

## 2025 Second Quarter Investment Report

As we complete the first half of 2025, we are pleased to report a strong 2<sup>nd</sup> Quarter. Despite significant geopolitical shocks, trade policy volatility, and questions about long-term fiscal sustainability, markets proved remarkably resilient. Both equity and fixed income markets showed positive momentum in June. Markets continue to defy expectations with U.S. equities reaching new highs and bonds rebounding on easing interest rates.

The end of Q2 2025 capped off a period that may be remembered as one of the most extraordinary disconnects between global headlines and actual portfolio outcomes in recent market history. For mission-focused investors, like you, this quarter was a reminder of how long-term stewardship and disciplined diversification can weather even turbulent conditions.

### Market Highlights

#### *U.S. Equity Performance:*

- The S&P 500 Index posted a strong 5.09% return for the month of June, continuing its upward trend from earlier in the year. This mirrors the broader patterns we've observed over the past two years:
  - U.S. equities outperformed international stocks (EAFE Index).
  - Large-cap stocks outperformed small-cap stocks.
  - Growth-oriented stocks led value stocks.

#### *Fixed Income Market:*

- Interest rates fell by approximately 0.19% during the month, giving a boost to fixed income returns. The bond market benefitted from this modest rate drop, contributing positively to diversified portfolios.

#### *Fund Performance*

- The Balanced Fund returned +3.70% in June, slightly outperforming its benchmark of +3.31%.
- The Stock Fund showed a monthly gain of 5.34%.
- The Bond Fund ticked up 1.25%.
- Year-to-date (through June 30, 2025), all core investment funds are showing healthy gains:
  - Stock Fund: +8.71%
  - Bond Fund: +3.87%
  - Balanced Fund: +6.77%

These results reflect strong equity markets, aided by resilient economic conditions and solid corporate earnings, along with supportive bond market conditions.

### Economic Outlook

The quarter was anything but calm – featuring headline-grabbing developments like dramatic U.S.–China tariff escalations and unexpected military tensions in the Middle East. These events drove temporary market declines in April, including a brief 19% drop in the S&P 500 from February 19<sup>th</sup> through April 8<sup>th</sup>. However, subsequent tariff de-escalations and diplomatic stabilization allowed markets to rebound sharply.

Key themes:

- U.S. GDP growth has remained positive, though revised downward from 2.0% to 1.3% for the full year due to policy headwinds.
- Inflation pressures are expected to persist, with core PCE inflation forecast to temporarily spike to 4.6% in Q3 before settling closer to 3.4% by year-end.
- Trade policy remains a wildcard. Although tariff rates have been significantly reduced from their April peaks, current trade tensions and reciprocal policies will continue to shape market conditions.
- Federal Reserve policy remains cautious. The Fed maintained its outlook of two rate cuts in 2025, while projecting only one for 2026.

Despite persistent uncertainty, especially surrounding potential tariff increases and geopolitical tensions, the U.S. economy continues to demonstrate notable strength. Currently, the market seems to be discounting the possibility of significantly higher trade barriers. However, time will ultimately determine whether that confidence is justified.

Investor sentiment has also been buoyed by a remarkable recovery in equities. According to *The Wall Street Journal*, the S&P 500 not only hit a new all-time high in June, but it did so at record speed – just 89 trading days after a 15% decline. It's the fastest rebound to a record close in history, reminding us once again that markets can move in unpredictable ways.

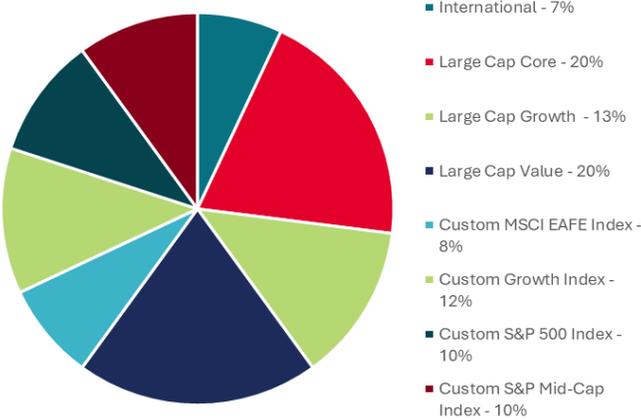
#### Stewardship and Discipline

As we reflect on these results, we remain focused on the long-term stewardship of these funds. Our approach continues to emphasize balance, discipline, and adaptability. We are actively monitoring market developments and stand ready to make adjustments when necessary to protect and grow the resources entrusted to us.

To this end, the Investment Committee recently approved a few shifts in the underlying asset allocation of the Stock Fund. Equity markets have become increasingly dominated by passive strategies. Technology has advanced to allow customized index portfolio construction that aligns with our mission-based values. The efficiencies and performance attributes of this direct indexing approach have led us to include four custom index sleeves in the Stock Fund, including S&P 500, Russell 1000 Growth, MSCI EAFE, and S&P Core Mid Cap. These index strategies not only screen the universe based upon the provided exclusions but also shift portfolio holdings towards companies that are more closely aligned with our faith-driven values. These passive strategies will be added to the

otherwise active management of the portfolio. This internal portfolio adjustment will occur in the coming weeks. You will benefit from these enhancements automatically.

### Stock Fund



#### Final Word

Thank you for your continued trust and partnership in this important work. As stewards of these financial resources, we are ever mindful that behind every dollar invested is a story of faith, generosity, and commitment to the mission of the Church. These funds support ministries, sustain sacred spaces, and equip leaders to serve with vision and compassion. Our investment approach remains grounded in discipline, transparency, and the long view – always seeking to align financial strength with faithful purpose. We look forward to the journey ahead and remain committed to managing these resources with wisdom and care.

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United Methodist Foundation of Michigan