proposed changes to the enhanced supplementary leverage ratio aiming to amend post-Great Financial Crisis regulations. The revisions are intended to ease bank liquidity constraints and increase US Treasury market participation, particularly during periods of market stress.

In June, the OECD projected global growth slowing to 2.9% in 2025, a slight decline from a forecast of 3.0% earlier in the year. The OECD is now forecasting US GDP growth of 1.6% in 2025, a decline from 2.8% in 2024. In contrast, Europe is forecasted to experience a modest increase in growth from 0.8% in 2024 to 1.0% in 2025. In response to potential threats to economic growth, European policymakers have announced substantial fiscal stimulus measures paired with cuts to central bank policy rates. For instance, the European Central Bank and Swiss National Bank cut policy rates in June. Fiscal support included an agreement from the North Atlantic Treaty Organization (NATO) members to increase defense spending to 3.5% of GDP with other targeted spending increases to support security measures. Within emerging markets, the People's Bank of China delivered support to its economy through lowering the repo and bank reserve rates. Additional lending was also expanded for service- and consumer-oriented companies.

## Expanded Review of Key Economic Indicators

	Q2 2025	Q1 2025	Q4 2024	10-Year Average
Federal Funds Rate	4.33%	4.33%	4.33%	1.97%
Treasury (2-Year)	3.72%	3.89%	4.25%	2.15%
Treasury (10-Year)	4.24%	4.23%	4.58%	2.59%
Treasury (30-Year)	4.78%	4.59%	4.78%	3.02%
Breakeven Inflation (5-Year)	2.31%	2.63%	2.37%	2.00%
Breakeven Inflation (10-Year)	2.28%	2.37%	2.33%	2.02%
Breakeven Inflation (30-Year)	2.26%	2.26%	2.32%	2.05%
BB US Corp: Hi Yld Index - OAS	2.90%	3.47%	2.87%	4.10%
Capacity Utilization	77.64%	77.85%	77.63%	77.38%
Unemployment Rate	4.10%	4.20%	4.10%	4.60%
ISM PMI - Manufacturing	49.00%	49.00%	49.20%	52.96%
ISM PMI - Service	50.80%	50.80%	54.00%	55.88%
Consumer Confidence (Conf. Board)	93.00	92.90	104.70	110.21
CPI YoY (Headline)	2.70%	2.40%	2.90%	3.05%
PPI YoY - Producer Prices	2.30%	2.70%	3.30%	2.91%
US Dollar Total Weighted Index	120.08	126.94	129.49	116.04
WTI Crude Oil per Barrel	\$66	\$71	\$72	\$63
Gold Spot per Ounce	\$3,349	\$3,118	\$2,612	\$1,687



### US Equity

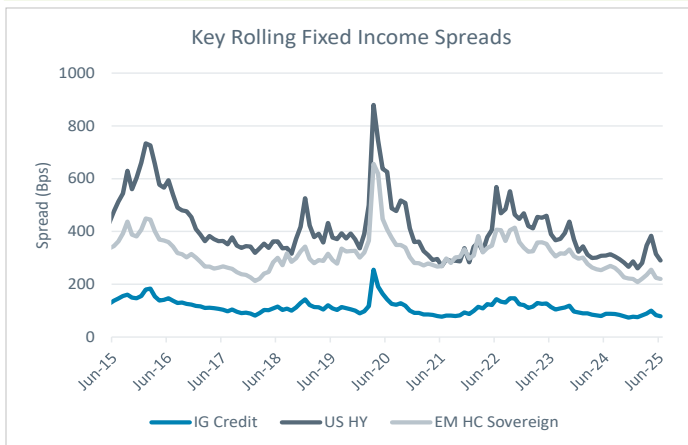
The initial US tariff announcement caused a sharp market drawdown to start Q2. However, following the initial tariff pause, improved investor sentiment and generally positive corporate earnings, market volatility waned and equity market returns rebounded strongly with the Russell 3000 Index returning 11.0% in Q2. Growth stocks outperformed value stocks, with the Russell 3000 Growth Index returning 17.6%, while the Russell 3000 Value Index delivered a more modest gain of 3.8%. Large-cap stocks outperformed small-cap stocks as measured by the Russell 1000 and Russell 2000 Indexes returning 11.1% and 8.5%, respectively. The primary contributor to the performance of the Russell 3000 Index was the recovery of the information technology sector which returned 23.7% in Q2. While performance for the Russell 3000 Index was somewhat broad-based, the quarter generally marked a return to recent trends, with mega-cap growth stocks tied to the artificial intelligence (AI) theme outperforming smaller, value-oriented or defensive stocks.

Active value managers across the capitalization spectrum tended to have more success in outperforming their benchmarks compared to active growth managers. Similar to past quarters characterized by strong mega-cap growth performance, the solid absolute returns and concentration within growth indexes once again contributed to the challenges experienced by active growth managers.

### Non-US Equity

Developed international markets delivered double digit returns that slightly outpaced their US counterparts in Q2, with the MSCI EAFE Index posting an 11.8% return during the quarter. This was driven, in part, by a weakening US Dollar and stimulus measures from foreign governments. Growth stocks outperformed value stocks in Q2, but remain significantly behind on a year-to-date basis. Small-cap stocks outperformed large-cap stocks during the quarter. All countries in the space posted positive returns for the quarter, while energy was the only sector with a negative return. In addition to monetary and fiscal stimulus across Europe, the greater capacity for fiscal spending announced by Germany was viewed positively by investors.

Emerging markets also experienced double-digit returns in Q2, with the MSCI Emerging Markets Index returning 12.0% during the quarter. Growth stocks in emerging markets outpaced value stocks in Q2 with the group now outpacing their value counterparts for the year-to-date period. Small-cap stocks outperformed large-cap stocks during the quarter. Among the largest countries in the region, the top performers were South Korea and Taiwan, which benefited from renewed positive sentiment around companies contributing to AI development, and India, which rebounded from a more difficult Q1. China delivered positive market returns for Q2, but lagged other stronger performing countries.



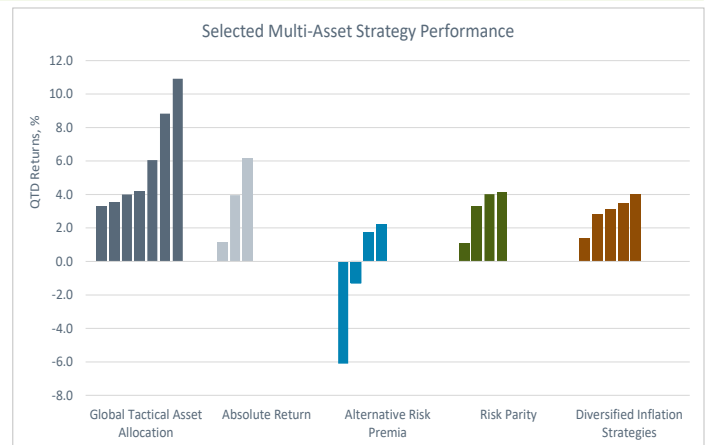
## Fixed Income

In Q2, the US yield curve steepened as short-term Treasury yields declined while long-term yields rose. Additionally, the spread between 2-year and 10-year Treasuries widened by 18 basis points. The 10-year Treasury yield ended the quarter at 4.24%, essentially flat with the prior quarter-end, after fluctuating between 4.00% and 4.60% amid market volatility.

These market movements reflected investor reactions to proposed tariffs, increased concerns over the US fiscal deficit, and tensions in the Middle East. However, delays in implementation and a shift toward a softer tone on trade from the current administration helped ease rate volatility. The FOMC held its policy rate steady signaling a patient approach as it monitors key economic data points and evolving policy dynamics.

Risk sentiment improved during the quarter, fueling a strong rally in credit markets following a brief period of spread widening early in Q2. The Bloomberg US Aggregate Bond Index returned 1.2%, while the Bloomberg US Corporate Investment Grade Index gained 1.8%. Lower-rated bonds led performance, with the Bloomberg US Corporate High Yield Index surging 3.5%.

Emerging market debt also saw strong performance, helped by a weaker US dollar. Local currency bonds outpaced hard currency issues: the JPMorgan GBI-EM Global Diversified Index rose 7.6%, versus a 3.3% gain for the JPMorgan EMBI Global Diversified Index.

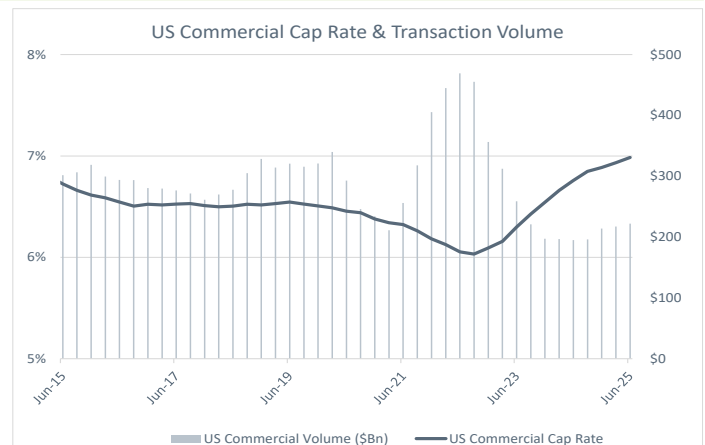
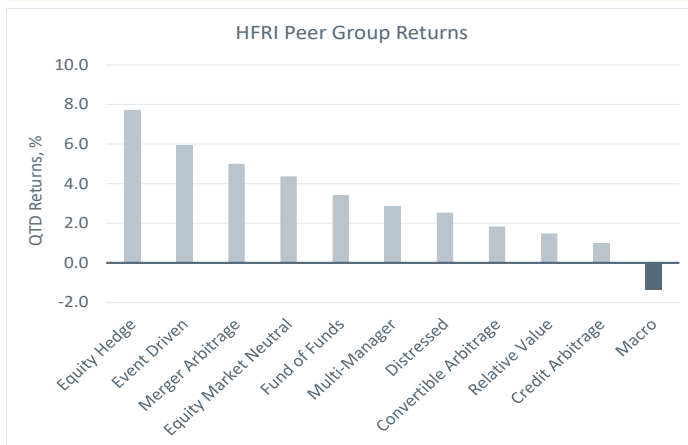


## Multi-Asset

Global Tactical Asset Allocation (GTAA) strategies that RVK follows closely generated positive performance in Q2 with some outperforming a US-centric blend of 60% equity and 40% fixed income (60/40 blend). The top performing long-biased GTAA strategies benefited from allocations to developed international equities, particularly to European stocks, as well as to the industrials and information technology sectors. Managers that trailed peers held higher exposures to long duration bonds and MLPs.

Multi-asset managers that target reduced correlations, low volatility, and limited market sensitivity posted positive returns but underperformed a 60/40 blend. Alternative Risk Premia strategies that RVK follows closely posted disparate returns. Top performers tended to benefit from factor exposures within equities, particularly in the US and UK markets, as well as the financials, materials, and industrials sectors.

Diversified Inflation Strategy managers tracked closely by RVK reported positive performance for the quarter but underperformed a 60/40 blend. The top performing managers benefited from larger exposures to listed infrastructure and precious metals within commodities. Managers that lagged peers had higher exposure to energy and soft commodities as supply and production expanded. Allocations to REITs also detracted as returns were negatively impacted by heightened market volatility.



## Diversified Hedge Funds

Hedge Fund returns were broadly positive in Q2 amid elevated macroeconomic uncertainty. Preliminary performance suggests that the HFRI Asset Weighted Composite Index finished the quarter with a 2.0% return, bringing its year-to-date return to 2.5%.

Equity-oriented managers were top performers in Q2. Alpha generation was strong, particularly on the long side, as global equities recovered sharply from their April lows and implied volatility declined from its April highs, spurred by the US tariff-related announcements. The market began to pivot in April, anticipating the successful passage of US tax and spending legislation. Managers with higher net equity tolerances performed better than their market neutral counterparts.

Event Driven strategies were particularly strong in Q2 following a muted Q1. Deal spreads contracted across the space following the completion of two very contested mergers: Nippon Steel's acquisition of US Steel and Capital One's acquisition of Discover Financial Services. The completion of these deals was generally viewed as a positive indication for future merger and acquisition activity which has experienced a backlog of deal flow.

Macro strategies delivered mixed results with some properly positioned to capitalize on the volume of economic events. Diversified strategies remained consistently positive during the quarter, with the HFRI Multi-Manager Index and the HFRI Fund of Funds Index posting gains each month.

## Real Estate

Core private real estate generated a positive 1.0% total return in Q2 (on a preliminary and gross of fee basis), as reported by the NFI-ODCE Index, driven primarily from a 1.0% return from income with price appreciation being incrementally positive. Income returns remain slightly elevated compared to recent years, but they were relatively similar to more recent quarters. The 1-year income return of 3.54% remains above the 3- and 5-year trailing returns. Q2 marks the third quarter of positive overall appreciation returns after nine consecutive quarters of negative price appreciation for the NFI-ODCE.

During the quarter, investors in publicly traded real estate underperformed their private market counterparts. Publicly traded real estate retraced from prior gains and delivered a total return of -1.1%, as measured by FTSE/NAREIT All REITs Index; however, it remains positive year-to-date with a return of 1.7%.

There continue to be encouraging signs of price stabilization across commercial real estate. Operating fundamentals are modestly improving, with positive trends in leasing, multifamily unit absorption, net operating income, and vacancy. However, the mixed returns in public and private real estate assets in recent quarters demonstrate continued volatility driven by uncertainty surrounding trade, fiscal and monetary policy.

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