Summit Trail Advisors

Monthly Download

June 2025

Summary

US Equity Markets reached new all-time highs in June, driven by a drop in recession concerns, resilient employment data and lower than feared inflation readings. Geopolitics and the US entering the Israel-Iran conflict failed to derail the speculative mood in markets. Progress on the "One Big Beautiful Bill" also finally gave markets fiscal stimulus that had been expected post-election even as increased tariff policy remained fully in place as the July 9th deadline for the 90-day extension of President Trump's "Liberation Day" approaches.

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Market Overview

- **Equity markets** rallied in June given a general continued reprieve in tariff escalation and economic data remained solid. The S&P 500 and the Nasdaq reached new all-time highs, rising 5.1% and 6.6% respectively, fueled by technology and Artificial Intelligence (AI) names. June performance capped a stunning reversal from the April 8th lows and one of the quickest V-shaped recoveries on record after a greater than 15% decline in the S&P 500 Index. US markets outperformed non-US developed markets in June, but emerging markets led performance. The MSCI All Country World Index delivered a gain of 4.5% for the month, and the index now is up 10.3% in 2025.
  - US Large Cap stocks (S&P 500) rose 5.1% in June, with Technology and Communication Services leading the pack. Within Technology, semiconductor stocks posted double digit gains, with Nvidia rallying 17% in June after similar performance in May. Year-to-date, the S&P 500 now is up 6.2%.
  - US Small Cap stocks (Russell 2000) gained 5.4% on improved risk appetite and capital inflows from Russell index reconstitution at the end of the month. Losses for the year narrowed to 1.2%.
  - Non-US stocks (MSCI EAFE Net) gained 2.2% in June with help from US Dollar declines despite the geopolitical volatility in the Middle East. Monthly performance in local currency was just 0.2%. Year to date gains are now 19.5% with substantial contribution from US Dollar depreciation.
  - Emerging Markets (MSCI Emerging Markets Net) advanced 6.1%, driven by strength in China, Taiwan and South Korea as trade tension continued to deescalate. Emerging Markets are now up 15.6% year to date.
- **Interest rates** declined across the curve in June as investors weighed benign inflation data and modestly increased their expectations for Fed cuts. After a sharp rise in May, the 10-Year US Treasury yield declined by 19bps to 4.23% while the 2-Year yield dropped 18bps keeping the Treasury curve's steeper slope intact.
  - High Grade Taxable bonds (Bloomberg US Aggregate) rose 1.5%, raising 2025 gains to 4.0%. The gain was driven by the decline in interest rates and narrowing of investment grade bond spreads.
  - Municipal bonds (Bloomberg 1-10 Year Muni Bond) increased 0.8% benefiting from interest rate declines and moderating outflows from tax-exempt bonds. Municipal bonds are now up 2.0% in 2025.
  - Investment Grade (Bloomberg US Corporate Investment Grade) and High Yield (Bloomberg US Corporate High Yield) bonds both posted strong gains in June rising 1.9% and 1.8% respectively, driven by interest rate declines and investors willing to extend on credit quality given economic data. Year to date gains now stand at 4.2% and 4.6% respectively.

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- **Commodities** (Bloomberg Commodity Index) closed the month up 2.4%. WTI crude oil surged 8% amid the Israel and Iran conflict and tighter supply expectations. However, oil prices remained subdued given the severity of headlines and the US entering direct conflict with Iran. Silver rose 9%, reaching its highest level in over 13 years due to higher industrial demand and ongoing supply deficits. Agricultural commodities continued to struggle amid trade policy uncertainty. Commodities are now up 5.5% in 2025.

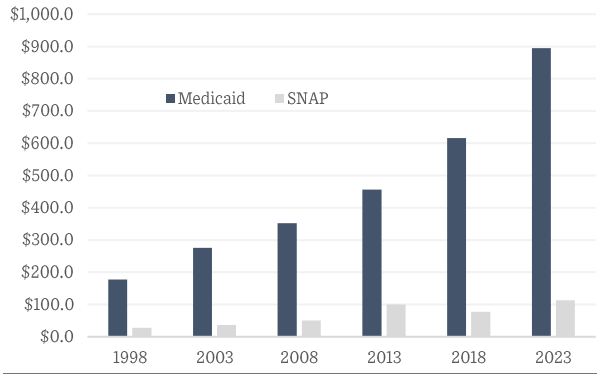
Economic Commentary

President Trump's signature One Big Beautiful Bill ("OBBB") made its way through the House and Senate in June and was eventually signed into law on July 4th. The main benefit of the bill is a permanent extension of the tax cuts from the 2017 Tax Cuts and Jobs Act (TCJA), specifically individual income tax rates and the corporate tax rate that propelled markets higher back in 2017. The bill also includes numerous incentives for domestic production and capital investment including domestic research costs now being fully deductible (versus 15 years of amortization). Markets had long priced in an extension of the current tax status quo, but without the bill's passage, tax rates would have increased substantially in 2026, diminishing corporate profits and increasing risk of recession. The financial media and to a lesser extent markets are more focused on the budgetary burden the bill will have on fiscal conditions in the US given Congressional Budget Office (CBO) projections for the bill adding $2 to $3.4 trillion in debt over the next 10 years[1]. CBO deficit projections are based on the difference in tax rates had the 2017 TCJA rates expired (in addition to proposed spending changes) but do not account for any impact to the economy that higher tax rates would have had on output and corporate profits. CBO projections also do not take into account increased revenues from tariffs which are projected to exceed $2 trillion over the next 10 years if maintained that will offset much of the projected deficit impact. Tax policy certainty, in terms of non-expiring rates which have been a rare occurrence this century, and incentives for domestic investment should not be underestimated in terms of their economic benefit for companies and management teams. For now, this may only serve to counterbalance the uncertainty created by current US tariff policy. An interesting ideological question is the wisdom in shifting our traditional income tax structure to more of a European-style consumption tax like Value Added Taxes (VATs) via tariff policy. One would not think Republicans and President Trump seek to mirror European tax policy, but in some ways the current structure moves us closer to the European Union. Companies will now have the choice (or dilemma) to pass along tax increases via tariffs to consumers or digest the cost increase into elevated profit margins.

OBBB's spending priorities shift to Republican principles like defense spending and immigration enforcement while seeking to find cost savings and reduce unlimited growth in "safety net" areas like Medicaid and the US Supplemental Nutrition Assistance Program (SNAP). Spending priorities tend to be more of a political than market debate but the overall inability of Republicans to actually reduce deficits and spending in their signature bill speaks to the challenges facing US federal finances and our current political circumstances. For comparison, at the end of 1998, the US had an unemployment rate of 4.5% and 6.1 million unemployed persons. Recent data shows a 4.1% unemployment rate and 7.0 million unemployed persons. The increase in unemployed persons is almost 15% over 25 years, consistent with growth in population but little change in comparing two periods of relatively strong labor markets. Medicaid and SNAP are designed to help low-income families and individuals with the cost of health care and nutrition. Few voters, if any, would argue against the safety net and the importance of these programs in terms of their stated purpose. But the programs have expanded massively over the past 25 years even accounting for inflation. The number of unemployed persons and 15% growth may not be a perfect metric for the number of people who need support, but it should be a ballpark figure for comparing economic health. Medicaid spending has increased by 224% since 1998.

[1] *CBO estimates are an increase of $2.4 trillion in primary deficits, $3.0 trillion when including interest costs, and $3.4 trillion for its dynamic score which considers macroeconomic effects.*

While SNAP spending is up 126%. The financial press, along with Democrats in Congress, have raised substantial alarms on the proposed reductions in spending that exist under the OBBB but spending in both programs is projected to grow from current levels. OBBB creates stricter work requirements that used to be bipartisan (i.e. welfare reform under Democratic President Clinton). The irony is that the impact is no longer a "blue state" issue. Many "red states" signed up for Medicaid expansion under Obamacare and looser restrictions for SNAP in Covid-related fiscal bills. More Republican voters are now reliant on federal spending than ever before and voters historically like "free" stuff. How Republicans position OBBB to their electorate will go a long way towards mid-term election outcomes that are just over a year away.

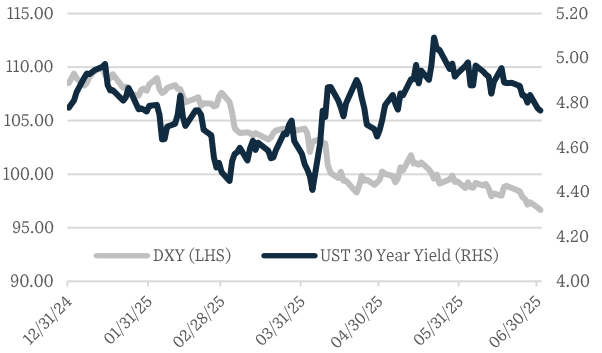


Federal Spending ($b) on Medicaid and SNAP
Source: Statista

Democratic and Republican bills have both been guilty of trying to influence behavior through tax policy and incentives. Tax giveaways in the OBBB include an interesting mix of the always popular and bipartisan production of babies both through increasing the child tax credit and the creation of "Trump accounts", as well as less popular and more partisan areas like tax incentives for metallurgical coal and whaling boat captains. OBBB did not just stop at creating new tax incentives but went after many of the Democratic tax incentives in the Biden Inflation Reduction Act (IRA), including clean energy policies. In addition to the elimination to tax credits for Electronic Vehicles, charging stations and energy efficiency improvements, the bill would require solar and wind projects to start construction by June 30th, 2026, or be placed into service by 2027 to qualify for the tax credits compared to the original timeline of 2032 per the Inflation Reduction Act passed in 2022 under the Biden administration. The bill extends the tax incentives for nuclear, hydropower and geothermal projects to 2033. OBBB's timing in reducing solar and wind tax credits is at odds with electricity demand that is forecasted over the next decade to increase significantly due to AI development, data center buildout, and electrification of the grid. According to the Energy Information Administration (EIA), over 90% of the 64 gigawatts of new capacity added in 2025 has been from renewable energy, with solar being 50% of the new supply. While nuclear and natural gas-powered electricity are both less carbon intensive sources of energy supply than traditional fossil fuels, they both have a much longer lead time to completion for new projects. The costs and speed to produce renewable energy would place solar and wind in a better position to meet the near-term energy demand increases. Similar to Medicaid and SNAP the politics of clean energy are evolving and the states that would be hit hardest by the loss of renewable energy projects are actually more concentrated in Republican leaning states like Texas, Florida, Ohio and South Carolina, according to Energy Innovation, a non-partisan research organization.

We believe the overall market impact from the OBBB passage is fairly limited or had already been priced into stocks. The more interesting area of the market may be bond market reaction to the deficit increase and the bill's funding requirements. OBBB does increase the debt ceiling cap by $5 trillion, which effectively pushes the next budget dance until after the mid-term elections. The issue for markets is whether OBBB's passage gives the administration more cover in pursuing tougher trade negotiations. Markets struggled after Trump's inauguration until April 8th given increasing tariff rhetoric. The administration's reversal and delay of tariff implementation starting April 8th has allowed markets to reach new highs as trade rhetoric deescalated. Trade deals were supposed to be in place by July 9th, but few have been announced to date. Over the July 4th weekend, Treasury Secretary Bessent floated a new August 1st deadline that speaks to the remaining challenges with many of our trading partners. Lack of trade deals, or higher tariff implementation as a negotiation ploy will be more critical to risk assets in the near-term than OBBB.

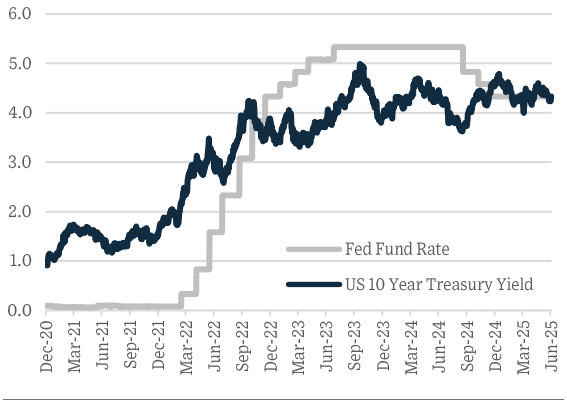
The US Dollar (USD) declined 10.8% against a trade-weighted basket of foreign currencies in the first half of 2025, marking its sharpest decline in the first half a year since 1973. The reserve currency decline took place as US equity markets were hitting all-time highs and Treasury yields remain unchanged compared to the start of the year. The USD started to decline shortly after President Trump took office and accelerated as tariff policy escalated. After the "Liberation Day" announcement April 2nd, the dollar decline began to decouple with US Treasury yields and continued through the geopolitical events of June. Typically, as US Treasury yields climb, the higher yield lures foreign investor interest and capital flows into the US which in turn strengthens the US Dollar. The decoupling of interest rates and dollar performance has made investors question the safe haven asset status of the US dollar in times of stress and volatility. The Trump administration's objectives of bringing capital and production back to the US are at odds with a stronger currency. Despite recent reallocation of capital outside of the U.S. after a long period of dominant US asset outperformance, foreign holders continue to make up over 30% of total U.S. government debt. With the current US fiscal deficit trajectory now somewhat cemented with OBBB's passage, a weaker dollar will make interest costs even higher as foreign investors should require higher yields to compensate for the possible decline in investment value when translated back to their local currencies. Continued pressure from President Trump to lower interest rates and the likelihood of a more dovish Fed Chair selection in 2026 term is also likely to pressure the reserve currency. Dollar weakness has become one of the consensus market trades assuming US rate cuts come to fruition and deficit funding continues.



US Dollar Index (DXY) vs US 30-Year Treasury Bond Yield
Source: Bloomberg

While this all sounds negative for USD and Treasuries, we would keep an eye on two regulatory areas that are seeking to address weak Treasury demand. The Office of the Comptroller of the Currency (OCC) has proposed new standards that impact Global Systematic Important Banks (GSIBs) that are designed to provide more flexibility in balance sheet holdings by reducing the impact of holding low-risk assets like US Treasuries. The adjustment would change calculations related to Treasuries in terms of GSIBs meeting capital requirements of Basel restrictions created after the Global Financial Crisis. Per Mayer Brown, an international law firm, "*the Proposal's request for comment on exempting certain Treasury securities opens the door for additional reforms to enhance balance sheet flexibility as well as to help strengthen the US Treasury market at a time when the US federal government issuing record amounts of new Treasuries to finance unprecedented budget deficits*". The other area to keep an eye on is a bill called the GENIUS Act that was passed by the Senate in June. The bill still needs to go through passage in the House, but President Trump has voiced his support for the bill. The GENIUS Act would effectively provide a regulatory backdrop to bring stablecoins onshore into the US banking system. Stablecoins, including the largest on the planet in Tether, previously have existed offshore in unregulated jurisdictions. The GENIUS Act proposes requirements like anti-money laundering compliance, financial audits, and asset coverage that have not previously existed. To the extent stablecoins grow in the US along with the requirement of 1:1 asset coverage could create more demand for low-risk assets like Treasuries. Whether the Trump administration can use pro-growth catalysts to offset the long-term challenges of financing growing deficits will have implications for Treasury markets, the US Dollar and interest rates.

The Federal Reserve kept the benchmark interest rate unchanged during its June FOMC ("Federal Open Market Committee") meeting as expected, and most Fed officials signaled they still expect to see at least two rate cuts by the end of this year. However, seven Fed participants penciled in no rate cuts by the end of 2025 compared to just four in March, striking a subtle hawkish tone in Fed messaging. May Core Personal Consumption Expenditures (PCE) increased 0.1%, and 2.6% on a year-over-year basis, with little sign of impact from higher tariffs levels. Hoarding inventories ahead of tariff implementation, US companies deciding to wait for further clarity on final trade deals before hiking prices, and lack of pricing power for some companies all contributed to stable inflation figures since the Liberation Day. Most investors (including the Fed) anticipate that tariff impact will start to show up in inflation data over the coming months. Company surveys show that business leaders see some room to cushion tariff impact to consumers via corporate profit margins, but they do intend to pass along cost increases to consumers. Labor markets are showing some small cracks and declines in overall private sector job growth but overall remain healthy as the unemployment rate in June declined to 4.1% from 4.2% due to a lower labor participation rate. State and local government hiring in June offset the decline in job growth from the private sector. While job growth is clearly declining, investors may need to recalibrate expectations given lower US population growth due to immigration enforcement. The US may need less jobs to keep employment levels intact. With stable job markets and benign inflation data, President Trump has been ramping up pressure on the Fed to lower rates again, claiming that cutting rates sooner could lower interest expenses for the government and breathe life into the housing market. Since the Fed started cutting rates in 2024, longer-date market rates like the 10-Year Treasury yield have risen as investors increased optimism about the state of the economy but also fretted over growing US deficits. Year-to-date, the 10-Year Treasury yield has taken a round trip to levels close to when the year began. Lack of direction in the 10-Year Treasury speaks to less confidence from markets on the direction of the Fed Funds Rate. The benchmark 10-year rate is often thought of as a market voting machine on the neutral rate for Fed Funds, with the neutral rate being a level where monetary policy is neither accommodative or restrictive. The 10-Year Treasury spent much of 2022 through 2024 signaling that Fed policy was too restrictive, but with the 10-Year yield now almost perfectly in-line with current Fed Funds, markets view interest rate risk as more symmetrical given the counteracting policies at work.



Fed Funds Rate vs US 10-Year Treasury Yield
Source: Bloomberg

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