SECOND QUARTER 2025

SEI *Forward.*

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Market review

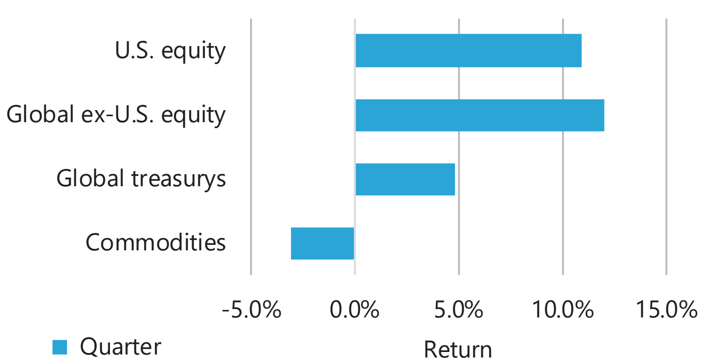
Markets scaled a wall of worry in the second quarter of 2025—geopolitics took center stage from tariff turbulence, while equity markets rallied sharply from the post "Liberation Day" lows. Delays on implementing broad-based tariffs and progress with certain negotiations, including China, gave investors confidence to buy the early April equity dip and push the S&P 500 Index to an all-time high to close the quarter.

Even the lack of progress with the Russia/Ukraine war and the escalation of the conflict between Israel and Iran, including the U.S. bombing of Iranian nuclear sites, were not enough to derail the risk rally. In fact, oil and volatility markets failed to hold gains from the price spike following news of the U.S. involvement given the subdued Iranian response, open shipping lanes in the Strait of Hormuz, and a clear desire from the U.S. administration to limit further actions.

While markets were resilient during the quarter, we begin the second half of the year with additional walls to climb (including the looming expiration of tariff delays and the likely flow through of trade policies already in place into near-term economic data).

There are bright spots, however, most notably the fiscal and monetary stimulus being implemented around the globe—which may soon include the U.S. as the Federal Reserve (Fed) is poised to cut interest rates, and the Trump 1.0 tax cuts appear likely to be extended.

Tales of the tape*



Source: Bloomberg, SEI as of 6/30/25.
Past performance does not guarantee future results.

Notables for the quarter

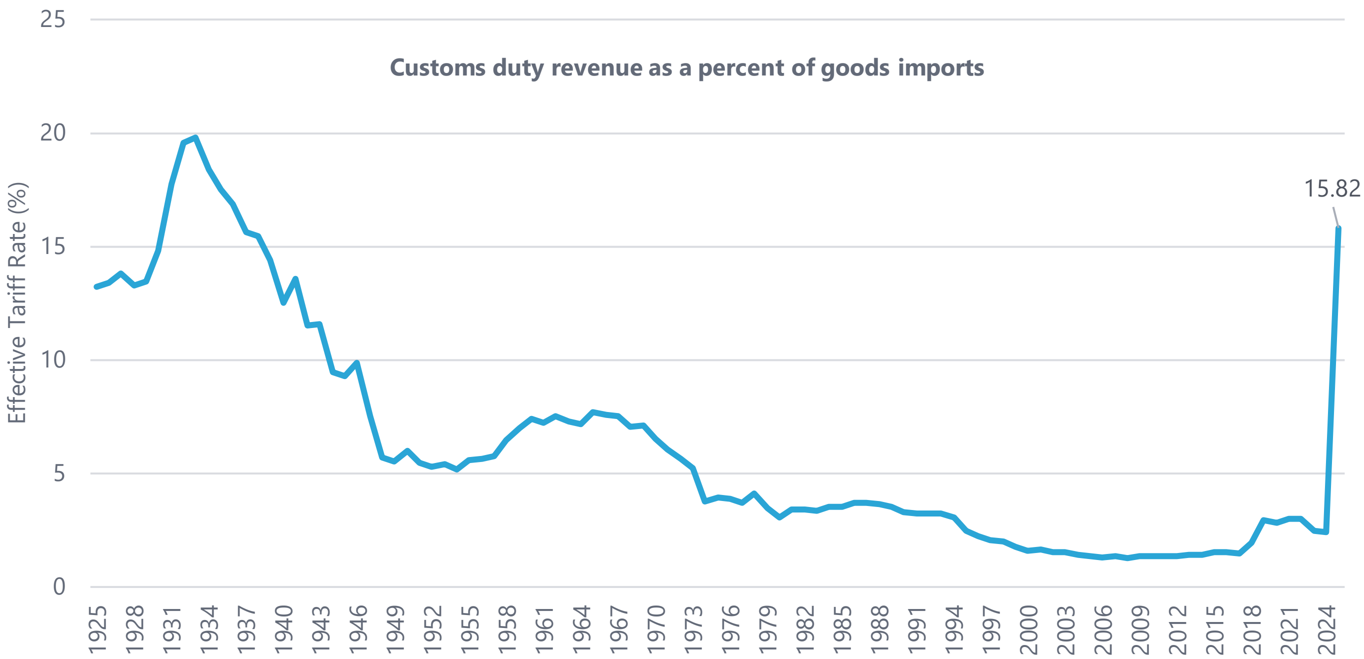
- **Oil:** -5.8%, Negative for the quarter despite conflict in the Middle East.
- **NVDA:** +44%, The Magnificent 7 (ex. Apple) were back in the driver's seat in the second quarter.
- **U.S. dollar:** -7.0%, Tariffs, debt, valuations keep pressure on the U.S. dollar.
- **U.S. BBB corporate spreads:** 102.5 basis points (12 tighter during the quarter).

Halftime report: What have we learned?

Given the unpredictable year we've had thus far in 2025, it may be worth exploring areas where we have some semblance of *clarity*, if not certainty, that are likely to be market drivers in the second half of the year.

First and foremost, **the global trade dynamic will be changing dramatically**. U.S. Tariffs have already reached their highest levels in more than 85 years (Exhibit 1) and are likely to remain there at a minimum. While the specific details regarding imposed and reciprocal rates as well as timing are still uncertain, we can confidently assume a negative impact on global economic growth and a boost to inflation, if only temporarily. Monetary stimulus in the U.S. is likely to resume in the later part of 2025, but only after a clearer picture of trade policy emerges later in the summer.

Exhibit 1: U.S. average effective tariff rate since 1925



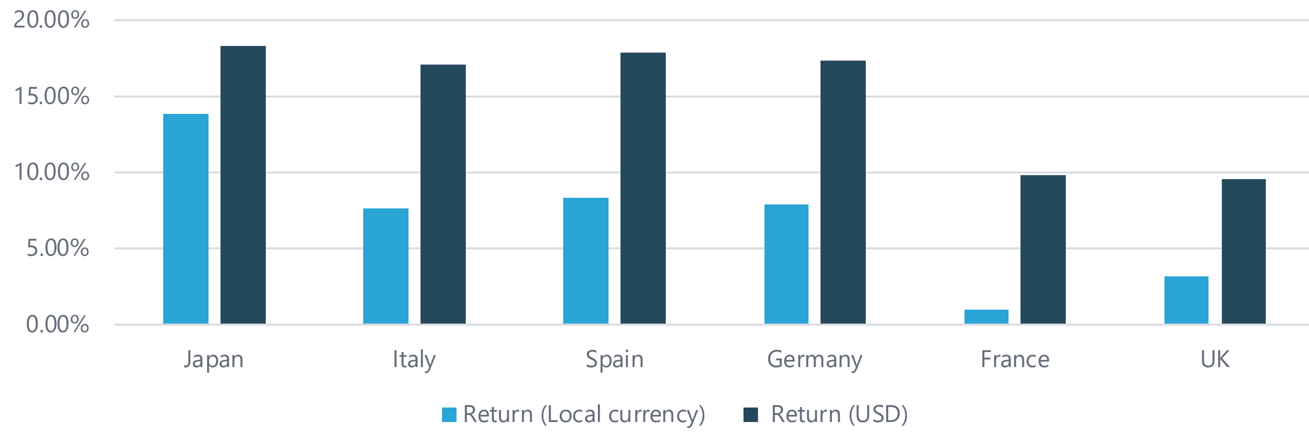
Source: Bureau of Economic Analysis, The Yale Budget Lab, through June 16, 2025.

Developed government debt growth will continue unabated. European fiscal spending, including a significant commitment to defense budget expansion, was the story of the first quarter, while the DOGE bust and the continuing debates surrounding the U.S. budget bill grabbed headlines more recently. Regardless of the final budget details, one thing is for sure, there will be no slowing in the growth of developed world government debt in the near term. We see this as a structural tailwind for higher longer-term rates even with central banks back in easing mode. Yield curves have already steepened, particularly in the U.S., and have more room to move, notably in Europe.

U.S. dollar weakness has accelerated in 2025. The dollar declined by 7% in the second quarter and more than 10% since the highs of the year on tariff policies, slowing growth concerns, and substantial monetary and fiscal stimulus announced outside of the United States. Notably, the U.S. dollar failed to rally during the stock market decline in the first half of the year, calling into question the safe-haven status of the currency in current market conditions and suggesting the start of a more secular decline. We are sympathetic to the weak U.S. dollar viewpoint although we do suspect that the near-term selling may be overdone. We also have a positive view on gold as a safe haven asset in the current environment and like the supply/demand dynamics even after the strong rally. While the "barbarous relic" is up over 25% year-to-date on increasing demand from both investors and central banks, we believe a weak U.S. dollar environment will act as an additional tailwind.

The divergence in equity valuations between the U.S. and the rest of the world remains wide. While the valuation gap has narrowed thus far in 2025, it has been mostly driven by higher multiples outside the U.S. as opposed to a decline in the lofty U.S. valuation. The widely expected buyers strike on U.S. assets doesn't appear to have materialized, however, weakness in the U.S. dollar during the rebound in U.S. equities does suggest that global investors are interested in at least partially hedging their exposures. We have strategically recommended removing any home country bias from investor equity portfolios along with a 50% currency hedge for investors outside the U.S. U.S. investors have benefitted from unhedged international equity exposure (Exhibit 2) thus far in 2025 which may add some momentum to international outperformance.

Exhibit 2: Second quarter global equity returns



Source: Bloomberg. Past performance does not guarantee future results. Japan=Nikkei 225 Index, Italy=FTSE MIB Index, Spain=IBEX 35 Index, Germany=DAX Index, France=CAC 40 Index, and UK=FTSE 100 Index.

Halftime report: What have we done?

Our biggest changes during the quarter stemmed from recognition that recessionary risk has risen considerably. While our base case remains that the global economy will avoid recession in 2025, we recognize a slowing in both the hard and soft data. The much-ballyhooed European stimulus will be more of a 2026 and beyond story, and the U.S. Fed is solidly in wait and see mode with tariff uncertainty still unfolding, so it is less than clear if the second half of 2025 will look more like the first or second quarter. With that as a background, we did close our overweight to broad commodities. We prefer to avoid the energy complex given the economic sensitivity and spare capacity dynamic that was highlighted in the sanguine response to the escalations in the Middle East. We also closed our short on U.S. 10-year rates, opting to maintain our positioning for a steeper yield curve. Debt dynamics should keep longer rates range bound, at best, and easy monetary policy should lead to further widening between short- and longer-term yields. We also remain positioned for stubborn U.S. inflation with an emphasis on longer maturities.

Global diversification in equity markets remains a strategic theme as does our preference for active management, including value, quality, and momentum factors. Despite the Magnificent 7, which trades at nearly 30 times future earnings, dominating performance during the quarter after faltering to start the year, we continue to expect broader participation from U.S. equity sectors and capitalizations in the latter half of the year.

Finally, credit spreads remain relatively tight yet yields and income are attractive. We continue to prefer securitized credit over corporate debt given the favorable risk-adjusted yields. Asset classes such as collateralized loan obligations (CLOs) look particularly attractive at this stage of the cycle.

As always, we would like to thank our readers for their continued support.

Summary views

Macro/Cross-asset	• Inflation risks remain biased to the upside due to tariffs and stimulus measures. • Growth data is softening, but we do not foresee a recession in 2025. • U.S. dollar weakness has room to run but may be oversold in the near-term.
Equity	• Diversity in equity markets remains a focus, particularly among geographies and market capitalizations. • Strategic exposures to value, quality, and momentum remain intact, with an emphasis on value. • Active management should benefit/help investors avoid historically high concentration risk in the U.S.
Fixed income	• Fiscal and monetary stimulus should provide a tailwind to higher long-term yields although we moved to a neutral duration position on expectations for near-term range-bound trading. • We remain positioned for a continued steepening in U.S. and European yield curves. • We remain defensively positioned in credit. Favor securitized versus corporate debt; CLOs look particularly attractive on a risk-adjusted yield basis.

Indexes

*Tales of the tape: U.S. equity: S&P 500 Index; Global ex-U.S. equity: MSCI ACWI ex-U.S. Index; Global Treasurys: Bloomberg Global Treasury Index; Commodities: Bloomberg Commodity Index.

Indexes definitions

The **Bloomberg Commodity Index** comprises futures contracts and tracks the performance of a fully collateralized investment in the index. This combines the returns of the index with the returns on cash collateral invested in 13-week (three-month) U.S. Treasury bills.

The **Bloomberg Global Treasury Index** tracks fixed-rate, local currency government debt of investment grade countries, including both developed and emerging markets.

The **CAC 40 Index** tracks the performance of the 40 largest French stocks traded on the Euronext Paris stock exchange.

The **DAX Index** tracks the performance of 40 of the largest German companies that trade on the Frankfurt Stock Exchange.

The **FTSE 100 Index** tracks the performance of shares from the 100 largest companies listed on the London Stock Exchange.

The **FTSE MIB Index** is the primary large-cap equity benchmark index for the Italian equity market.

The **IBEX 35 Index** is a market capitalization-weighted index that tracks the performance of the 35 most liquid stocks traded on the Continuous market on the Madrid Stock Exchange in Spain.

The **MSCI ACWI ex USA Index** tracks the performance of both developed-market and emerging market countries, excluding the United States.

The **Nikkei 225 Index** tracks the performance of the Japan's 225 largest companies listed on the Tokyo Stock Exchange.

The **S&P 500 Index** is a market-weighted index that tracks the performance of the 500 largest publicly traded U.S. companies and is considered representative of the broad U.S. stock market.

Glossary

A **basis point** equals .01%.

Magnificent 7 refers to the mega cap technology and technology-related U.S. stocks of Alphabet (Google), Amazon, Apple, Meta (Facebook), Microsoft, Nvidia, and Tesla.

Momentum is a trend-following investment strategy that is based on acquiring assets with recent improvement in their price, earnings, or other relevant fundamentals.

Quality comprises a long-term buy-and-hold strategy that is based on acquiring shares of companies with strong and stable profitability with high barriers of entry (factors that can prevent or impede newcomers into a market or industry sector, thereby limiting competition).

Risk assets, such as equities, commodities, high-yield bonds, real estate, and currencies, carry a degree of risk and generally are subject to significant price volatility.

Value is an investment strategy that is based on acquiring assets at a discount to their fair valuations. Mean reversion is a theory that prices and returns eventually move back towards their historical average.

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