PDS Wealth Management

Quarterly Investment Report – Q2 2025

When we wrote our Q1 summary in mid-April, markets were in the throes of the "tariff tantrum." After making new highs early in the year, US stock markets fell nearly 20% as new tariffs were announced. Fear was palpable. Volatility reached levels not seen since the Covid lows of March 2020 and the depths of the 08/09 financial crisis. What a difference three months can make. After the tariffs were delayed for 90 days (and just delayed again), markets staged a dramatic comeback and closed Q2 near their all-time highs.

As we enter the seasonally volatile third quarter, expect tariff headlines to continue at a fast and furious pace. Lately markets have shrugged off tariff news as their implementation keeps being delayed. That may change if more trade deals are not forthcoming in due time. Let us know if we can help guide you through the mayhem.

Markets

Stocks

US Stock Indices YTD – S&P 500, Dow Jones Industrial Average, Nasdaq Composite

Source: FactSet; as of June 30, 2025

Stocks sold off in dramatic fashion in the early half of April following “Liberation Day” when the administration revealed reciprocal tariffs on trading partners which were viewed as extreme and arbitrary. After the markets threw a “tariff tantrum,” the implementation of the tariffs was delayed 90 days to allow for negotiation of new trade deals. The delay was welcomed by the markets which subsequently rallied to close out the quarter near the highs seen earlier in the year.

For the quarter, the Dow Jones Industrial Average added 5%, the S&P 500 gained 10.9%, and the Nasdaq charged 18% higher. The Nasdaq and S&P 500 just made new, all-time highs this month while the DJIA remains just below its record levels.

Growth sectors led to the upside in Q2 while value/defensive sectors lagged or declined. Technology was the best performing sector with a 23.7% gain, followed by a +18.5% advance for Communication Services. Industrials and Consumer Discretionary followed with +12.9% and 11.5% gains, respectively. Materials, Utilities, and Financials all added between 3-5%. Consumer Staples posted a 1.1% rise while Real Estate dropped fractionally. Energy and Healthcare were the worst performing groups with respective declines of 8.6% and 7.2%.

International markets were less impacted by the US-based volatility. The MSCI EAFE Index rose 3.7% in Q2 and has performed nearly in-line with US markets year-to-date after outperforming in Q1.

Bonds

The yield curve steepened modestly in Q2 as long-term rates remained elevated and short-term rates fell. The yield on the 10-Year Treasury Note rose only 2bps to 4.24%.

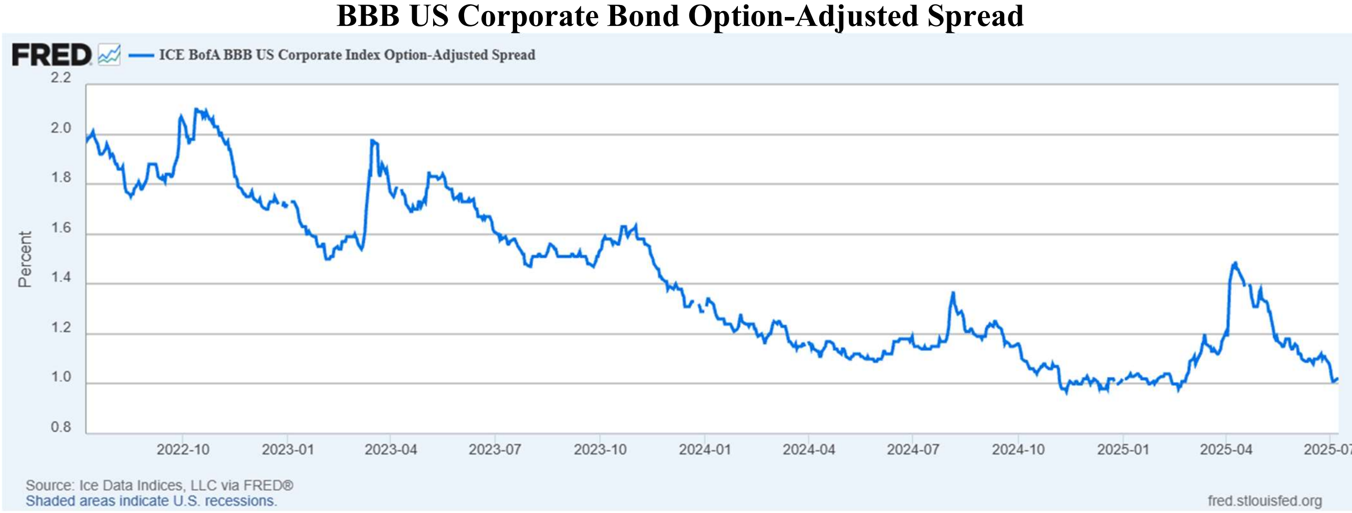
10-Year US Government Note Yields

Source: FactSet; as of July 9, 2025

The Barclays Aggregate Bond Index returned 1.2% in Q2 and has delivered a 4% total return year-to-date through the end of June. The S&P 500 Bond Index (investment-grade corporate bonds) added 1.7%, and the S&P 500 High Yield Corporate Bond Index returned 3.1%.

Corporate bond spreads tightened (fell) during the quarter as tariff and economic fears subsided.

BBB US Corporate Bond Option-Adjusted Spread

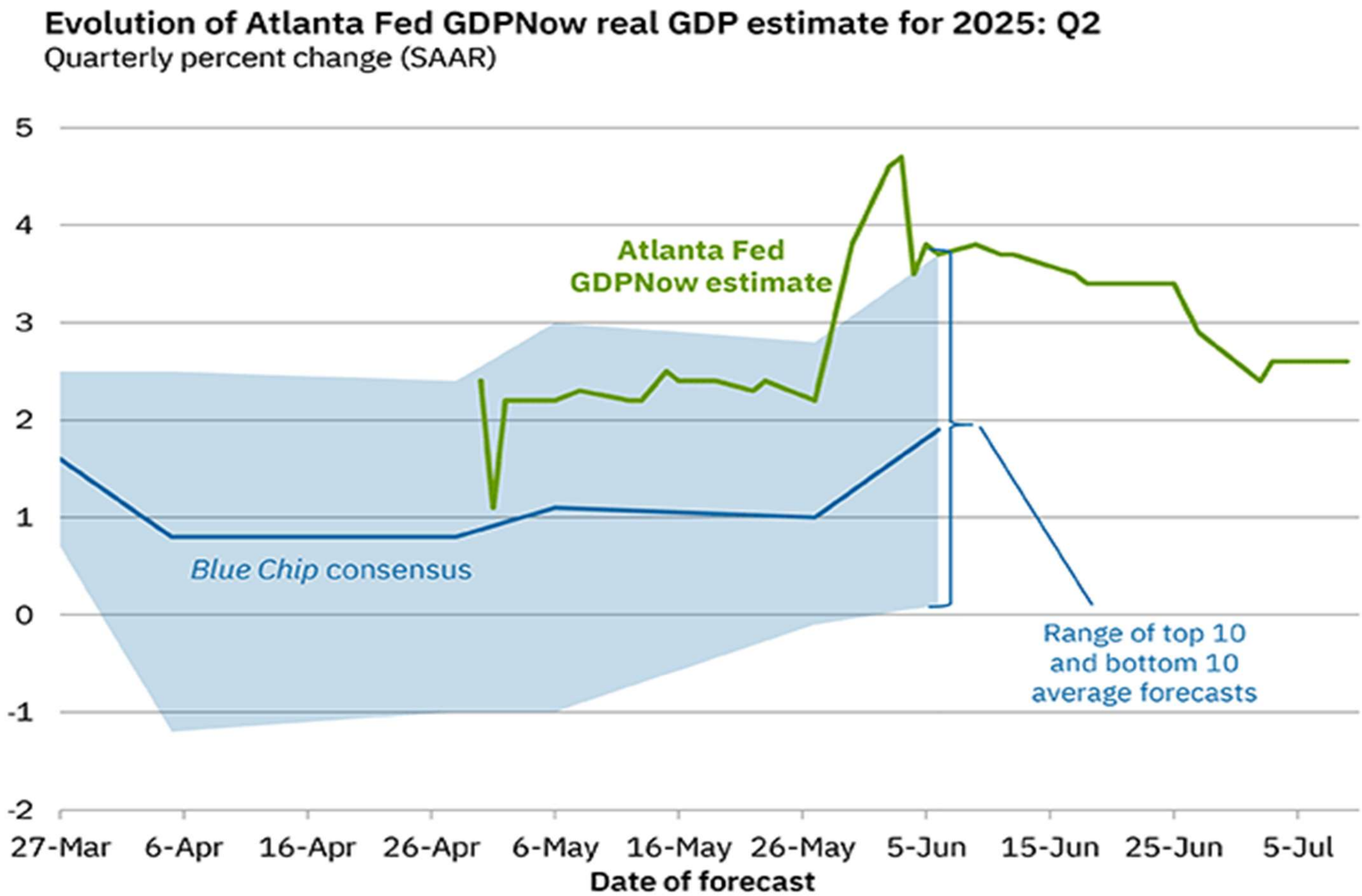


Source: St. Louis Federal Reserve; as of July 8, 2025

Economics

Real GDP for Q1 was modestly weak at -0.5%, the lowest reading since Q2 2022. While consumption was a drag in Q1, most of the decline was due to a surge in imports ahead of tariff implementations, which was a drag on the net import/export input to the GDP computation. The Atlanta Fed's GDPNow estimate for Q2 currently stands at 2.6%

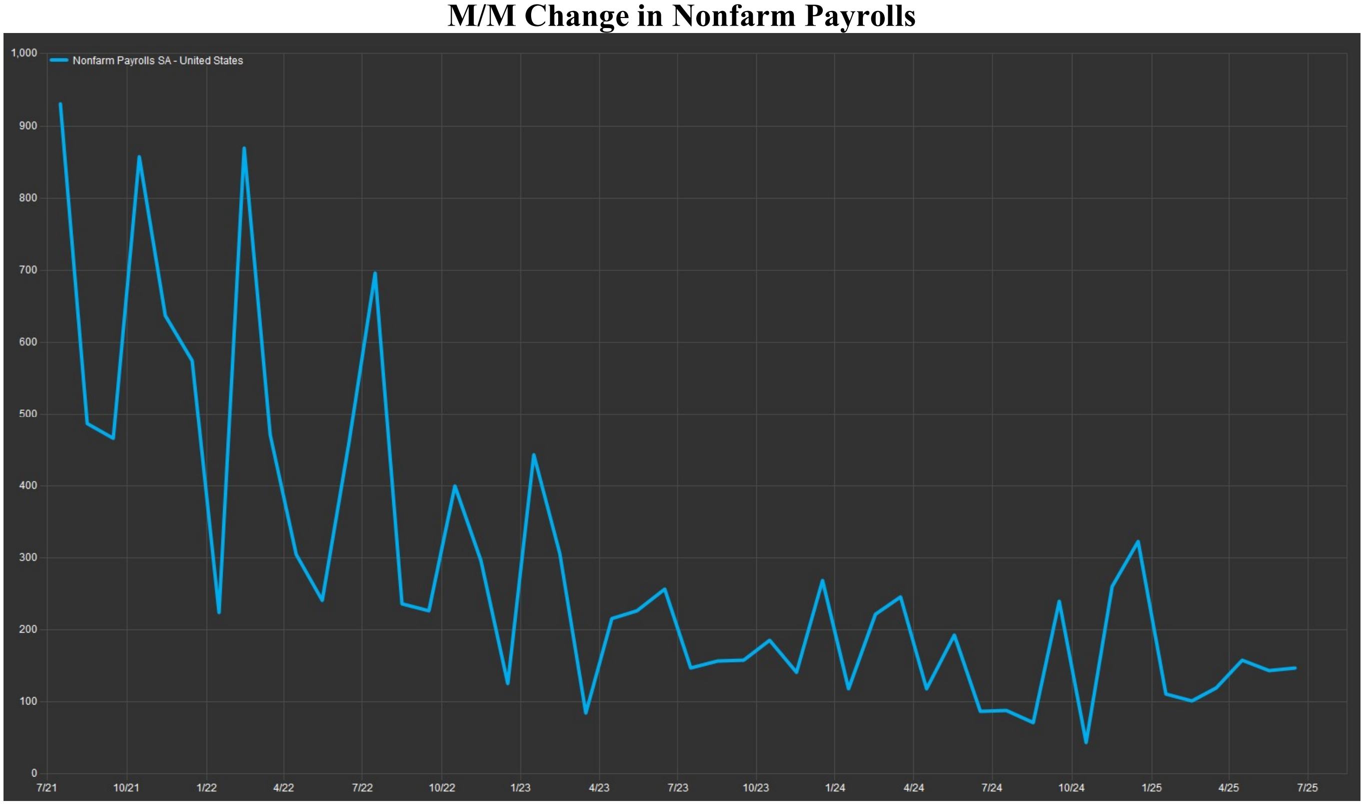
GDPNow Estimate



Source: Federal Reserve Bank of Atlanta; as of July 9, 2025

Jobs continue to post consistent gains between 100-200k per month…

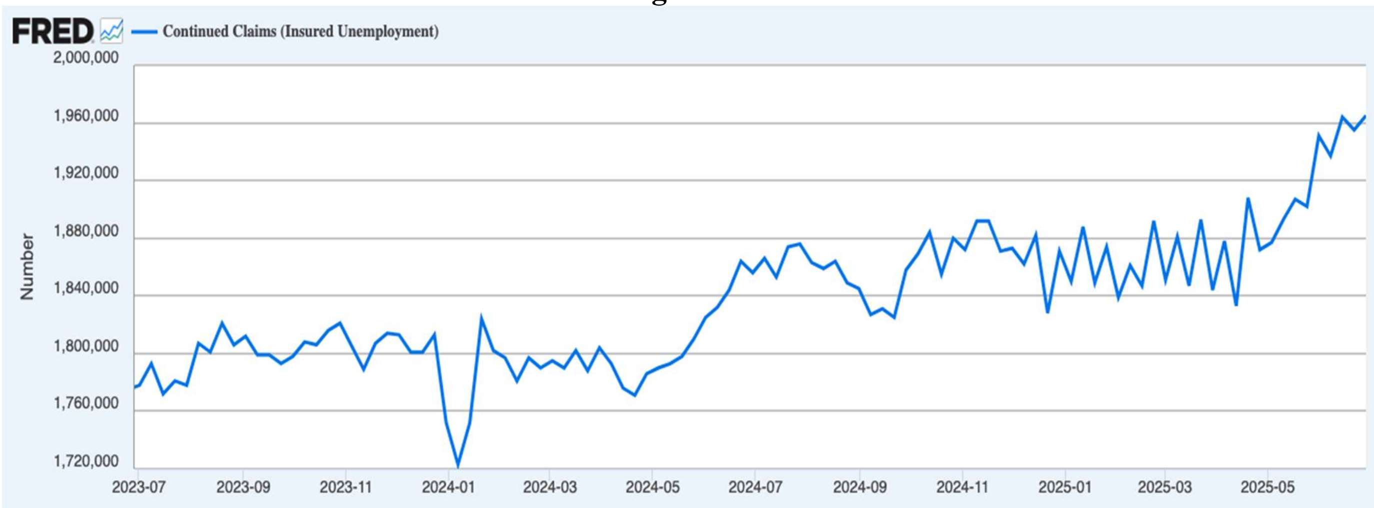
M/M Change in Nonfarm Payrolls



Source: FactSet; as of July 3, 2025

….but there is some weakness below the surface as private payrolls have been lackluster, and continuing claims are on the rise.

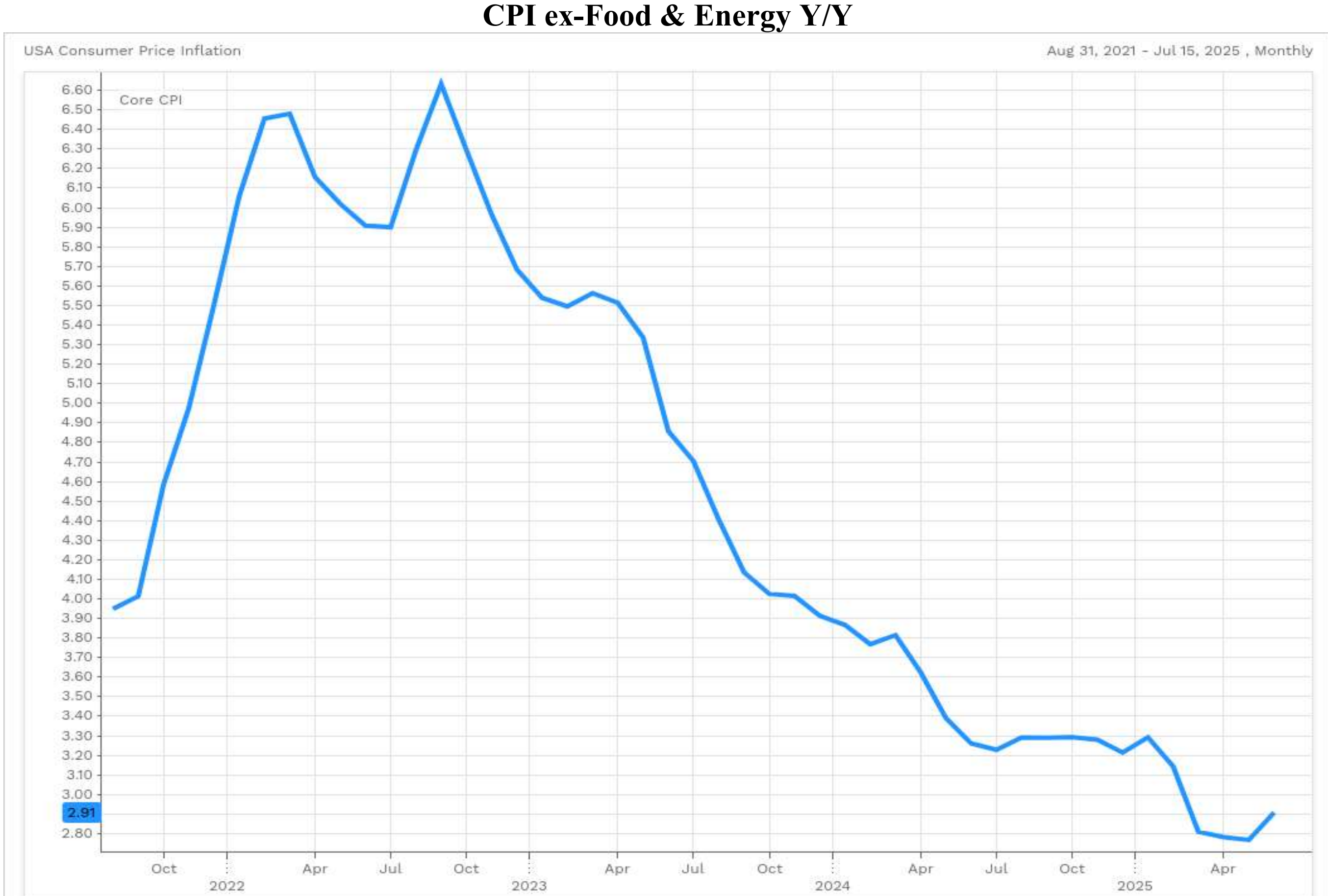
Continuing Jobless Claims



Source: St. Louis Federal Reserve Bank; as of July 10, 2025

That should have the attention of the Federal Reserve Board, but for now they have expressed more concern about inflation, which remains above their 2% target – June's reading was just reported at 2.9%.

CPI ex-Food & Energy Y/Y



Source: FactSet; as of July 15, 2025

Calls from the administration to the Fed to cut interest rates have been loud, but thus far Chair Powell and the board have maintained their resolve to ensure inflation expectations are anchored. Current expectations are for no cut to the Fed Funds rate at the July 30th meeting, a 51% chance of a 25bp cut in September, and a 28% change of another cut in October.

Conclusion

At the mid-way point, 2025 has been one of the more volatile years in recent memory. The market's wild gyrations have reminded us of the adage about the importance of keeping one's wits about you while others are losing theirs. Please reach out to us if you find yourself losing yours.

Paul Spencer, CFA®

Director