

July 9, 2025



To: Our Clients and Friends

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Re: Second Quarter 2025 Review and Commentary

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**“We do not know the scope and breadth of the tariff issue at the moment and will not for a while. Accordingly, anything I might say on that subject will be sheer speculation.”**

- Phebe Novakovic – CEO of General Dynamics (on first quarter earnings call)

The second quarter of 2025 was a challenging period for executives as they attempted to dissect a litany of Liberation Day tariff announcements and inform investors of the new tariffs’ potential impact on future earnings. Further compounding the issue – the White House implemented a 90-day delay on the rollout of these tariffs a week after Liberation Day in an attempt to quickly bring foreign leaders to the negotiating table. On July 7<sup>th</sup>, that delay was extended from July 9<sup>th</sup> to August 1<sup>st</sup>. In addition, over a dozen letters were sent out to select trading partners, including Japan and South Korea, threatening to increase tariff rates by 25% to 40% if a deal wasn’t struck before the new deadline.

Companies addressed the potential effect of tariffs in a variety of ways on their first quarter earnings calls – either by withdrawing guidance entirely, by providing guidance with and without tariff impacts, or by offering specific plans to fully offset tariffs, such as supply-chain adjustments and/or price increases. The consensus seemed to be that the 10% tariff baseline is here to stay, while the reciprocal tariffs on top of that are likely to be negotiated down (with some exceptions).

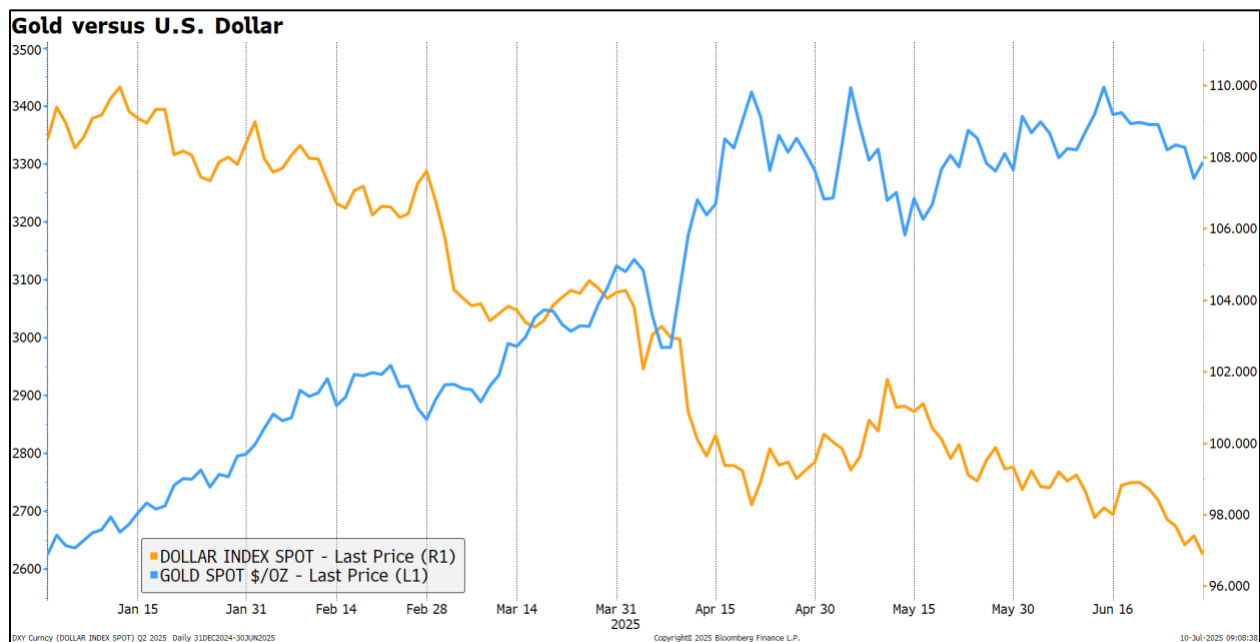
Despite elevated volatility at the start of the second quarter, the stock market was once again resilient, driven in part by the aforementioned delay of Liberation Day tariffs. The market-cap weighted S&P 500 Index bounced back from a total return of -4.3% in the first quarter to a total return of +6.2% through the end of June, led by the technology sector. The Dow Jones and Nasdaq Composite finished the second quarter with year-to-date total returns of +4.5% and +5.9% respectively. The Russell 2000 Index, which measures the performance of smaller, less profitable companies, finished the first half with a total return of -1.8%.

The 10-year U.S. Treasury ended the quarter with a yield of 4.2%, down from 4.6% at the start of the year and flat quarter over quarter. The 10-year has largely remained range-bound between 4.2% and 4.6% through 2025. On the short end, the 2-year U.S. Treasury ended the quarter with a yield of 3.7%, down from 3.9% at the end of the first quarter. The 2-year yield has trended downward since it peaked at over 5% in the fall of 2023, reflecting expectations for continued interest rate cuts by the Federal Reserve.

Gold stood out as one of the best performing asset classes this year with a gain of over 26% through June 30<sup>th</sup>, its best first half performance in 46 years. Global central banks have been contributing to the rise in the price of gold as they continue to ramp up their purchase activity. Lawson Winder, research analyst at Bank of America, commented in a note, “we think central banks are buying gold to diversify reserves, reduce reliance on the [dollar], and hedge against inflation and economic uncertainty.” He added that this is, “a trend that we think is set to continue, especially amid uncertainty surrounding U.S. tariffs and fiscal deficit concerns.”

Gold was a stark counterpoint to the U.S. dollar, which fell over 10% through the first half of the year, relative to a basket of other currencies such as the euro and yen, for its worst performance in over 50 years. That may sound dramatic, but bear in mind the decline is coming off the heels of a 10% rally in the dollar from October of 2024 to January of 2025. The divergent performance of the U.S. dollar and gold through the first half can be seen in the chart below.

### Gold versus U.S. Dollar 2025 Performance through June 30<sup>th</sup>



A weaker dollar helps the Trump administration’s efforts to improve U.S. trade imbalances, since the costs of U.S. goods are less for foreign importers. U.S. multinational companies will also benefit as over 40% of S&P 500 revenue comes from overseas. A number of companies, such as Adobe and Zoetis, increased their guidance last quarter, in part due to more favorable foreign exchange rates.

Investors have been dumping the dollar in favor of other assets such as gold. The move is the result of a combination of factors, including U.S. policy uncertainty, the potential for higher inflation and/or lower interest rates and a growing U.S. deficit, which is expected to be \$2 trillion in 2025.

While there are many Wall Street economists and analysts that have sounded the alarm on the ever-increasing U.S. national debt, Steve Eisman, who is renowned for calling the U.S. housing bubble collapse in 2007/2008, does not count himself among them. Mr. Eisman recently appeared on CNBC and was asked about his level of concern regarding the risk surrounding the U.S. budget deficit. He responded that, “the price of this risk is the 10-year Treasury yield, and what’s happened to the 10-year Treasury yield? It’s been directionless since December of 2022. So, the more important question is...why hasn’t it moved? I think the reason is there’s no alternative to Treasuries...As long as there’s no alternative, there’s nothing to talk about.”

A chart of the 10-year Treasury yield from January 1, 2023 to June 30<sup>th</sup>, 2025 can be seen below. While a number of events have caused yields to rise or fall, the overall trajectory has been sideways.



The Trump administration has taken steps this year to slow the growth of the U.S. deficit. The newly established Department of Government Efficiency (DOGE) and the new tariff policies were steps taken to reduce the deficit. President Trump’s tariffs are beginning to generate significant revenue as the Treasury reported gross customs duties of \$22.8 billion in May, up from \$6.2 billion in the prior year. The total through the first five months of the year is \$63.4 billion with the upcoming June report from the Treasury expected to show further increases from May levels. Despite these efforts, the deficit is expected to increase from the prior year given

government spending increases, greater interest payments on Federal debt and a lack of any income tax increases.

Another avenue for combating the elevated deficit would be to reduce interest payments on U.S. government debt by lowering interest rates, an idea that appeals to President Trump. The President has regularly criticized Federal Reserve Chair Jerome Powell for being “too slow” to cut interest rates while believing, “we should be at 1% or 2%,” versus the current target range of 4.25% to 4.50%.

Mr. Powell prefers a wait-and-see approach as economic data evolves and as the impact of new tariff policies and their ultimate levels are understood. The Federal Open Market Committee (FOMC) primarily considers inflation and employment data when choosing to increase or cut interest rates. Inflation has remained low despite pressure from tariffs, which supports the notion that the FOMC has a green light to cut rates. However, unemployment has also remained low at around 4.1%, leaving FOMC members in no rush to make a decision. Fed Governors Michelle Bowman and Christopher Waller have indicated that they would prefer a rate cut in July as long as inflation data remains favorable.

In the face of these puts and takes, the market reached a new all-time high on July 3<sup>rd</sup>. Investors to date have looked past all the noise and focused on corporate earnings growth and margin expansion. Momentum in the market’s cyclical sectors like technology, financials and industrials has been red-hot, but there are still attractive pockets of value in more defensive sectors like healthcare. We continue to be long-term holders of high-quality companies and aim to be opportunistic on any weakness in secular growth companies.

We invite you all to reach out with any questions and do hope you enjoy the summer.

*Securities noted above valued as of the market close on July 9, 2025:*

*Adobe Inc. (ADBE \$373.38)*

*Zoetis Inc. (ZTS \$158.27)*

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