

Overview of the Economy

June capped the first half of 2025 with a compelling combination of progress and persistence: inflation continued to recede, growth remained somewhat stable, and capital markets delivered broad-based gains. Consumer sentiment improved meaningfully—University of Michigan’s headline index rose to 60.5, its first increase in six months—as households grew more confident that price pressures were abating. One-year inflation *expectations* fell to 5.1%, while five-year *expectations* declined to 4.1%, supporting the case for eventual Federal Reserve policy normalization.

While consumption data showed pockets of caution, notably in durable goods spending, other measures suggested a resilient backdrop. Labor markets softened modestly but remained intact. Wage growth moderated toward levels compatible with 2%–2.5% inflation, reinforcing the narrative of disinflation without a sharp deterioration in employment.

Geopolitical risk also shifted favorably during June. The Israel–Iran conflict receded into an uneasy ceasefire, easing energy price concerns. Oil briefly surged near \$77 but retreated below \$72 per barrel by month-end. Trade tensions entered a quieter phase as negotiations advanced with Canada, Europe, and China. While the threat of tariff-related inflation lingers, many observers expect most pass-through costs to surface during the third quarter and then diminish.

As the first half of 2025 closed, investors were met with a rare alignment: equities, treasuries, and credit all delivered positive returns. The S&P 500 advanced to new highs, supported by resilient earnings—even as analysts lowered growth expectations—and by a market increasingly confident the Federal Reserve will begin easing rates as inflation continues to moderate.

Macro View	MTD (%)	YTD (%)	1Y (%)	10Y (%)	10Y STD (±)
DJIA	4.47	4.55	14.72	12.04	15.57
S&P 500	5.08	6.20	15.14	13.62	15.50
NASDAQ	6.64	5.86	15.70	16.24	18.59
Equity EM Mkts.	6.12	15.52	15.89	5.21	17.01
EM Bond Mkt.	1.91	4.94	9.41	3.42	7.36
US Agg. Bond	1.54	4.02	6.08	1.76	5.03
Municipal Bond	0.62	-0.35	1.11	2.20	5.13
US High Yield	1.85	4.57	10.22	5.27	7.62
Commodity	2.41	5.53	5.77	1.99	13.71
COMEX Silver	8.97	23.23	21.60	8.25	27.52
COMEX Gold	0.14	24.94	40.68	10.68	13.83
Brent Oil	7.69	2.93	-0.98	11.48	37.15
Dollar Index	-2.47	-10.77	-8.52	0.17	6.55

Taxable Fixed Income

Bond markets saw the strongest first half since 2020 as Treasury markets staged an impressive rebound in June with the Bloomberg US Treasury Index gaining 1.3%. The decline in yields reflected renewed confidence that the Fed will pivot to rate cuts later this year. After peaking above 4.60% in May, the 10-year Treasury yield closed the month near 4.23%. This move supported total returns across the curve. Specifically, 5-, 7-, and 10-year Treasuries

delivered monthly returns of 1.09%, 1.46%, and 1.63%, respectively, highlighting how duration extension outperformed as volatility receded. Investment-grade corporates performed strongly (+1.87% total return), outperforming treasuries with spreads tightening modestly. While sentiment indicators, such as the rise in “buy” recommendations, suggest a more optimistic outlook, credit spreads remain wider than last year’s lows, signaling measured risk-taking. For the year, investment grade spreads are marginally wider by 2 to 5 basis points. As such, long maturities performed relatively well as long-duration demand rebounded. According to Barclay’s research, many fixed income funds are now overweight duration vs. their benchmarks.

The best performing credit sector was Utilities as oil prices rose, followed by Industrials and Financials. Single A credit quality continues to outperform year-to-date +4.22% followed by BBB at 4.21%. Credit supply slowed materially in June (\$112bn vs. \$163bn in May), consistent with the historical seasonal pattern. Financials, Consumer cyclicals and Energy were sectors that saw above normal June issuance. Maturities trended on the short end with only 15.7% coming longer than 10 years, compared with 18.2% on average. We expect these patterns to continue with IG issuance in July between \$105-\$110bn towards the middle of the month with companies reporting 2Q25 earnings.

Our taxable fixed income strategy has centered on keeping durations broadly neutral while increasing our exposure to agency mortgage-backed securities with 5-year durations, recognizing that their spreads remained attractive and that mortgage pools could benefit from more stable rate ranges. We also acted opportunistically in shorter maturities: selling short-dated Treasury bills and rotating into short Treasury notes when yields exceeded 4% earlier in the month.

Maturity targeting remains a key differentiator in our performance. Our focus has been to add maximum yield for moderate risk, resulting in an overweight toward intermediate maturities. This allocation proved effective in June as the belly of the curve led returns.

US Fixed Income	Price	Cpn	Total Returns (%)		Dur	Yield
	(%) Rtn	% Rtn	Mo.	YTD	+/-	+/-
Agg. Bond	1.20	0.34	1.54	4.02	6.06	4.51
US Treasury	0.98	0.28	1.25	3.79	5.87	4.03
US Agencies	0.57	0.32	0.89	3.44	3.21	4.23
Corporate	1.48	0.39	1.87	4.17	6.83	4.99
Taxable Muni	1.77	0.38	2.15	3.82	7.72	4.99
TM/BABs	1.90	0.50	2.40	4.07	8.85	5.54
US Agency MBS	1.37	0.33	1.78	4.23	5.98	4.93
Gov/Credit	1.15	0.32	1.47	3.95	6.15	4.37
TIPs	0.86	0.10	0.95	4.67	4.88	4.13
AAA Corporate	1.52	0.35	1.87	3.55	9.87	4.75
AA Corporate	1.41	0.35	1.75	3.79	7.76	4.70
A Corporate	1.47	0.38	1.85	4.22	6.81	4.86
BBB Corporate	1.50	0.41	1.90	4.21	6.63	5.18

Tax-Exempt Markets

Municipal bonds rebounded in June as reinvestment demand and seasonal technicals were met with heavy supply. The Bloomberg Municipal Bond Index posted a positive monthly return of 0.60%, narrowing year-to-date losses. General Obligation (GO) and Revenue bonds delivered similar results for the month, of 0.59% and 0.63%, respectively. YTD Revenue bonds lagged behind G.O. bonds, a notable shift from recent years when Revenue credits consistently outperformed. This convergence partly reflected the relative value buyers perceived in G.O.s trading at higher comparable yields to similar Revenue structures. High-grade essential service credits remained resilient, underscoring the importance of credit selectivity.

As the curve steepening persisted, attractive offerings on a relative basis were found in intermediate maturities as the middle of the curve outperformed. Maturities between 6 and 8 years gained 0.96% in June, while short-term bonds preserved their lead year-to-date, posting returns of 1.8% for maturities under 2-years or roughly 150 basis points in excess of the long-term Aggregate Bond index.

Coupon structure performance varied: both 3% and 5% coupons performed relatively well, but 4% coupons lagged. This was largely due to the way absolute yield levels have now settled between 3% and 4%. The 3% coupon bonds tend to trade at higher yields (and steeper discounts), while 4% coupons are often priced more aggressively than their yield profile warrants.

Municipal Market	Price	Cpn	Total Returns (%)		Dur	Yield
	(%) Rtn	(%) Rtn	Mo.	YTD	+/-	+/-
Municipal Agg	0.25	0.37	0.62	-0.35	6.78	3.96
1-Yr Muni (1-2)	0.15	0.37	0.52	1.88	1.21	2.89
3-Yr Muni GO (2-4)	0.34	0.37	0.71	2.03	2.30	2.78
5-Yr. Muni GO (4-6)	0.50	0.36	0.86	2.24	3.57	2.91
7-Yr. Muni (6-8)	0.59	0.36	0.96	2.04	4.84	3.35
10-Yr. Muni (8-12)	0.51	0.36	0.87	1.04	6.04	3.66
15-Yr. Muni (12-17)	0.16	0.37	0.52	-0.99	7.76	4.26
30-Yr. Muni (22+)	-0.09	0.40	0.31	-3.38	11.09	4.90
AAA Muni	0.18	0.37	0.54	-0.43	6.90	3.77
AA Muni	0.24	0.37	0.61	-0.34	6.66	3.83
A Muni	0.30	0.38	0.68	-0.27	6.80	4.23
BBB Muni	0.37	0.39	0.76	-0.51	7.60	4.74
Gen. Oblig.	0.22	0.36	0.59	-0.28	6.40	3.71
State GO	0.30	0.37	0.68	0.60	5.46	3.46
Local GO	0.16	0.36	0.52	-0.93	7.07	3.89
Revenue	0.25	0.38	0.63	-0.42	7.00	4.07
California	0.36	0.37	0.72	-0.61	6.63	3.79
New York	0.21	0.38	0.59	-0.82	7.19	4.01

Preliminary data for the month shows more than \$60 billion in new issuance, the highest monthly total on record. While this surge initially pressured valuations, steady demand, reinvestment flows, and a constructive yield backdrop allowed the market to digest new deals effectively.

In our view, the yield curve dynamics remain compelling. A bear-steepening since March, with short rates moving lower more than long rates, pushed the 1–30-year Muni Market curve to nearly 200 basis points—approximately 100 basis points steeper than the slope at the end of 2024.

This has created opportunities to extend modestly in maturity while maintaining liquidity and flexibility.

Our tax-exempt portfolios have maintained a deliberate focus on short to intermediate durations, emphasizing 5% coupon structures that deliver strong liquidity and efficient tax-equivalent yields. In June, we actively sourced positions with yields ranging from 3%–3.5% in short maturities and over 3.5% in intermediate maturities.

Equities

Equities posted strong gains in June, with the S&P 500 and Nasdaq each advancing over 5% to reach all-time highs. Large-cap Technology, Industrials, and Financials led performance, while small-cap stocks also rebounded after lagging earlier in the year. Breadth improved modestly, though leadership remains concentrated in select sectors. Analysts lowered Q2 earnings estimates to around 5%, but many companies have a history of outperforming conservative forecasts. Non-US developed equity markets also delivered gains, aided by a softer U.S. dollar. Looking ahead, the upcoming earnings season and the Fed's policy decisions will likely set the tone for market leadership and sentiment. We continue to emphasize high-quality companies with durable cash flows, disciplined capital allocation, and strong balance sheets.

Precious Metals and Digital Assets

Gold prices ended June \$3,303.14 per ounce, after trading between a high of \$3,432.34 and a low of \$3,274.33. Returns for Gold +0.14% relatively flat for the month but Silver rallied +8.97% along with copper reaching historical highs, partly because of their dual role as industrial, metals and as precious metals. Despite persistent central bank buying geopolitical concerns receded somewhat, and inflation data continued to cool, the combination reduced gold's appeal as a hedge in the short-term, especially with equities near record highs. While gold didn't collapse it lacked the catalysts that drove silver and copper. Physical demand for the metals often fades during the summer months with historical data showing weaker performance in June and September, though it frequently rebounds later in the third quarter.

The summer period has historically been a quieter phase for cryptocurrencies, with reduced liquidity and lower trading volumes. Bitcoin also reflected seasonal tendencies, with prices ranging from \$99,561.32 to \$109,979.61. While long-term structural drivers for gold, silver, and Bitcoin remain intact, the next few months may see more price volatility as seasonal factors and geopolitical risks may weigh on market momentum.

Summary and Strategy Outlook

June reinforced the importance of resilient portfolio construction, combining quality, liquidity, and disciplined duration exposure. Heavy supply across credit and municipal markets was successfully absorbed, and improved inflation data bolstered confidence in a potential Fed easing cycle beginning in September. As always, our focus remains on preserving capital, earning income, and identifying opportunities with a clear margin of safety.

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