

2025 Second Quarter Investment Report

The U.S. stock market experienced notable volatility in the second quarter, with the S&P 500 Index initially falling over 10% in early April following the announcement of sweeping new tariffs. After most of the highest tariff rates were paused, the U.S. investment markets staged a swift comeback to not only erase the quarter's losses but also deliver gains for the year. All of our investment categories posted gains for the quarter, with international stocks continuing to lead performance year-to-date and now approaching a 20% return.

Here is a summary of investment performance across all major categories in our client portfolios:

	Quarterly Benchmarks (%)					
	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Domestic Equities						
Russell 3000	10.99	5.75	15.30	19.08	15.96	12.96
S&P 500	10.94	6.20	15.16	19.71	16.64	13.65
International Equities						
MSCI EAFE	11.78	19.45	17.73	15.97	11.16	6.51
Emerging Equities						
MSCI Emerging Markets	11.99	15.27	15.29	9.70	6.81	4.81
Domestic Fixed Income						
Barclays US Aggregate Bond	1.21	4.02	6.08	2.55	-0.73	1.76
International Fixed Income						
iShares Core International Aggregate Bond ETF	2.20	2.34	6.72	4.24	0.67	-
Global Real Estate						
S&P Global REIT	3.06	4.76	11.18	5.06	7.31	5.01
Tangibles & Commodities						
S&P GSCI Enhanced Commodity	-2.19	2.32	-0.09	-0.07	17.60	3.06

Note: We have replaced the Bloomberg Global Aggregate Ex-USD as our benchmark for the International Fixed Income category with the iShares Core International Aggregate Bond ETF to better reflect the performance of our international bond funds that hedge local currency exposure against the U.S. dollar. Our new benchmark will have a 10-year return figure after the fourth quarter this year.

Tariff policy played a significant role in driving U.S. stock market movements during the second quarter. The Trump Administration initially announced sweeping reciprocal tariffs on a broad range of countries, with some rates exceeding 100%—effectively doubling the cost of certain imported goods. These were the highest tariff levels seen in the U.S. in over a century. In response, bond yields spiked as foreign investors began pulling out of U.S. Treasuries, prompting the administration to scale back its initial plans. A temporary 90-day tariff pause was introduced in early July, which was later extended to an August 1st deadline for new trade agreements.

As of this writing, the U.S. has implemented a 10% baseline tariff on most imported goods, along with 50% tariffs on steel and aluminum, and 20% tariffs on imports from China. While these are lower than the initial proposals, they still represent the highest tariff regime in decades.

Despite these developments, the U.S. stock market has largely shrugged off concerns that the 10% baseline tariffs will significantly impact consumer or business spending. Investors remain skeptical that the higher reciprocal tariffs will be sustained long-term, even if trade agreements are not reached. Reflecting renewed optimism, the S&P 500 Index reached a new all-time high at the end of June. While new highs can sometimes raise concerns about market tops, history shows that they often signal continued strength as markets tend to build on such momentum.

One notable consequence of the ongoing trade tensions has been currency volatility. The U.S. dollar declined 10.7% year-to-date through the end of the second quarter, marking a three-year low. A weaker dollar has benefited international equities, which are priced in local currencies such as the euro and Japanese yen. As a result, international stocks posted double-digit gains in the second quarter alone. This rally has been broad-based, with markets across Asia and Europe significantly outperforming U.S. equities so far this year. While currency effects have played a role, international stocks also continue to trade at more attractive valuations compared to their U.S. counterparts, meaning investors are paying less for each dollar of earnings.

In fixed income, yields on the 10-year U.S. Treasury remained relatively flat during the quarter. As a result, bond returns were driven primarily by interest income rather than price changes. Our taxable U.S. bond funds are currently yielding around 5%, which remains an attractive level—particularly for retirees and income-focused investors. For context, the 15-year average yield for corporate bonds is 3.8%, making today's environment one of the most favorable for bond investors in over a decade.

The Federal Reserve held short-term interest rates steady during the quarter. One key consideration in their decision-making is how tariffs may eventually influence inflation. Since these effects take time to appear in economic data, the Federal Reserve has adopted a cautious stance. Current market expectations suggest two rate cuts before year-end, with additional easing likely in 2026 and 2027.

Looking at the broader picture, several key themes emerged in the second quarter. First, the value of a disciplined, long-term investment approach remains clear. With markets reacting rapidly to policy shifts and social media headlines, staying invested is more important than ever. Investors who attempted to time the market around tariff announcements likely missed the sharp rebound in late April. In contrast, those who remained patient were rewarded with both downside protection and participation in new market highs.

Another important theme is diversification—not just across asset classes and geographies, but also across currencies. While large-cap U.S. technology stocks have led the market for much of the past decade, rising government debt and uncertain trade policy could present headwinds. Market leadership tends to rotate over time, and exposure to international and non-U.S. assets has provided valuable balance during recent volatility.

In an ever-changing political and economic landscape, we remain committed to the core investment principles that have always guided us: disciplined decision-making, broad diversification, and a long-term perspective. While we cannot predict market movements, we are confident in our ability to apply these principles in a way that supports your financial goals and your family's future.

Sincerely,

Your Harbor Group Team