MONTHLY MARKET REVIEW

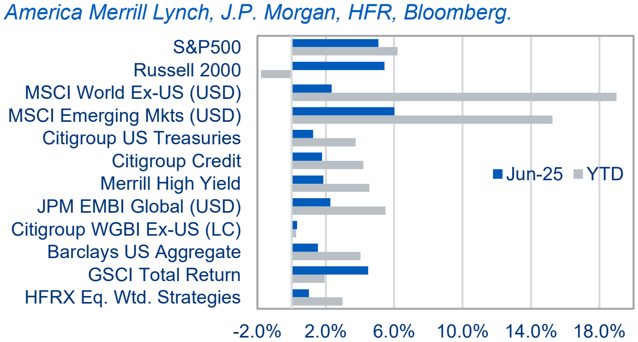
06 2025

Global Market Review

Global markets surged higher in June, adding to May's heady gains. U.S. equities reached record highs, advanced and emerging equity markets rose, U.S. Treasury yields fell across the maturity spectrum, investment grade and high yield credit spreads tightened, and equity and bond market volatility moderated. The market's cheer persisted despite continued sour business and household sentiment, elevated policy uncertainty, slowing economic growth, a looming tariff-induced increase in prices, a short-lived war in the Middle East, and the prospect of mushrooming fiscal debts, deficits, and debt servicing costs. Oil prices and volatility spiked in June following the attack on Iran's nuclear capabilities, rising 7.1% to partially reverse their downward trajectory of much of the year. Bucking the exuberant trend across global equity and bond markets, the U.S. dollar index fell further in June, bringing its decline in the first six months of the year to over 10%.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



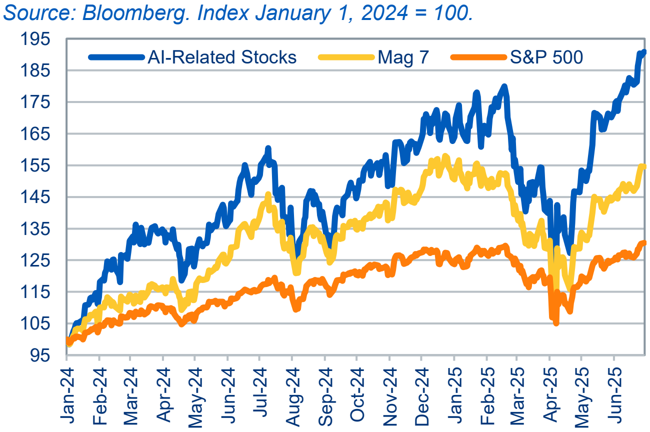
Global equities and bonds rise further in June.

U.S. Equities Set Record High

The S&P 500 gained 5.1% in June, bringing its gain so far this year to 6.2%. The path taken to this respectable gain was anything but smooth. After a tariff-induced plunge of 15% to its early April trough, the S&P 500 has gained nearly 25%. The rebound reflects the dissipation of fears over the economic and market impact of tariffs and a renewed speculative frenzy for AI stocks. Since the market's April trough, an index of AI-related stocks and the Magnificent 7 index of mega-cap tech stocks have risen 44% and 37%, respectively. The AI sector has benefitted from strong earnings growth as well as speculative demand fueled by the belief that AI represents a transformative technology that will revive productivity growth across all sectors of the economy (Exhibit 1).

Exhibit 1. AI Frenzy Propels U.S. Equities to Record Highs

Source: Bloomberg. Index January 1, 2024 = 100.



The strong rally since early April has propelled the market to a record high. The market's valuation is also near record levels. As measured by the Shiller P/E ratio, the U.S. equity market valuation is in the top decile of its entire history, surpassed only by the 2000 tech bubble and the post-COVID recovery of 2021. The capitalization of the market relative to GDP is also near an all-time high. Compounding rich valuations, the lopsided, tech-heavy nature of the market rally is a further source of potential fragility. The macro edifice hardly appears sufficiently stable to support such lofty valuations. Policy uncertainty remains exceptionally high, businesses and households are apprehensive, economic output is slowing, the pass-through of tariffs to prices looms, geopolitical conditions are volatile, and fiscal policy is sowing the seeds of explosive debt dynamics.

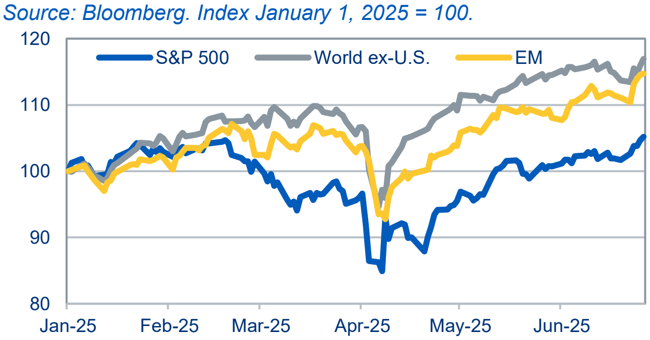
1001 Nineteenth Street North
17th Floor
Arlington, VA 22209 USA
+1 703.243.4433 TEL
+1 703.243.2266 FAX
strategicgroup.com

Non-U.S. Equity Markets Register Strong Gains

The MSCI World ex-U.S. index of advanced economy stocks rose 2.3% in June, bringing its gain so far this year to 19%, outpacing the U.S. market's gain of 5.1% by a wide margin (Exhibit 2). European markets continue to perform well. They are up 23% in the first half of the year. To U.S. dollar-based investors, this gain reflects in part the strong appreciation of the euro versus the dollar. Moderating inflation and easing monetary policy have supported European equity markets. Over the past 12 months, the ECB has cut rates eight times for a cumulative rate reduction of 200 basis points. However, with euro area inflation now in the vicinity of its 2% target, the ECB appears to be approaching the end to its current rate-cutting cycle.

Exhibit 2. U.S. Stocks Lag other Markets

Source: Bloomberg. Index January 1, 2025 = 100.



Emerging equities generated strong gains in June, rising 6%. They are up 15.3% in the half of the year. Chinese equities, which have risen 17.3% so far in 2025, have contributed to the broader emerging equity market rally. Continued fiscal and monetary stimulus and other measures designed to bolster economic growth and household sentiment have supported the equity market despite lingering fragilities. These include the persistent contraction of the property sector, restrained household consumption, continued deflationary pressures, and the uncertain effects of tariffs on an export-driven economy.

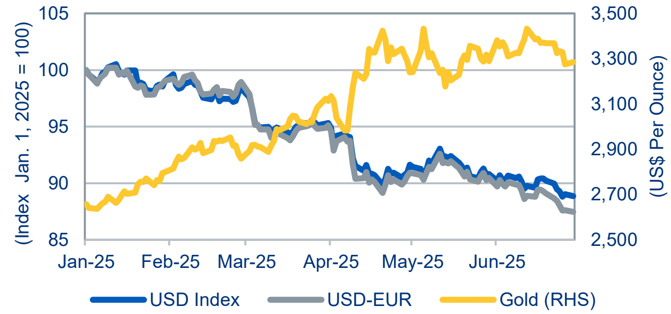
Dollar Decline Deepens as Most Assets Rally

The U.S. dollar's recent decline has led to speculation that it was losing its safe haven status. The dollar has fallen despite widening interest rate differentials that would normally support dollar appreciation. Short-term dollar interest rates, for example, are well above those of the euro. Yet the dollar has depreciated sharply against the euro and other major currencies (Exhibit 3). Gold, meanwhile, has soared.

It is plausible that exceptionally high levels of trade policy uncertainty, the prospect of fiscal profligacy, swings in foreign policy, and incipient doubts about the U.S. commitment to maintaining the monetary order with the dollar at its core may be taking the shine off the U.S. dollar as a safe haven. However, it is important to put the dollar's recent decline in context. The dollar's real effective exchange rate opened the year near 40-year highs, close to the level that led to the concerted effort in 1985 to depreciate the dollar under the Plaza Accord.

Exhibit 3. Dollar Outlook Darkens While Gold Shines

Source: Bloomberg.



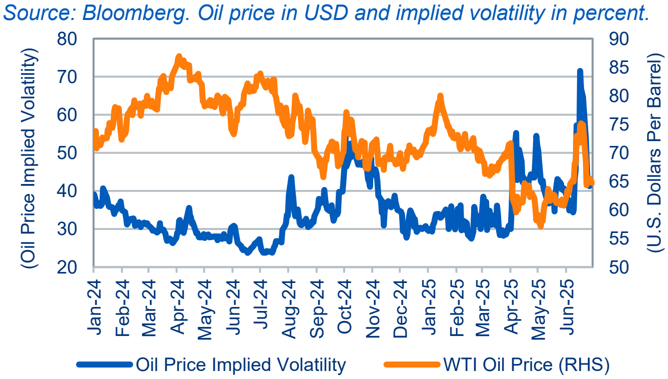
The strength of the dollar prior to this year was driven in part by large capital inflows into U.S. markets. Foreigners now hold 20% of the U.S. equity market and 30% of outstanding U.S. Treasuries and corporate credit. These positions are largely unhedged, leaving foreigners exposed to large currency mismatches. The fall of the dollar this year has triggered a rush to hedge currency exposures, compounding the depth and persistence of the dollar's decline.

Short-Lived Oil Price Spike Amid Abundant Supply

Oil prices had been falling for much of the year. Supply, especially from OPEC, was increasing and inventories were rising. Moreover, demand growth was slowing and there were concerns that tariffs and trade uncertainty would undermine global economic output and further dampen demand. Given these conditions and the limited and brief nature of the hostilities, the June war with Iran led to only a brief spike in oil prices, despite the risk of significant disruption.

Exhibit 4. Oil Prices and Volatility Spike After Iran Attack

Source: Bloomberg. Oil price in USD and implied volatility in percent.



Performance of Major Market Indices through 06-30-2025

Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	5.1%	10.9%	6.2%	15.2%	19.7%	16.6%
Russell 2000	5.4%	8.5%	-1.8%	7.7%	10.0%	10.0%
MSCI World Ex-US (USD)	2.3%	12.0%	19.0%	18.7%	15.7%	11.5%
MSCI Emerging Mkts (USD)	6.0%	12.0%	15.3%	15.3%	9.7%	6.8%
Citigroup US Treasuries	1.3%	0.8%	3.8%	5.3%	1.5%	-1.6%
Citigroup Credit	1.8%	1.7%	4.2%	6.9%	4.4%	0.2%
Merrill High Yield	1.9%	3.6%	4.5%	10.3%	9.8%	6.0%
JPM EMBI Global (USD)	2.3%	3.1%	5.5%	9.5%	8.2%	1.8%
Citigroup WGBI Ex-US (LC)	0.3%	1.3%	0.3%	3.1%	0.3%	-2.1%
Barclays US Aggregate	1.5%	1.2%	4.0%	6.1%	2.5%	-0.7%
GSCI Total Return	4.5%	-2.8%	1.9%	0.3%	-0.4%	17.7%
HFRX Eq. Wtd. Strategies	1.2%	2.2%	3.1%	5.7%	4.4%	3.5%