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Q2 2025 MARKET REVIEW AND OUTLOOK

MARKET REVIEW & OUTLOOK

Global equity markets entered the second quarter already on the defensive, having corrected more than 10% from February's highs amid renewed tariff talks and growing concerns over the durability of the global expansion. As we noted in previous reviews, after a year of steady gains, a correction was expected, however the abrupt escalation in trade tensions in early April perhaps tested investor confidence more forcefully than most had anticipated.

On April 2nd, dubbed 'Liberation Day', the Trump administration announced a sweeping tariff package that exceeded even the most aggressive forecasts on Wall Street. The proposal included a 10% blanket tariff on all US imports, alongside additional reciprocal duties targeting countries with the largest trade surpluses. Scheduled to take effect on April 9th, the move would raise the average effective tariff rate in the US to approximately 25%, the highest level in over a century.

Markets responded with characteristic speed to the shock, swiftly repricing to reflect a worst-case scenario. In the four trading days following the announcement, the S&P 500 fell 11.5%, closing 19% below its February 19th all-time high. Selling pressure was driven by concerns that broad-based tariffs could disrupt global supply chains, increase costs for manufacturers, and erode consumer and business confidence at a time when global growth was already expected to moderate. JPMorgan estimated that full implementation of the proposed measures could shave 1.5% to 2% from US GDP growth. Others were similarly quick to revise their outlooks: Goldman Sachs raised the probability of a US recession within the next 12 months to 65%, citing the sharp deterioration in sentiment and policy visibility, although have since reversed this back down to 30%.

The sell-off ultimately stopped just short of entering formal bear market territory. While the difference between a 19% decline and a 21% decline may seem trivial, the distinction between a correction and a bear market is meaningful. Corrections, defined as market declines of 10% to 20%, are a normal and healthy feature of sustained bull markets. As shown in Chart 1, since 1932, the average bull market has lasted around five years, delivered annualised returns of 23%, and experienced two or more corrections before ultimately peaking. These pullbacks play an important role in resetting valuations, tempering excessive optimism, and recalibrating investor expectations without necessarily signalling a change in the underlying trend. Bear markets, by contrast, reflect a more fundamental and sustained deterioration in economic or financial conditions, whether driven by structural imbalances, cyclical slowdowns, or a prolonged external shock.

CHART 1

CORRECTIONS ARE NORMAL

Trough	Peak	Duration (Months)	Annualized Return	Cumulative Return	# of Corrections (-10% to -20%)
6/1/1932	3/10/1937	57	35%	324%	5
4/28/1942	5/29/1946	49	26%	158%	2
6/13/1949	8/2/1956	86	20%	267%	3
10/22/1957	12/12/1961	50	16%	86%	1
6/26/1962	2/9/1966	43	18%	80%	1
10/7/1966	11/29/1968	26	20%	48&	1
5/26/1970	1/11/1973	32	23%	74%	1
10/3/1974	11/28/1980	74	14%	126%	6
8/12/1982	8/25/1987	60	27%	229%	1
12/4/1987	7/16/1990	31	21%	65%	1
10/11/1990	3/24/2000	113	19%	417%	3
10/9/2002	10/9/2007	60	15%	101%	1
3/9/2009	2/19/2020	131	16%	401%	5
3/23/2020	1/3/2022	21	54%	114%	0
10/13/2022	???	30*	17%*	47%*	2*
Average Bull Market		**60**	**23%**	**178%**	**2**

Source: Finaeon Inc, Fisher Investments. Data as of April 4, 2025

Despite the initial intensity of the decline, markets found their footing quickly. On April 9th, President Trump announced a 90-day pause on the proposed country-specific tariffs, a move widely seen as an effort to de-escalate and return to the negotiating table. Equity markets surged on the news, the S&P 500 gained 9.5% and the Nasdaq jumped 12.2% in a single day, marking their strongest daily gains since the Global Financial Crisis in 2008.

The rally continued in the weeks that followed. By quarter-end, the S&P 500 had surged over 24% from its April low to reach a new all-time high, while the Nasdaq climbed 33.4%. They closed the quarter up 10.6% and 17.8% respectively, with the MSCI World Index gaining 9%. This marked a sharp reversal from the first quarter, when European and foreign equity markets had significantly outpaced the US. As we highlighted in our Q1 Market Review & Outlook, much of the European catch-up trade looked largely priced in, while sentiment towards US equities appeared overly bearish. Q2 returns supported that view: the FTSE 100 rose just 2.1%, the Euro Stoxx 600 gained 1.4%, while the Hang Seng added 4.1%. The Nikkei rallied 13.7% in Q2, though this followed a period of underperformance similar to the US earlier in the year.

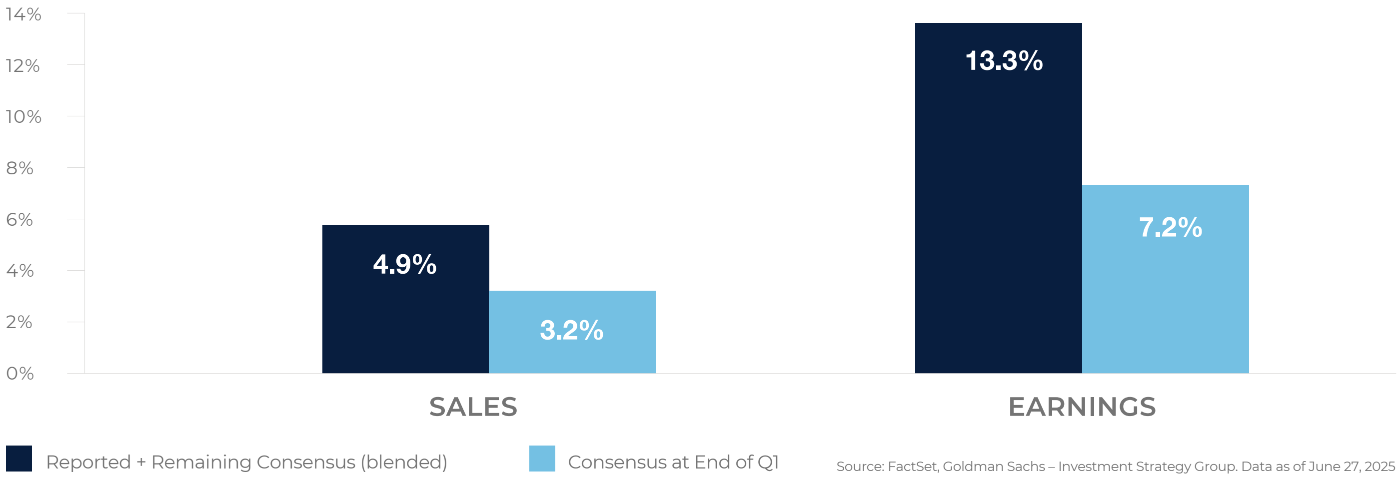
The strength and speed of the global rebound were underpinned by a growing recognition that the economic fallout from tariffs was unlikely to be as severe as initially feared. Furthermore, while some modest pass-through to prices may occur in the near term, recent CPI data has yet to show any meaningful impact. More importantly, imported goods represent just 13% of US GDP and 19% of consumer spending, while services, which account for nearly 70% of the PCE price index, remain untouched. As a result, while tariffs can raise costs within specific supply chains and weigh on margins in trade-sensitive sectors, they are unlikely on their own to trigger broad-based inflation, as we discussed last quarter, or significantly impair overall demand.

That said, the risk of renewed disruption has not disappeared. Even partial or prolonged enforcement of tariffs can dampen business confidence, slow investment, and tighten global financial conditions at the margin. If negotiations stall and tariffs are reimposed or expanded, the headwind to trade and growth would intensify from here. With the 90-day pause set to expire in the coming weeks, the trajectory of trade negotiations will play a key role in shaping the outlook for markets and global growth in the second half of the year.

Still, while trade remains a key source of uncertainty, it is not the dominant force guiding equity markets over the longer term. Beneath the surface, the latest earnings season has highlighted a continued resilience in corporate fundamentals. Nearly 80% of companies exceeded earnings expectations, outpacing both the 5- and 10-year averages. While some of that strength reflected lowered estimates earlier in the quarter, sales and earnings growth beat consensus, as shown in Chart 2, and the tone of company commentary was generally more constructive than feared.

CHART 2

S&P 500 SALES AND EARNINGS GROWTH BEAT CONSENSUS IN Q1 2025



Source: FactSet, Goldman Sachs – Investment Strategy Group. Data as of June 27, 2025

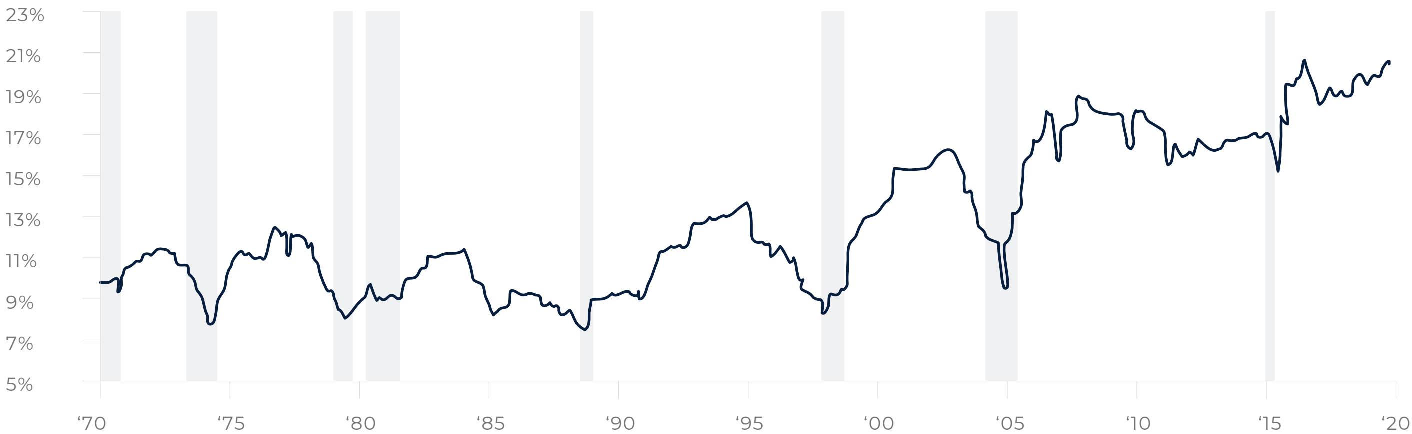
Unsurprisingly, tariffs were a common feature on earnings calls, but the message was consistent; while they represent a significant challenge, most businesses continue to invest and plan for long term growth. In fact, capital spending expectations across the S&P 500 have continued to rise each month since September, as shown in Chart 3, despite the recent decline in CEO confidence. This is not behaviour consistent with companies anticipating a deep slowdown.

CHART 3
S&P 500 CAPITAL EXPENDITURE CONTINUES TO RISE

Source: Bloomberg Finance L.P., Goldman Sachs – Investment Strategy Group. Data as of April 30, 2025

In our view, this supports the base case of slower, but still positive earnings growth through the second half of the year. Profit margins remain high as shown in Chart 4, balance sheets are healthy, and corporate spending plans suggest confidence rather than retrenchment. While the range of outcomes has widened due to policy uncertainty, the fundamental backdrop remains more resilient than many headlines imply.

CHART 4
CORPORATE PROFIT MARGINS ARE WIDE AND STABLE



Source: Haver Analytics, Goldman Sachs – Investment Strategy Group. Data as of December 31, 2024

Investor sentiment remained fragile throughout most of the quarter, as a steady stream of developments added to already volatile market conditions. President Trump's offhand remarks about removing Fed Chair Jerome Powell, raised concerns over the independence of US monetary policy. Moody's downgrade of the US credit rating added to fiscal worries, despite being largely symbolic following similar moves by S&P and Fitch years ago. Finally, the administration's proposed $3 trillion spending package, "The Big, Beautiful Bill", added further scrutiny to the long-term debt trajectory of the US, although political gridlock continues to limit its near-term viability. All eyes were on the US until late in the quarter when attention turned overseas with renewed geopolitical tensions in the Middle East adding a further layer of uncertainty.

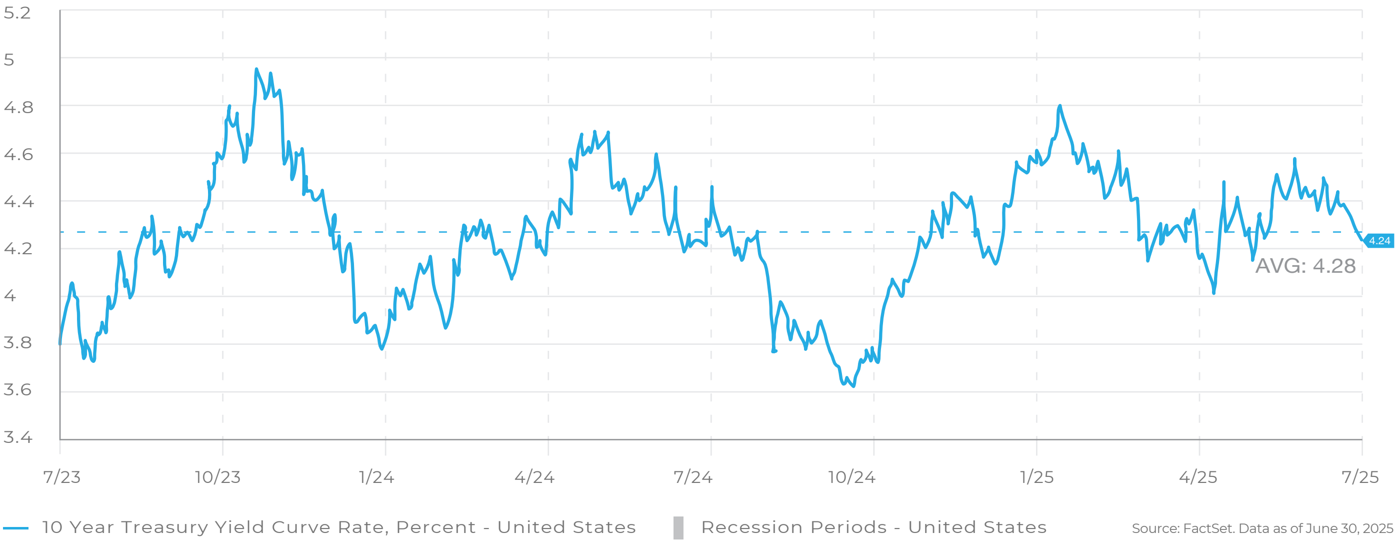
Tensions flared following a series of strikes between Israel and Iran, culminating in US airstrikes on key Iranian nuclear sites. Iran's response was somewhat underwhelming, and while the episode initially raised fears of a broader regional conflict, both sides appeared to step back from further escalation in the days that followed as a ceasefire was reached. Oil prices briefly moved higher, with Brent edging towards $80/bbl, but quickly retreated to end the quarter at $66, down over 10% year to date and well below levels typically associated with sustained inflationary pressure. With no material disruption to supply chains or energy transit routes, notably the Strait of Hormuz, and global producers maintaining spare capacity, markets largely absorbed the shock and quickly refocused on underlying macroeconomic drivers. As is often the case, unless geopolitical events result in a substantial and lasting impact on economic activity, their effect on markets tends to be short-lived.

Similarly, bond markets were not immune to the quarter's volatility. In a reversal of typical patterns, April saw both equities and bonds selloff simultaneously, unsettling investors who count on bonds to dampen volatility during equity drawdowns. The rise in the US 10-year Treasury yield from 4% to 4.6% in the matter of a week also sparked headlines questioning the reliability of US Treasuries as a safe-haven asset.

But context is important. Short-term correlations between equities and bonds can shift, and it is not unusual for yields to increase even in risk-off environments when inflation expectations are rising. Furthermore, when viewed over a longer timeframe, recent moves in the 10-year Treasury yield are neither unprecedented nor alarming; current levels remain well within the range seen over the past two years as highlighted in Chart 5. Despite all the noise, yields finished the quarter slightly lower than where they began, and global bonds delivered solid returns, with the Bloomberg Global Aggregate Bond Index up 4.5% over the quarter and 6.8% year to date.

CHART 5

US 10-YEAR TREASURY YIELD REMAINS WELL ANCHORED



Source: FactSet. Data as of June 30, 2025

In our view, the recent bond market volatility reflected a temporary repricing driven by heightened policy and macro uncertainty, rather than signalling underlying structural stress. With inflation continuing to moderate and growth slowing at the margin, we see scope for bond yields to stabilise. Central banks, including the Federal Reserve, have broadly adopted a wait-and-see approach, with future interest rate moves contingent on incoming data. While this may add to short-term uncertainty, it does little to change our broader view on fixed income, which remains grounded in its role as a diversifier in balanced portfolios, not the primary driver of returns.

Despite an eventful quarter, global markets have yet again shown a remarkable ability to look through short-term disruptions and refocus on fundamentals. Earnings are solid, inflation continues to ease, and recession risks remain low. While the path ahead is unlikely to be smooth, the underlying backdrop remains constructive. In our view, staying disciplined and anchored to fundamentals remains the most reliable approach in an environment where headlines can often obscure the bigger picture.

We look forward to updating you again next quarter and thank you for taking the time to read our Market Review & Outlook.

Sigma Investment Committee