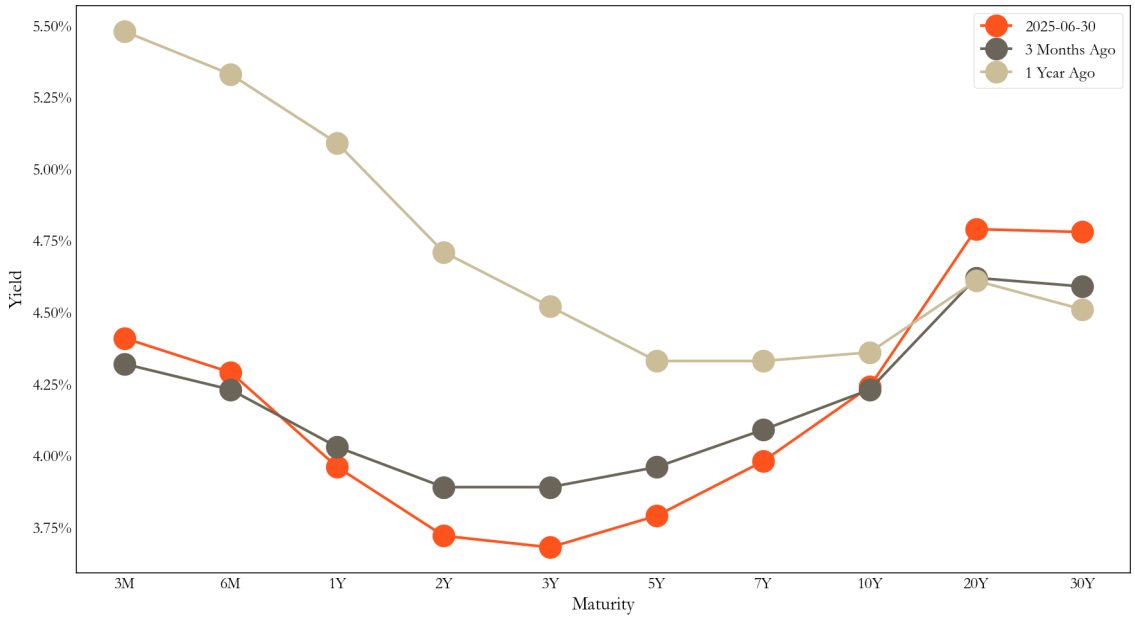
Q2 2025 Commentary

It was a rough start to the quarter, but markets eventually rallied to new all-time highs. The quarter began with President Donald Trump announcing a surprisingly aggressive tariff plan on April 2nd. Between April 2nd and April 8th, the S&P 500 dropped over 12%. This decline represents the worst four-trading-day drop since March 2020. Then, on April 9th, Trump announced a 10% tariff pause for 90 days, allowing negotiations to begin. The S&P 500 Index rallied 9% that single day. Since then, a new trade deal with Vietnam has been announced, along with a trade deal framework with China and the UK. Corporate investment remained notably resilient despite uncertainty surrounding tariffs, with particular strength observed in artificial intelligence initiatives. Unlike typical recessionary periods that see reductions in business investment, the continued commitment to expansion was especially encouraging during this timeframe.

The Federal Reserve maintained interest rates in response to potential inflationary pressures related to tariffs. Bond market participants currently expect the first rate cut of the forthcoming easing cycle to occur in September. The target range for the federal funds rate is 4.25%-4.50%, a decrease from a peak of 5.50% registered a year ago. Since December 2024, the Federal Reserve has held rates steady, reiterating its cautious approach toward policy easing while labor market conditions remain robust and inflation risks—particularly due to new tariffs—persist.

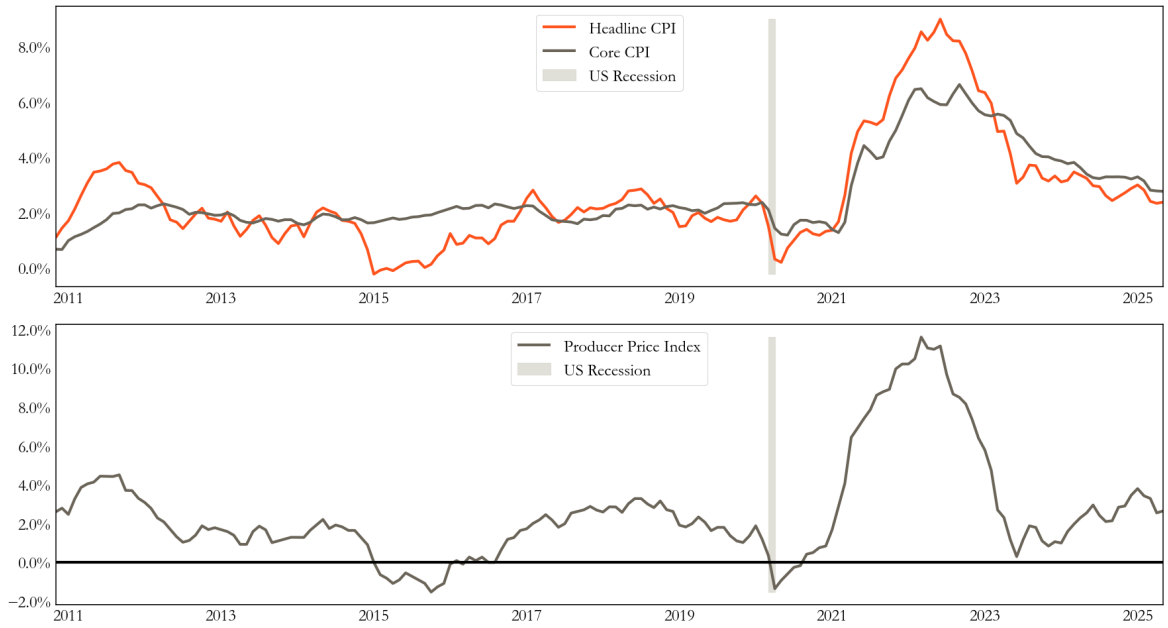
The Treasury yield curve steepened in the second quarter, continuing a trend from the first quarter. The curve is a graphical representation of government bond yields across different maturities. It measures the amount of compensation bond investors expect for the additional risk of having their money locked up with the federal government for longer periods. A steeper curve means investors are demanding higher yields for longer-dated bonds.



	3M	6M	1Y	2Y	3Y	5Y	7Y	10Y	20Y	30Y
2025-06-30	4.41%	4.29%	3.96%	3.72%	3.68%	3.79%	3.98%	4.24%	4.79%	4.78%
2025-03-31	4.32%	4.23%	4.03%	3.89%	3.89%	3.96%	4.09%	4.23%	4.62%	4.59%
2024-06-30	5.48%	5.33%	5.09%	4.71%	4.52%	4.33%	4.33%	4.36%	4.61%	4.51%

Source: June 2025 – Federal Reserve Bank of St. Louis and IRON Financial

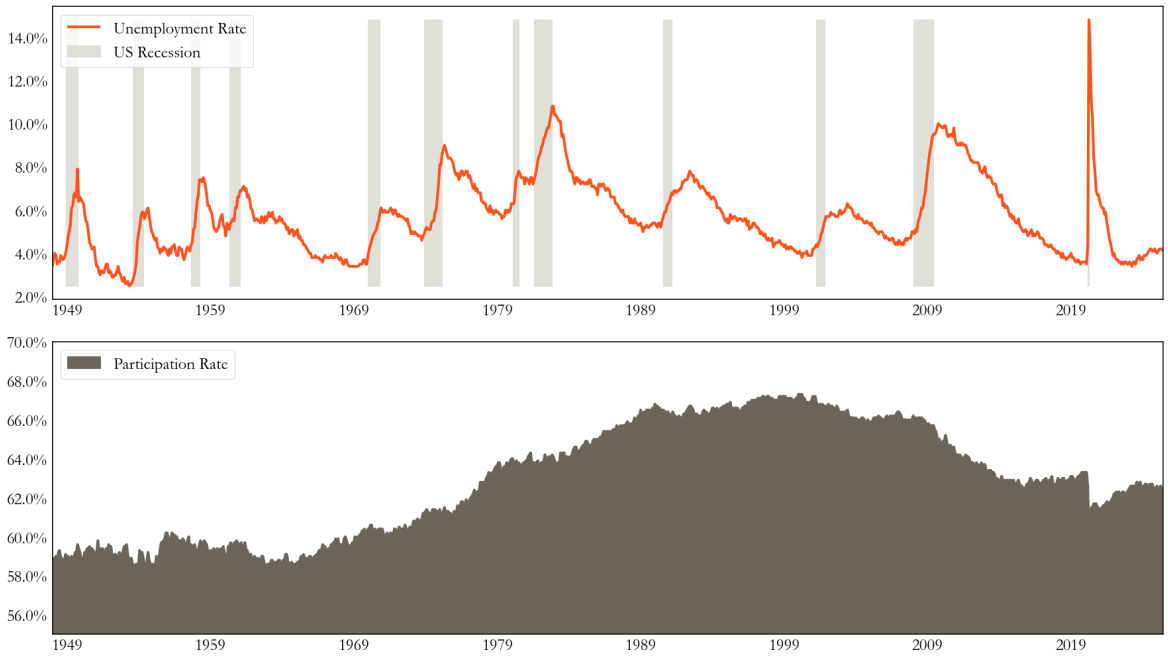
Inflation pressures appear to be dwindling, with both energy and service prices falling. The Producer Price Index (PPI) also declined. If inflation continues to wane, the likelihood of the Fed's interest rate cuts this year will increase.



	2024-06	2024-07	2024-08	2024-09	2024-10	2024-11	2024-12	2025-01	2025-02	2025-03	2025-04	2025-05
Headline CPI	2.97%	2.94%	2.61%	2.43%	2.57%	2.71%	2.87%	3.00%	2.81%	2.41%	2.33%	2.38%
Core CPI	3.26%	3.23%	3.29%	3.29%	3.29%	3.28%	3.21%	3.29%	3.14%	2.81%	2.78%	2.77%
Producer Price Index	2.95%	2.42%	2.10%	2.14%	2.84%	2.90%	3.46%	3.80%	3.43%	3.29%	2.55%	2.65%

Source: May 2025 – Federal Reserve Bank of St. Louis and IRON Financial

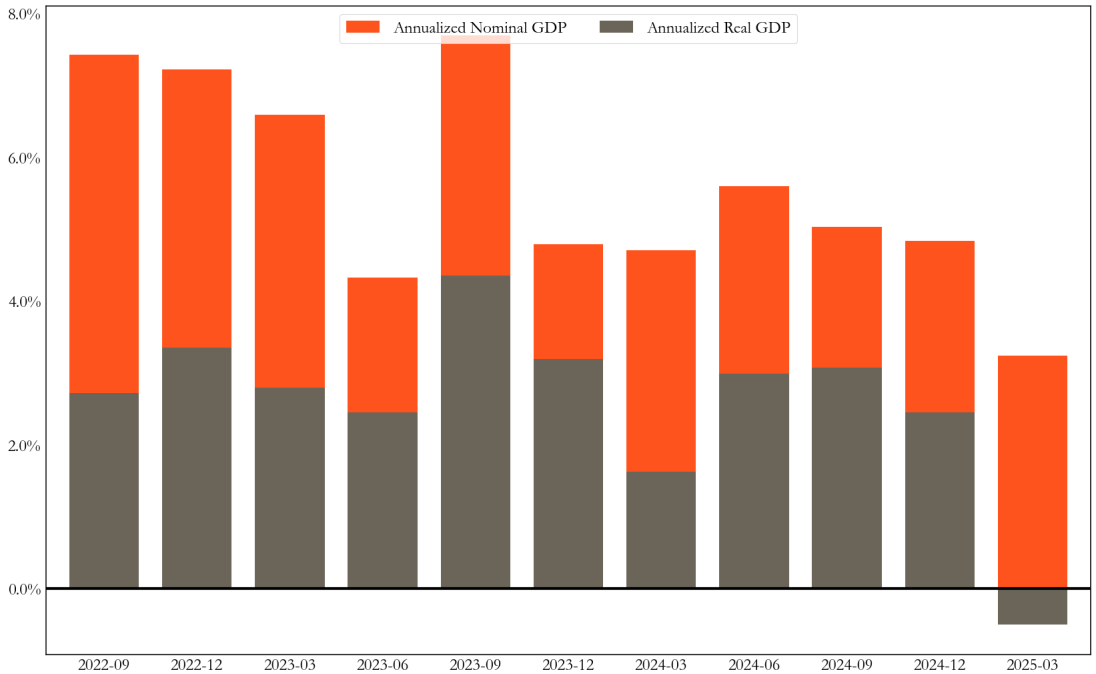
The unemployment rate for June 2025 also moved lower to 4.1%. However, the decline occurred with a decrease in the labor force participation rate from 62.5% in the first quarter to 62.3% in the subsequent quarter. This suggests fewer individuals were either working or actively seeking jobs, decreasing the labor pool.



	2024-07	2024-08	2024-09	2024-10	2024-11	2024-12	2025-01	2025-02	2025-03	2025-04	2025-05	2025-06
Unemployment Rate %	4.2%	4.2%	4.1%	4.1%	4.2%	4.1%	4.0%	4.1%	4.2%	4.2%	4.2%	4.1%
Participation Rate %	62.7%	62.7%	62.7%	62.5%	62.5%	62.5%	62.6%	62.4%	62.5%	62.6%	62.4%	62.3%

Source: June 2025 – Federal Reserve Bank of St. Louis and IRON Financial

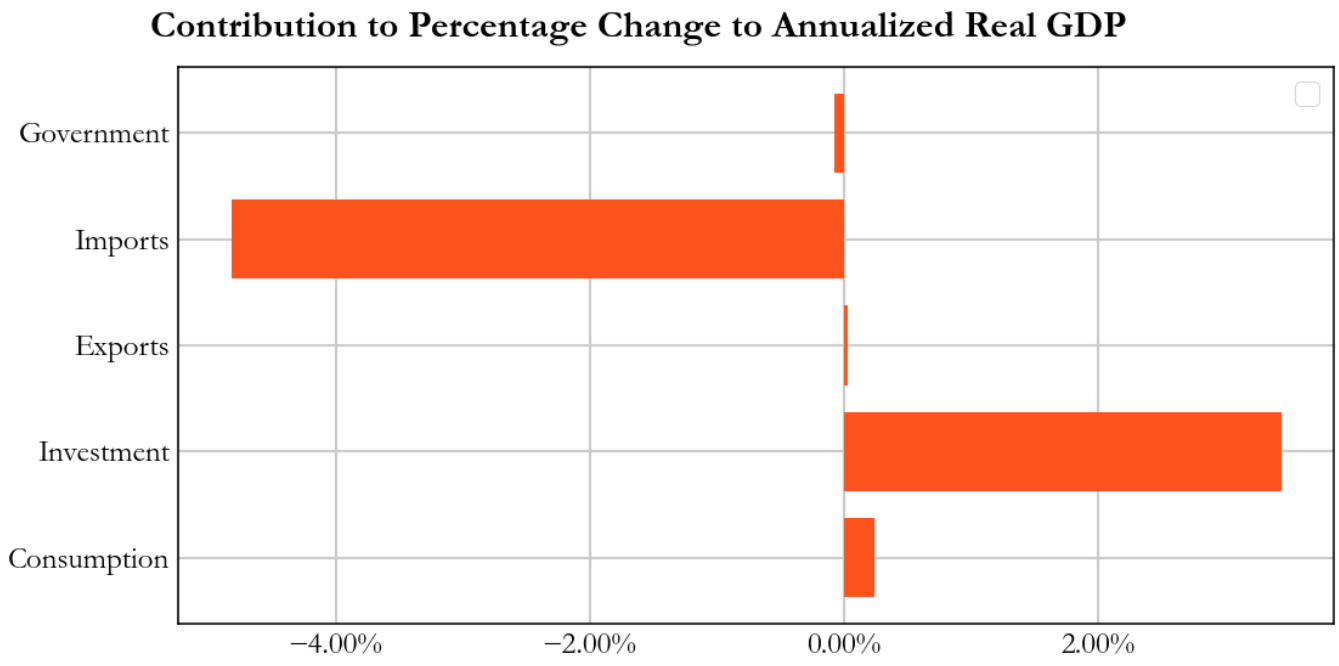
Real GDP growth during the first quarter of 2025 was negative, clocking in at -0.5% annualized. This was the first negative Real GDP post since the first quarter of 2022.



	2022-09	2022-12	2023-03	2023-06	2023-09	2023-12	2024-03	2024-06	2024-09	2024-12	2025-03
Nominal GDP	7.4%	7.2%	6.6%	4.3%	7.7%	4.8%	4.7%	5.6%	5.0%	4.8%	3.2%
Real GDP	2.7%	3.4%	2.8%	2.5%	4.4%	3.2%	1.6%	3.0%	3.1%	2.5%	-0.5%

Source: March 2025 – Federal Reserve Bank of St. Louis and IRON Financial

However, the Real GDP drop was due to an increase in imports, as companies tried to front-run the incoming tariffs. GDP = ((Consumption + Investment + Government Spending) – Imports) + Exports. Additionally, the main driver of GDP was an increase in investment.



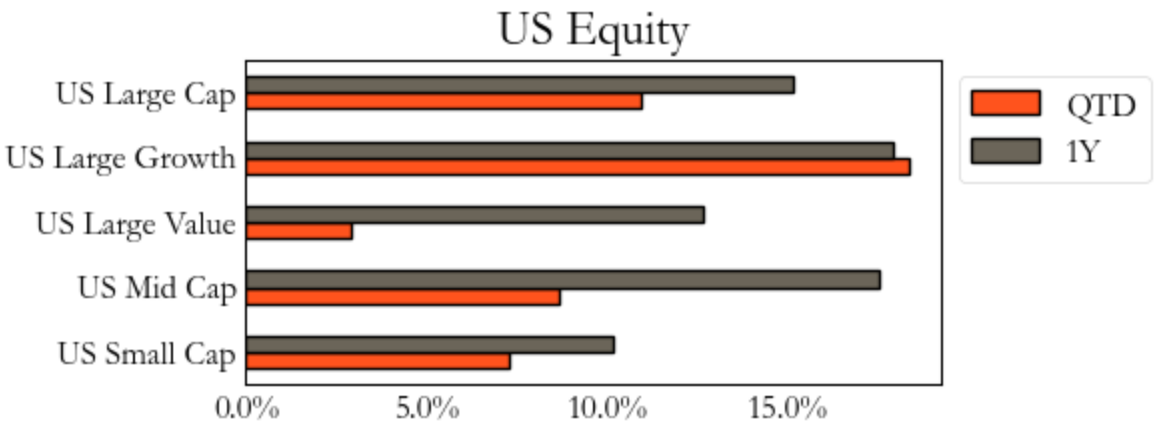
	Consumption	Investment	Exports	Imports	Government
Real GDP Contribution	0.2%	3.4%	0.0%	-4.8%	-0.1%

IRON Financial | Data: US Bureau of Economic Analysis | 2025-03

Equity Markets

The second quarter of 2025 began with a significant drawdown following the tariff shock; however, markets quickly recovered and then surpassed their previous levels. Overall, the US equity market gained 11.0% during the quarter, with growth stocks outperforming other styles. US Large Growth equities gained 18.4%, while US Value stocks posted a gain of only 2.9%. Small- and mid-cap equities trailed larger-cap equities. Small caps posted a 7.3% gain, mid-caps posted an 8.7%, while large caps posted a gain of 10.9%.

Over the past year, US All-Cap Equities have gained 15.1%. During the same period, US Large Growth stocks have gained 17.9%, while US Large Value stocks posted a yearly gain of 12.6%. Small-Cap equities continued to underperform large-caps, posting a 10.2% gain. The US Mid-Cap equities performed better, posting a gain of 17.6%.

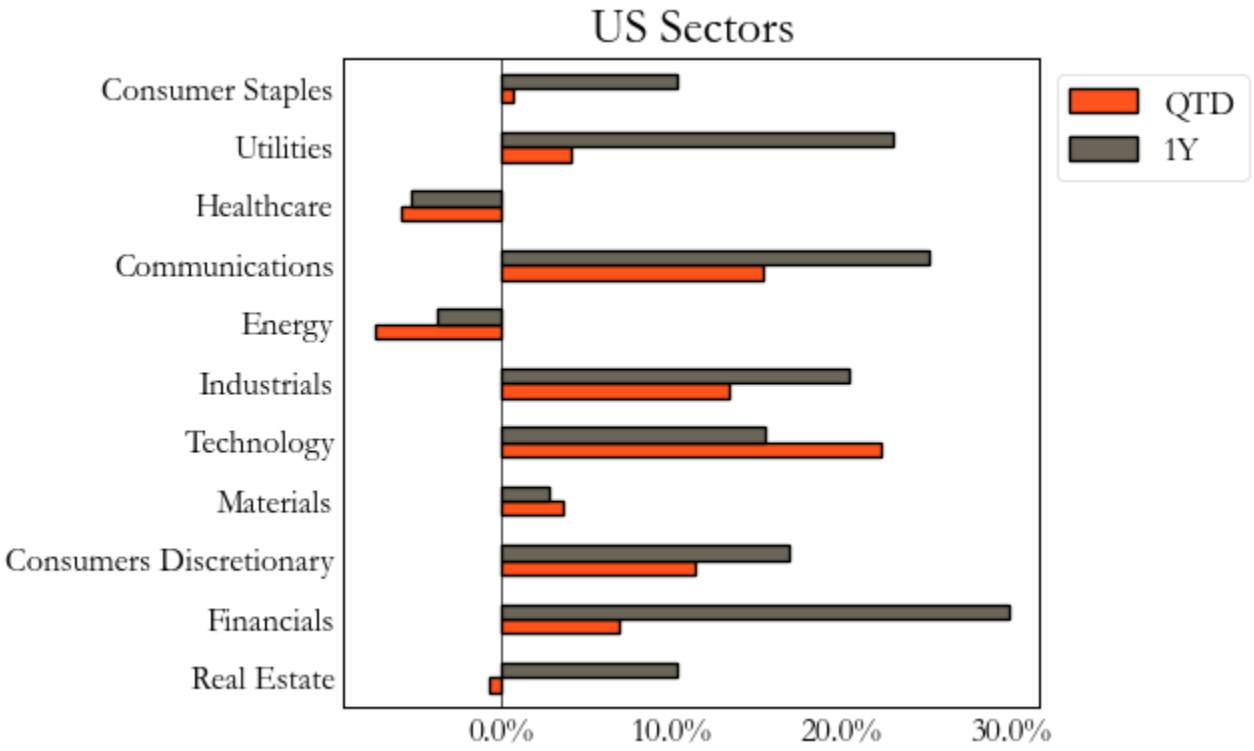


Source: June 2025 – IRON Financial

The decline in the VIX after the April tariff tremors was quite surprising. Overall, expected volatility declined by 25.0% for the quarter. However, compared to one year ago, U.S. market uncertainty has increased, with the VIX rising 34.5%.

Equity sector performance was mixed. The top-performing sectors were Information Technology, Communication Services, Industrials, and Consumer Discretionary, which posted gains of 22.4%, 15.5%, 13.5%, and 11.5%, respectively. Financials and Materials posted smaller gains of 7.0% and 3.6%. The more defensive sectors underperformed, with equities in Healthcare posting a 5.8% loss while Utilities and Consumer Staples posted gains of 4.1% and 0.7%, respectively. However, Energy equities were the worst performers, with the sector posting a 7.4% loss. Finally, Real Estate equities posted a loss of 0.7%.

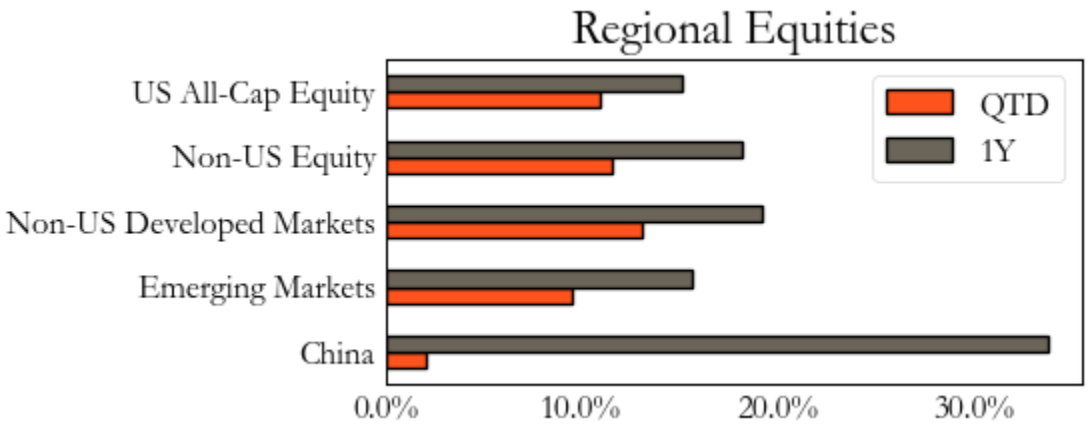
On a one-year basis, the top-performing sectors were Financials, Communications, and Utilities, which gained 29.9%, 25.2%, and 23.1%, respectively. Healthcare and Energy were the worst-performing sectors. Healthcare equities lost 5.3%, while Energy equities lost 3.7%.



Source: June 2025 – IRON Financial

International stocks also had a great quarter. Non-US Equities gained 11.6% during the quarter, and non-US developed Markets posted a gain of 13.1%. Emerging Market equities trailed Non-US Developed Markets, posting a gain of 9.5%. Chinese equities in particular trailed, posting a 2.1% gain.

On a one-year basis, international equities have outperformed US equities. Non-US Equities posted a gain of 18.2%, with Non-US Developed Markets gaining 19.2%. Emerging Markets posted a gain of 15.7% over the past year. During this period, Chinese equities were the top performers, posting a substantial 33.8% gain.



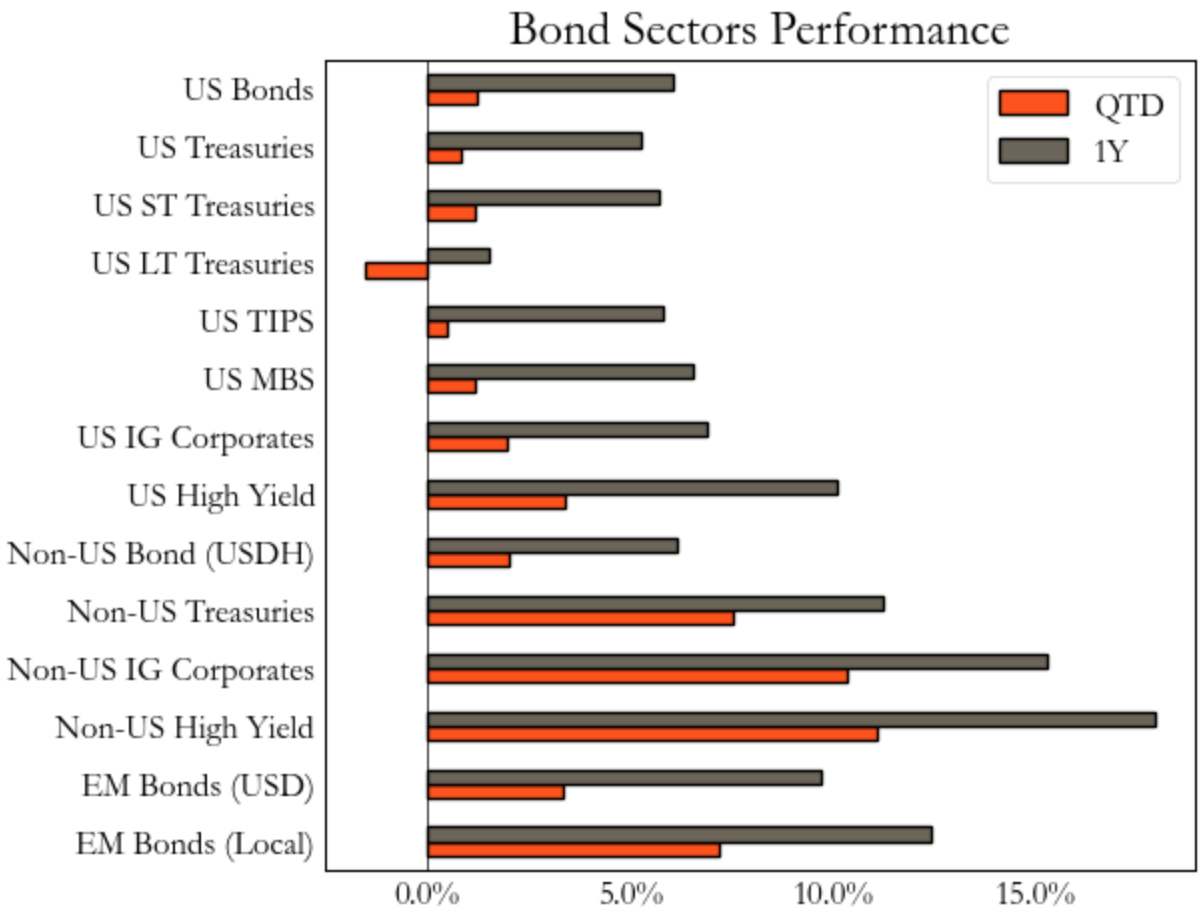
Source: June 2025 – IRON Financial

Fixed Income Markets

Despite volatility and rising long-term yields due to potential concerns over the federal deficit and weaker global demand for US dollar debt, most of the bond market stayed positive in the second quarter. Similar to U.S. equities, the economically sensitive U.S. fixed income sectors outperformed. U.S. high-yield bonds posted a gain of 3.4%, while US IG (Investment Grade) Corporates gained 2.0%. US MBS (Mortgage-Backed Securities) gained 1.2%. The worst fixed-income performers were U.S. long-duration Treasury bonds, which lost 1.5%. Low-duration bonds did better, as US ST (Short Term) Treasuries gained 1.2%. US TIPS (Treasury Inflation-Protected Securities) posted a gain of 0.5%, while broad US Treasuries gained 0.8%. Overall, U.S. Bonds gained 1.2% during the quarter.

The combination of a declining U.S. dollar and international central banks lowering rates led to the global bond market outperforming U.S. bonds. US Dollar-hedged non-US developed bond markets ("USDH" in the chart below) gained 2.0%. However, non-USD-hedged international bonds performed even better. For example, Non-US Treasury Bonds gained 7.6%, while Non-US IG Corporates and Non-US High Yield bonds gained 10.3% and 11.1%, respectively. This was even more evident in Emerging Markets (EM), where those denominated in US Dollars gained 3.4%, while local currency EM Bonds gained 7.2%.

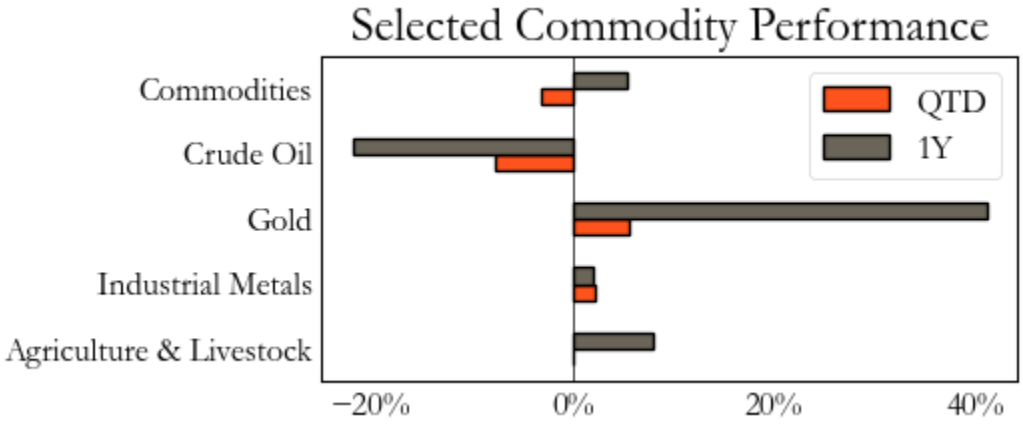
Bonds have performed well over the past year. U.S. bonds have gained 6.0%. The top-performing U.S. fixed-income instruments were U.S. high-yield bonds, which gained 10.1%. The worst performer was US LT Treasuries, which gained a meager 1.6%. However, the top outperformers overall were again non-U.S. bonds. Non-US High Yield Bonds, EM Bonds (Local), and Non-US IG Corporates each gained 17.9%, 15.3%, and 12.4%, respectively.



Source: June 2025 – IRON Financial

Commodities & Currency Markets

Commodities experienced a negative quarter, with broad commodities posting a 3.2% loss. Crude oil prices moved lower by 7.6%, while Agriculture and Livestock commodity futures were flat. Industrial Metals posted a gain of 2.3%, while Gold prices posted a 5.5% gain. On a one-year basis, commodities are up 5.3%, with Gold posting a hefty 41.0% gain.



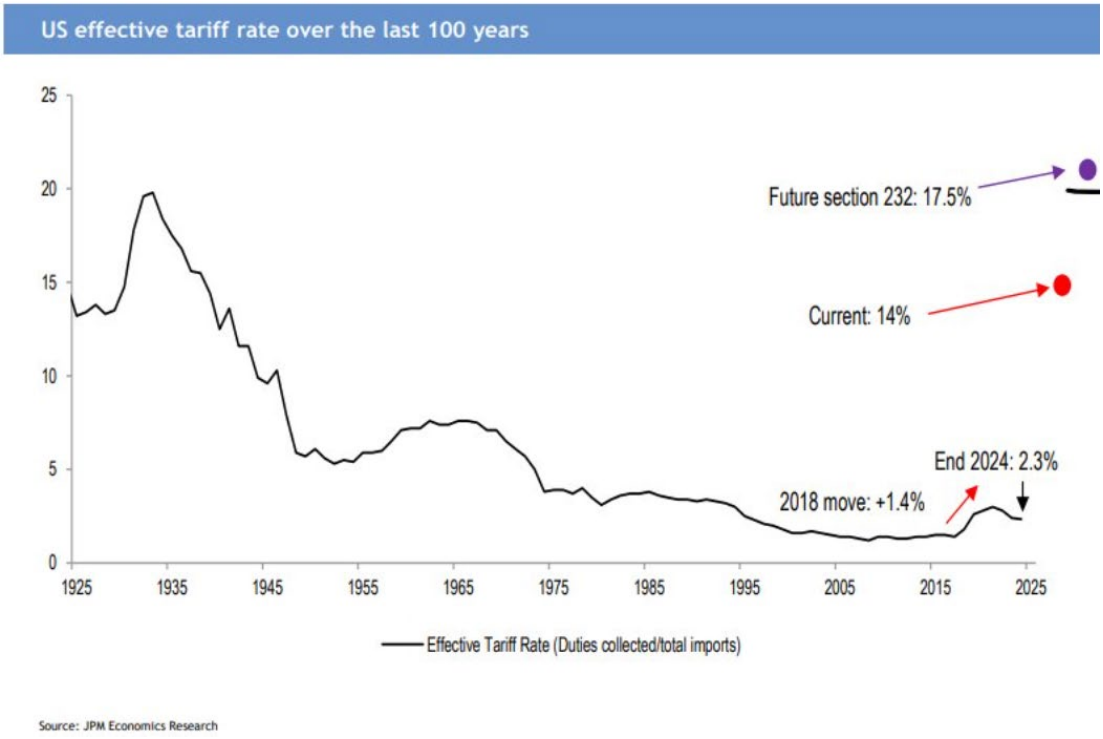
Source: June 2025 – Morningstar Inc, IRON Financial

The U.S. dollar continued its decline during the quarter. The world's top reserve currency lost 7.0% against a basket of other currencies[1]. The U.S. Dollar has also performed poorly on a one-year basis, depreciating 8.5% against that basket.

The cryptocurrency market recovered following its drawdown in the first quarter of 2025. Bitcoin ended June at $107,007.

Outlook

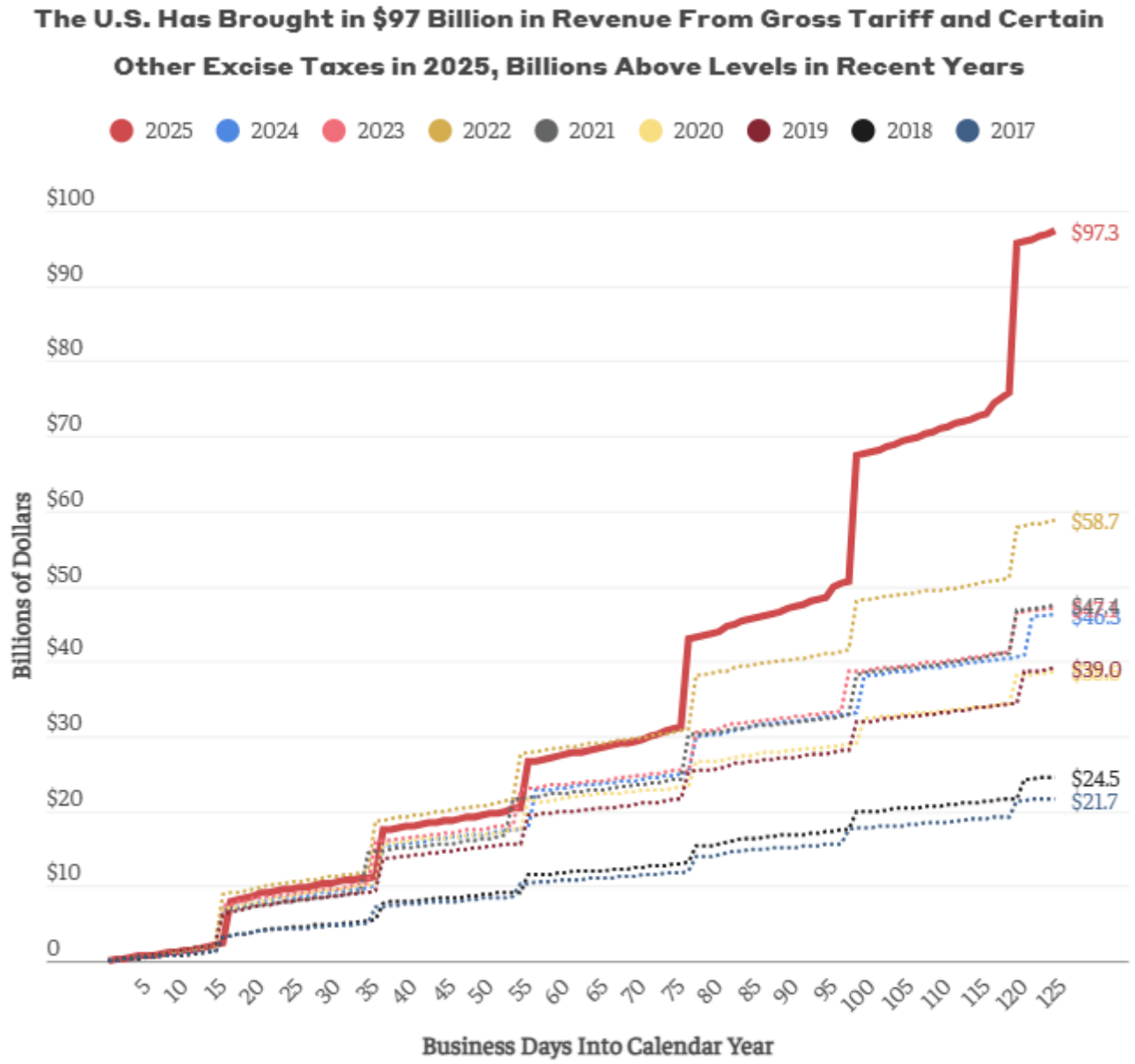
After a turbulent quarter, market participants appear to be settling into a global trade restructuring. If the initial trade deals are an indication of future agreements, tariffs appear to be here to stay. In June 2025, the Trump administration unveiled a U.S.-China trade framework aimed at de-escalating tensions, following the May 2025 Geneva agreement. The deal sets U.S. tariffs on Chinese imports at 55% and Chinese tariffs on U.S. goods at 10%, a reduction from earlier highs but still significant. Under the Vietnam deal, the United States will impose a 20% duty on Vietnamese-made imports, and a 40% duty on products originally made in another country but routed through Vietnam for final shipment to the United States. This practice, known as transshipping, has reportedly been used by China to avoid trade restrictions. Further, Vietnam will not impose any tariffs on U.S. imports. Other transshipment countries, such as Thailand and Cambodia, will likely see similar deals. Lastly, although the U.S. runs a trade surplus with the U.K., the U.K.'s trade framework includes a 10% baseline tariff on most U.K. goods. Meanwhile, the U.K. agreed to lower its average tariffs on U.S. goods from 5.1% to 1.8%, thereby reducing barriers for American exporters. Non-tariff barriers, such as restrictive standards on U.S. agricultural products (e.g., beef, ethanol), will be reduced or eliminated. However, U.K. officials emphasized the importance of maintaining food standards, ruling out imports of certain American-made foods. Other frameworks and deals are still being negotiated, but the administration appears to be set on imposing tariffs across the board.



Source: JPM Economics Research

The tariffs do appear to be generating new tax revenue. As of June 30, the latest available data show that the United States has generated $97 billion in tariffs year-to-date, with a significant increase in the second quarter. However, it is

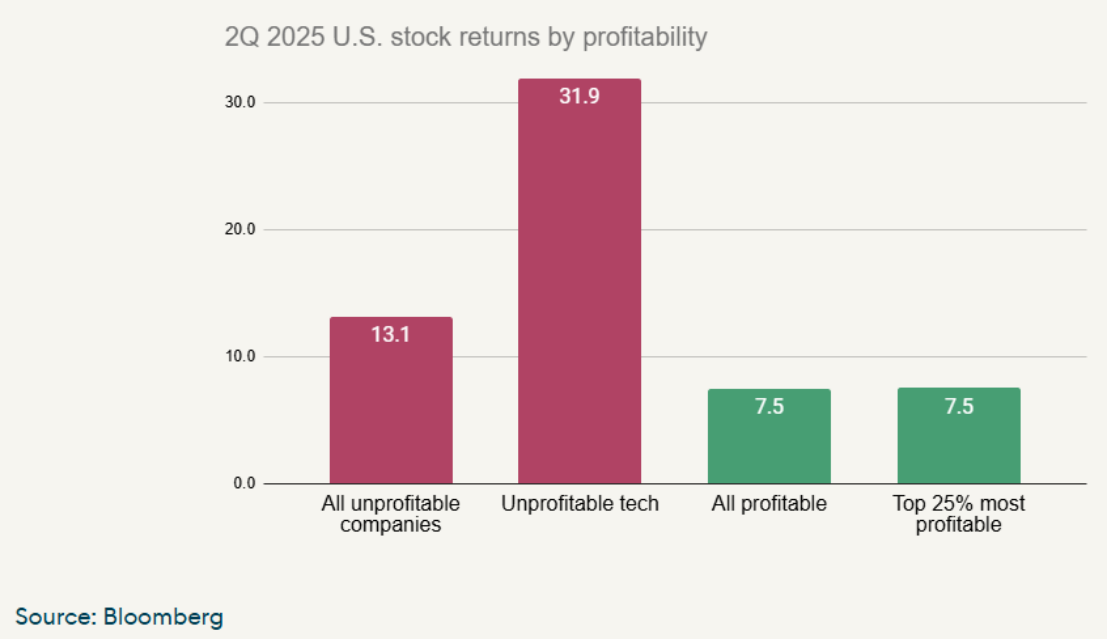
essential to remember that in the long run, the tariff revenue comes at the expense of U.S. consumers of foreign-made goods.



Notes: Totals represent gross tariff and certain other excise tax revenue. Net tariff revenue - which removes "certain other excise tax revenue" and incorporates tariff rebates/refunds - is typically 80-85% of gross tariff and other excise tax revenue and is reflected in Treasury Monthly Statements. Dollars are not adjusted for inflation.
Source: Daily Treasury Statements

The government will need this extra revenue as, despite the usual pre-election promises, spending in Washington does not appear to be subsiding, particularly given the fascination with the BBB acronyms. After President Biden's Build Back Better and now President Trump's Big Beautiful Bill, we hope the U.S. manages to avoid a Bipartisan Bankruptcy Bust. Current estimates as of mid-July indicate that the Big Beautiful Bill will likely increase the federal deficit by approximately $2.8 to $3.2 trillion over the next 10 years, based on independent analyses from the Congressional Budget Office (CBO), the Committee for a Responsible Federal Budget (CRFB), and the Penn Wharton Budget Model (PWBM). The administration claims that those estimates are flawed since they do not take into account projected tariff

revenues of $2.3 to $3.3 trillion over 10 years and higher economic growth assumptions. In part, the new administration believes that the U.S. can grow its way out of the enormous debt by reindustrializing and embracing new industries, such as AI, robotics, and crypto. The market appears to at least partially embrace that narrative; companies with the lowest profit margins, including those incurring losses, were the standout performers during the second quarter of 2025. We are either in a speculative cycle or the economy is expected to post significant growth. We hope for the latter but prepare for the former.

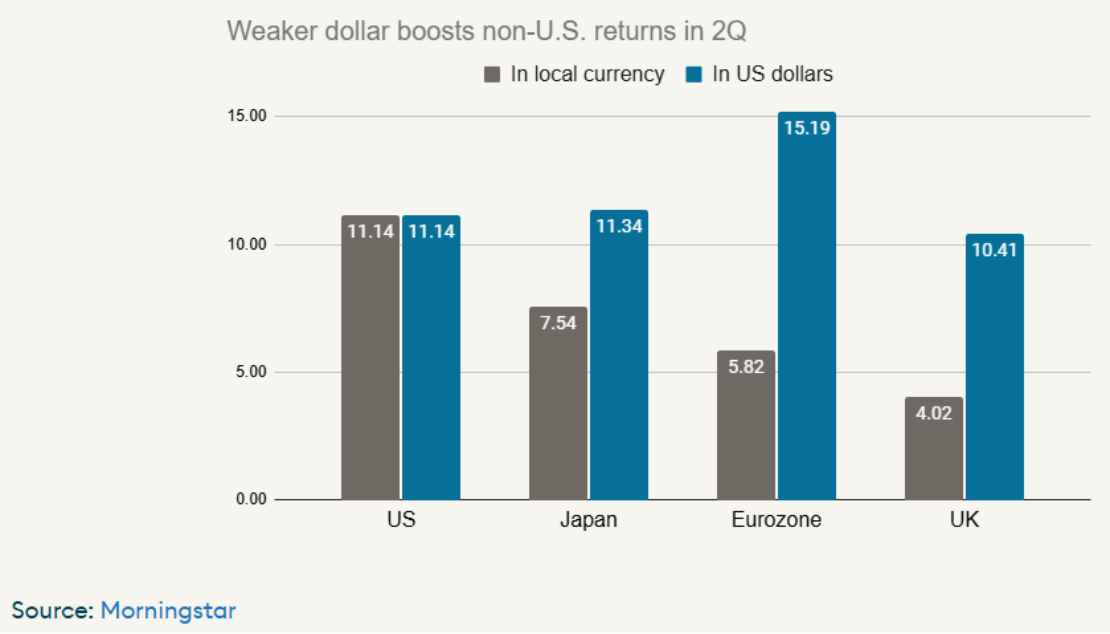


The U.S. dollar has been notably affected by recent policy changes, with the U.S. Dollar Index dropping 10% year-to-date. This decline can, in some respects, aid the U.S. administration's goal of selling more American-made products to other countries, as a weaker dollar makes U.S. exports more affordable for foreign buyers. However, there are downsides. First, if countries around the world are reducing the amount of U.S. dollars they hold in their foreign currency reserves, it could eventually cause financial problems for the United States. This is because global demand for the U.S. dollar supports its value, which in turn helps the U.S. government finance its debt. Second, combining the 10% dollar depreciation with the administration's 20%-40% tariffs on imports could erode nearly 50% of purchasing power for U.S. companies and consumers reliant on foreign goods. This is likely to trigger a demand shock, disrupting businesses that depend on imports and increasing costs for consumers.



Source: June 2025 – Federal Reserve Bank of St. Louis and IRON Financial

Additionally, the depreciation of U.S. currency affects investment performance. For example, U.S. equities appear to be underperforming non-U.S. equities this year. However, upon further inspection, the outperformance of non-U.S. equities seems to be primarily driven by the depreciation of the U.S. dollar. For example, Eurozone equities generated a 15.2% return in U.S. dollar terms but only 5.8% in local terms (Euro). On the other hand, U.S. equities have generated an 11.1% return in local terms (in U.S. dollars).



In essence, it appears that markets are currently significantly influenced by macro forces. Holding non-U.S. businesses offers currency diversification; however, we doubt they offer better business models than U.S. companies. The same applies to the U.S. business environment. With significant deregulation and tax breaks, U.S. businesses should be well-positioned, at least in the short term. In terms of innovation, China is the only true competitor to the U.S.; however, it is

not precisely an investor-friendly environment. Nonetheless, macro risks from fiscal spending and tariffs remain, and we feel it's best to stay diversified.

Market Performance Table

Equities						
Asset Class	**Proxy**	**Ticker**	**QTD**	**YTD**	**1Y**	**3Y**
US All-Cap Equity	Vanguard Total Stock Market ETF	VTI	10.99	5.64	15.10	19.04
US Large Growth	Vanguard Growth ETF	VUG	18.36	7.12	17.93	26.08
US Large Value	Vanguard Value ETF	VTV	2.90	5.60	12.65	13.10
US Mid Cap	Vanguard Mid-Cap ETF	VO	8.69	6.98	17.52	14.33
US Small Cap	Vanguard Small-Cap ETF	VB	7.29	(0.62)	10.15	12.17
US Large Cap	Vanguard S&P 500 ETF	VOO	10.94	6.19	15.13	19.67
VIX	CBOE Market Volatility (VIX) PR USD	VIX	(24.91)	(3.57)	34.49	(16.47)
Consumer Staples	Vanguard Consumer Staples ETF	VDC	0.69	4.81	10.36	8.42
Utilities	Vanguard Utilities ETF	VPU	4.10	9.53	23.06	8.48
Healthcare	Vanguard Health Care ETF	VHT	(5.82)	(1.32)	(5.26)	3.32
Communications	Vanguard Communication Services ETF	VOX	15.49	10.90	25.19	23.39
Energy	Vanguard Energy ETF	VDE	(7.37)	(0.15)	(3.71)	9.93
Industrials	Vanguard Industrials ETF	VIS	13.48	10.65	20.55	21.36
Technology	Vanguard Information Technology ETF	VGT	22.44	6.90	15.62	27.53
Materials	Vanguard Materials ETF	VAW	3.63	4.60	2.82	8.66
Consumers Discretionary	Vanguard Consumer Discretionary ETF	VCR	11.48	(3.13)	16.96	17.85
Financials	Vanguard Financials ETF	VFH	6.97	8.70	29.90	20.72
Real Estate	Vanguard Real Estate ETF	VNQ	(0.69)	1.94	10.34	3.54
Non-US Equity	Vanguard FTSE All-Wld ex-US ETF	VEU	11.59	18.24	18.15	14.01
Non-US Developed Markets	Vanguard FTSE Developed Markets ETF	VEA	13.10	20.81	19.27	15.42
Emerging Markets	Vanguard FTSE Emerging Markets ETF	VWO	9.52	11.86	15.70	9.44
China	iShares MSCI China ETF	MCHI	2.05	18.06	33.84	2.49

Fixed Income						
Asset Class	**Proxy**	**Ticker**	**QTD**	**YTD**	**1Y**	**3Y**
US Bonds	Vanguard Total Bond Market ETF	BND	1.22	4.02	6.05	2.61
US Treasuries	iShares US Treasury Bond ETF	GOVT	0.82	3.79	5.26	1.52
US ST Treasuries	Vanguard Short-Term Treasury ETF	VGSH	1.20	2.81	5.71	3.41
US LT Treasuries	Vanguard Long-Term Treasury ETF	VGLT	(1.54)	3.14	1.55	(3.72)
US TIPS	Schwab US TIPS ETF™	SCHP	0.48	4.66	5.80	2.30
US MBS	Vanguard Mortgage-Backed Secs ETF	VMBS	1.17	4.26	6.56	2.54
US IG Corporates	iShares iBoxx $ Invmt Grade Corp Bd ETF	LQD	1.99	4.50	6.92	4.13
US High Yield	SPDR® Portfolio High Yield Bond ETF	SPHY	3.43	4.38	10.11	9.86
Non-US Bonds	Vanguard Total International Bond ETF	BNDX	2.01	1.86	6.16	3.60
Non-US Treasuries	SPDR® Blmbg Intl Trs Bd ETF	BWX	7.55	10.44	11.22	2.23
Non-US IG Corporates	SPDR® Blmbg Intl Corp Bd ETF	IBND	10.32	14.95	15.26	7.16
Non-US High Yield	iShares International High Yield Bd ETF	HYXU	11.07	16.15	17.94	12.70
EM Bonds (USD)	iShares JP Morgan USD Em Mkts Bd ETF	EMB	3.37	5.44	9.72	8.33
EM Bonds (Local)	iShares JP Morgan EM Local Ccy Bd ETF	LEMB	7.19	11.00	12.41	6.43
Commodities & Currency						
Asset Class	**Proxy**	**Ticker**	**QTD**	**YTD**	**1Y**	**3Y**
Commodities	abrdn Blmb AllCmdStrK1Fr ETF	BCI	(3.17)	5.27	5.44	(0.33)
Crude Oil	Oil Price Brent Crude PR	OIL	(7.61)	(8.44)	(21.76)	(16.18)
Gold	LBMA Gold Price PM USD	GOLD	5.53	26.00	41.04	21.85
Industrial Metals	S&P GSCI Industrial Metal TR USD	INDMETAL	2.27	7.57	1.95	3.56
Agriculture & Livestock	S&P GSCI Agrcl&Livestock TR	AGRI&LIVES	0.06	1.38	7.94	1.39
US Dollar	US Dollar	DXY	(7.04)	(10.70)	(8.49)	(2.55)

Source: Morningstar Direct as of 6/30/2025

1 With respect to valuation of the US Dollar, the basket of other currencies is defined as follows: Euro (EUR) 57.6%, Japanese Yen (JPY) 13.6%, British Pound (GBP) 11.9%, Canadian Dollar (CAD) 9.1%, (SEK) 4.2%, (CHF) 3.6%.

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Disclosure

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