MARKET INSIGHTS

Second Quarter 2025

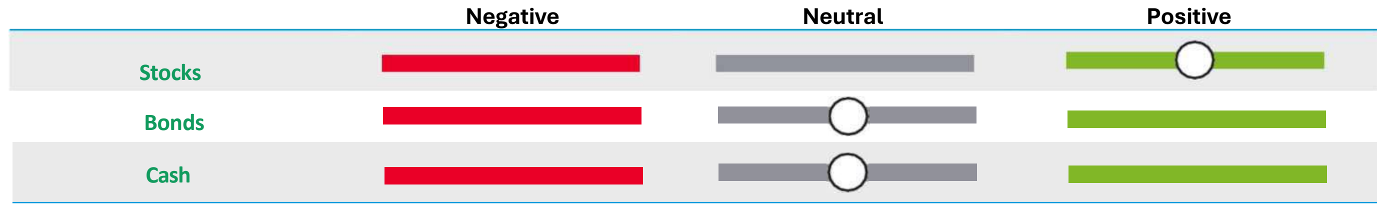
As we enter the second quarter, investor sentiment and consumer confidence have clearly been impacted by new policies pursued by the Trump administration. Since the President was sworn into office in January, nearly every department of the federal government is being reshaped. A dramatic transition is underway, bringing uncertainty to both the public and private sectors. The speed and scale of these changes are unprecedented, leaving investors with limited historical guideposts.

Change foments uncertainty, which is often the enemy of the markets that thrive on stability. Lack of certainty may prompt a reduction in risk by investors. The scale of the change, at least for the short term, is creating a cautious and defensive investment environment. The sheer magnitude of ongoing policy shifts has created a more cautious, defensive investment environment. Threats of new or increased tariffs have impeded corporate growth. While foreign trading partners have quickly responded to counter U.S. policy changes. DOGE-induced job losses have fueled broader concerns about employment conditions. Recession fears have increased, and corporate earnings forecasts for 2025 have weakened. The post-election optimism that once lifted markets now feels like a distant memory. Investors, like the government, are in transition, forced to assess variables that were nonexistent just three months ago. However, people, businesses, politicians, and governments adapt—so do investors. While the current environment is full of heightened uncertainty, we do not think it is permanent.

INVESTMENT TAKEAWAYS

- In prior Market Insights, we often led with Fed-related commentary. While long-term stock prices track corporate earnings growth, short-term market moves are heavily affected by interest rate fluctuations. With the Fed on pause, its impact on investor decisions has diminished. Meanwhile, U.S. stocks remain under pressure as investors adopt a risk-off stance amid policy changes from the incoming administration and uncertainty about their downstream effects. Defensive positioning has been favored.
- President Trump's policies were initially thought to be stimulative but inflationary to the economy, leading to short-term losses for fixed-income investors as rates rose. However, as investors assessed trade policies closer, slower growth forecasts took hold, causing both interest rates and equities to decline. As a result, fixed-income investors benefited, while equity investors faced de-risking pressures.
- In a matter of months, economic forecasting has been subject to numerous irregular and fast-changing inputs. Immediately preceding the Presential election, reports suggested the potential for a slowing economy on its then current trajectory. The election results fostered a brightening economic picture, as Republican sponsored policies favored expansion and de-regulation. Following the inauguration, the many executive orders and directives have created a cautious and unsettled environment. New procedures and policies are being scrutinized as investors assess the evolving landscape. With more questions than answers, investors are grappling with inconsistent messaging, new information and potential outcomes that may be less favorable than originally anticipated.
- Although equity markets typically perform well in the third and fourth years of a President's term they often lag after a new administration takes office with untested policies. Both 2023 and 2024 followed this trend. Post-election, stock market returns initially favored the President, but recent policy changes have introduced unexpected uncertainty. For now, investors have opted to reduce risk. A risk-on environment will return once outcomes become clearer and fewer changes impact the global financial system.
- International equities have outperformed U.S. equities in tumultuous markets. Equity performance may likely continue along this path until greater clarity emerges with U.S. policies. We expect short-term rates to remain steady, aligned with the Fed's actions. The yield curve favors a well-balanced, moderate-duration position. We prefer high-quality, intermediate maturities with some exposure to the high-yield segment.
- We remain committed to risk-managed portfolios that protect asset values during volatility. United Wealth and Investment Management supports both Value and Growth style companies, with an equal weighting in each. Most equity assets are currently allocated to domestic large-cap companies.

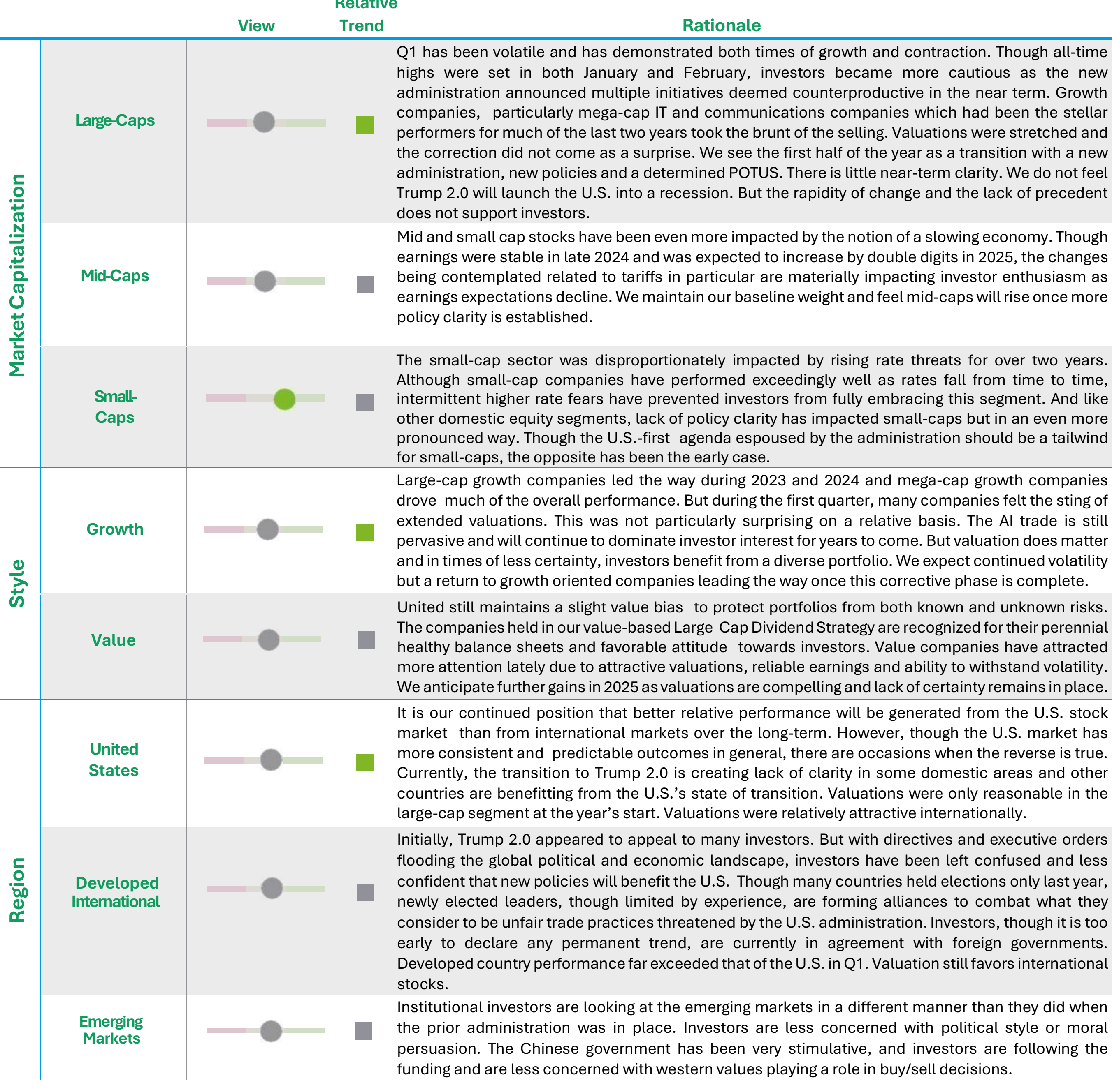
BROAD ASSET CLASS VIEWS



EQUITY ASSET CLASSES

Investors Turn Defensive

United's focus is on anticipating scenarios related to the length and depth of the current market correction. We have previously outlined several near-term concerns. First, market performance over the past two years has been exceptional. There have been few pullbacks and little profit-taking by investors. Given the relative regularity of market corrections, it would be reasonable for one to occur. Second, stock valuations have been stretched, especially in IT and Communications companies, where the majority of recent returns have occurred. Third, new administrations are motivated to change the status quo. The greater the level of change, the higher the level of uncertainty. Markets typically perform better later in a presidency when policy risks are more predictable. Given these factors, United is not surprised by this market correction. Additional economic anxieties have emerged, especially around speculative tariff resolutions. The administration has a history of negotiating at the extremes but arriving at a consensus that is more measured and centrist. We expect this to be the standard operating procedure moving forward on this trade. To that point, investors and market analysts still find it difficult to remain unconcerned when official administration statements are dramatic and inflammatory. While worst case scenarios rarely materialize, we see continued volatility during the first half of 2025. The increased level of economic uncertainty has also impacted earnings forecasts. Q1 earnings could be down 7-8% from Q4 2024. Full year earnings estimates for 2025 are starting to decline as well.



		View	Relative Trend	Rationale
Market Capitalization	Large-Caps			Q1 has been volatile and has demonstrated both times of growth and contraction. Though all-time highs were set in both January and February, investors became more cautious as the new administration announced multiple initiatives deemed counterproductive in the near term. Growth companies, particularly mega-cap IT and communications companies which had been the stellar performers for much of the last two years took the brunt of the selling. Valuations were stretched and the correction did not come as a surprise. We see the first half of the year as a transition with a new administration, new policies and a determined POTUS. There is little near-term clarity. We do not feel Trump 2.0 will launch the U.S. into a recession. But the rapidity of change and the lack of precedent does not support investors.
	Mid-Caps			Mid and small cap stocks have been even more impacted by the notion of a slowing economy. Though earnings were stable in late 2024 and was expected to increase by double digits in 2025, the changes being contemplated related to tariffs in particular are materially impacting investor enthusiasm as earnings expectations decline. We maintain our baseline weight and feel mid-caps will rise once more policy clarity is established.
	Small-Caps			The small-cap sector was disproportionately impacted by rising rate threats for over two years. Although small-cap companies have performed exceedingly well as rates fall from time to time, intermittent higher rate fears have prevented investors from fully embracing this segment. And like other domestic equity segments, lack of policy clarity has impacted small-caps but in an even more pronounced way. Though the U.S.-first agenda espoused by the administration should be a tailwind for small-caps, the opposite has been the early case.
Style	Growth			Large-cap growth companies led the way during 2023 and 2024 and mega-cap growth companies drove much of the overall performance. But during the first quarter, many companies felt the sting of extended valuations. This was not particularly surprising on a relative basis. The AI trade is still pervasive and will continue to dominate investor interest for years to come. But valuation does matter and in times of less certainty, investors benefit from a diverse portfolio. We expect continued volatility but a return to growth oriented companies leading the way once this corrective phase is complete.
	Value			United still maintains a slight value bias to protect portfolios from both known and unknown risks. The companies held in our value-based Large Cap Dividend Strategy are recognized for their perennial healthy balance sheets and favorable attitude towards investors. Value companies have attracted more attention lately due to attractive valuations, reliable earnings and ability to withstand volatility. We anticipate further gains in 2025 as valuations are compelling and lack of certainty remains in place.
Region	United States			It is our continued position that better relative performance will be generated from the U.S. stock market than from international markets over the long-term. However, though the U.S. market has more consistent and predictable outcomes in general, there are occasions when the reverse is true. Currently, the transition to Trump 2.0 is creating lack of clarity in some domestic areas and other countries are benefitting from the U.S.'s state of transition. Valuations were only reasonable in the large-cap segment at the year's start. Valuations were relatively attractive internationally.
	Developed International			Initially, Trump 2.0 appeared to appeal to many investors. But with directives and executive orders flooding the global political and economic landscape, investors have been left confused and less confident that new policies will benefit the U.S. Though many countries held elections only last year, newly elected leaders, though limited by experience, are forming alliances to combat what they consider to be unfair trade practices threatened by the U.S. administration. Investors, though it is too early to declare any permanent trend, are currently in agreement with foreign governments. Developed country performance far exceeded that of the U.S. in Q1. Valuation still favors international stocks.
	Emerging Markets			Institutional investors are looking at the emerging markets in a different manner than they did when the prior administration was in place. Investors are less concerned with political style or moral persuasion. The Chinese government has been very stimulative, and investors are following the funding and are less concerned with western values playing a role in buy/sell decisions.

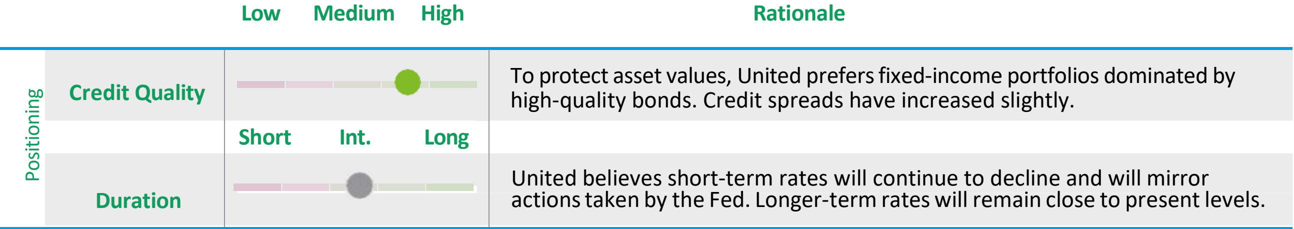
FIXED INCOME

Heading Toward a Normal Yield Curve

Despite a volatile and uncertain economic environment, fixed income yields have remained largely unchanged since the beginning of 2025. However, the first quarter was far from stable or predictable. The pre-election slowdown quickly gave way to expectations of higher growth and inflation, causing long-term rates to rise almost 100 basis points following the election. Discussions on immigration and tariffs further fueled inflation concerns, which had been approaching Fed targets.

The Fed has held steady at both 2025 FOMC meetings since its rate cuts of 100 basis points in the second half of 2024. Their reasons for supporting no rate cuts this year, are based on a stronger economic growth outlook, in a potential rising inflation environment. However, new or higher tariffs have increased the probability of an economic slowdown. Rates have since fallen sharply, and Fed Funds futures which previously priced in just one additional 25 basis point cut, now infers as many as three. The Fed's March minutes also indicated at least two more cuts.

United returned to a more normalized duration for managed bond portfolios in late 2024. We maintain that even a modest rate increase will have limited impact on fixed income values. We continue to recommend a blend of high-quality, intermediate-term bonds with appropriate exposure to shorter maturities. Quality corporate and municipal bonds remain strong across credit tiers and issuer sizes. High-yield bonds from stable, growing issuers offer attractive opportunities, supporting our commitment to a modest high-yield position in both corporate and municipal markets. For tax-sensitive accounts, we favor municipal bonds, as infrastructure spending, strong state revenues, and the potential for higher personal tax rates bolster the muni-market.



COMMODITIES

Steady Performance Among Heightened Geopolitical Risks

Every asset class and sub-asset class, including commodities, has felt the impact of the new U.S. administration. The price of West Texas Intermediate oil has declined notably since the start of the year. The combination of an aggressive domestic production stance— "drill, baby, drill"—and slowing global economic growth has potentially capped oil prices. Agricultural prices remain subdued, with only marginal gains for the year. While most food-related products have avoided tariff threats, many construction-related commodities have seen double-digit price increases since the year began.

With sovereign nation increased buying, gold and other precious metals continue to exceed historical price levels and correlations, with gold marking its best quarter since 1986. When traditional market relationships falter, alternative explanations arise. One possible explanation is investors perceived heightened global risk. Shifting international alliances and strained relationships with long-standing allies could drive further uncertainty. Rising gold prices have historically signaled abnormal or elevated risk. While some global military tensions may ease, new economic and geopolitical ones may arise in response to evolving domestic policies and international countermeasures. Overall, commodity prices have remained steady since early January but have risen nearly 10% since the election.

CONCLUSION

As is always the case, change is constant—unbounded, relentless, and indifferent to convention. We will remain vigilant, well-informed, and anticipate how shifting conditions may impact portfolios. We see signs signaling slower growth ahead, but we do not foresee a recession developing. The current administration is intent on making strong, decisive statements across multiple fronts, upending long-held policies and practices with a level of urgency that has left many industries and markets recalibrating. We do not expect them to retreat. With little immediate opposition, many of these initiatives will likely gain traction in the near term. However, history suggests that resistance will emerge—whether through political pushback, economic realities, or market forces—ultimately tempering some of the more disruptive policies that have fueled uncertainty. Over time, compromise, even if incremental, will contribute to a more balanced legislative environment, easing volatility and restoring greater clarity to both businesses and investors alike.

Disclosures

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