

July 31, 2025



Market Commentary

- The second quarter of 2025 was marked by a notable shift in market sentiment as fiscal and trade policy developments took center stage. The Trump administration's introduction of the "Big Beautiful Bill" and ongoing tariff discussions heightened concerns about the federal budget deficit, contributing to increased volatility in markets. Moody's decision to downgrade the U.S. credit rating, the last of the major agencies to do so, underscored the market's apprehension about fiscal discipline.
- Inflation remained a focal point for investors. Historically, oil prices and the 10-year Treasury yield have moved in tandem, but this relationship has diverged. A combination of softening demand and increased supply from OPEC+ countries has kept oil prices in check, even as inflation expectations persist.
- Central banks around the world continued to chart different courses. The Federal Reserve held its policy rate steady, balancing mixed signals from inflation and labor market data. In contrast, the UK and Euro Area moved to ease rates, providing a tailwind for non-U.S. markets and contributing to U.S. dollar volatility. Despite some headlines about potential risks to the dollar's reserve currency status, the greenback remains relatively strong by historical standards.

Fixed Income

- The Federal Reserve left rates unchanged at 4.25%–4.50%, maintaining a cautious stance as policymakers assess the economic impact of recent fiscal initiatives. The Bloomberg U.S. Aggregate Bond Index returned 1.2% during the quarter, benefiting from falling rates. The shift lower in yields reflected a defensive tone in rates markets as the Fed held steady and the economic backdrop remains uncertain.
- The Bloomberg U.S. Corporate High Yield Index had a favorable return in the quarter, gaining 3.5%. Credit spreads remain tight as positive fundamentals, strong demand, and a resilient economy supported prices. The depreciation of the U.S. dollar and easing monetary policy abroad provided an additional boost to non-USD bonds. Valuations remain elevated as credit spreads sit near 20-year lows.

Equity

- Equity markets advanced as clarity around trade policy improved and investors grew more optimistic about future policy support. Large-cap, AI-related names led the way, while small caps lagged. The S&P 500 Index gained 10.9% in the quarter while the Russell 2000 Index returned 8.5%. Sector leadership reflected a risk-on tone, even as macroeconomic signals remain mixed.
- International equities delivered strong gains in the second quarter, helped by a weaker U.S. dollar. European markets rallied on the back of rate cuts, while Japan benefited from data pointing to economic resilience despite trade pressures. Central bank easing in Europe and targeted economic stimulus in China were further tailwinds. The MSCI EAFE Index rose 11.8% and the MSCI EM Index gained 12.0% in the second quarter.

Real Assets

- Equity REITs faced a challenging quarter with the FTSE NAREIT All Equity REITs Index falling 0.9%, underperforming the broader equity market as investors rotated away from high-valuation sectors such as residential real estate. Office and lodging/resorts REITs led performance among property types, benefiting from relative value interest and signs of demand stability. In contrast, single-family rental, health care, and timber REITs lagged due to valuation concerns and macro headwinds.
- Commodities also declined (Bloomberg Commodity Index -3.1%), with losses concentrated in energy, agriculture, and industrial metals. Oil and natural gas prices fell as Middle East tensions eased somewhat, and demand remained tepid. Industrial metals such as copper declined on weak demand expectations, while precious metals like platinum and gold posted strong returns amid ongoing geopolitical uncertainty.

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- **Bloomberg Aggregate Bond Index** covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.
- **Bloomberg US Corporate High Yield Index** covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included.
- **S&P 500 Index** is a capitalization-weighted index designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.
- **Russell 2000 Index** consists of the 2,000 smallest U.S. companies in the Russell 3000 index.
- **MSCI EAFE Index** is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the U.S. and Canada. The index covers approximately 85% of the free float-adjusted market capitalization in each country.
- **MSCI Emerging Markets Index** captures large and mid-cap representation across Emerging Markets countries. The index covers approximately 85% of the free-float adjusted market capitalization in each country.
- **Bloomberg Commodity Index** is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification.
- **FTSE Nareit All Equity REITs Index** is a free-float adjusted, market capitalization weighted index of U.S. equity REITs. Constituents of the index include all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property.

Material Risks Disclosures

- **Fixed Income securities** are subject to interest rate risks, the risk of default and liquidity risk. U.S. investors exposed to non-U.S. fixed income may also be subject to currency risk and fluctuations.
- **Domestic Equity** can be volatile. The rise or fall in prices take place for a number of reasons including, but not limited to changes to underlying company conditions, sector or industry factors, or other macro events. These may happen quickly and unpredictably.
- **International Equity** can be volatile. The rise or fall in prices take place for a number of reasons including, but not limited to changes to underlying company conditions, sector or industry impacts, or other macro events. These may happen quickly and unpredictably. International equity allocations may also be impacted by currency and/or country specific risks which may result in lower liquidity in some markets.
- **Real Assets** can be volatile and may include asset segments that may have greater volatility than investment in traditional equity securities. Such volatility could be influenced by a myriad of factors including, but not limited to overall market volatility, changes in interest rates, political and regulatory developments, or other exogenous events like weather or natural disaster.

All investing involves risk including the potential loss of principal. Market volatility may significantly impact the value of your investments. Recent tariff announcements may add to this volatility, creating additional economic uncertainty and potentially affecting the value of certain investments. Tariffs can impact various sectors differently, leading to changes in market dynamics and investment performance. You should consider these factors when making investment decisions. We recommend consulting with a qualified financial adviser to understand how these risks may affect your portfolio and to develop a strategy that aligns with your financial goals and risk tolerance.