### What Happened

Domestic equities finished strong in the second quarter, with the S&P 500 index closing at a record high. This marked a sharp reversal from weakness seen in March and early April, when the same index fell 19%. The bullish momentum picked up, and stock market volatility eased, as U.S. policymakers walked back their rhetoric around changes to global trade policy.

### Why it Matters

Volatile markets can have a chilling effect on consumer confidence and spending, so the recent rally not only generates wealth for equity owners but may also help reduce the likelihood of a recession appearing later this year. Market rallies can also set the stage for changes in market leadership, as the strongest performers begin to look more expensive relative to their expected future profits.

### What it Means for You

As the relative attractiveness for certain segments of the market evolves, we always look to ensure that your portfolio allocations are oriented toward areas where we see the potential for attractive risk-adjusted returns moving forward. Of course, any tactical shifts that may result would not change our commitment to building well-diversified portfolios that prioritize long-term outcomes.

## A Dynamic Start to the Year

The year began on a calm note, but that calm was short-lived. By March and early April, equity markets in the U.S. had pulled back noticeably, with the S&P 500 declining approximately 19% from February 19 through April 8. This pullback was largely in response to the Trump administration's shifts to U.S. trade policy. Fortunately, more recent developments suggest some of the initial concerns may have been overstated, and the market has staged a strong recovery, ending the second quarter at a new all-time high, rising a full 25% off April 8's closing level.

At the height of April's volatility, the CBOE S&P 500 Volatility Index (the "VIX") hit an intraday high above 60. That level of extreme volatility has been reached on less than 1% of trading days going back to January 1, 1990! Thankfully, the period of heightened volatility only lasted four weeks, and the VIX has trended close to its historical average of 19.5 since early May.

While not all has been calm in the world these past few weeks, the tone and direction from policymakers has markedly improved since early April. That has helped the market power through all the uncertainty it has faced this year.

We cheer the rally off April's lows, but we are also remaining vigilant regarding what may come next for the markets. Disruption—especially when it affects entrenched systems—can take time to work through. Fortunately, in our view, environments like those we've seen in 2025 can create opportunities for skilled active managers to differentiate among companies, sectors and geographies more effectively than broad passive strategies.

As always, we're closely monitoring your portfolio and making thoughtful adjustments to manage risk and seek performance.

## International Markets Are Outpacing the U.S.

One of the most meaningful contributors to portfolio resilience this year has been our commitment to global diversification. International equities have outperformed domestic markets, with the MSCI All-Country World ex-USA Index returning +16% YTD through 6/30, compared to just +5.5% in the S&P 500. This global positioning has served as a helpful counterbalance in recent months.

## Shifts Within U.S. Markets

Within the U.S., the performance gap between large-cap and smaller-cap stocks has narrowed this year. For example, the Russell 2000 index of small-cap companies is down by -2.5% YTD through 6/30 and the Russell Midcap index is up +4%, while the S&P 500 index of large-cap companies is up +5.5%. Smaller company underperformance is normal during periods of market stress because these companies typically have less access to capital, smaller margins for error and greater sensitivity to external shocks.

However, in 2023 and 2024, the S&P 500 outperformed both the Russell 2000 and Midcap indexes by an even greater amount—more than 9 percentage points. That the performance gap is narrowing during a time when it typically would be growing suggests to us that investors are starting to look beyond large-cap stocks, which have become very expensive after two years of strong performance. Accordingly, we've positioned your portfolio's allocation to benefit from a shift into the more reasonably valued small- and mid-cap stocks.

### Monitoring and Adjusting with Intention

While we can't control market headlines, we can—and do—control how we respond. One example: During our regular portfolio reviews, we identified a fund whose contribution to volatility was unusually high. Upon closer analysis, we discovered that the managers had strayed from the fund's original mandate, adding positions in small-cap and growth-oriented holdings. This led to excess risk without a commensurate return expectation, so we made the decision to exit the position and replace it with a more consistent option.

This kind of proactive, research-driven adjustment is core to our approach. It reflects our belief that long-term success requires both discipline and adaptability.

### Looking Forward

As we enter the second half of 2025, we continue to watch how trade policy develops. This could have important implications for how markets behave moving forward. If negotiations yield acceptable outcomes, we could see reduced uncertainty, moderating inflation and growth underpinned by new market opportunities for U.S. goods & services. This, in turn, could lead to lower interest rates and a continuation of the recent equity market rally. Nevertheless, if negotiations were to take a more turbulent turn, we could instead see a resumption of volatility while markets react to the shifting headlines.

Looking forward, we'll continue to monitor your portfolio carefully as markets evolve, making adjustments where appropriate and keeping you informed along the way. In the meantime, we're always available to discuss your allocation, strategy or any questions you may have.

*All data sourced via YCharts, as of 7/7/2025.*