Equities Rebound and Bonds Rally as Easing Trade Tensions and Inflation Bolsters Investor Confidence

Domestic Equities

U.S. equities finished Q2 on a strong note, with the S&P 500 closing at a new all-time high, an impressive turnaround after a volatile start to the quarter. Markets were initially rattled in early April following the announcement of Trump's tariff plan. Between April 2nd and April 8th, the S&P 500 fell more than 12%, marking its worst four-day decline since March 2020. Investor sentiment quickly reversed, however, after the White House signaled a willingness to revisit the policy and implemented a 90-day pause on the most severe measures. This triggered a sharp rebound on April 9, with the S&P 500 surging 9.5%—its biggest one-day gain since 2008—and the NASDAQ jumping 12.2%, its largest single-day increase since 2001.

The positive momentum carried through the end of the quarter as easing trade tensions (trade deals/negotiations with the UK, Vietnam, China, India, South Korea, and the European Union) and resilient corporate earnings (in Q2 of 2025 approximately 78% of S&P 500 companies beat Wall Street EPS estimates) supported a risk-on appetite. By quarter-end, the S&P 500 had surged over 24% from its April lows, reflecting renewed investor confidence and broad strength across global equity markets.

Domestic Index Returns

Name	Q2	YTD	1 Year
S&P 500	10.9%	6.2%	15.1%
Nasdaq Composite	18.0%	5.9%	15.7%
Dow Jones	5.5%	4.5%	14.7%
Russell 1000	11.1%	6.1%	15.6%
Russell 1000 Growth	17.8%	6.1%	17.2%
Russell 1000 Value	3.8%	6.0%	13.7%
Russell 2000	8.5%	-1.8%	7.7%
Russell 2000 Growth	12.0%	-0.5%	9.7%
Russell 2000 Value	5.0%	-3.2%	5.5%

Source: Bloomberg

TThe second quarter saw a rotation out of defensive sectors, as investors favored areas with stronger growth prospects. Information Technology led the market with an impressive 24% gain, closely followed by Communication Services—both buoyed by solid earnings and renewed investor optimism. In contrast, Energy lagged due to supply surpluses, OPEC+ production hikes, and geopolitical tensions, while Health Care underperformed amid regulatory pressures and mixed earnings. The broader market rally was further supported by rebounds in Industrials and Consumer Discretionary, which recovered from earlier softness.

S&P 500 GICS Sector Returns

Name	Q2	YTD	1 Year
S&P 500 Financials	5.5%	9.2%	29.3%
S&P 500 Info Tech	23.7%	8.1%	15.1%
S&P 500 Energy	-8.6%	0.8%	-4.0%
S&P 500 Healthcare	-7.2%	-1.1%	-5.9%
S&P 500 Staples	1.1%	6.4%	12.2%
S&P 500 Discretionary	11.5%	-3.9%	18.4%
S&P 500 Utilities	4.3%	9.4%	23.4%
S&P 500 Industrials	12.9%	12.7%	22.7%
S&P 500 Communication Services	18.5%	11.1%	23.0%
S&P 500 Materials	3.1%	6.0%	1.9%
S&P 500 Real Estate	-0.1%	3.5%	11.7%

Source: Bloomberg

International Equities

Like U.S. equities, both developed (MSCI EAFE +12.0%) and emerging markets (MSCI EM +12.2%) posted strong gains in the second quarter. International equity strength was fueled by a weaker U.S. Dollar, attractive valuations overseas, and growth tailwinds (fiscal policy, easing trade tensions). While international equities—both developed and emerging—led U.S. equities in Q1, that outperformance faded in Q2.

International Index Returns

Name	Q2	YTD	1 Year
MSCI Emerging Markets	12.2%	15.5%	15.9%
MSCI Europe	2.8%	9.1%	8.8%
MSCI EAFE	12.0%	19.9%	18.4%
MSCI Latin America	15.4%	30.2%	13.9%
MSCI Asia	12.5%	13.6%	15.9%

Source: Bloomberg

Commodities

The S&P Goldman Sachs Commodity Index (S&P GSCI) declined in the second quarter (-4.4%), driven primarily by weakness in Energy and Agriculture.

Energy was a notable drag as oil prices remained under pressure despite a brief surge triggered by heightened geopolitical tensions in the Middle East, which raised concerns about potential disruptions to shipping routes. However, the rally was short-lived due to persistent oversupply in the market. Additionally, OPEC+ announced a further increase in oil production set for July, marking the third such boost in recent months.

Agricultural commodities also posted losses for the quarter, with cocoa and soybeans among the few gainers. Meanwhile, livestock, industrial and precious metals, closed higher for the quarter. Most notably, Platinum advanced a little over 36% for the quarter—driven by supply shortages, increased Chinese demand, and industrial tailwinds. Investor demand for precious metals remained strong amid ongoing uncertainty from trade disputes and geopolitical risks, reinforcing their appeal as a "safe-haven" asset class.

Commodity Returns

Name	Q2	YTD	1 Year
Coffee	-19.0%	-0.6%	38.1%
Corn	-3.7%	-4.1%	-6.6%
Cotton	-2.6%	-2.3%	-8.0%
Soybeans	0.8%	0.2%	-6.8%
Sugar	-14.0%	-7.3%	-13.2%
Wheat	-4.9%	-7.4%	-15.5%
WTI Crude	-6.5%	-6.3%	-12.5%
Natural Gas	-24.0%	-2.9%	0.0%
Gold	5.7%	25.9%	42.0%
Silver	5.9%	24.9%	23.9%
Platinum	36.2%	49.8%	36.5%
Palladium	11.7%	21.3%	13.3%

Source: Bloomberg

Fixed Income

The Bloomberg US Aggregate Total Return Index was positive in Q2, albeit global bonds outperformed domestics. The bulk of strength in US Treasuries occurred in the front-end and belly of the yield curve, bolstered by stabilizing inflation data. Investment Grade AAA credit and Agency MBS spreads were rangebound over the quarter amidst sticky mortgage rates and an uncertain corporate investment outlook while High Yield credit spreads tightened materially. Bets on rate cuts were front-loaded, easing from roughly four implied 2025 cuts to just over two and a half by quarter end as equities rebounded from Liberation Day fears and jobs / inflation data painted conflicting pictures. The Federal Reserve held its target rate constant over the quarter.

Domestic Index Returns

Name	Q2	YTD	1 Year
U.S. Aggregate	1.2%	4.0%	6.1%
U.S. Treasury	0.8%	3.8%	5.3%
U.S. MBS	1.1%	4.2%	6.5%
Corporate	1.8%	4.2%	6.9%
U.S. Corporate High Yield	3.5%	4.6%	10.3%
Municipal Bond Index	-0.1%	-0.3%	1.1%

Source: Bloomberg

Global fixed income outperformed domestics, driven in part by a weakening US Dollar (Bloomberg US Dollar Spot Index -6.60% Q2), dovishness of European central banks (European Central Bank cut twice in Q2, UK cut once), and relative outperformance in European duration amidst a US debt downgrade by Moody's and uncertain economic outlook (US 30Y +20bps, UK 30Y flat, Germany 30Y +1bp, Italy 30Y -25bps, France 30Y -3bps, Greece 30Y -14bps).

Hedged International Index Returns

Name	Q2	YTD	1 Year
Global Aggregate Hedged USD	1.6%	2.8%	6.2%
Global Treasury Hedged USD	1.5%	2.3%	5.5%
Global Corporate Hedged USD	2.0%	3.8%	7.3%
Global High Yield Hedged USD	3.4%	4.7%	11.5%

Source: Bloomberg

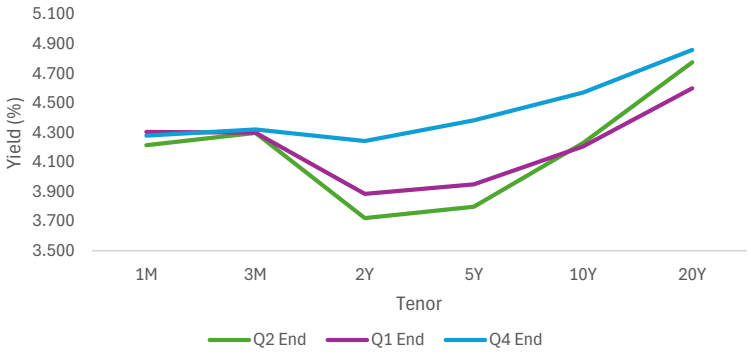
International Index Returns

Name	Q2	YTD	1 Year
Global Aggregate	4.5%	7.3%	8.9%
Global Treasury	4.8%	7.5%	9.0%
Global Corporate	4.4%	7.4%	9.6%
Global High Yield	4.9%	6.8%	13.0%

Source: Bloomberg

The US Treasury yield curve twist-steepened in Q2 as front-end and belly yields fell while longer tenors sold off. The shift in curve shape exceeded last quarter's 3M forward rates, with 2s10s and 2s30s steepening by 11bps and 30bps more than forwards implied. When compared to last quarter, the rally in US front-end / belly yields was relatively muted, as Q1 saw a -36bp decline in the 2Y yield (vs. a -16bp decline in Q2). Despite the strong rebound in equities, fixed income continued to catch a bid this quarter.

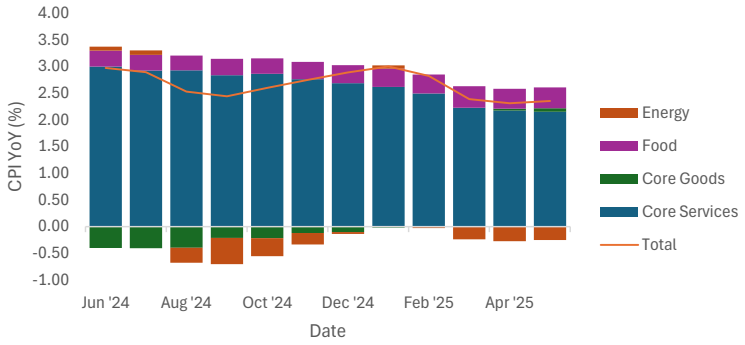
US Treasury Yield Curve YTD



Source: Bloomberg

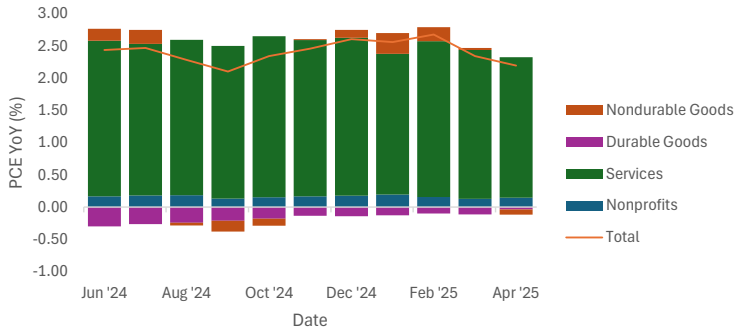
Both measures of inflation showed stabilization in Q2, with CPI and PCE coming down from a high of 3.000% January CPI and 2.676% February PCE to 2.355% and 2.342% respectively in May. Federal Reserve Chair Jerome Powell remained cautious in interpreting the data, asserting that more time is needed to understand tariff impacts on prices. Despite the hawkish rhetoric, the market interpreted the benign inflation prints positively, reflected in falling front-end yields.

CPI YoY TTM



Source: Bloomberg

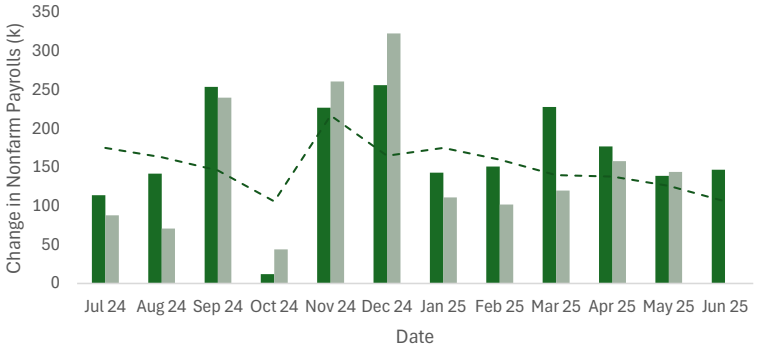
PCE YoY TTM



Source: Bloomberg

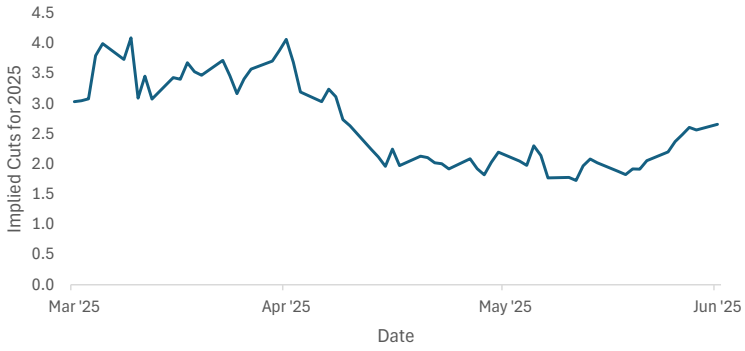
On the other side of the Fed's dual-mandate is the labor market, which has defied analyst expectations with its resilience. The rate of new jobs added, absent of revisions, has been rangebound over 2025 (+143k January, +147k June).

Change in Nonfarm Payrolls TTM



Source: Bloomberg

Implied Federal Funds Rate Cuts Q2 '25

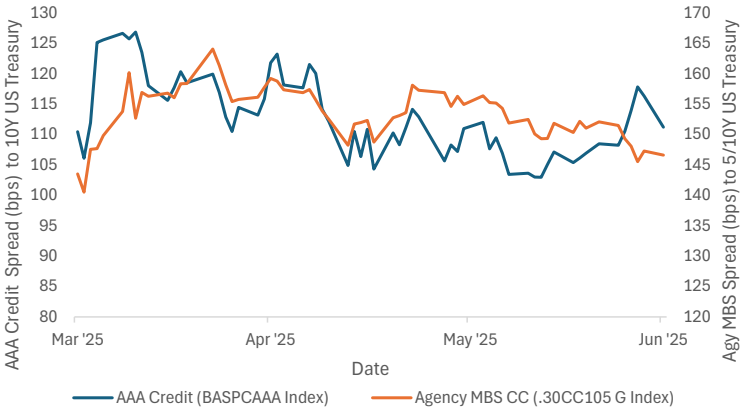


Source: Bloomberg

Rate cut bets eased on the quarter amidst the competing inflation and labor narratives as well as a shifting landscape of global trade expectations. As the curve shape flattened on the quarter, Fed Funds Futures implied approximately one and a half fewer cuts for 2025 off the peak of roughly four cuts. As of the end of the quarter, roughly two and a half cuts are priced in for the end of the year.

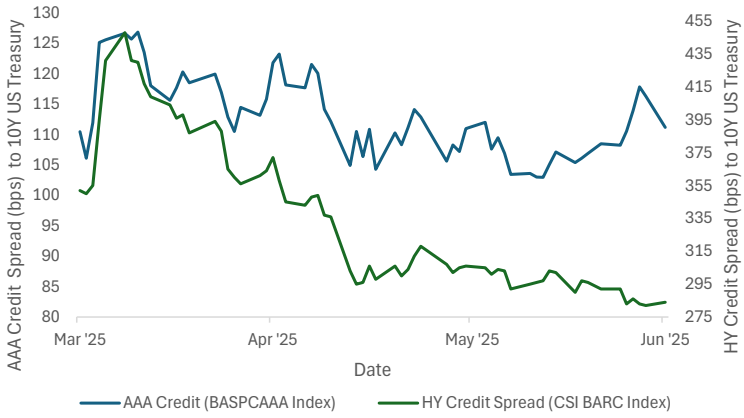
In the week following April's Liberation Day announcement of reciprocal tariffs, Investment Grade AAA credit and Agency MBS spreads rose 20bps before gradually drifting lower over the quarter. Sticky mortgage rates and rising term premiums were a factor in MBS spreads remaining elevated in Q2 (Agency MBS CC +3bps Q2, Freddie Mac Enhanced Primary Mortgage Market Survey US 30 Year Fixed +12bps Q2). As risk-on equity indices rebounded following the 90-day tariff reprieve, High Yield credit spreads outperformed AAA products as EPS beats were constructive despite corporate earnings reflecting lower guidance and sidelined investments.

Credit and MBS Spreads Rangebound in Q2 '25



Source: Bloomberg

HY Credit Spreads Outperform AAA in Q2 '25



Source: Bloomberg

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