



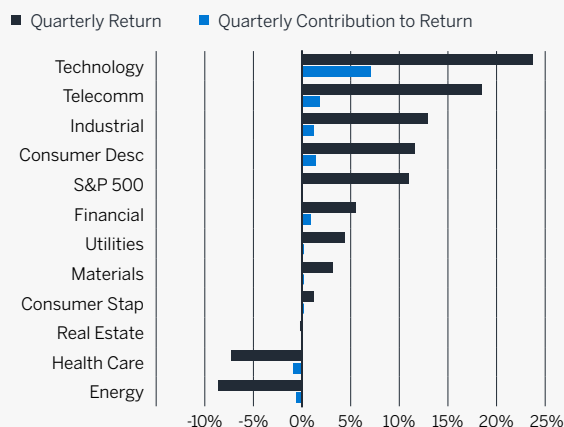
Milliman Financial Risk Management

MARKET COMMENTARY – JUNE 2025

2Q 2025 MARKET RECAP

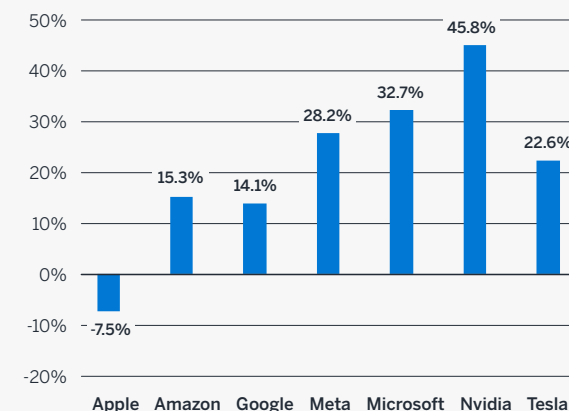
- U.S. equities experienced pronounced style and size divergence in Q2 2025, rebounding quickly from a brief correction that pushed the S&P 500 into bear market territory amid tariff concerns. With the pause of major tariffs and easing geopolitical tensions, stocks recovered swiftly, and the S&P 500 ended the quarter up nearly 11% - its best quarterly performance since Q4 2023 - and reaching a new record high.
- Large-cap stocks, particularly mega-cap technology and communication stocks, were clear winners in Q2 2025.
 - After a weak Q1, the “Magnificent 7” rebounded sharply in Q2, with the Bloomberg Mag 7 Index rising 21%, driven by strong AI-related capital spending and solid earnings from tech leaders like Nvidia, Microsoft, and Meta.
- The Industrials sector also put in a strong showing over the quarter, contributing a significant 1.2% to the overall market return. The ongoing global push to bring supply chains closer to home (reshoring) to reduce geopolitical risk and efforts to expand digital infrastructure continued to benefit industrial companies.
- Despite a strong start to 2025, the Energy sector experienced a significant decline in the second quarter, ultimately becoming the worst-performing sector. The announcement of tariffs disrupted global growth projections, while planned OPEC+ production increases and robust non-OPEC+ supply further contributed to the sector’s weak performance.
- Health Care stocks continued their decline throughout the second quarter. Although there was an initial shift toward defensive sectors early in the quarter, investors subsequently moved away from these sectors in favor of growth stocks, further pressured by ongoing policy and regulatory scrutiny.
- Small- and mid-cap stocks significantly underperformed large caps in Q2 2025. Although the market recovered and tariff concerns eased, smaller companies—typically more sensitive to economic uncertainty—were more heavily impacted by initial tariff fears.
- In contrast to their growth counterparts, value stocks—more sensitive to economic trends—widely lagged, highlighting investors’ strong preference for high-growth, tech-focused areas amid improving market sentiment.

S&P 500 Q2 2025 Sector Returns and Contributions to Returns

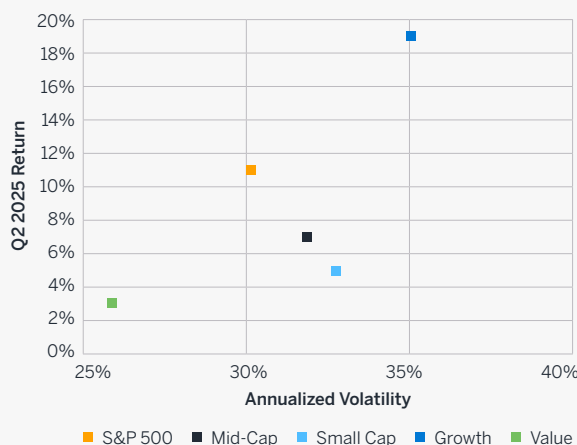


Magnificent 7

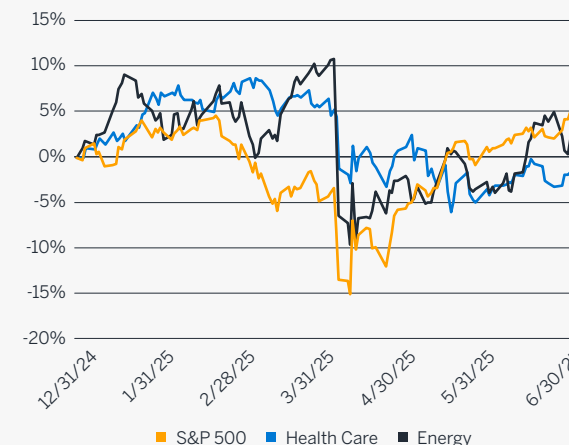
Q2 2025 Returns



Q2'25 U.S. Equity Market Returns & Volatility



'25 YTD Cumulative Returns



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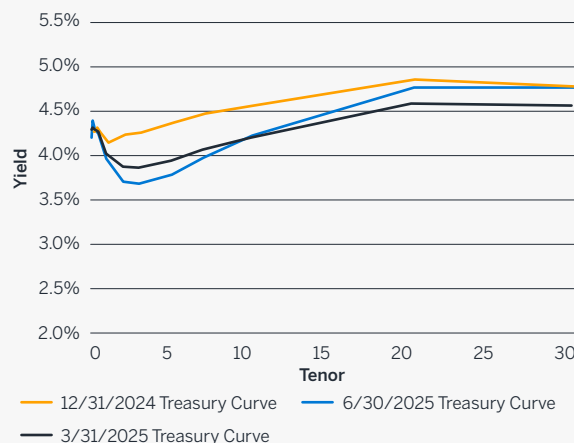


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CREATING TRANSFORMATIONAL IMPROVEMENT IN THE RETIREMENT SAVINGS INDUSTRY

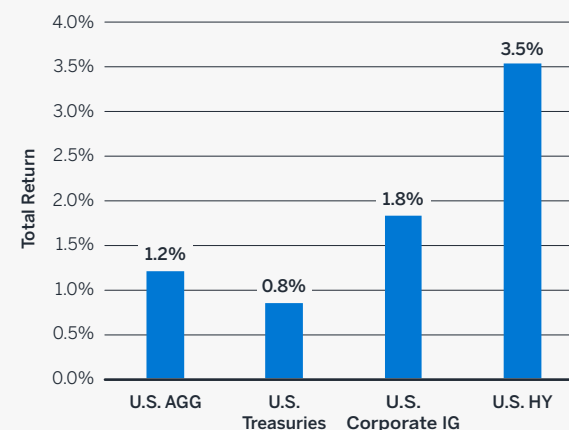
- The second quarter of 2025 was a complex and volatile period for U.S. Treasury yields, driven by a confluence of factors including evolving tariff policies and the ongoing trajectory of inflation and economic growth.
- Early in the quarter, particularly in April, Treasury yields experienced sharp movements. The announcement of aggressive tariff plans initially caused a significant spike in yields, with the 10-year Treasury yield rising nearly 50bps between April 4th and 11th.
- As the quarter progressed, yields moderated as initial tariff plans were paused or scaled back, and as economic data showed some softening (including a downward revision to Q1 GDP growth), the 10-year Treasury yield declined later in April and saw weekly drops, eventually settling around 4.23% by the end of June. The 2-year Treasury yield also fell, reaching its lowest level since early April.
- Despite their overall flat performance, the treasury yield curve steepened. While short-term yields were pulled down by rising growth concerns and increased expectations for Fed rate cuts, longer-term yields, particularly the 30-year bond, rose by about 20 bps. This steepening was influenced by concerns about escalating federal debt levels, raising questions about long-term fiscal sustainability and demanding higher term premiums for longer-dated bonds.
- Bond volatility provided attractive entry points for high yield investors, who benefited disproportionately from the de-escalation of tariff rhetoric. Similar to high yield, investment grade credit spreads initially widened in April due to tariff uncertainty and economic slowdown fears. However, as the quarter progressed and those fears dissipated, spreads tightened, contributing to positive price performance.
- Ongoing global instability, particularly in the Middle East and broader geopolitical shifts including renewed trade tensions pushed investors towards gold as a secure store of value.
- While gold and the dollar usually move inversely, in scenarios of high systemic risk, both can climb simultaneously. The perceived uncertainty surrounding the U.S. economy and the possibility of a weaker dollar due to delayed rate cuts or shifting global power dynamics also made gold more appealing.

Treasury Yield Curves

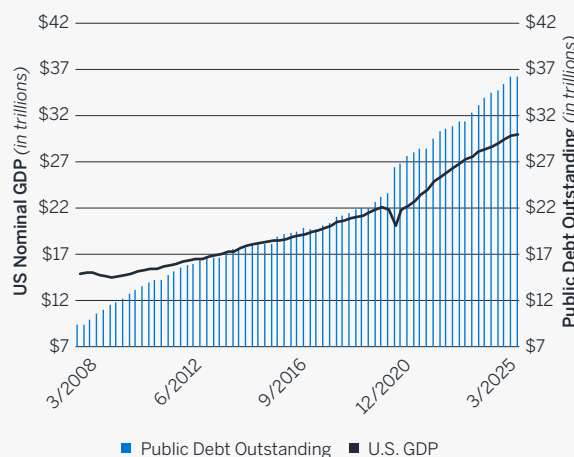


Fixed Income Sector Returns

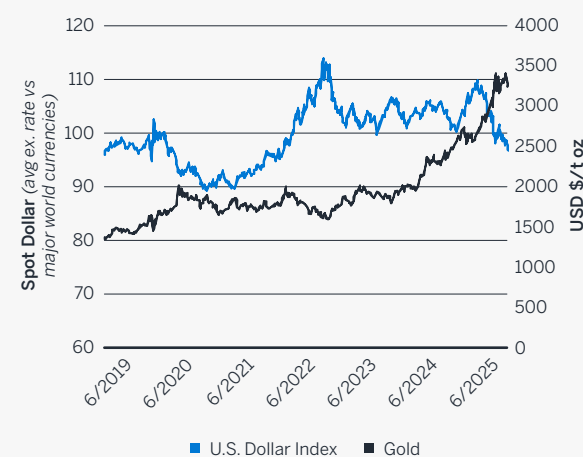
Q2 2025



Public Debt vs. Nominal GDP



Spot Gold vs Spot Dollar



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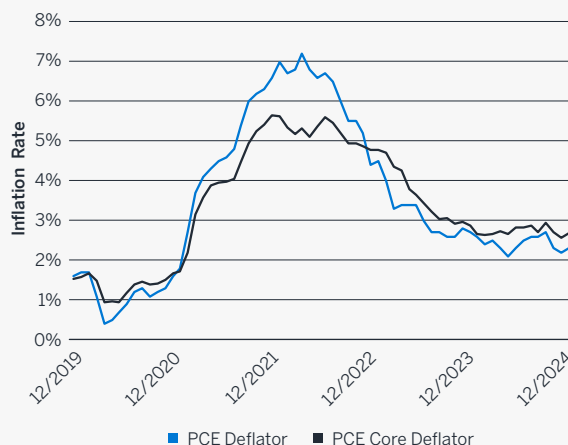
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OUTLOOK

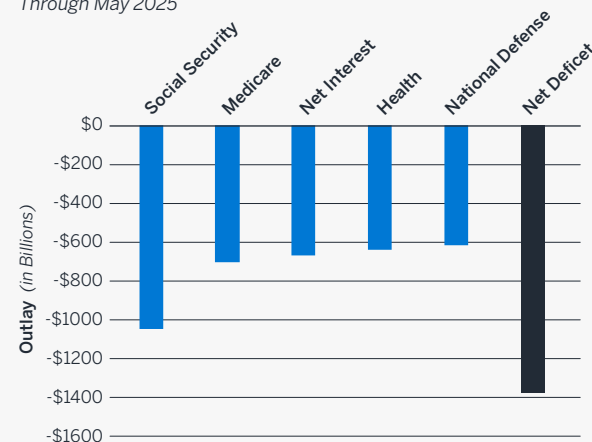
- As we enter the second half of 2025, the U.S. markets and economy find itself at a critical juncture, balancing a softening inflation trend with the reacceleration of certain growth metrics.
- The passage of the so-called *Big Beautiful Bill* in June has added a fresh dimension to the fiscal landscape. Designed to stimulate infrastructure spending, energy investment, and targeted tax relief, the bill has been celebrated by equity markets for its pro-growth stance.
- However, with the federal deficit already running hot, investors should remain attuned to the longer-term implications for sovereign debt markets. While short-term economic activity may get a lift, persistent deficit spending could reawaken concerns about long-term fiscal sustainability, especially if Treasury issuance begins to crowd out private capital.
- Meanwhile, the Federal Reserve's pivot toward monetary easing has come into sharper focus. After holding steady in Q2, market consensus now points to at least one rate cut in Q3, with a second possibly on the table by year-end if inflation continues to moderate.
- Lower rates are typically supportive for equities, particularly rate-sensitive sectors such as technology, real estate, and consumer discretionary.
- However, in this cycle, the reaction may be more nuanced. Given that prior rate hikes pushed yields on money market funds and T-bills above 5%, a significant amount of capital remains parked in these low-risk instruments. The question now is how quickly and how completely this sidelined liquidity might re-enter risk assets.
- If the Fed moves forward with a rate cut, the "cash on the sidelines" theme may become a defining force in the second half. Money market funds still hold nearly \$7 trillion in assets, a historical high, reflecting both investor caution and the appeal of risk-free returns during the tightening cycle. If rate cuts progress and real yields fall, some of this capital could rotate into equities and credit, providing a tailwind to markets.

PCE Deflator Y/Y & PCE Core Deflator Y/Y

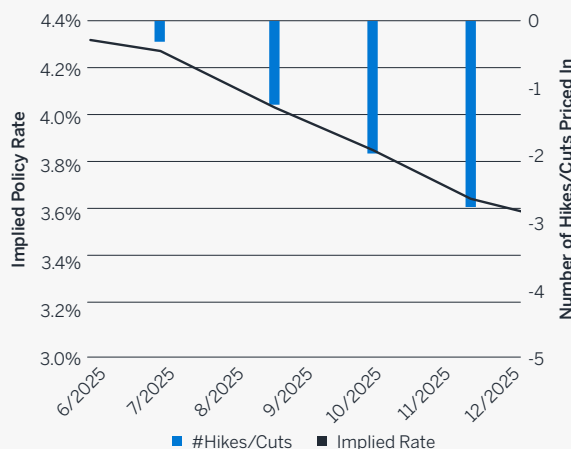


Treasury Outlays Through Fiscal Year 2025

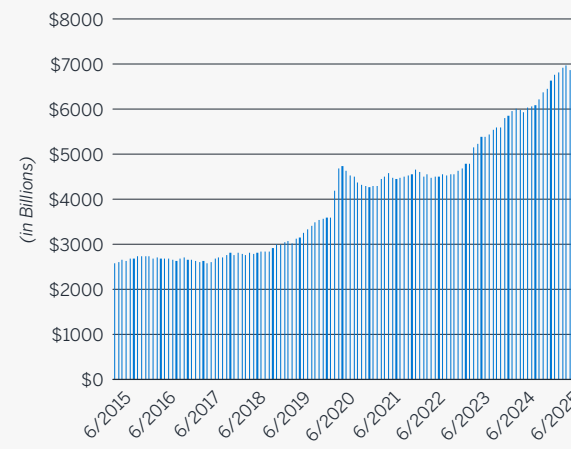
Through May 2025



Implied Fed Funds Rate & Number of Hikes/Cuts



Money Market Fund Assets



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All Indices are total return in local currency except for MSCI Asia ex-Japan and MSCI Emerging Markets

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