

Perspectives

A Quarterly Newsletter for Clients of Parsons Capital Management



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A market decline that began on “Liberation Day,” when investors were caught off guard at the level of “reciprocal” tariffs, turned into a rout in the early days of the quarter. The Trump administration ultimately paused the tariff rollout as the turmoil began to spill over into the bond market. The change in position from the administration was the first salvo in a multitude of short-term events that broke right for investors. It sparked a rally that took the S&P 500 higher by 24%, adding \$10 trillion in overall market value and notching a new all-time high as the quarter came to a close. While the market gains were eye-popping, the dramatic shift in leadership truly stood out. After besting Growth stocks by 12.12% in the previous quarter, Value stocks lagged by -14.05% in the second quarter. This changing leadership backdrop is becoming common, with this being the fourth consecutive quarter where Growth and Value have flipped. The swings have been particularly intense with an average performance spread between the two themes of 10.37%. The other major trends from the first quarter - international over domestic and large capitalization over small - held true in the second quarter. Bitcoin shook off its first-quarter stumbles, roaring higher in the risk-on environment of the second quarter.

Data as of June 30, 2025	June '25	Qtr. 2 '25	YTD '25
S&P 500	5.09%	10.94%	6.20%
MSCI AC World Index (incl. US)	4.53%	11.69%	10.33%
MSCI EAFE (Europe, Asia, Far East)	2.22%	12.07%	19.92%
MSCI EM (Emerging Markets)	6.14%	12.20%	15.57%
Russell 1000	5.07%	11.11%	6.13%
Russell 1000 Growth	6.37%	17.84%	6.09%
Russell 1000 Value	3.42%	3.79%	6.002%
Russell Midcap	3.73%	8.53%	4.87%
Russell 2000	5.44%	8.50%	-1.78%
Bitcoin	2.39%	29.78%	14.67%

Data provided by Tamarac Inc.



Fixed Income Markets

International outperformance vs. domestic carried over to bonds. The Bloomberg Global Aggregate index returned 4.52%, bringing the year-to-date performance to 7.27% compared to the Bloomberg U.S. Aggregate index with returns of 1.21% and 4.02%, respectively. In the domestic market, much like what was witnessed in the equity market, leadership completely shifted in the second quarter. After leading bond returns in the first three months of the year, the Bloomberg U.S. Credit Long Bond index lagged with a return of 1.25%, while the 1-5 Year index and Intermediate index posted gains of 1.82% and 2.09%. A reignited appetite for risk led the ICE Bank of America High Yield index to post a gain of 3.57%. The municipal bond market again struggled, with the broad index returning -0.22%, with losses in bonds maturing 15+ years out outweighing positive returns in the 3- 5- 7-, and 10-year time frames.

Fed remains on hold...

Belly of the curve gets deeper...

Metals surging, energy cracking...



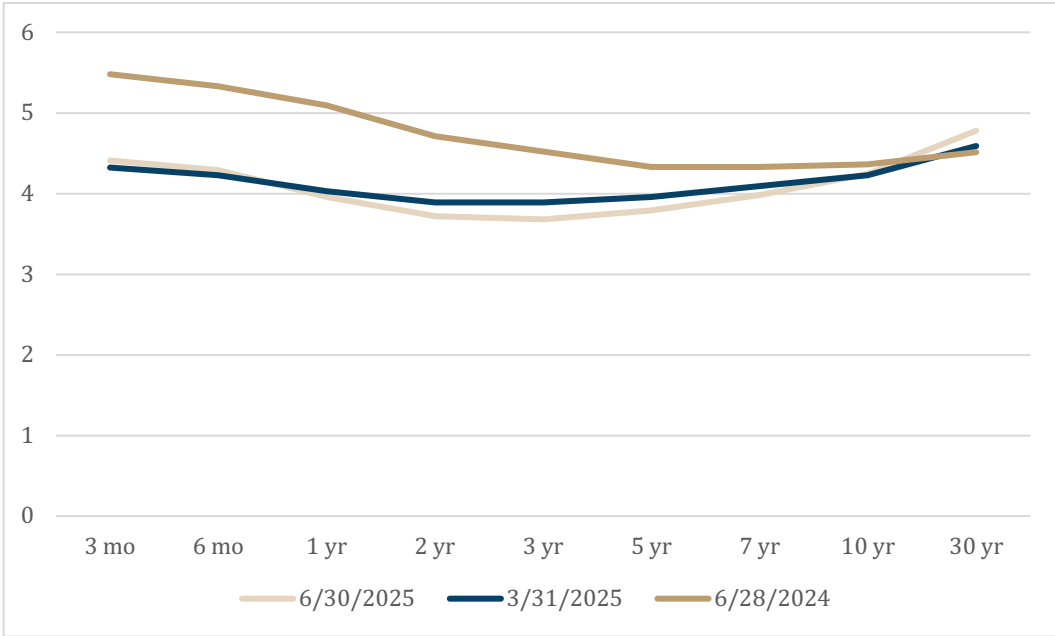
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US Treasury Yields

Yields drifted higher in the short and long end of the curve during the quarter, with the move being somewhat more pronounced in the long end, while the middle of the curve saw a slight move lower. While the Fed continued to hold off on cutting the Fed Funds Rate, it seems likely a cut is approaching (though it is noteworthy that seven of the 19 Board members see no cuts this year). Fears of a mistake along the lines of the 1970s, where the Central Bank was early in declaring inflation tamed, has outweighed a recent spate of tamer data and resulted in the prolonged pause.



Data from U.S. Treasury



Commodities

By the broadest measure, the CRB Index, commodities gained in the quarter, but it was far from a unified move higher.

Oil prices suffered a waterfall decline in the early days of April as OPEC seemingly abandoned its attempts to defend a floor in oil prices. This harkened back to 2014 when, in response to growing U.S. shale production, Saudi Arabia held production high in an attempt to push out perceived weaker producers.

Outside of energy, gold prices continued to benefit as a safe haven asset. Copper rebounded strongly as tariffs were paused and silver caught a bid.

Agricultural prices were largely slammed in the immediate days following Liberation Day, but most managed to claw back losses as the quarter unfolded.

Commodity	Qtr. 2 '25	Year to Date '25
CRB (broad index)	3.91%	5.96%
Oil	-8.91%	-3.71%
Gold	5.50%	25.30%



Economic Overview

Near-term economic
outlook cloudy...

Tariff related behavior
muddying the economic
data...

Labor market remains
resilient...

Rest-of-world economy
stabilizing...



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The domestic economy, though far from robust, has so far been able to absorb the tariff shock introduced in the first quarter. While GDP looks poised to rebound back into expansion territory following the first quarter's contraction, decision makers look to be increasingly in a "wait and see" stance as shifting policy positions make any planning difficult.

As expected, a rush to import goods ahead of increased tariff rates acted as a drag on first quarter GDP, with the most recently revised figure showing a contraction of 0.5%. Trade was the notable detractor last quarter, while spending (unsurprisingly) was strong. Just as the economic figures from the first quarter must be taken in context, so too will the figures for the second quarter as some activity will look artificially lower due to the demand pull-forward.

In the vein of weaker than expected recent data, the May measure of U.S. retail sales & food service declined by a large -0.9% when compared to April. While the plunge is eye catching, at least some of it can be explained by the earlier rush to purchase goods in advance of higher prices brought on by tariffs. U.S. industrial production also fell -0.2% month-to-month in May, but with the manufacturing PMI reading for June rising to 49 there are signs that domestic industrial production is stabilizing, albeit at a depressed level.

With so many of the hard (i.e. sales) and soft (i.e. surveys) data contributing to a muddled view of the economy, watching the jobs market takes on increasing importance. As we have said many times, if Americans are employed they will spend, which will allow the economy to, at the very least, muddle along. Here again, there are mixed messages that also may be skewed due to some of the macro events impacting the economy.

In June, average hourly earnings rose by 3.89%. This reading has steadily declined from a recent high of 6.98% in March of 2022, however, thanks to moderating inflation "real" (after inflation) wage growth was 1.74% in June versus a contraction of -2.77% in June of 2022. Even though consumers' inflation-adjusted income growth has improved by roughly 4.5% over the past two years, the Conference Board survey of U.S. consumers shows a decline in their current situation of over five points (although expectations for the future have risen by three points).

The U.S. labor market looked broadly steady in June. Nonfarm payrolls increased by 147,000, compared to estimates of 111,000, and exceeded the upwardly revised reading of 144,000 in May. Strong hiring coupled with the most recent initial jobless claims report (233,000, marking a third straight lower reported number from the recent high at 250,000) indicate that the jobs market remains strong enough to continue to underpin the economy, while not in danger of overheating.

Turning to the rest of the world, many economies seem to have weathered the initial tariff impact. The Bank of Japan's quarterly Tankan survey (covering their corporate sector) showed roughly status quo in their conditions during the quarter. The primary blemish is continued weakness in capital expenditures expectations, which now sit at their lowest since right after the first Covid shock.

In South Korea exports to the U.S. have only softened, not plunged, while sales to the rest of the world remain strong.

A rebound in the manufacturing PMI data in China and Europe points to economies that are adapting to the unfolding new world trade order.



Investment Implications

Historic V-shaped recovery...

Increased signs of a frothy market...

There remain supports for further market advances...

Leadership trends remain fickle...



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The swift market rebound of the second quarter – the fastest bounce back from a 15% drawdown on record – came despite an environment littered with potential stumbling blocks: escalating geopolitical tensions, renewed tariff threats, and lingering questions around fiscal sustainability. And yet, as has often been the case, investors proved once again that markets can climb a wall of worry.

That said, the rapid appreciation in asset prices brings its own set of implications. Sentiment has shifted quickly from fear to greed. The CNN Fear & Greed Index, which touched zero in early April, now sits squarely in the “Greed” range. Investor enthusiasm has also extended to the more speculative corners of the market, with the 858 profitless companies in the Russell 3000 returning over 36% on average during the second-quarter rally. Such moves hint at a possible return of the speculative excesses witnessed around prior peaks.

Still, there are meaningful offsets to the growing list of concerns. Inflation has moderated, coming in below the Fed Funds Rate for four consecutive months and surprising to the downside with each new release. The economic backdrop remains solid, with GDP growth holding up and employment data still showing resilience. For now, this has allowed the Fed to keep rates on hold even as it begins the process of rolling over a heavy slate of maturing debt, to say nothing of the new debt that will have to be absorbed.

Valuations, while elevated at the index level, tell a more nuanced story when looking under the hood. The S&P 500's next-12-month P/E ratio is near 2020 highs, but the equally weighted index – which strips out the dominance of mega-cap names – trades at levels seen throughout much of the 2010s. This points to the concentration of gains among the largest and fastest-growing companies, many of which continue to justify their valuations with robust earnings growth. Such a concentration in returns does, however, leave the index susceptible to a pullback if the largest companies stumble.

As for leadership, the question looms whether Q3 will mark a continuation of the quarter-to-quarter flip between Value and Growth that has been the norm since early 2023. In a small but potentially meaningful early read, Value has outpaced Growth by nearly a full percentage point to start the quarter, and the Equal Weighted S&P is outpacing the traditional cap-weighted version after lagging badly in Q2.

With the fierce rally off the April lows, the margin for error has narrowed as we enter the second quarter earnings reporting season. Should the fragile truce in the Middle East falter, or should tariff rhetoric become policy, volatility is likely to reemerge. Markets have benefited from a period of policy calm and economic resilience – a mix that has historically supported multiples.

For now, patience and prudence remain our guideposts. With volatility subdued since its April spike and pockets of exuberance reappearing, a measured approach that favors quality, earnings visibility, and balance sheet strength continues to make sense. Opportunities remain, but selectivity will be key.

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