VAUGHAN
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Investment Perspective

2nd Quarter 2025

Global equity markets reversed the bearish trends of Q1 with the S&P 500, Russell 2000 Value, and the MSCI EAFE rallying 10.94%, 4.97%, and 11.78%, respectively. Globally, central banks began easing liquidity conditions, and the U.S. administration backed away from plans to dramatically cut federal spending. The reversal in policy stances, along with economic data confirming that the U.S. economy was not heading into a recession, set the stage for equity markets to recover in the second quarter. As we move through the second half of 2025, economic growth and inflation will stabilize, which will support markets if liquidity conditions continue to improve.

The Bloomberg Aggregate Index and the ICE BofA 1-10 Year AAA-A Municipal Index both advanced 1.2% for the quarter. During the quarter, the Federal Reserve paused rate cuts, leaving the target rate at 4.50%. The Fed indicated that more cuts are likely, but it will make decisions on a meeting-by-meeting basis, depending on the data. Currently, the market is pricing in three additional 25-basis-point cuts by the end of the year, which would lower the target rate to 3.75%.

During the quarter, Treasury yields along the “belly” of the curve (2 to 7 years) declined approximately 15 basis points, while longer dated Treasury yields (20 years and longer) backed up approximately 20 basis points. The rally in shorter-duration bonds was primarily driven by dovish Federal Reserve comments, which led the market to price in additional cuts in 2025. The selloff in longer-dated maturities was due to trade uncertainty and fiscal policy concerns. As a result, the Treasury curve steepened approximately 18 basis points during the quarter (as measured by the difference in yield between the 2-year and 10-year Treasuries).

Investment-grade credit spreads tightened 10 basis points during the quarter, ending at 79 basis points over Treasury yields. Credit spreads are likely to trade in a relatively tight range, as growth and tariff risks are offset by strong demand for corporate bonds and potential “puts” by policymakers. With spreads still trading inside historical averages and with volatility levels low, we look to add to corporate bonds opportunistically in 2025.

There were no material changes to duration positioning during the quarter. We continue to add longer-duration bonds to our respective strategies to lock in the attractive yields currently available in the market for a longer period.

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