

QUARTERLY MARKET GUIDE: Q3 2025

Our View of What's Most Relevant Now

July 15, 2025



Investment Advisory Services offered through Watercolor Financial, a registered investment advisor

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please contact our office directly to discuss any items referenced herein.

Please see important disclosures at the end of this report.

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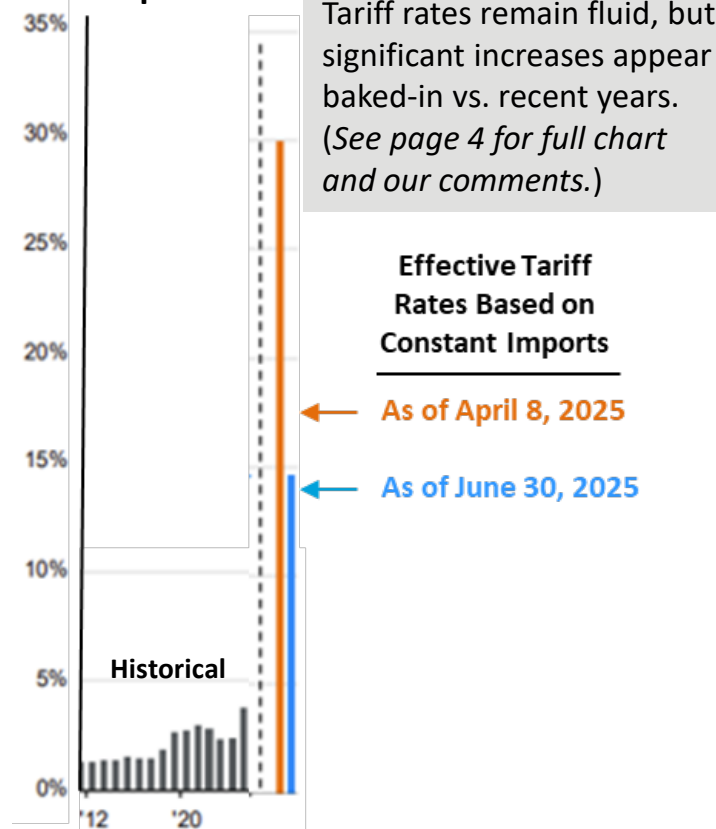
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Data in Focus: Tariff Rates

Average tariff rate on U.S. Imports for Consumption



Source: Goldman Sachs, U.S. Int’l Trade Commission, and J.P. Morgan

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Index Performance

Index	Asset Class	2025		2024
		Q2	YTD	
Equity Indexes		Total Returns		
NASDAQ 100	Mega Cap U.S. Growth Equity	17.9%	8.4%	25.9%
S&P 500	Large Cap U.S. Equity	10.9	6.2	25.0
S&P 400	Mid Cap U.S. Equity	6.7	0.2	13.9
S&P 600	Small Cap U.S. Equity	4.9	(4.5)	8.7
MSCI All Country World	Global Equity	11.7	10.3	18.0
MSCI All Country World (Ex U.S.)	International Equity	12.3	18.3	6.1
MSCI Europe, Asia & Far East (EAFE)	International Developed Market Equity	12.1	19.9	4.4
MSCI Emerging Markets (EM)	International Emerging Market Equity	12.2	15.6	8.1
Fixed Income Indexes				
Bloomberg U.S. Aggregate Bond	U.S. Investment Grade Bond	1.2	4.0	1.3
S&P National AMT-Free Municipal Bond	U.S. Investment Grade Muni Bond	(0.2)	(0.8)	1.3
S&P Municipal Bond High Yield	U.S. Muni Bonds (Below Investment Grade)	(1.0)	(0.6)	6.7
Bloomberg U.S. Corp. High Yield	U.S. Corp Bonds (Below Investment Grade)	3.5	4.6	8.2
Index Blends: Stock/Bond				
80%/20%: Global Equity (MSCI All Ctry World) / U.S. Investment Grade Bond (Bloomberg U.S. Agg)		9.6	9.1	14.5
60%/40%: Global Equity (MSCI All Ctry World) / U.S. Investment Grade Bond (Bloomberg U.S. Agg)		7.4	7.9	11.1
40%/60%: Global Equity (MSCI All Ctry World) / U.S. Investment Grade Bond (Bloomberg U.S. Agg)		5.3	6.6	7.7
20%/80%: Global Equity (MSCI All Ctry World) / U.S. Investment Grade Bond (Bloomberg U.S. Agg)		3.3	5.3	4.5
Data as of 6/30/2025				

Q2 was a wild ride, but the trends on a YTD basis do exhibit an important leadership shift favoring Int'l stocks.

Source: Morningstar, and blended benchmark returns are based on monthly rebalancing.

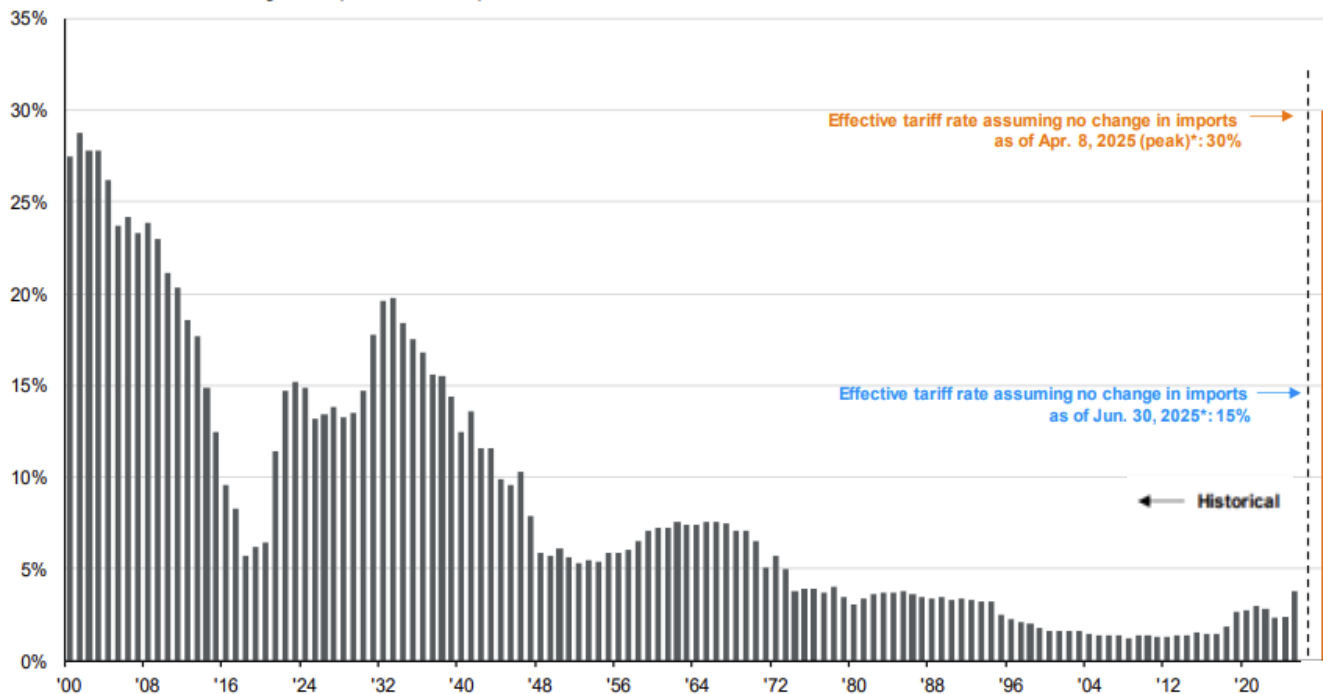
QUARTERLY MARKET GUIDE: Q3 2025

Economy

Tariffs & Trade

Average tariff rate on U.S. goods imports for consumption

Duties collected / value of total goods imports for consumption



This chart does not reflect the tariffs now threatened by the demand letters recent sent to the many trading partners with which the Trump Administration's trade negotiations have stalled.

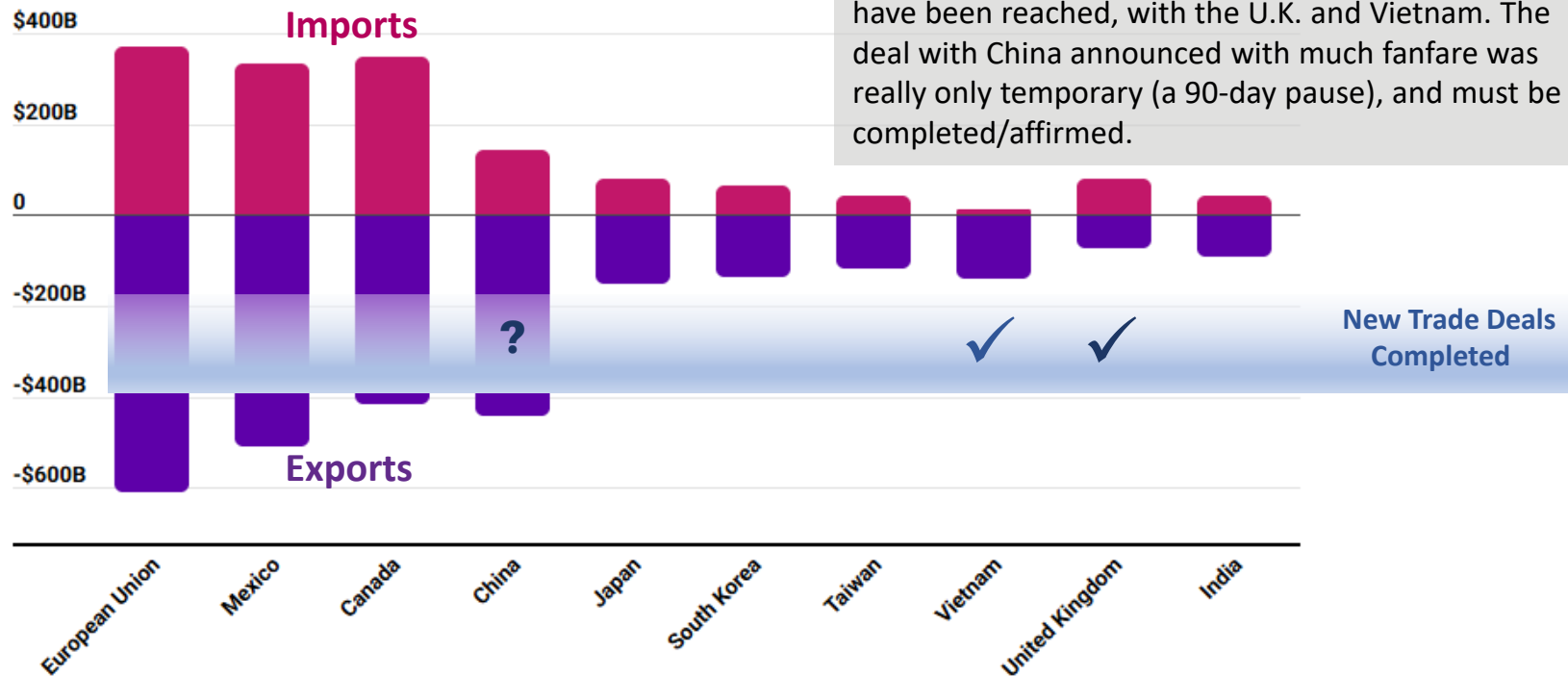
Source: Goldman Sachs Investment Research, United States International Trade Commission, J.P. Morgan Asset Management. For illustrative purposes only. The estimated weighted average U.S. tariff rate includes the latest tariff announcements. Estimates about which goods are USMCA compliant come from Goldman Sachs Investment Research. Imports for consumption: goods brought into a country for direct use or sale in the domestic market. The estimate does not consider non-tariff barriers, such as value-added taxes. *Figures are based on 2024 import levels and assume no change in demand due to tariff increases. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated. *Guide to the Markets - U.S.* Data as of June 30, 2025.

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Economy

Tariffs & Trade

U.S. Trade in Good: Balance with top trading partners 2024



In the wake of the April 2nd Liberation Day tariff announcements, President Trump’s senior trade advisor Peter Navarro was quoted as having promised “90 [trade] deals in 90 days.” That proved optimistic, if not naive. As of the date of this publication, we’re at day 104 and only 2 real deals have been reached, with the U.K. and Vietnam. The deal with China announced with much fanfare was really only temporary (a 90-day pause), and must be completed/affirmed.

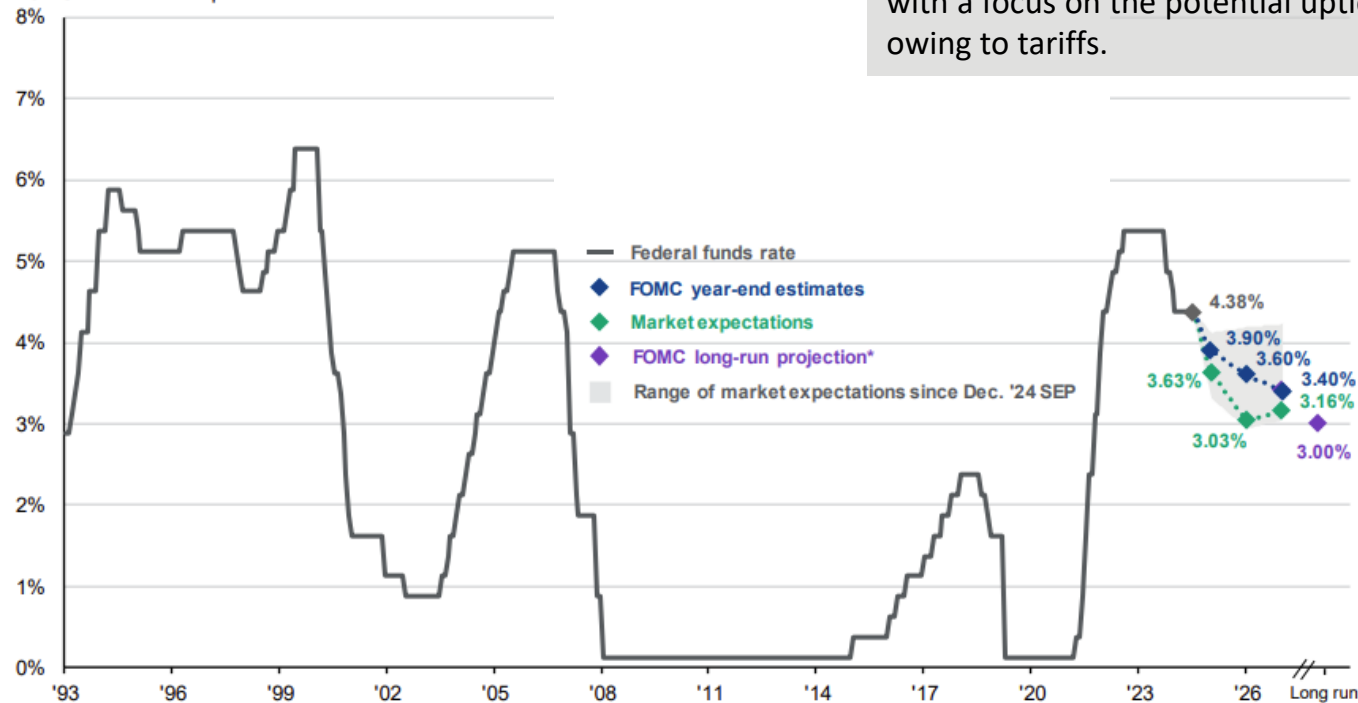
Source: U.S. Department of Commerce data, Trade Deal notations per Genesia’s views, with underlying graph by The Motley Fool

Economy

Federal Funds Rate

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



Fed Chair Powell has offered repeated guidance that Fed Rate cuts remain likely by year-end. However, he and other FOMC members also continue to convey that the next moves will remain “data dependent” with a focus on the potential upticks in inflation owing to tariffs.

Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management

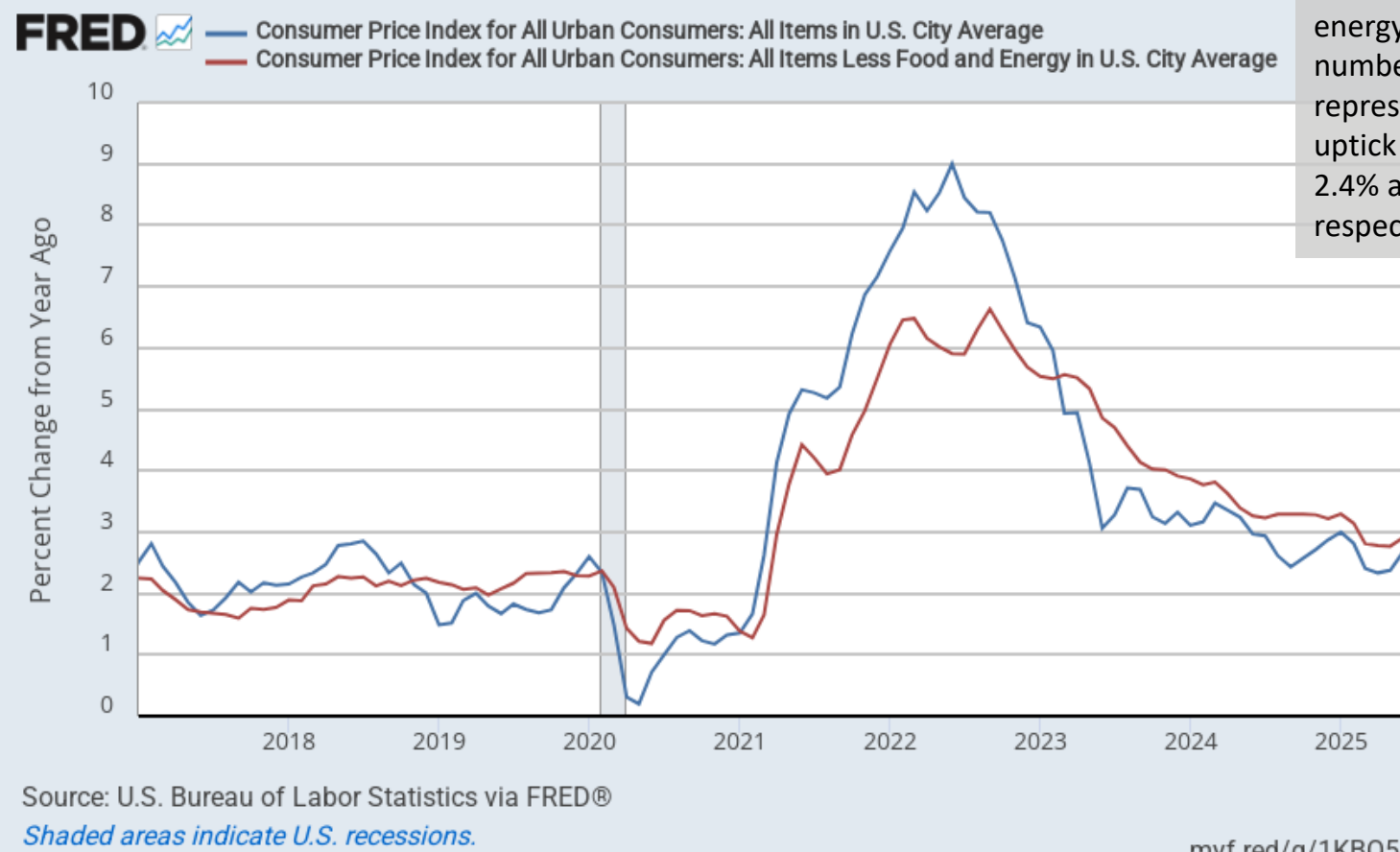
Market expectations are based off of USD Overnight Index Swaps. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.

GuidetotheMarkets – U.S. Data as of June 30, 2025.

July 15, 2025

Economy


Inflation

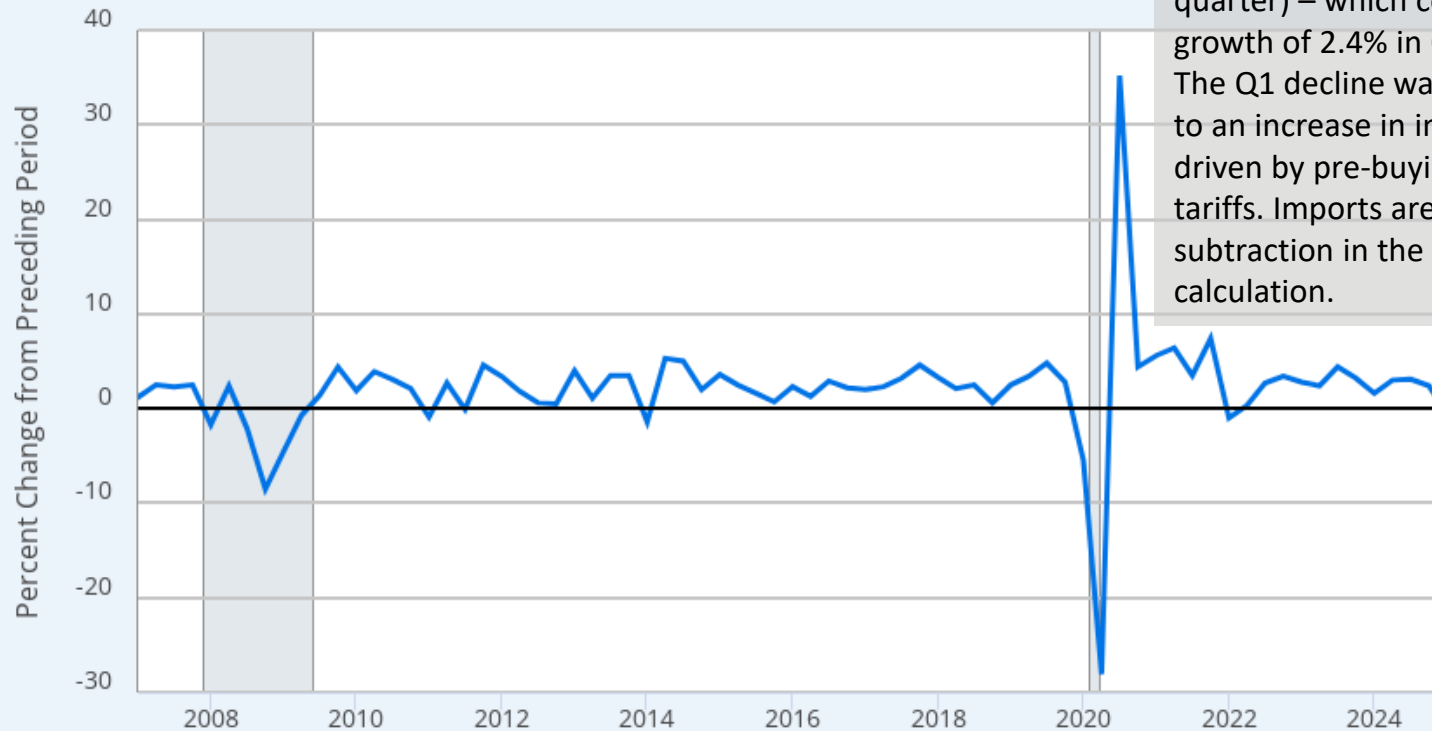


June CPI came in at 2.7%, and at 2.9% ex food and energy. These numbers represent an uptick from May's 2.4% and 2.8%, respectively.

Economy

Real GDP

FRED  — Real Gross Domestic Product



Q1 GDP was reported at negative 0.5% (quarter over quarter) – which compares to growth of 2.4% in Q4 2024. The Q1 decline was due in part to an increase in imports driven by pre-buying ahead of tariffs. Imports are a subtraction in the GDP calculation.

Source: U.S. Bureau of Economic Analysis via FRED®

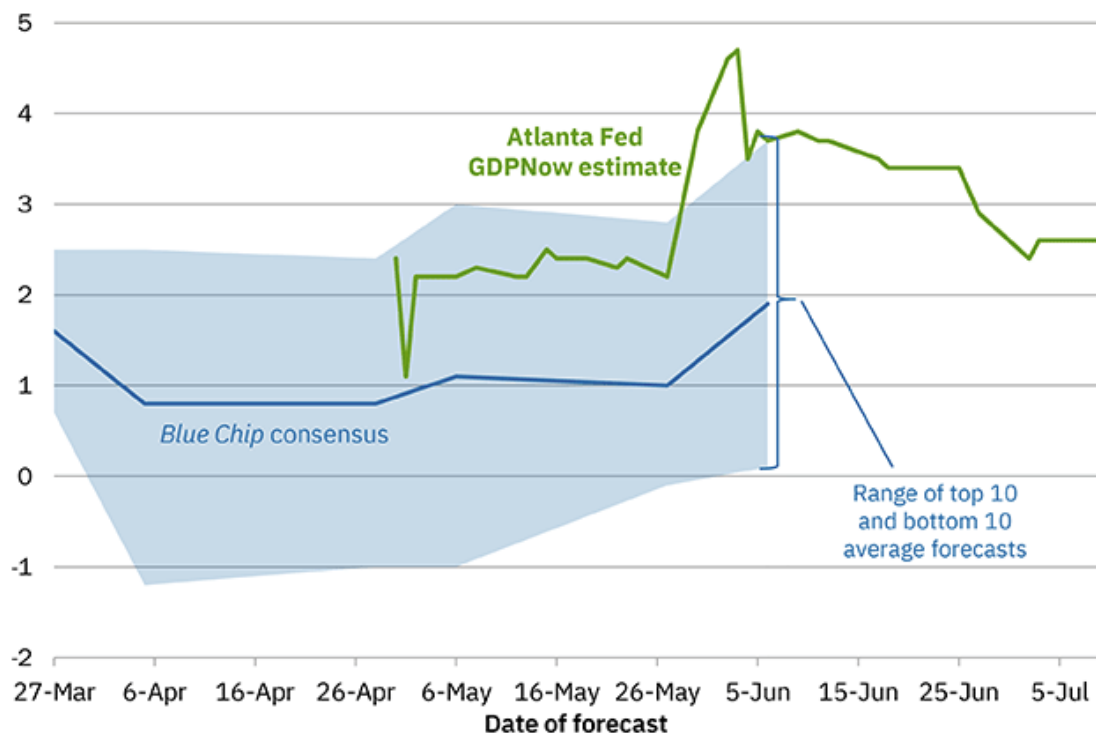
Shaded areas indicate U.S. recessions.

mvf red/a/1KatD

Economy

Real GDP Estimate – Atlanta Fed GDPNow

Evolution of Atlanta Fed GDPNow real GDP estimate for 2025: Q2
Quarterly percent change (SAAR)




Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

As we've previously written, very little color is offered regarding the Atlanta Fed GDPNow estimate, which is based on a mathematical model. Nevertheless, this estimate has proven to be more reliable than economist forecasts, in our view. As of the date of this publication, the GDPNow model estimates 2.6% growth for Q2 2025, which is in the higher end of the most recently available Blue Chip Consensus range.

Economy

Unemployment Rate

FRED  — Unemployment Rate



The May 2025 unemployment rate held steady at 4.2%. This rate has come in between 4.0% to 4.2% since May 2024.

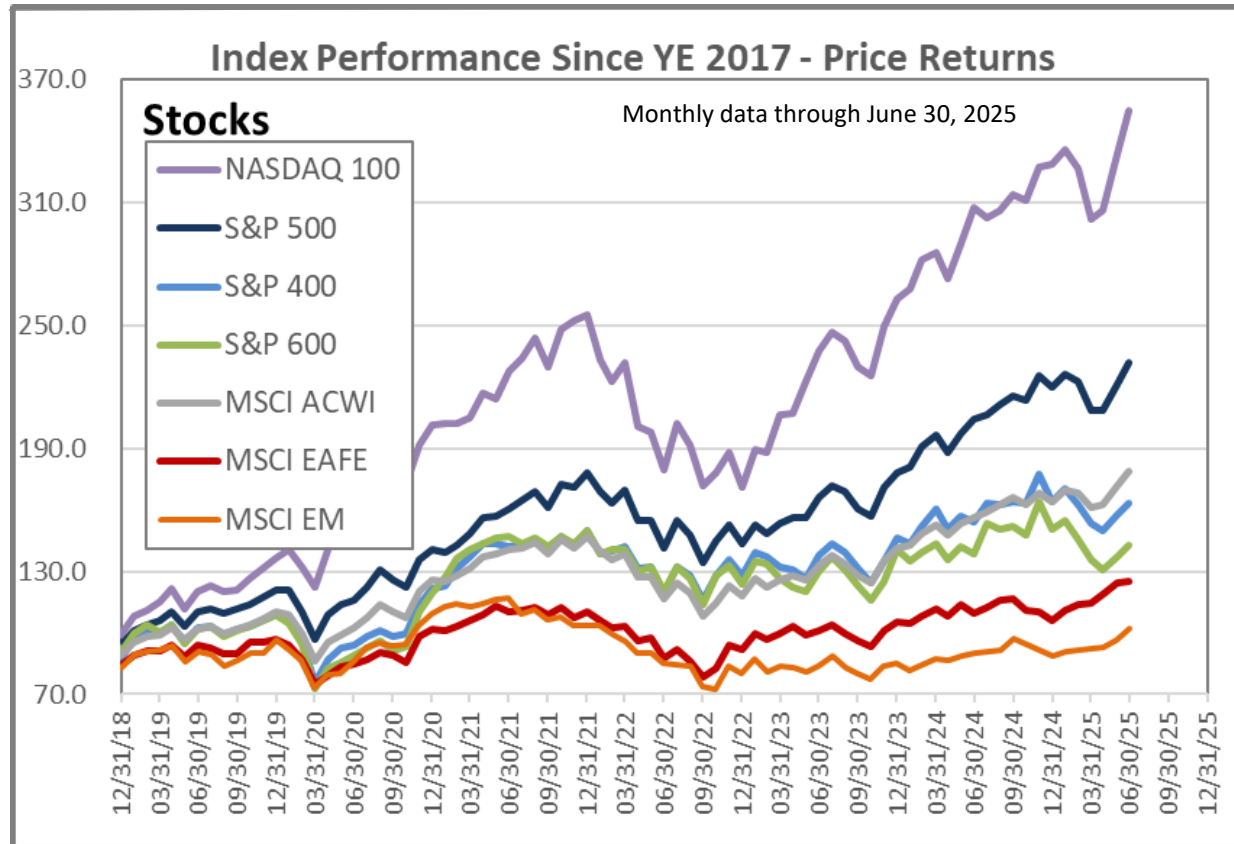
Source: U.S. Bureau of Labor Statistics via FRED®

Shaded areas indicate U.S. recessions.

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Equities

Sub-Asset Class Relative Performance



Mega cap growth (i.e., the NASDAQ 100) reasserted its leadership in May and June, and was up a whopping 17.9% in Q2.

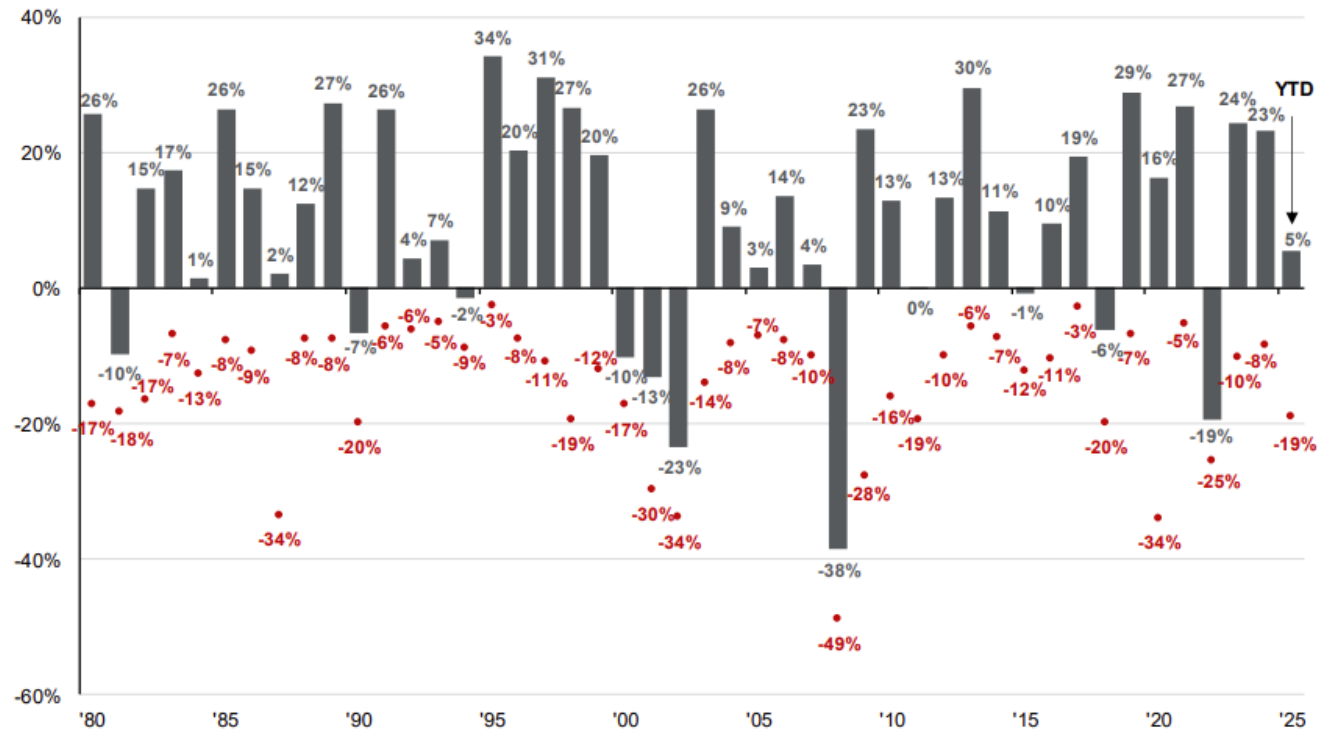
Source: Bloomberg and Yahoo Finance data, with analysis by Genesia Investments LLC

Equities

S&P 500 Annual Returns & Intra-Year Declines

S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.1%, annual returns were positive in 34 of 45 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest peak-to-trough decline during the year. Returns shown are calendar year returns from 1980 to 2024, over which the average annual return was 10.6%. For illustrative purposes only. Guide to the Markets - U.S. Data are as of June 30, 2025.

J.P.Morgan
ASSET MANAGEMENT

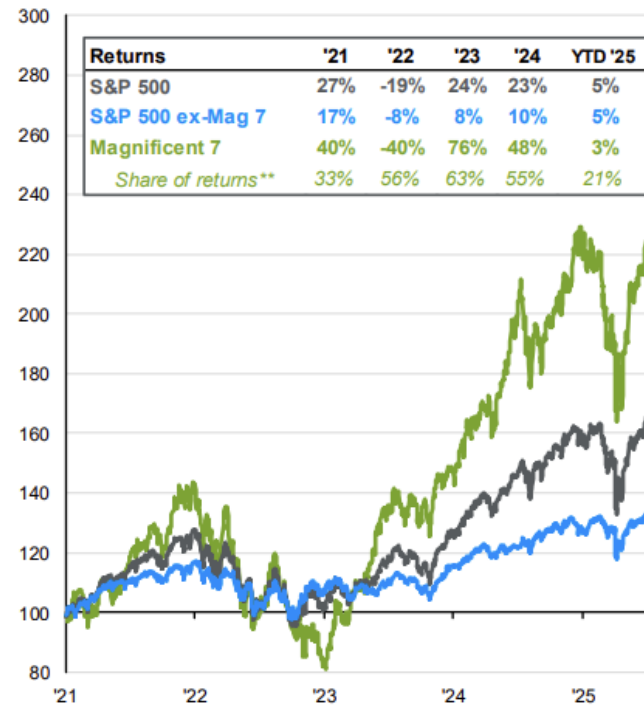
For what it's worth, we've checked the box in terms of satisfying the average intra-year pull-back with the S&P 500's swoon from March to mid-April.

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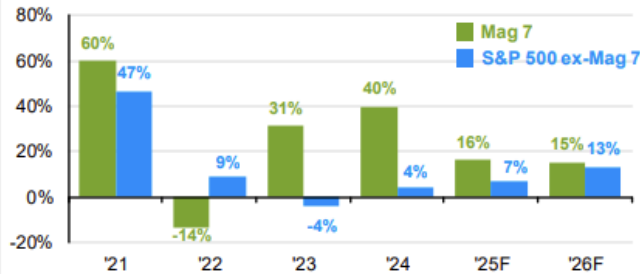
Equities

“Magnificent 7” vs. S&P 500’s Other 493

Performance of “Magnificent 7” stocks in S&P 500*
Indexed to 100 on 1/1/2021, price return

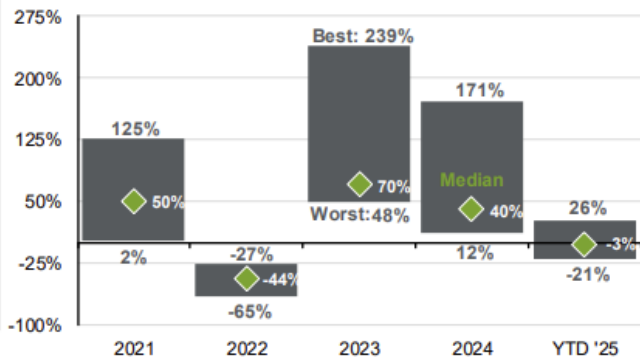


Earnings growth
Year-over-year



Magnificent 7 performance dispersion

Price returns, best, median and worst performing Mag 7 stock by year



Repeating our comment from last quarter – “What a difference a quarter can make...”

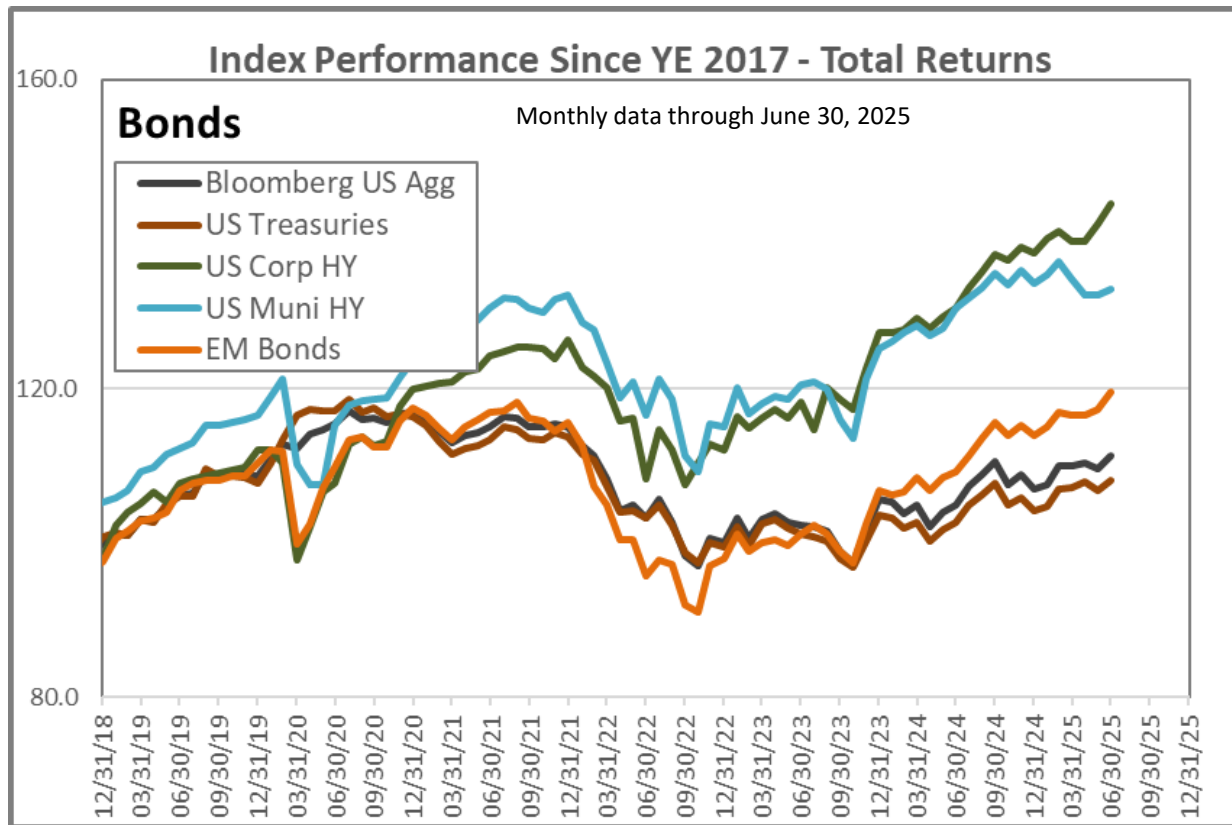
But remember, this story is not over.

The Equities chart on this page will rotate through the year based on perceived relevance.

Source: FactSet, Standard & Poor’s, J.P. Morgan Asset Management.
*Magnificent 7 includes AAPL, AMZN, GOOGL/GOOG, META, MSFT, NVDA and TSLA. Earnings estimates for 2025 and 2026 reflect consensus analyst expectations, provided by FactSet. **Share of returns represent how much each group contributed to the overall return.
Guideto the Markets – U.S. Data are as of June 30, 2025.

Fixed Income

Sub-Asset Class Relative Performance




The most notable recent divergence in trend among the major bond indexes in the adjacent chart has been by the high yield muni index. This was attributable to concerns about potential negative implications from Federal funding cuts for municipalities under the so-called “Big Beautiful Bill.” A bullet that was dodged, however, was that the muni dividend Federal tax exemption remained intact.

Source: Bloomberg monthly index data, with analysis by Genesis Investments LLC

Fixed Income

Market Yield - U.S. Treasury 10-Year Bond

FRED  — Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis



10-year Treasury yields have continued to ebb and flow, and of note is that rates are higher than last fall and higher than before the new Trump tariffs were announced on April 2nd.

Source: Board of Governors of the Federal Reserve System (US) via FRED®

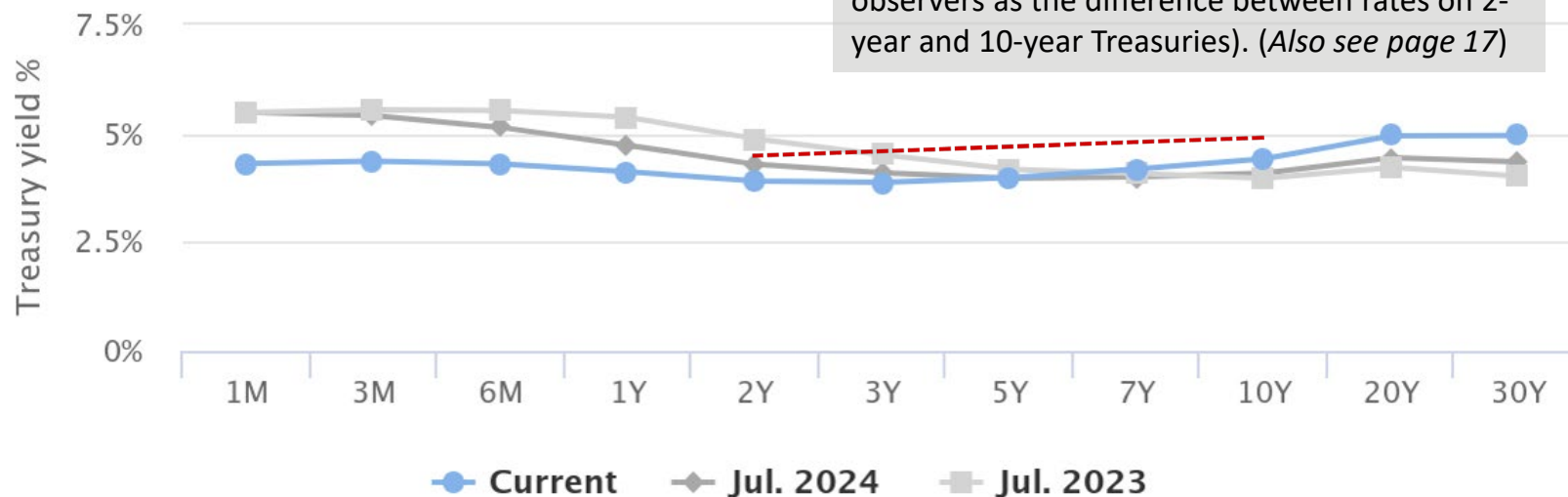
Shaded areas indicate U.S. recessions.

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Fixed Income

Treasury Yield Curve

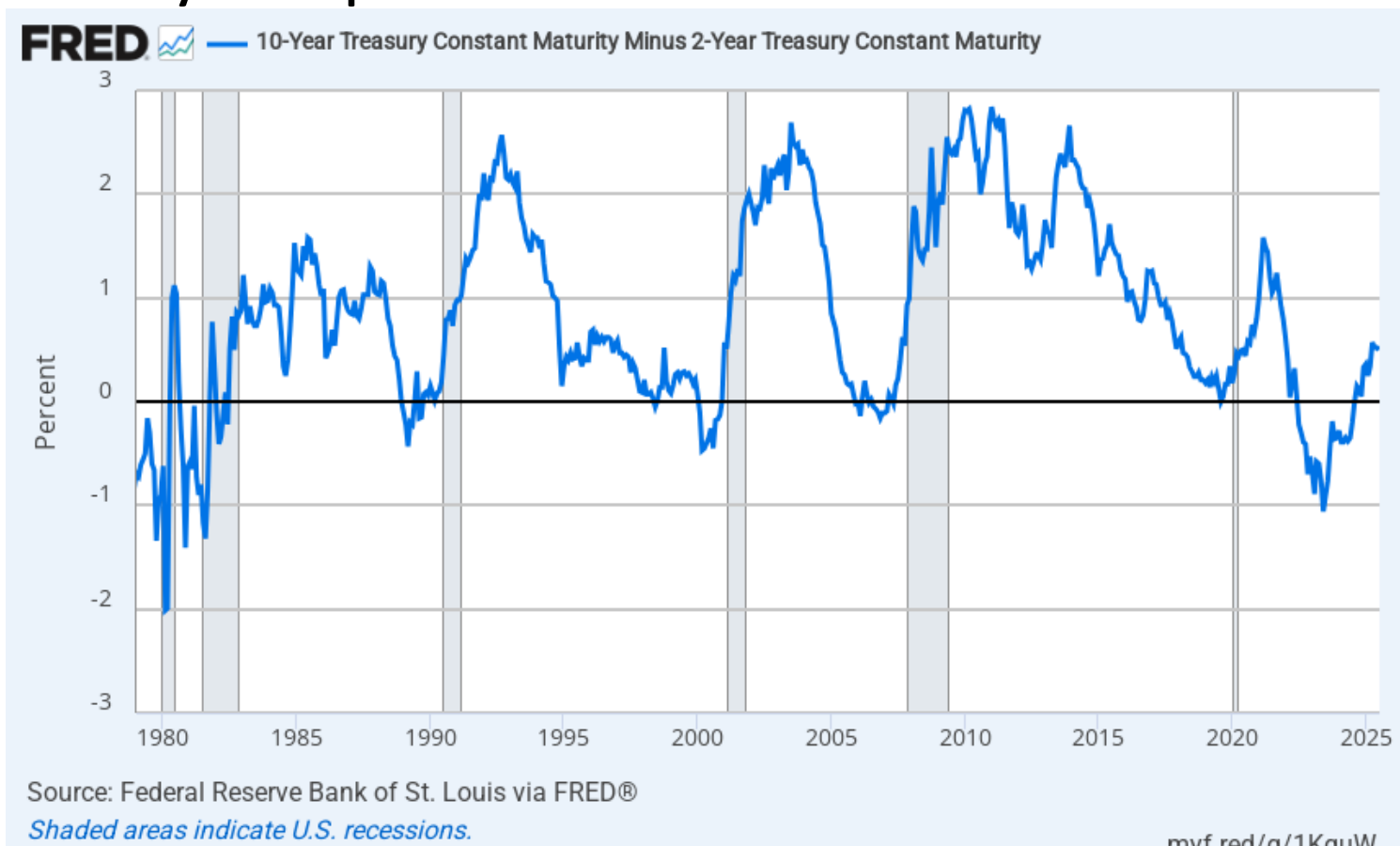
As of July 8, 2025



Source: GuruFocus.com

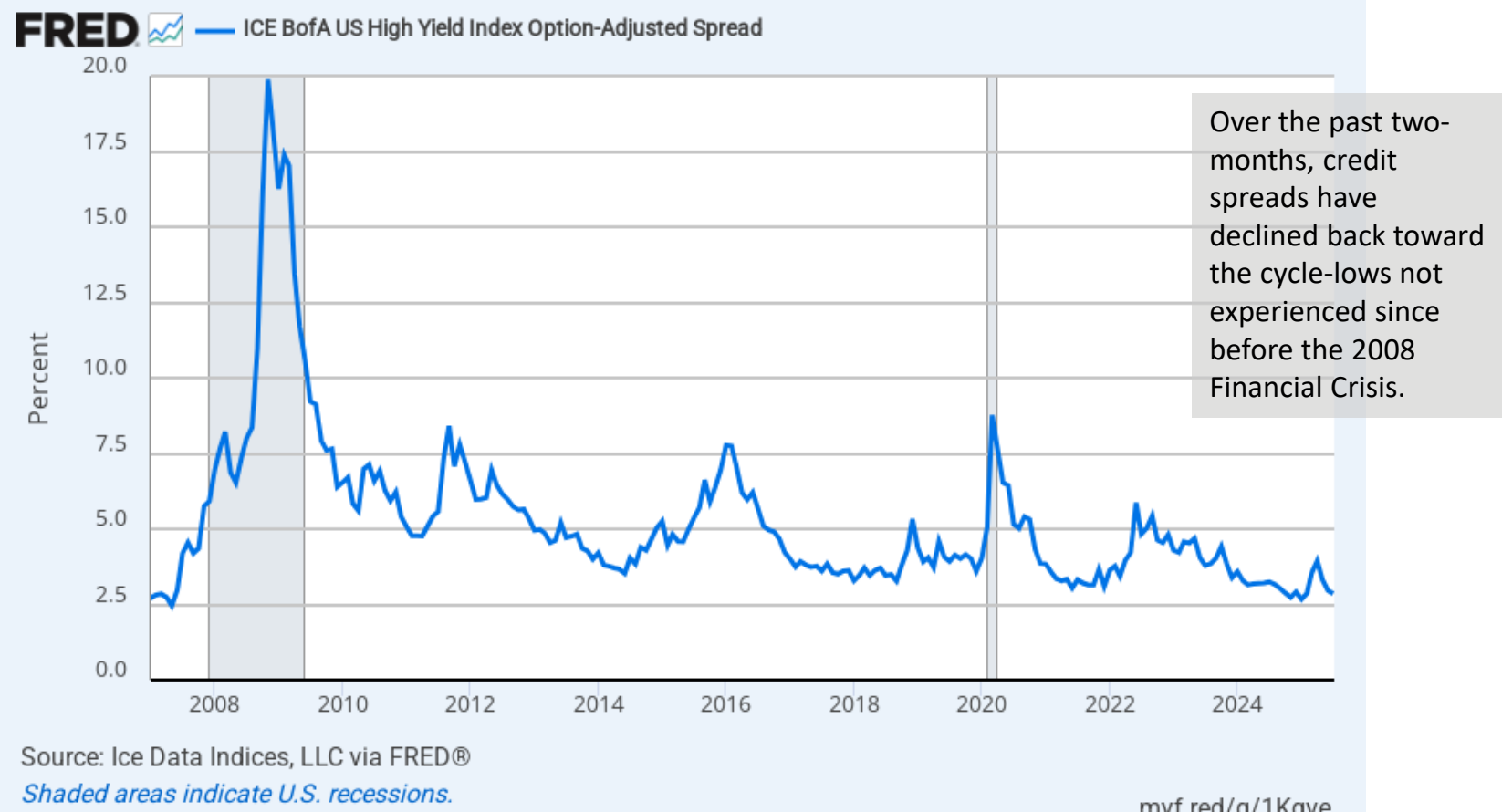
Fixed Income

Treasury Yield Spreads – 10-Year vs. 2-Year



Fixed Income

Credit Spreads – U.S. Corp High Yield vs U.S. Treasuries



IMPORTANT DISCLOSURES

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Sources Include:

Federal Reserve Bank of St. Louis Economic Research -- <https://fred.stlouisfed.org/>

Federal Reserve Bank of Atlanta Research & Data – <https://www.atlantafed.org/cqer/research/gdpnow>

GuruFocus.com LLC, U.S. Treasury Yield Curve Data & Charts -- https://www.gurufocus.com/yield_curve.php

JP Morgan, Quarterly Guide to the Markets -- <https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/guide-to-the-markets/>

IMPORTANT DISCLOSURES (Continued)

Reference to market index information is included for illustrative purposes only, as it is not possible to directly invest in an index. Indexes are unmanaged, hypothetical vehicles that serve as market indicators. Index total return performance data reflects the assumptions of the reinvestment of interest and dividends but does not include the deduction of fees or transaction costs which otherwise reduce performance of an actual portfolio. The blended indexes are shown for informational purposes only and are not representative of any particular investment or plan.

Acronym Definition(s):

FOMC – Federal Open Market Committee, which is responsible for determining the U.S. monetary policy. The Committee is comprised of 12 members, including the 7 members of the Federal Reserve Board of Governors.

Index Definitions:

NASDAQ 100 – Index of 100 largest growth-oriented non-financial companies listed on the Nasdaq Stock Market.

S&P 500 – Compilation of 500 major U.S. stocks meeting certain criteria; market capitalization and float-weighted.

S&P 400 – Index measuring the performance of 400 mid-sized U.S. stocks; market capitalization and float-weighted.

S&P 600 – Index measuring 600 small-cap U.S. stocks that meet certain criteria regarding liquidity and financial viability; market capitalization and float-weighted.

MSCI All Country World – Global equity index across market capitalizations with about 2,800 constituents, representing about 85% of the free float-adjusted market capitalization across 23 developed and 27 emerging markets.

SCI All Country World ex USA – Global equity index across market capitalizations, which excludes the U.S., with about 2,300 constituents which represents free float-adjusted market capitalization across 22 developed and 27 emerging markets.

MSCI Europe, Asia & Far East (EAFE) – International equity index across market capitalizations, which excludes North America, with about 840 constituents which represents free float-adjusted market capitalization across 21 developed markets.

MSCI Emerging Markets (EM) – International equity index across market capitalizations with about 1,400 constituents which represents free float-adjusted market capitalization across 27 emerging markets.

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IMPORTANT DISCLOSURES (Continued)

Index Definitions: (Continued)

Bloomberg U.S. Aggregate Bond – Widely followed bond benchmark comprised of investment grade, U.S. dollar denominated, fixed rate taxable bonds including Treasuries, government-related, corporate, mortgage-backed, and agency.

S&P National AMT-Free Municipal Bond – Broad market-value weighted index comprised of larger and more liquid tax-exempt investment-grade U.S. municipal bonds.

S&P Municipal High Yield Bond – U.S. index of municipal bonds that are either not rated or rated below investment grade.

Bloomberg U.S. Corporate High Yield Bond – Index of fixed rate U.S. dollar denominated corporate bonds rated BB+ or below by Fitch and S&P.

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