Market Insight Quarterly

Second Quarter 2025

News & Views from LPL Research

The economic forecasts set forth in the presentation may not develop as predicted. Please note: all return figures are as of June 30, 2025, unless otherwise stated. This information is not intended as authoritative guidance or tax or legal advice. You should consult with your attorney or tax advisor for guidance on your specific situation.

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Q2 2025 at a Glance

Sector	Q2 2025
Gross Domestic Product*	2.1%
S&P 500 Index	10.9%
Bloomberg U.S. Aggregate Bond Index	1.2%
Bloomberg Commodity Index	-3.1%

Source: LPL Research, Bloomberg, FactSet, 06/30/2025

* Bloomberg consensus as of 06/30/2025

Figures for S&P 500 Index, Bloomberg Barclays Aggregate Bond Index, and Bloomberg Commodities Index are total returns from 03/31/2025 - 06/30/2025 (Q2)

All indexes are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges, or expenses. The results don't reflect any particular investment.

Past performance is not indicative of future results.

Equities Bounced Back from Tariff-Fueled Sell-off

After coming under pressure to start 2025, the S&P 500 rebounded with a 10.9% second quarter gain, including dividends, capping the quarter with a fresh record high. The equity benchmark recouped year-to-date losses, the Nasdaq reversed its sharp first quarter slide with an 18.0% total return, while the Dow Jones Industrial Average posted a healthy 5.5% advance. Technology shares powered quarterly gains as artificial intelligence (AI) enthusiasm returned in earnest, boosting the Magnificent Seven (Mag Seven) and the broader semiconductor space. The Russell 3000, a gauge for total stock market performance, closed 11.0% in positive territory.

Following President Donald Trump's much-anticipated April 2 reciprocal tariff announcement from the White House Rose Garden, the S&P 500 sold off nearly 20% from its February 19 record. Trade uncertainty and economic growth fears gripped capital markets until the White House quickly paused the steeper-then-expected levies to accommodate trade negotiations, fueling an unprecedented recovery over the remainder of the quarter. In addition to tariff relief, Wall Street credited the second quarter upside to broadly oversold post-selloff conditions, resilient retail investor dip-buying, and elevated corporate buyback activity.

Continued earnings resilience acted as another tailwind for the rebound. Earnings per share (EPS) growth for the S&P 500 arrived at 12.7%, cruising past the expected 7.2% growth with ease, to mark the seventh straight quarter of positive earnings growth. The secular AI growth theme and big tech earnings once again took the spotlight, delivering 28% quarterly growth compared to forecasts for 16% growth.

Trade updates out of Washington were the big story last quarter, shifting from correction catalyst to tailwind as trade policy off-ramps fueled the recovery. Elsewhere, geopolitical tensions ramped up in June amid airstrikes between Israel and Iran, before easing on a U.S.-brokered ceasefire. Shadow Federal Reserve (Fed) Chair speculation also crept into view with President Trump reportedly to unveil Fed Chair Powell's replacement soon.

Small Cap Stocks Rallied, But Failed to Match Large Cap Surge

Small cap stocks printed a strong second quarter gain, with the Russell 2000 small cap index adding 8.5%, including dividends. However, small cap stocks remained below the year-to-date flatline and underperformed their large cap peers by 2.6% compared to the Russell 1000 large cap index's 11.1% total return as investors favored the relatively stronger balance sheets of larger companies — better equipped to navigate potential tariff-related impacts. Nonetheless, nine out of 11 major industry groups gained ground across the Russell 2000, led by tech, telecom, and industrial shares, while consumer staples and real estate were the lone sectors to decline. Looking forward, large caps continue to display superior earnings power and may outperform as the economy cools in 2025.

Growth Names Led Market Recovery

Despite value stocks briefly outperforming their growth counterparts amid the post-tariff announcement sell-off, growth companies swiftly returned to powering gains. Sentiment toward the growth style remained tepid early in the quarter as stocks slid and market participants questioned U.S. exceptionalism on multiple fronts. Nonetheless, strong corporate earnings helped reinvigorate AI enthusiasm as big tech companies topped earnings estimates and maintained or raised capital expenditures plans, leading nearly all Mag Seven names to beat the tape over the last three months. The Russell 1000 Growth Index rallied 17.8% last quarter, led by tech, utilities, and communications names, while the Russell 1000 Value Index gained a paltry 3.8%.

Mag Seven earnings takeaways reinforcing the AI secular growth theme included second quarter leader NVIDIA (NVDA) announcing a production ramp for its Blackwell chips, AI tailwinds for ad monetization and engagement from Meta (META), and Azure cloud growth and easing AWS capacity constraints for Microsoft (MSFT) and Amazon (AMZN), respectively.

Defense and Growth Stocks, Weaker Dollar Fuel International and EM Returns

International and emerging market (EM) equities extended first quarter momentum, slightly outperforming the S&P 500 for the second consecutive quarter. The MSCI EAFE Index for developed international markets rallied 12.0% and the MSCI EM Index added 12.2% in dollars, besting the S&P 500's healthy 10.9% advance.

Like U.S. shares, international markets were rattled by steeper-than-expected reciprocal tariffs in early April. Nonetheless, sentiment steadily improved following the tariff pause as trade deals broadly progressed in the right direction. Among local developments, the Eurozone was lifted by two additional European Central Bank (ECB) rate cuts, as well as bolstered defense spending plans. Across the globe in Asia, tech and growth stocks powered outperformance in EM and solid quarterly returns for the developed market of Japan. Overarching support for global stocks, namely EM and Asia, stemmed from a weaker U.S. dollar which acted as a significant tailwind for dollar investors as the value of returns in other currencies appreciated.

Bonds Edged Higher as Haven Bids Ebbed

Core bond prices gained 1.2% last quarter, as proxied by the Bloomberg U.S. Aggregate Index. Treasury yields whipsawed on the U.S. tariff announcement before paring back gains as risk sentiment recuperated and signs of an economy on solid footing drove traders to increase Fed rate-cut bets. Meanwhile, the market reaction to Moody's downgrade of U.S. debt from Aaa to Aa1 in mid-May was relatively muted, proving to be a short-lived headline risk, as focus shifted to President Trump's signature tax and reconciliation bill. Treasury investors voted with their feet as the *One Big Beautiful Bill* made its way through Congress, driving the yield curve steeper as markets scrutinized potentially increased debt levels and U.S. fiscal sustainability.

After underperforming the broader corporate credit market last quarter, the most credit sensitive sector of the bond market — high-yield corporate bonds — bounced back with quarterly outperformance. Based on the Bloomberg High-Yield Index, the sector gained 3.5%, while the Bloomberg Corporate Bond Index added just 1.8% over the last three months. Most domestic bond sectors gained ground, although municipal bonds (munis), preferred stocks, and high-yield munis fell.

Gold Rally Continued; Crude Oil Tumbled

The Bloomberg Commodities Index closed below the flatline, shedding 3.1% last quarter. West Texas Intermediate (WTI) crude was flagged as a notable drag for the broader commodities complex, ending 8.9% lower after spending most of the quarter below the unchanged point on OPEC+ production increases and U.S.-China trade tensions. Crude prices briefly touched positive territory as Iranian-Israeli missile barrages added a sharp risk premium to prices, before reversing gains on a U.S.-forged ceasefire.

Gold extended its first quarter surge with a more modest 5.8% gain, placing the yellow metal's first half advance at 25.9%. The bullion continued to garner support from trade uncertainty and geopolitical tensions as well as central bank buying. Platinum stole the precious metal spotlight with a 36.2% gain, while silver also outperformed gold with a 5.9% advance. Copper ended slightly lower while the dollar extended losses, falling 7% against its peers in the greenback's worst quarter since December 2022. Soft commodities and grains declined.

All commodities performance is based on Bloomberg commodity indexes.

A Look Ahead

Economy. The economic landscape remains dynamic and complex, marked by lingering economic fog. Looking ahead, investors should consider the following:

- **Trade Effects in the Second Half.** The delayed effects of trade policy will begin to weigh on the economy in the second half, leading to a deceleration in overall growth, weaker labor demand, and an uptick in inflation.
- **Higher for Longer.** The more complex macro environment and the ongoing bifurcated effects of inflation on consumers will force the Fed to maintain its cautious "wait and see" stance on monetary policy for longer than markets originally expected.
- **Choppy Waters in the Labor Market.** The labor market looks to be stable in the near-term, but "choppy waters" are likely on the horizon that have the potential to significantly disrupt positive employment trends.
- **Lingering Economic Fog.** Ongoing tariff headlines will continue to influence market sentiment, complicating both economic growth and inflation forecasts while limiting visibility for market participants

Stocks. A rotation back to big tech names powered the stock market's recovery from the tariff-induced correction. Trade and economic growth concerns remain, and more episodes of market volatility should be expected. Looking ahead, investors should consider the following:

- **Potential for Modest Gains**. We expect stocks to post modest gains this year following a positive but potentially choppy second half hinging on cooperative trade policy and overall policy clarity.
- **Earnings Will Have to Come Through**. Earnings will be key for the stock market to move meaningfully higher in the second half of 2025 amid ongoing tariff uncertainty. Markets will rely on technology names to keep boosting broad-market earnings growth.
- **Elevated Valuations**. The potential for multiple expansion is likely limited, in our view, as recent valuations reflect a fair amount of trade policy optimism given the likelihood of below average earnings growth this year and next.
- **Bullish Scenario Still on the Table**. On the other hand, the S&P 500 has delivered an unprecedented, sharp, and swift "v-shaped" recovery, notching new all-time highs to close the quarter. History suggests gains after a correction loss is recovered are strong, though past performance does not guarantee future results and unusual headwinds continue to linger.

Bonds. The bond market remains caught in a tug of war. As investors enter the third quarter of 2025, bond markets are dealing with the competing narrative of economic data and deficit spending. Looking ahead, consider the following:

- **A Range-Bound Yield Environment**. Ten-year yields are expected to remain rangebound in 2025. The risks for yields are roughly balanced, with potential upside from fiscal deficits, Treasury supply, and potentially weaker foreign demand. Downside risks include slower growth and Fed rate cuts.
- **Stay Focused on Quality**. While price appreciation for fixed income is likely to be limited, high-quality bonds remain valuable for portfolio protection and potential gains in times of uncertainty and economic stress.
- **Balance Yield and Risk**. Considering the uncertainty surrounding future interest rate movements, benchmark level exposure to bonds for longer maturities and a higher degree of sensitivity to interest rates is preferred. Intermediate term maturities of five years or less are favored in the current environment.

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U.S. Treasuries may be considered "safe haven" investments but do carry some degree of risk including interest rate, credit, and market risk. They are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

Second Quarter Performance Overview

Tech Topped the Q2 Sector Leaderboard on Artificial Intelligence Enthusiasm

S&P 500 sector performance, ranked by second quarter returns*

Sector	Q2 2025
Technology	23.7
Communication Services	18.5
Industrials	12.9
Consumer Discretionary	11.5
S&P 500	10.9
Financials	5.5
Utilities	4.3
Materials	3.1
Consumer Staples	1.1
Real Estate	-0.1
Healthcare	-7.2
Energy	-8.6

Growth Stocks and Non-U.S. Paced Q2 Gains

Domestic and international asset class performance, ranked by second quarter returns*

Asset Class	Q2 2025
Mid Growth	18.2
Large Growth	17.8
Emerging Markets	12.2
Large Foreign	12.0
Small Growth	12.0
Russell 3000	11.0
S&P 500	10.9
Mid Value	5.3
Small Value	5.0
Large Value	3.8

Unhedged Foreign Bonds and Credit Outperformed in Q2

Bond market performance, ranked by second quarter returns*

Sector	Q2 2025
Foreign Bonds (Unhedged)	7.4
High-Yield Corporates	3.5
EM Debt	2.5
Bank Loans	2.3
Foreign Bonds (Hedged)	1.9
Investment-Grade Corporates	1.8
Bloomberg Barclays U.S. Agg	1.2
MBS	1.1
U.S. Treasuries	0.9
TIPS	0.5
Munis	-0.1
Preferred Stocks	-0.6
High-Yield Munis	-1.1

**Sources: LPL Research, FactSet, as of 06/30/2025

All data as of 06/30/2025

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The sectors are represented by the 11 S&P 500 Global Industry Classification Standard (GICS) indexes.

Asset class returns are represented by the returns of indexes and are not ranked on an annual total return basis. It is not possible to invest directly in an index.

Bond Market Asset Class Indexes: Foreign Bonds (hedged) – Citigroup Non-U.S. World Government Bond Index Hedged for Currency; Preferred Securities – Merrill Lynch Preferred Stock Hybrid Securities Index; Treasury – Bloomberg U.S. Treasury Index; Mortgage-Backed Securities – Bloomberg U.S. MBS Index; Investment-Grade Corporate – Bloomberg U.S. Corporate Bond Index; Municipal – Bloomberg Municipal Bond Index; Municipal High-Yield – Bloomberg Municipal High Yield Index; TIPS – Bloomberg Treasury Inflation-Protected Securities Index; Bank Loans – Bloomberg U.S. High Yield Loan Index; High-Yield – Bloomberg U.S. Corporate High Yield Index; Emerging Market Debt – Bloomberg Emerging Markets USD Aggregate Total Return Index Unhedged; Foreign Bonds (unhedged) – Citigroup Non-U.S. World Government Bond Index (unhedged).

Important Disclosures

Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments.

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Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments, and exports less imports that occur within a defined territory.

Yield is the income return on an investment. This refers to the interest or dividends received from a security and are usually expressed annually as a percentage based on the investment's cost its current market value or its face value.

Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability. Earnings per share is generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio.

Small cap is a term used to classify companies with a relatively small market capitalization. The definition of small cap can vary, but it is generally a company with a market capitalization of between $300 million and $2 billion. The prices of small cap stocks are generally more volatile than large cap stocks.

The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Bloomberg Global Aggregate Index measures the performance of global investment grade debt. The index includes treasury, corporate, and securitized fixed-rate bonds. Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

High yield/junk bonds (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments. The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

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