

STUDENT OF THE MARKET

Market Outlook

Q3 2025



Market Outlook

Today's market moves

What to know about markets right now

1

MARKETS

Midyear check in
(international
stocks outperform)

2

ECONOMY

The U.S.
economy slowing
but avoiding
recession

3

FEDERAL RESERVE

Higher interest
rates for longer
but Fed Funds
rate likely
coming down

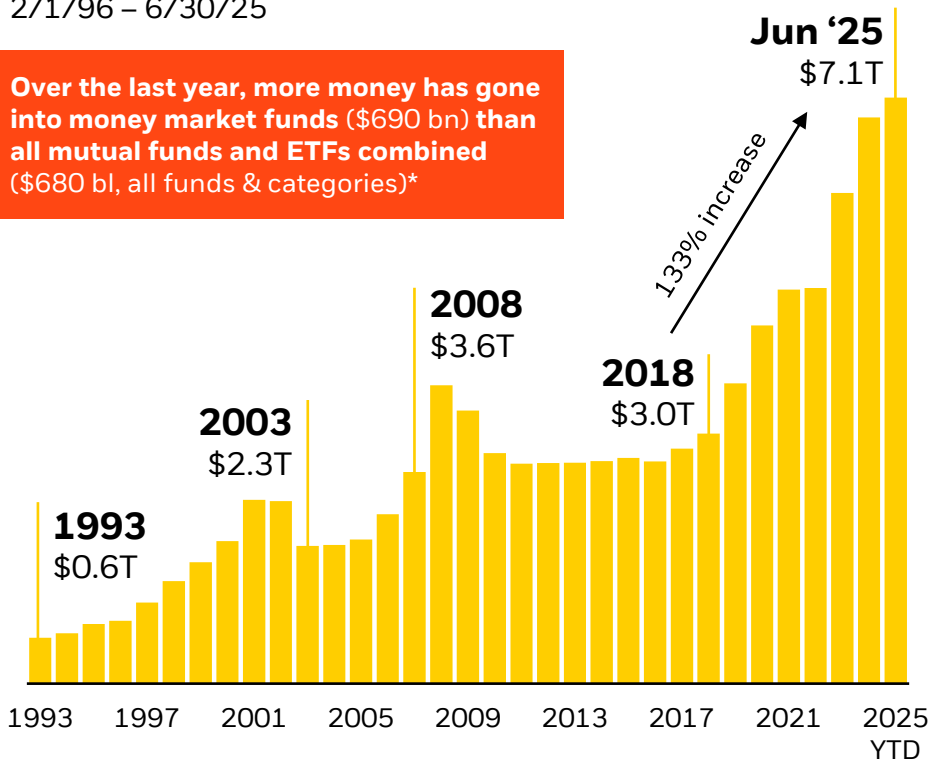
What it means for portfolios

Cash holdings continue to rise, but cash has lagged stocks and bonds

Money market fund assets

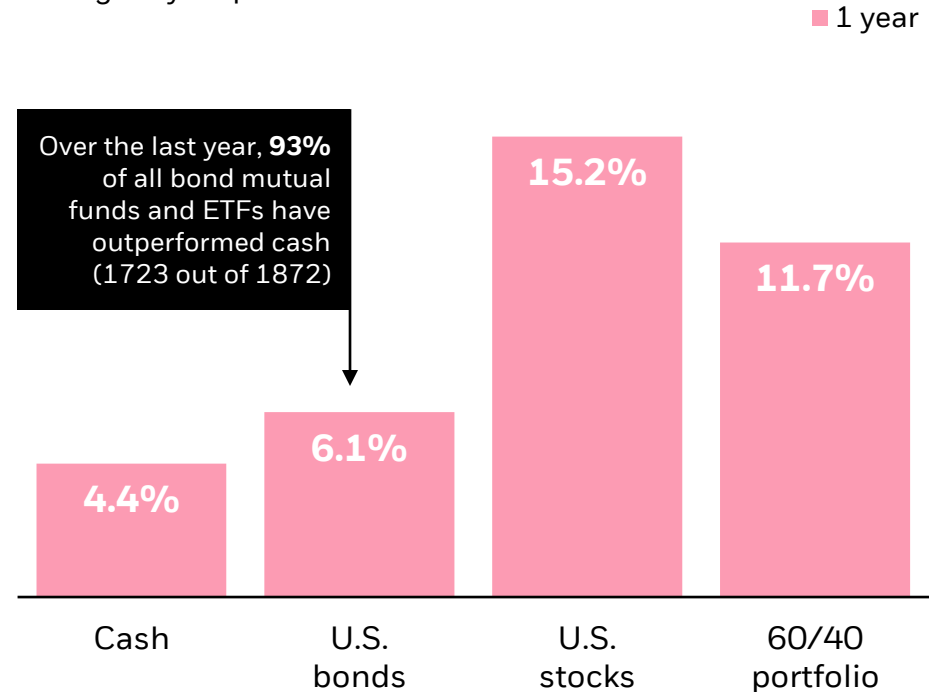
2/1/96 – 6/30/25

Over the last year, more money has gone into money market funds (\$690 bn) than all mutual funds and ETFs combined (\$680 bl, all funds & categories)*



Cash (money funds) has been good but has trailed bonds, stocks and the diversified portfolio

Average 1-year performance



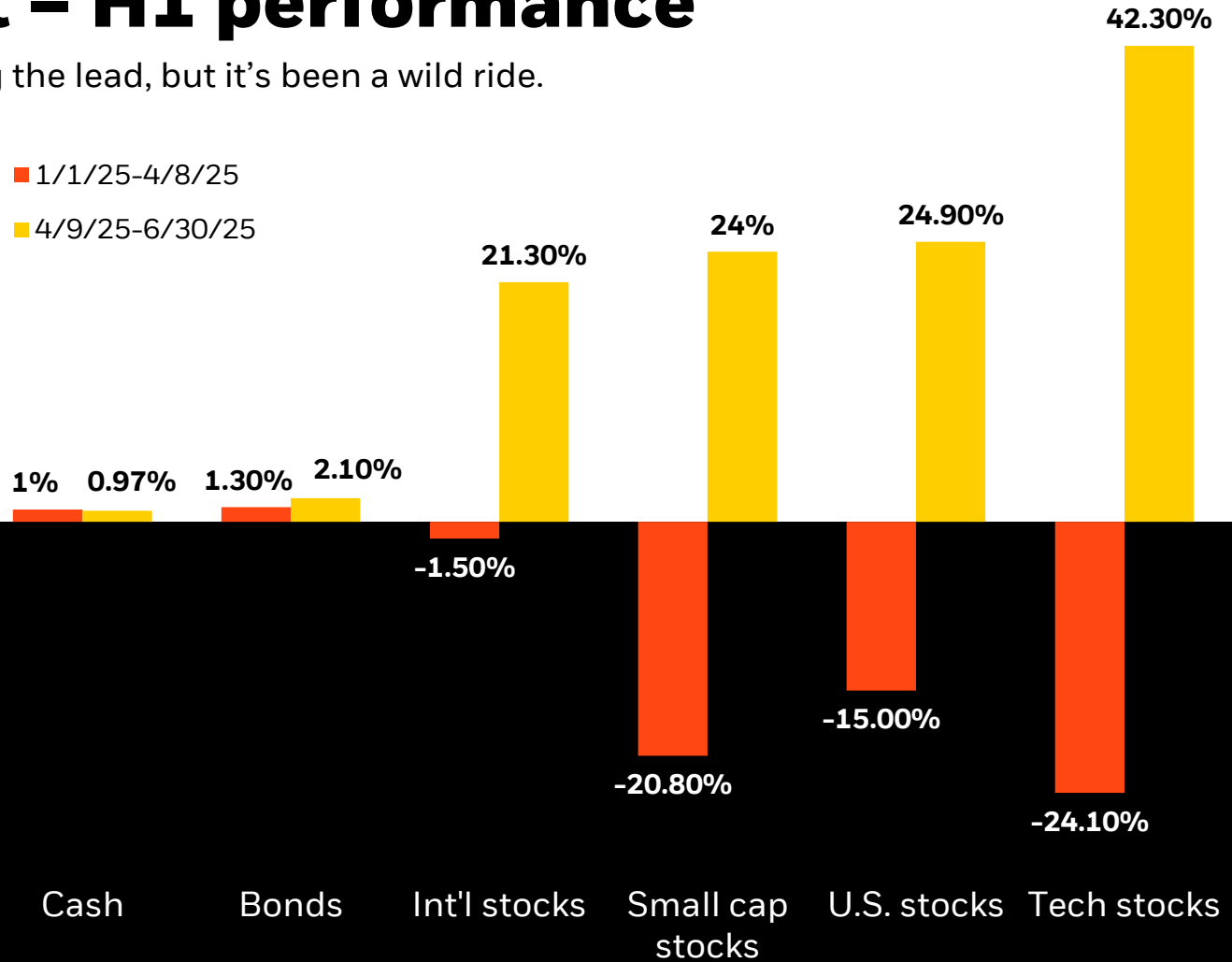
Source: BlackRock, Morningstar and the ICI as of 6/30/25. U.S. Stocks are represented by the S&P 500 TR Index. Money market fund assets groupings defined by Morningstar and Investment Company Institute. Cash represented by the Morningstar money market fund category average, U.S. bonds represented by the Bloomberg U.S. Agg Bond Intermediate TR Index, and 60/40 portfolio represented by 60% S&P 500 TR index and 40 Bloomberg U.S. Agg Bond Intermediate TR Index. **Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.** As of 5/31/2025.

Half time report – H1 performance

H1 saw international equities taking the lead, but it's been a wild ride.

	YTD 6/30/25
International	12.0
Tech stocks	8.1
U.S. stocks	6.2
U.S. bonds	4.0
Small cap	-2.5
Cash	2.1

■ 1/1/25-4/8/25
 ■ 4/9/25-6/30/25



Did you know?

Going into 2025, U.S. stocks were up +25% or more in back-to-back calendar years for the 5th time since 1926 (26% in 2023, +25% 2024)

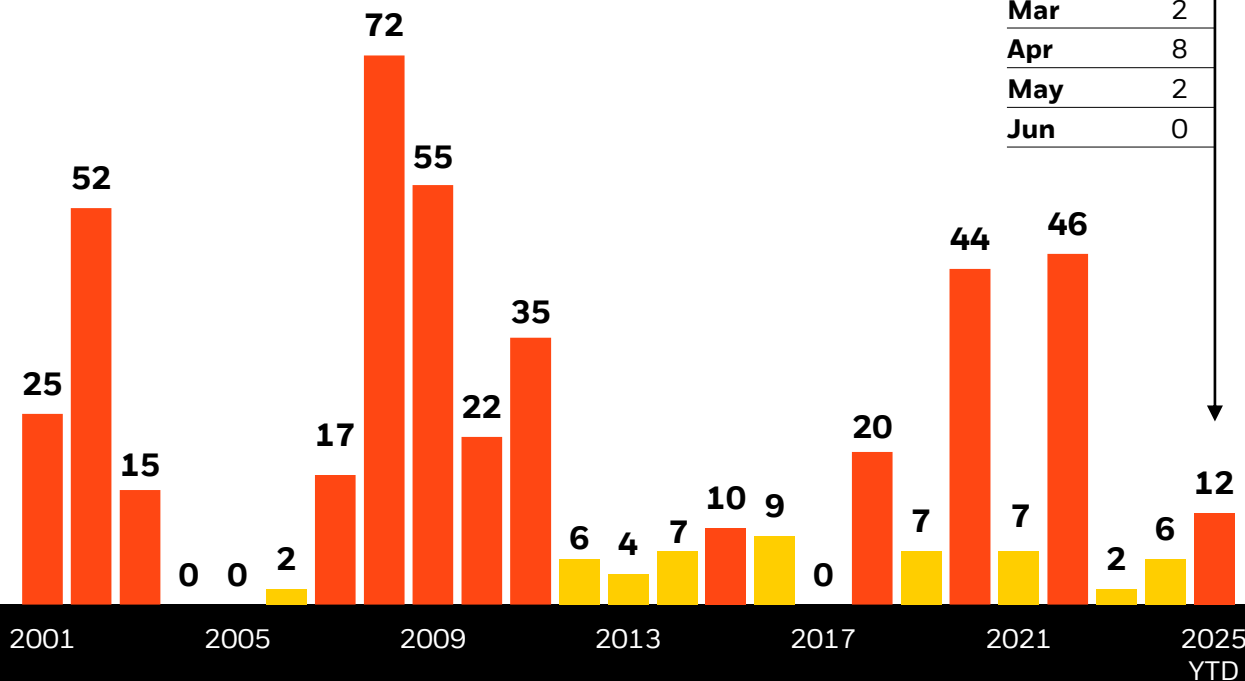
Source: Bloomberg, data as of 6/30/2025. All return figures are rounded. Small cap represented by Russell 2000, International Equity represented by MSCI EAFE, Bonds represented by Bloomberg US Agg Bond index, cash represented by the Bloomberg U.S. Tr Bills: 1-3 Months TR Index, tech represented S&P 500 GICS Level I Information Technology Index. Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

Stock market volatility proves, like always, to be unpredictable

Policy uncertainty early in the year drove economic concerns, but volatility has since subsided.

S&P 500 single-day swings of +/-2% or more

Number of single day swings, 1/1/2001 - 6/30/2025



Slower economic growth associated with higher volatility



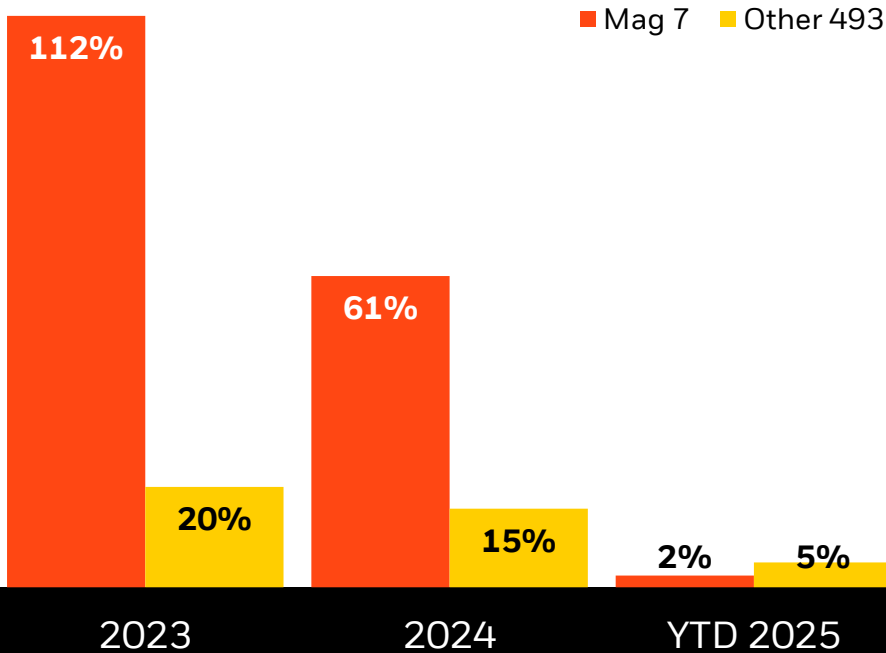
Source: Morningstar as of 6/30/25. Stock market represented by the S&P 500 Index. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

New leaders emerge

Apple, Alphabet, Microsoft, Amazon, Meta, Nvidia, and Tesla stocks are expected to lead “the rest” in earnings, but with a narrower margin. H1 performance suggests new leaders are on the block in the U.S.

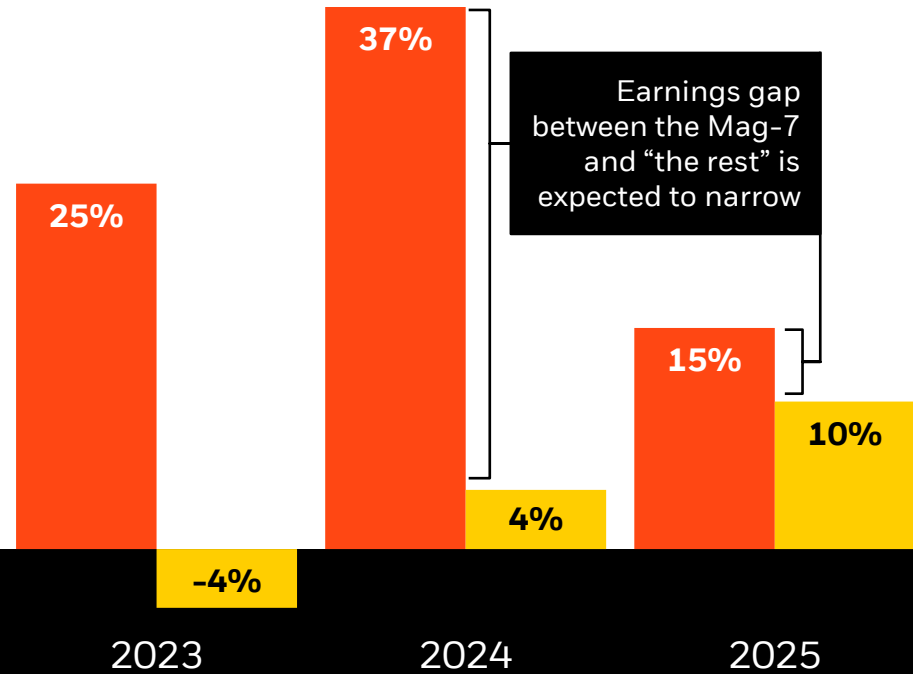
Mag-7 returns lag in H1...

Cumulative return, 1/1/2023 - 6/30/2025



...while Mag-7 earnings expectations normalize

Historical and 12-month forward earnings growth expectations of the Magnificent 7 and other 493



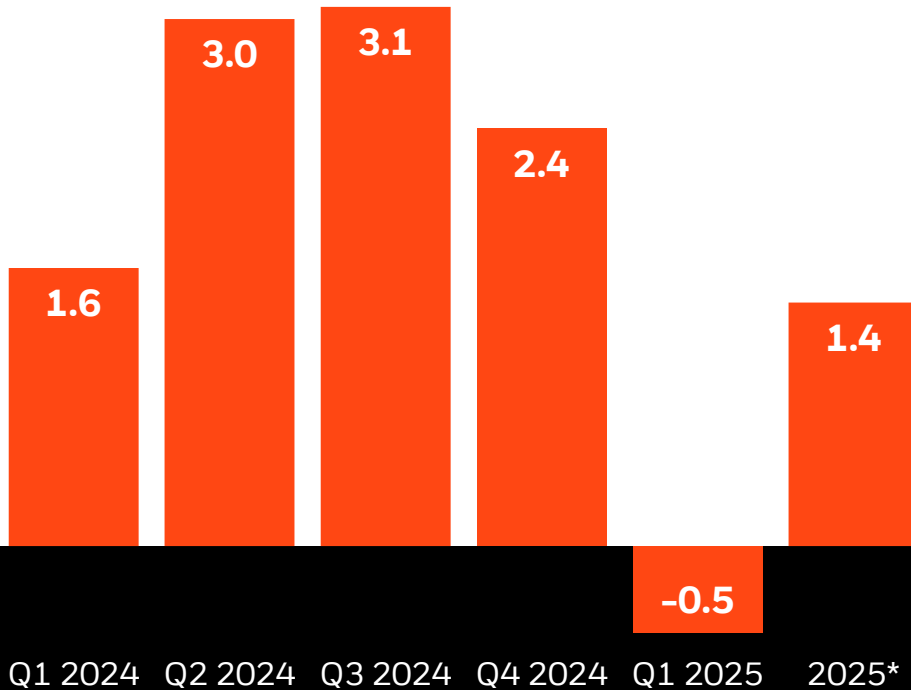
Source: Bloomberg as of 6/30/25. Stocks represented by the individual stocks of the S&P 500 Index, non-voting dual-class shares excluded. “Mag 7” refers to the “Magnificent 7” group of U.S. companies whose stocks drove the majority share of returns for the S&P 500 in 2023 and 2024 and includes Amazon, Tesla, Alphabet, Meta, Apple, Nvidia and Microsoft. Specific companies or issuers are mentioned for educational purposes only and should not be deemed as a recommendation to buy or sell any securities. Any companies mentioned do not necessarily represent current or future holdings of any BlackRock products. **Past performance does not guarantee or indicate future results.** Forward looking estimates may not come to pass. Index performance is for illustrative purposes only. You cannot invest directly in the index.

U.S. economy is expected to slow

U.S. GDP is expected to slow from 2024's rate but we see continued resiliency in the labor market.

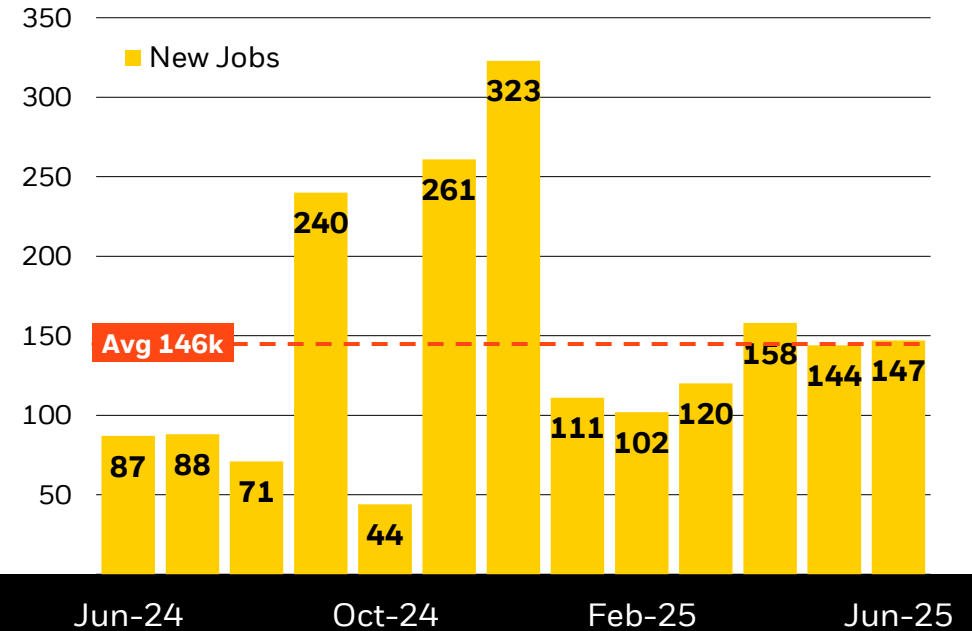
Expectations for a modest slowdown in growth, but still positive

Real GDP growth (%)



Labor market is softening but remains tight

Net change in Nonfarm payrolls (thousands)



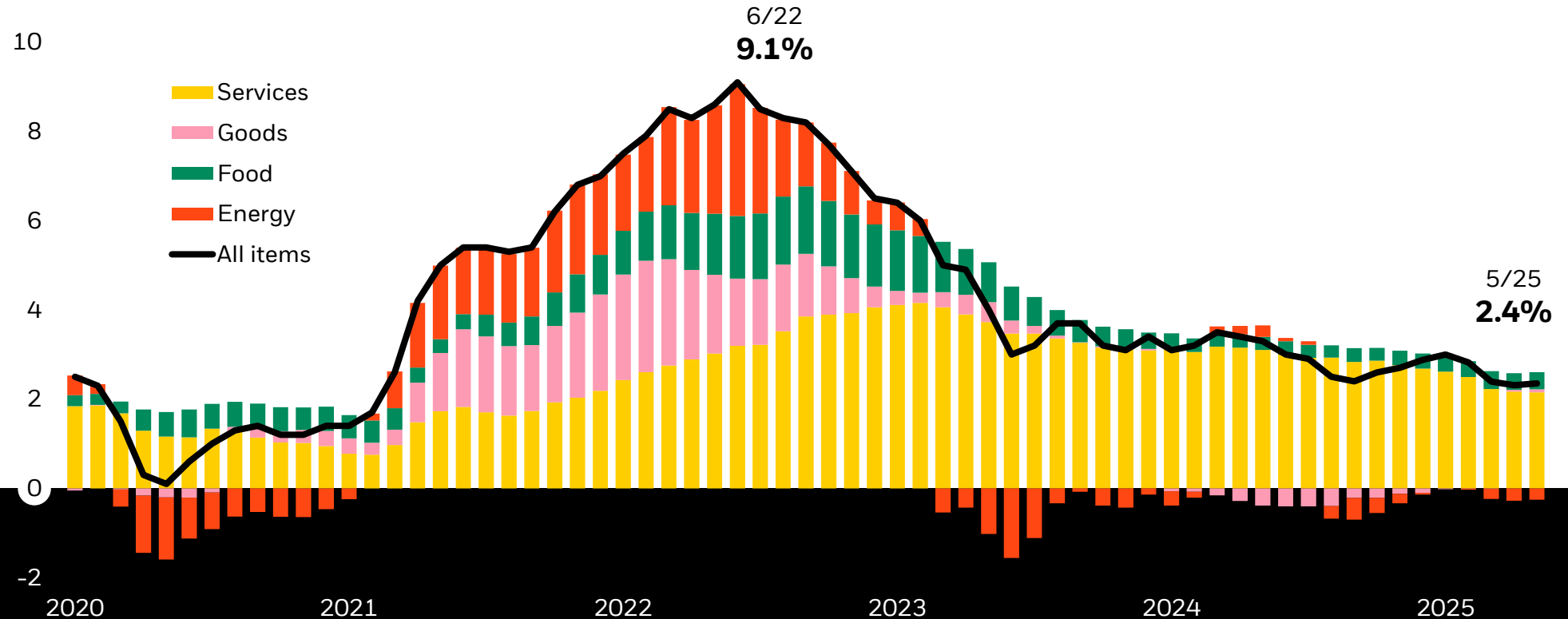
Source: Left: Bloomberg, Federal Reserve. Asterisks indicate projections. 2025 projection is from the Federal Reserve median projection for 2025 from June's Summary of Economic Projections. As of 6/30/2025. Right: Bureau of Labor Statistics, as of July 3, 2025.

Inflation has declined, but we watch for shocks

Inflation has progressed towards the Fed's target, but the last mile may prove the hardest. A combination of government spending, tariffs, and immigration policy could keep prices high.

Inflation has declined from 2022 highs, though has leveled out recently

Contributions to US CPI YoY (%)



Source: Bloomberg, Bureau of Labor Statistics, as of 6/30/2025

Federal Reserve may reduce rates slowly

Interest rate projections suggest cuts of just 0.5% by the end of 2025, but expectations can shift as data moves.

Fed revised growth lower, inflation higher

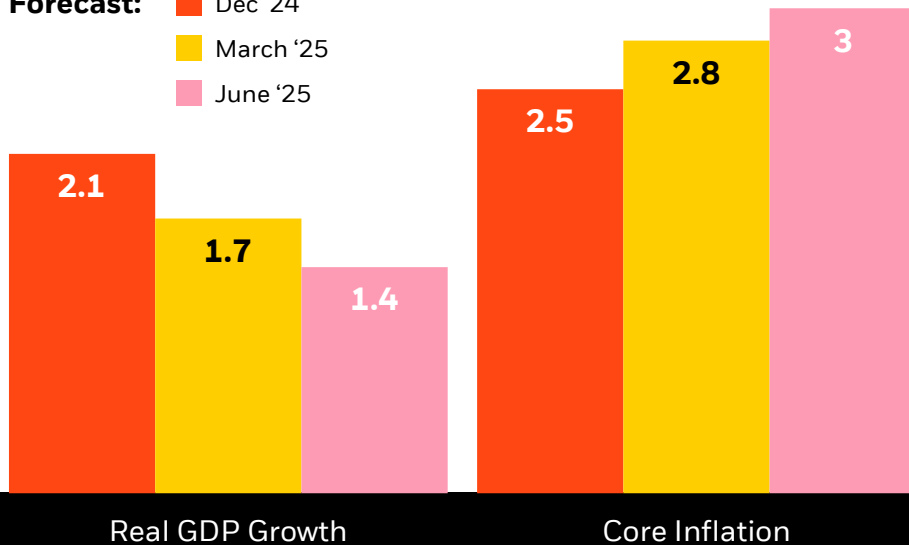
2025 Summary of Economic Projections¹

Forecast:

Dec '24

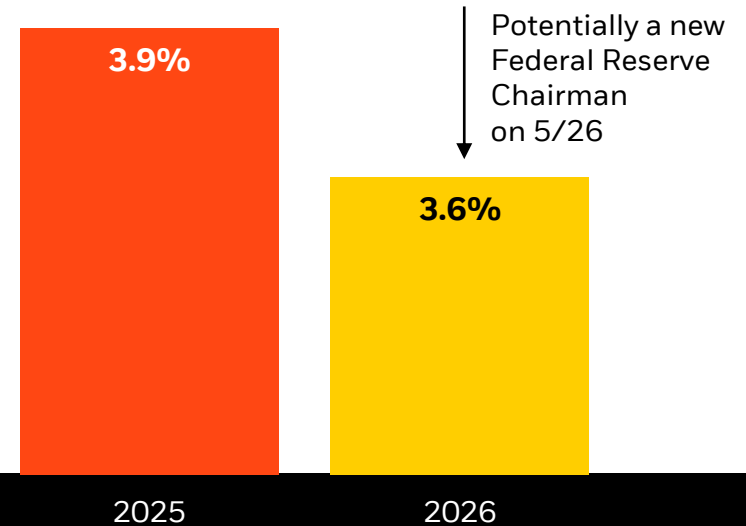
March '25

June '25



The Fed expects to reduce rates slowly, but projections could change with new leadership

2025 Summary of Economic Projections²



Did you know?

Inflation expectations and deficit concerns have weighed on longer-dated treasuries: 30Y treasury yields have risen by 6bps YTD, even as shorter-term yields have dropped.³

1, 2 Source: Bloomberg, Federal Reserve. Data from the Federal Reserve's Summary of Economic Projections. As of 6/18/2025. 5/2026 is the end of term for the current Federal Reserve chair.

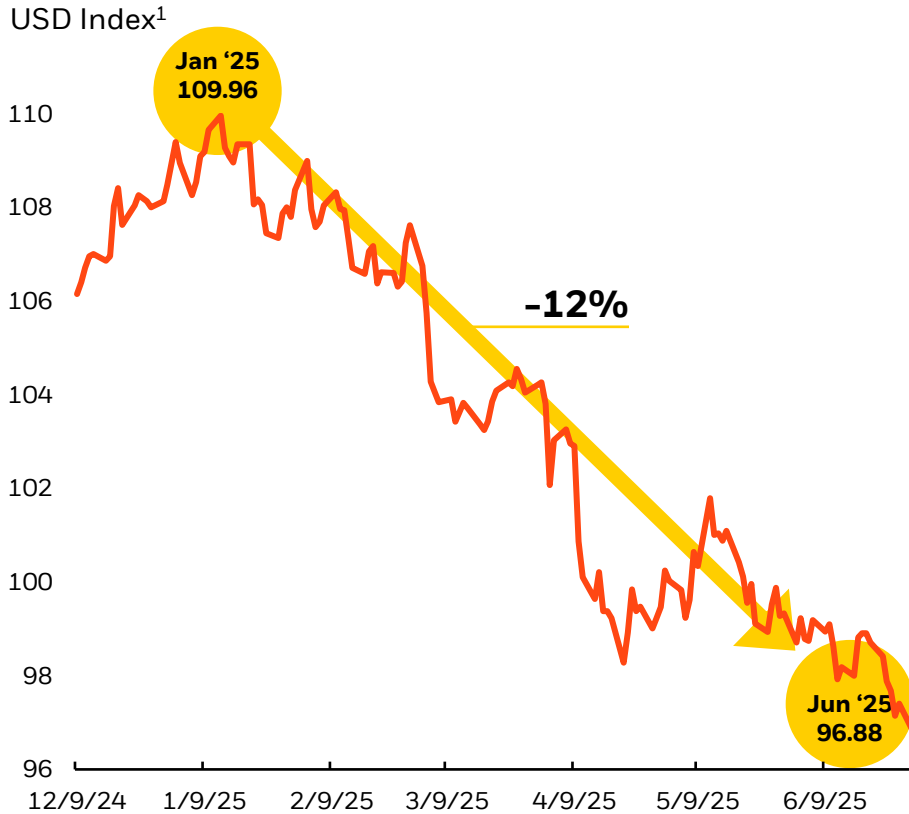
3: Bloomberg. As of 6/30/2025.

Bps stands for basis points. One basis point is equal to one-hundredth of a percentage point, or 0.01%.

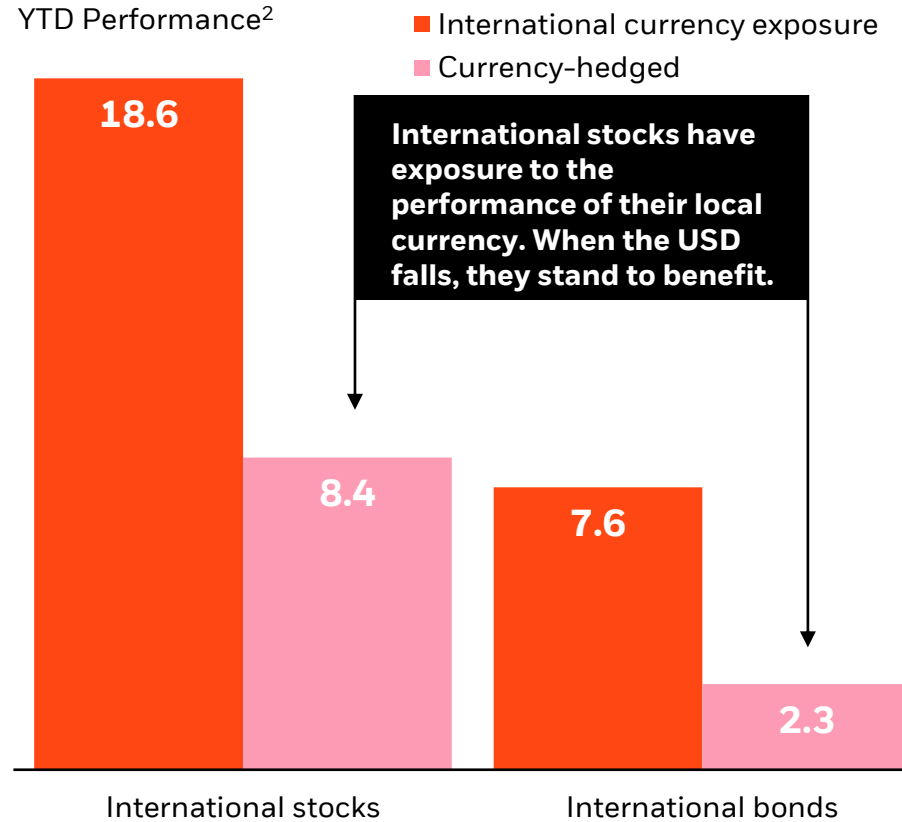
A weaker USD has supported int'l assets

The USD has weakened this year on trade policy changes, rising national debt, and shifts in international demand. This weakening has supported international stocks and bonds purchased in USD.

The USD has fallen by 12% peak-to-trough



A weaker dollar has supported int'l assets



1: Source: Bloomberg as of 6/30/25. 2: Source: Bloomberg as of 6/30/25. Int'l Equities refers to the MSCI EAFE Index, Int'l Bonds refers to the FTSE WGBI, Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

Policy updates can still drive markets

Even with potential clarity on tariffs, policy updates can continue to drive markets. The phasing of policy development matters and may influence U.S. growth.

	Potential Impact for:	
Policy Category	Growth	Inflation
Tariffs	Lower	Higher
Immigration	Lower	Higher
Deficit	Same/higher	Same/higher
Taxes	Same/higher	Same/higher
Deregulation	Same/higher	Lower

Growth	Lower
Inflation	Higher

Source: Potential and growth impacts are estimated established by GPS Investment Strategy. Views subject to change. Forward estimates may not come to pass. As of June 30, 2025.

Looking ahead

1

Remaining invested in equities

We prefer **large cap quality U.S. names**, given higher earnings growth expectations.

Small-caps may not be the best diversifier from large-caps, consider international equities.

2

Staying flexible in higher-income bonds

Our outlook also supports leaning into income over long-term bonds. A higher-for-longer outlook suggests that medium-term bonds may maintain attractive yields.

Consider the role of **higher yielding, medium-term** bonds.

3

Embracing new ways of diversification

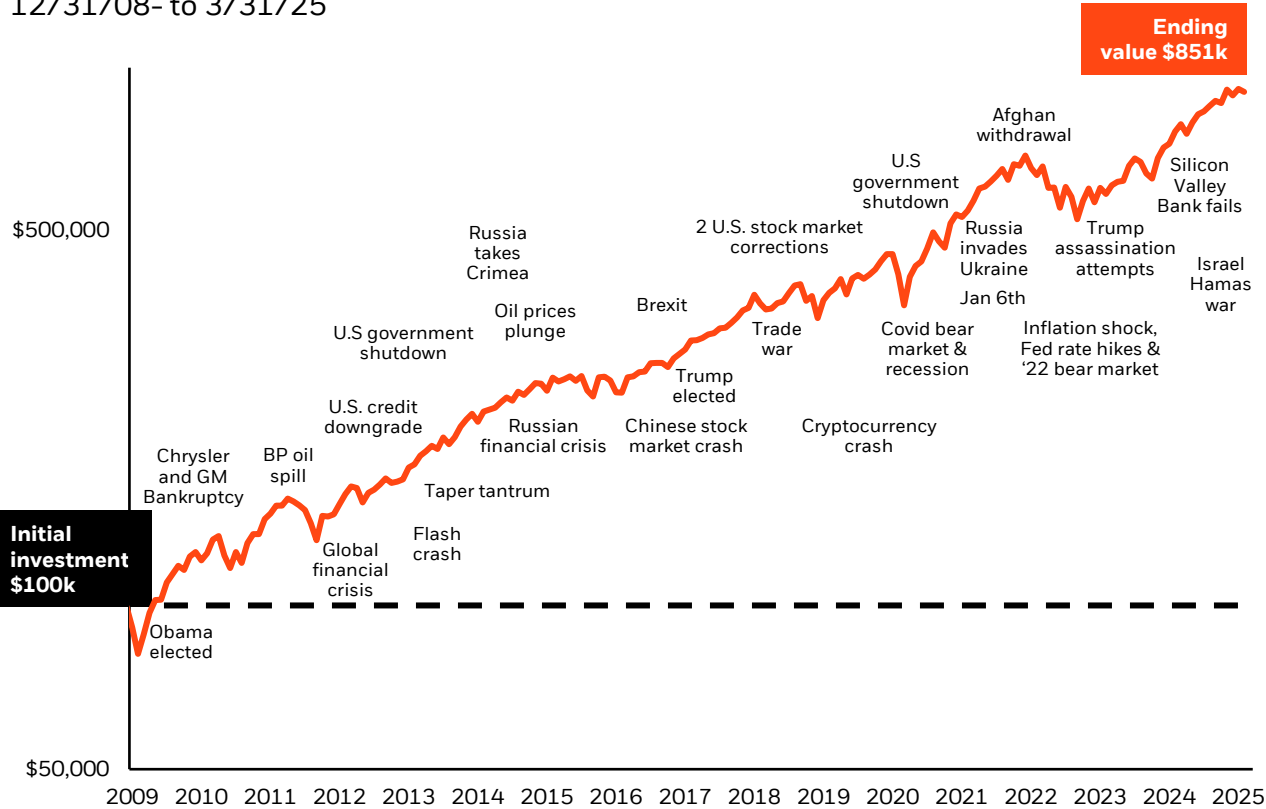
“Cash plus” alternatives remain attractive, and challenging stock-bond correlations support new forms of diversification.

There is always a reason to sell

Market pullbacks, corrections and bear markets over the last 17 years happen more than most realize.

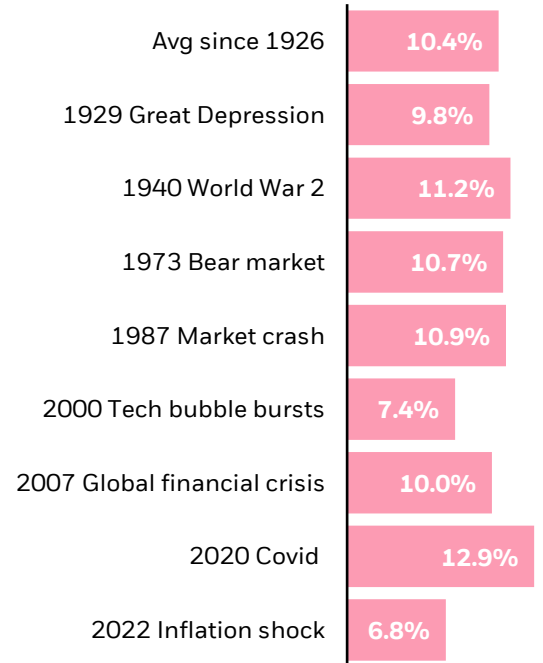
Growth of \$100k and recent market and economic headlines

12/31/08- to 3/31/25



Investing at the worst times in history

Average annual returns if you had invested prior to these historical events

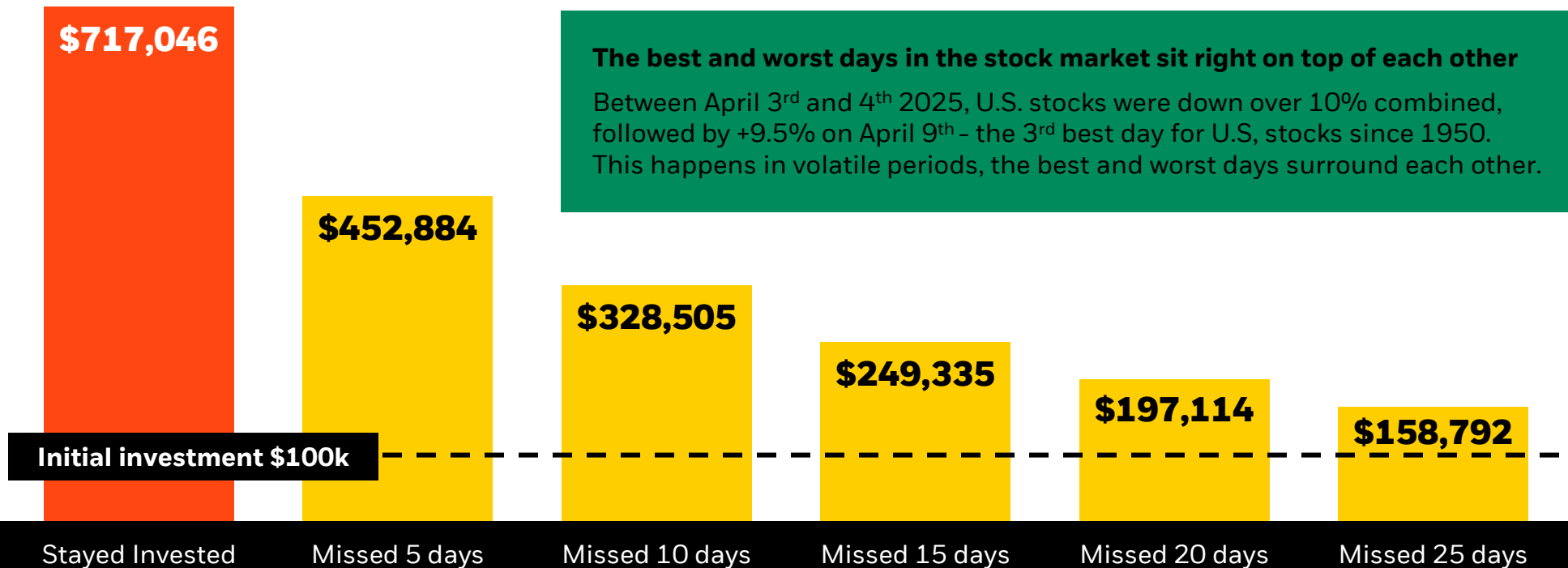


Source: Bloomberg as of 3/31/25. Investment returns are represented by the S&P 500 TR Index from 3/4/57 to 3/31/25 and the IA SBBI U.S. Lrg Stock TR USD Index from 1/1/26 to 3/4/57. An unmanaged pair of indexes that are generally considered representative of the U.S. stock market. Right graph only: Average annual returns from the first day of the stated year through 3/31/2025. **Past performance is no guarantee of future results.** It is not possible to invest directly in an index.

It's time in the market that matters... waiting for the "right time" could mean missing out

Missing top-performing days can hurt your return

Hypothetical Investment of \$100,000 in the S&P 500 Index over the last 20 years (2005-2024)



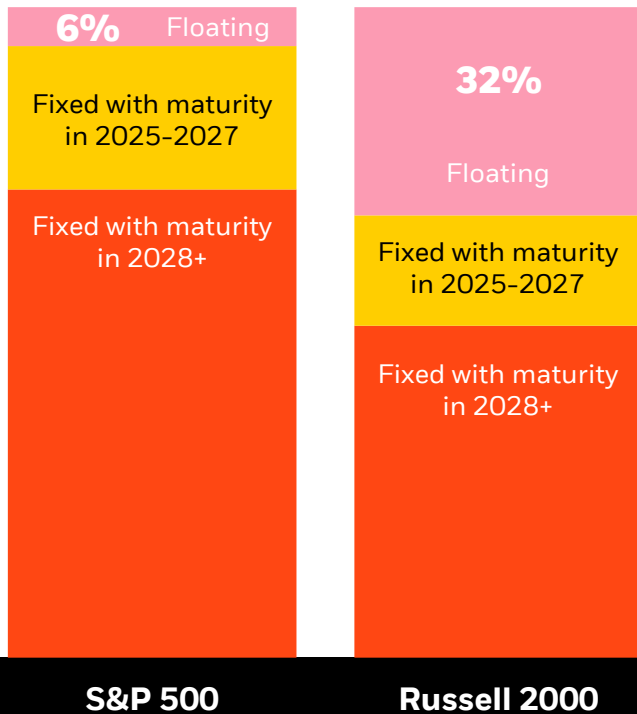
Sources: BlackRock; Bloomberg as of 12/31/24. It is not possible to invest directly in an index. U.S. stocks represented by S&P 500 Index. Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

Lean into large cap quality stocks

A backdrop of slowing economic growth and elevated interest rates may continue to weigh on small cap returns. We prefer higher qualities which tend to have less sensitivity to what could be a challenging environment.

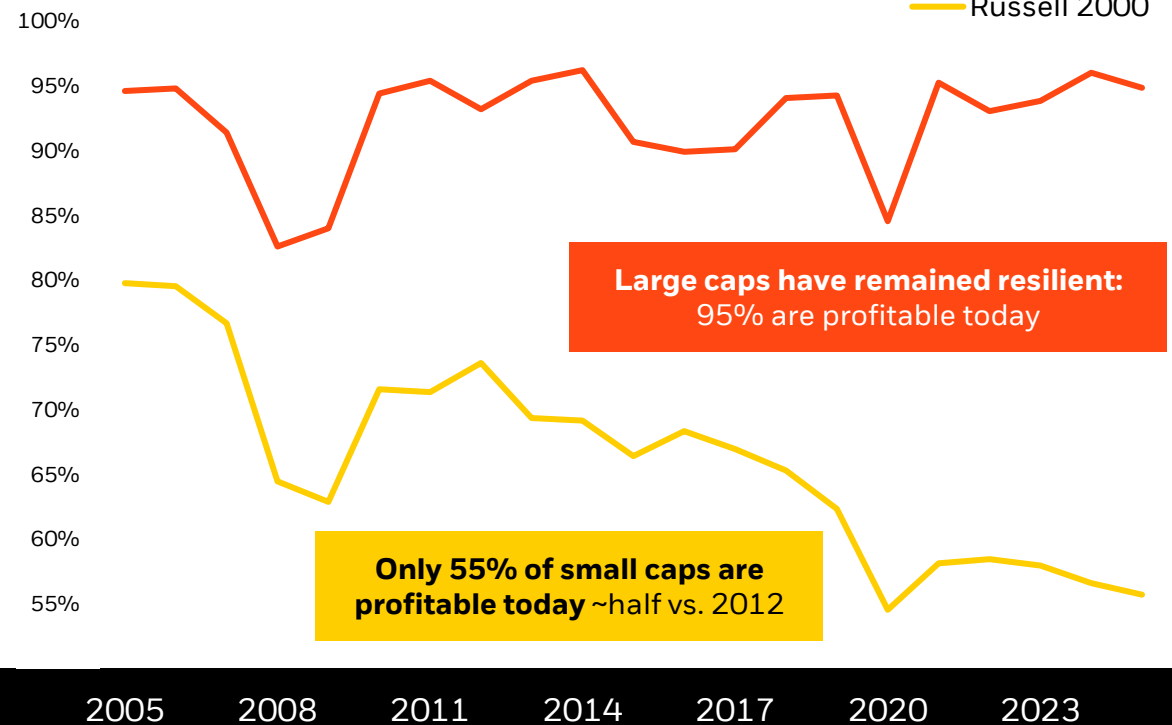
Still-high rates can hurt small caps

Debt by maturity (excluding Financials)¹



Tough environment for small cap profitability

% unprofitable companies, 2005-2025²



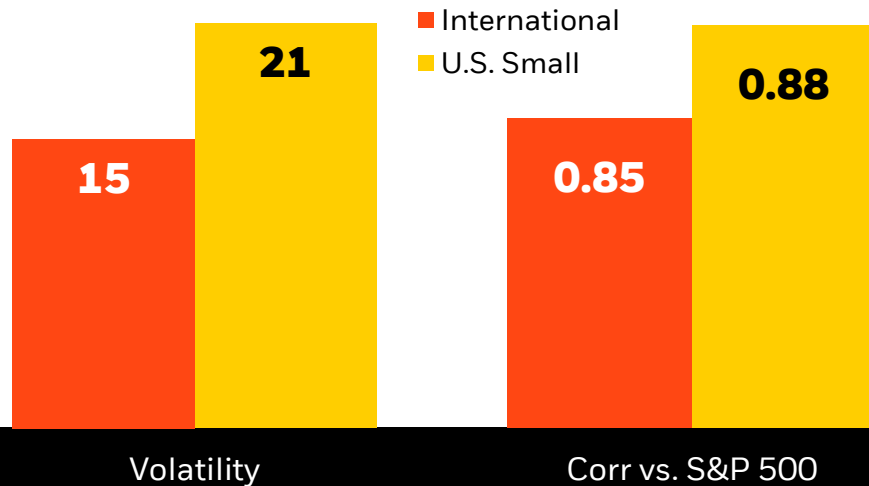
1: Source: Bloomberg, Goldman Sachs Global Investment Research. As of 5/16/2025. 2: Source: Bloomberg, unprofitable as represented by net income, with 2005-2024 as based on FY net income, 2025 as based on TTM. As of 5/20/2025.

Look abroad to diversify Mag-7 stocks

Although many have looked to smaller cap stocks to diversify their megacap tech exposure, international equities may be able to provide more diversification with lower risk.

Int'l has delivered lower vol & correlation to U.S.

Volatility and correlation vs. S&P 500¹



Less technology weight may make international a better diversifier

Index weightings, 5/2005 – 5/2025

	20 years of technology sector index weightings	
	2005	2025
U.S. Large Cap (S&P 500)	14.4	34.4
International Stocks	6.1	9.8
Small Cap stocks	17.1	16.1

Did you know?

International stocks outperformed small caps by 22% in the first half of 2025.²

1: Source: Morningstar, as of 3/31/2025. Volatility and correlation represented by 10-year lookback (3/31/2015 – 3/31/2025). U.S. Small as represented by Russell 2000 Index, International as represented by MSCI ACWI Excluding United States Index. 2: Source: Bloomberg, as of June 20, 2025. International stocks represented by MSCI EAFE Index, U.S. small caps represented by Russell 2000 Index. Volatility represented by the degree of variation in a financial asset's price or value over time. Correlation refers to the statistical relationship between the price movements of two or more assets, securities, or financial variables

International tends to outperform in weakening US dollar regimes

U.S. dollar cycles can last many years and be a big factor in international stock performance relative to the U.S.

U.S. dollar cycles (U.S. dollar spot price)

11/1/1970 – 6/30/2025



U.S. dollar cycles and International stock performance vs U.S. stocks

11/1/1970 – 6/30/2025, cumulative returns

Date	Length (months)	International stock	U.S. stock
Weak U.S. dollar			
1/70-10/78	105	136%	55%
2/85-8/92	90	268%	196%
1/02-3/08	74	115%	31%
YTD 2025	?	20%	6%
Strong U.S. dollar			
10/78-2/85	76	58%	169%
8/92-1/02	113	57%	229%
3/08-12/24	195	22%	264%

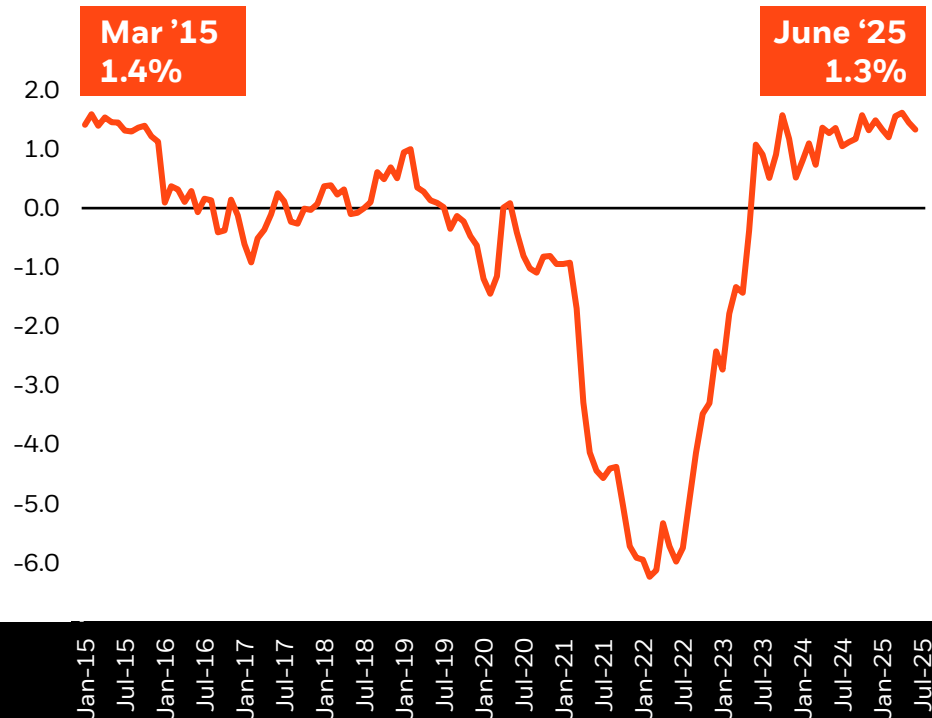
Source: BlackRock, Morningstar and Bloomberg as of 6/30/25. U.S. dollar represented by the U.S. dollar spot index, U.S. Stocks are represented by the S&P 500 TR Index, International Stocks are represented by the MSCI EAFE NR Index. Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

Real yield highs could boost bonds

Inflation-adjusted yields for bonds are at their highest levels since 2015, which could lead to better bond performance.

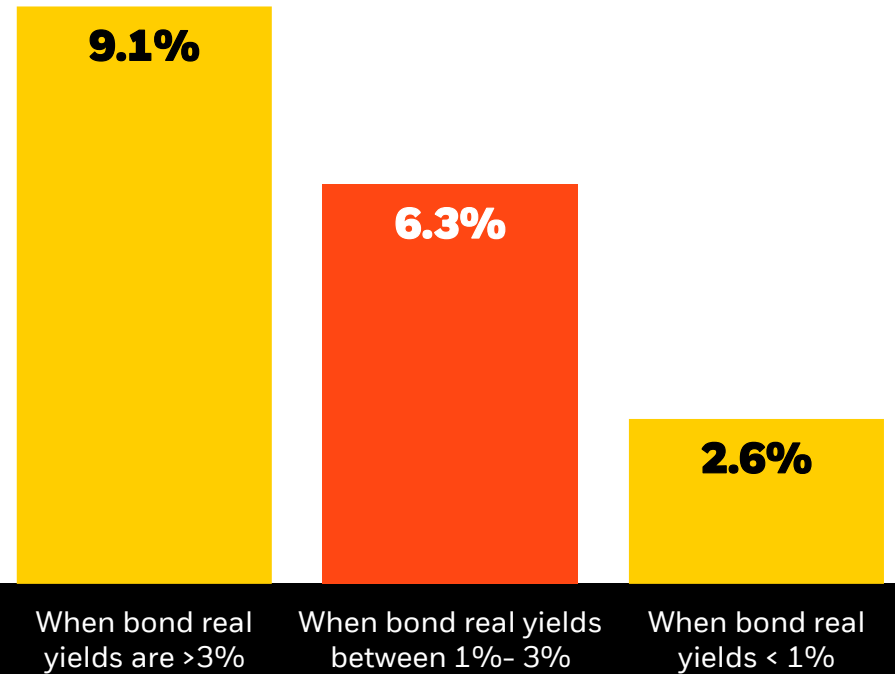
Real yields for the 5-year U.S. Treasury bond

5-year Treasury yield minus inflation rates, 1/1/2015 - 6/30/2025



Bonds have historically performed significantly better when real yields are higher

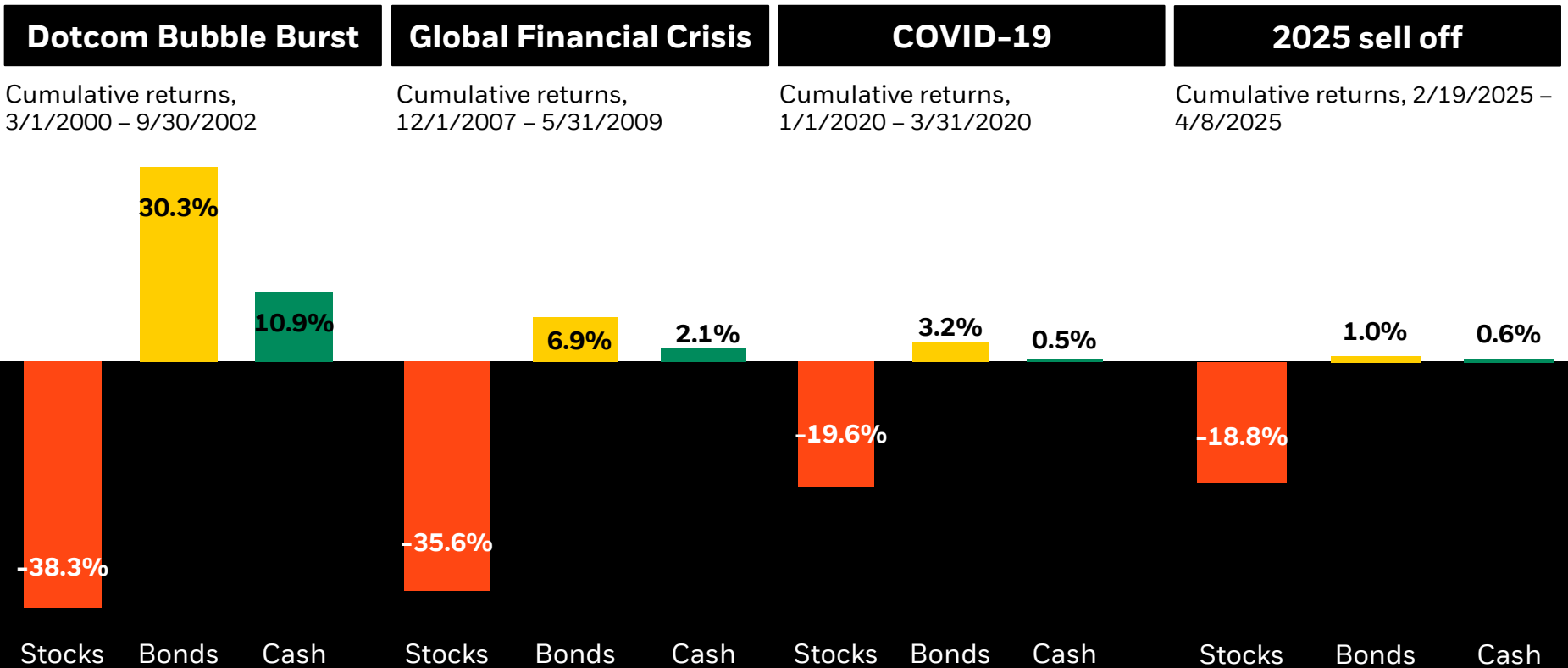
Average annual returns over following 12 months, since 1986



Source : Morningstar and the St Louis Federal Reserve as of 6/30/25, bonds represented by the Bloomberg U.S. Agg Bond Intermediate TR Index. Inflation represented by the annual consumer price index. Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

Core bonds can add resiliency during stressed markets

Don't count out core bonds: while they may have had a tough few years, they have historically done a good job of providing resiliency when it really counts.



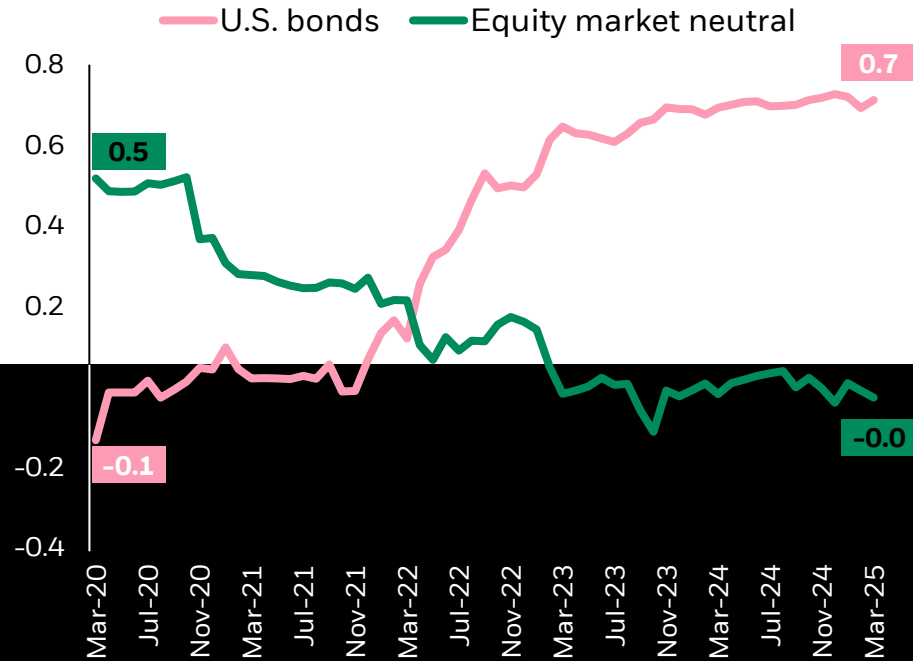
Source: Morningstar as of 12/31/24. "Stocks" are represented by the S&P 500 TR Index, "Bonds" by the Bloomberg US Agg Bond TR Index, and "Cash" by the Bloomberg US Treasury Bill 1-3M TR Index. Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

Alternatives prove their worth

Correlations to stocks are historically low, and returns are their highest in the last 5 years (opposite for bonds).

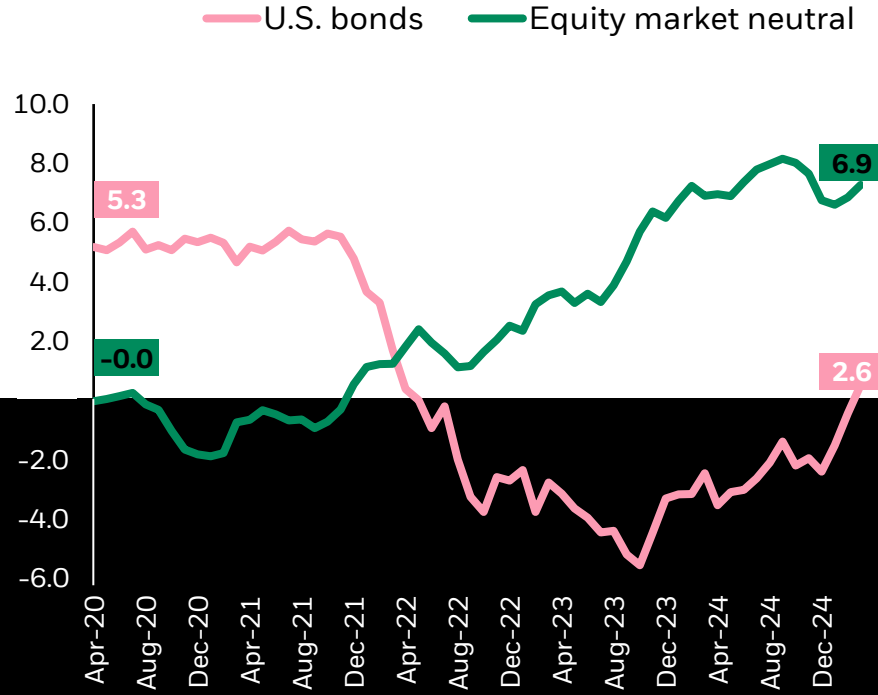
Alternatives' correlations to stocks at their lowest in five years, while stock and bonds are at their highs

3-year rolling correlation with stocks



Alternatives' returns are at their highest in five years, while bonds are at their lowest

3-year rolling average annual returns (%)



Source: Morningstar as of 6/30/25. Right side represented by the 3-year rolling average return of U.S. bond and alternative indexes from April 2020 to March 2025. Left side represents 3-year rolling correlation of U.S. bonds and alternatives to the S&P 500 Index. Asset class representation is as follows: U.S. bonds represented by the Bloomberg U.S. Agg Bond TR Index, Equity Market Neutral by the Morningstar Equity Market Neutral category average. Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

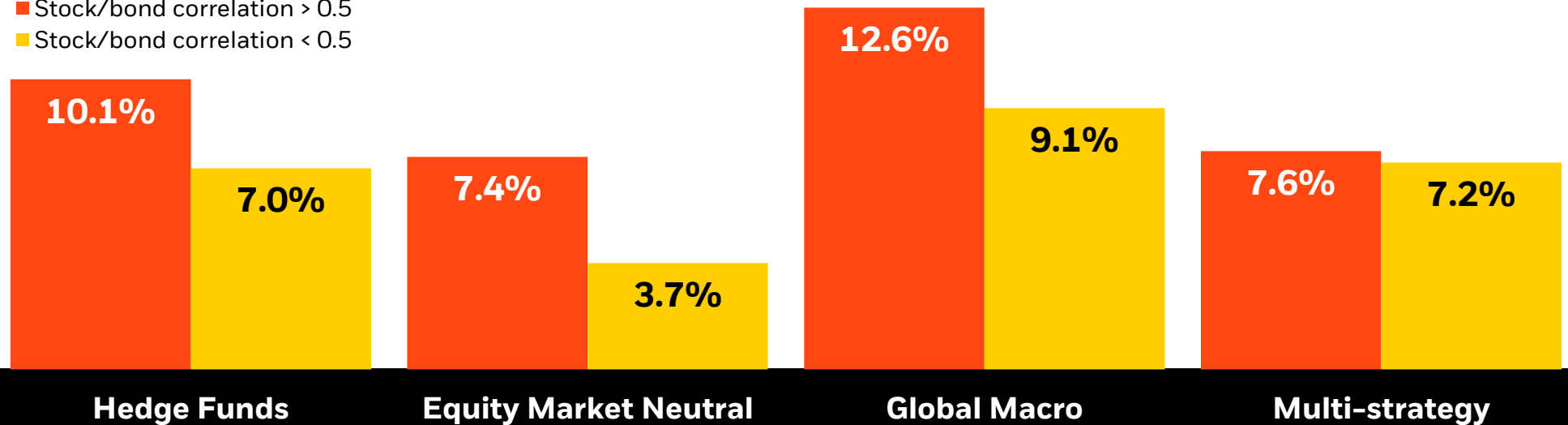
Alts have shined amid high correlations

3-year correlations between stocks and bonds are at their record high of 0.72. Alternatives can help diversify portfolios and amplify returns.

Alternative performance during high and low correlated markets

3-year average performance during different stock/bond correlation levels

- Stock/bond correlation > 0.5
- Stock/bond correlation < 0.5



Why have alternatives done better when stock/bond correlations are higher?



Cash returns tend to be higher when correlations are higher. Cash returned 3% when correlation > 0.5 and only 1.9% when correlations < 0.5. Alternatives strategies often use cash to execute their strategies.

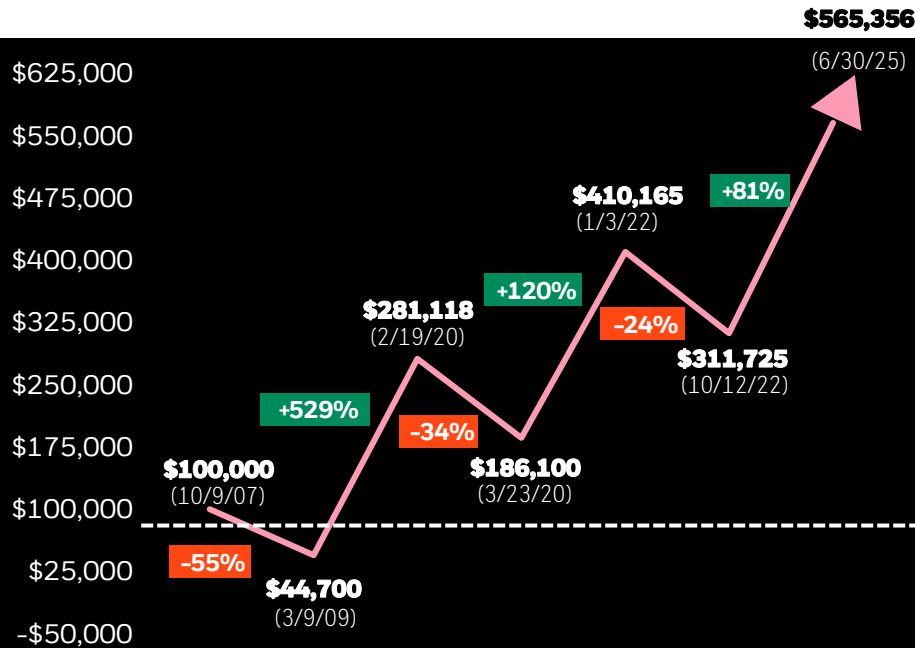
Source: Morningstar as of 5/31/25. U.S. stocks represented by the S&P 500 Index, an unmanaged index that is generally considered representative of the U.S. stock market. U.S. bonds represented by the Bloomberg U.S. Agg Bond Intermediate TR Index. Alternative performance goes back to index inception. Hedge Funds are represented by the Credit Suisse Hedge Fund Index (from 10/31/2009 to 5/31/2025), Equity Market Neutral by the Credit Suisse Equity Market Neutral Index (from 9/28/2007 to 5/31/2025), Global Macro by the Credit Suisse Global Macro Index (from 1/1/1994 to 5/31/2025), and Multi-Strategy by the Credit Suisse Multi Strategy Index (from 3/30/2012 to 5/31/2025). Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

Benefits of diversification: Win more by losing less

Diversifying to minimize losses, even at the expense of some upside, can have a greater long-term impact on portfolio returns than fully participating in both bull and bear markets.

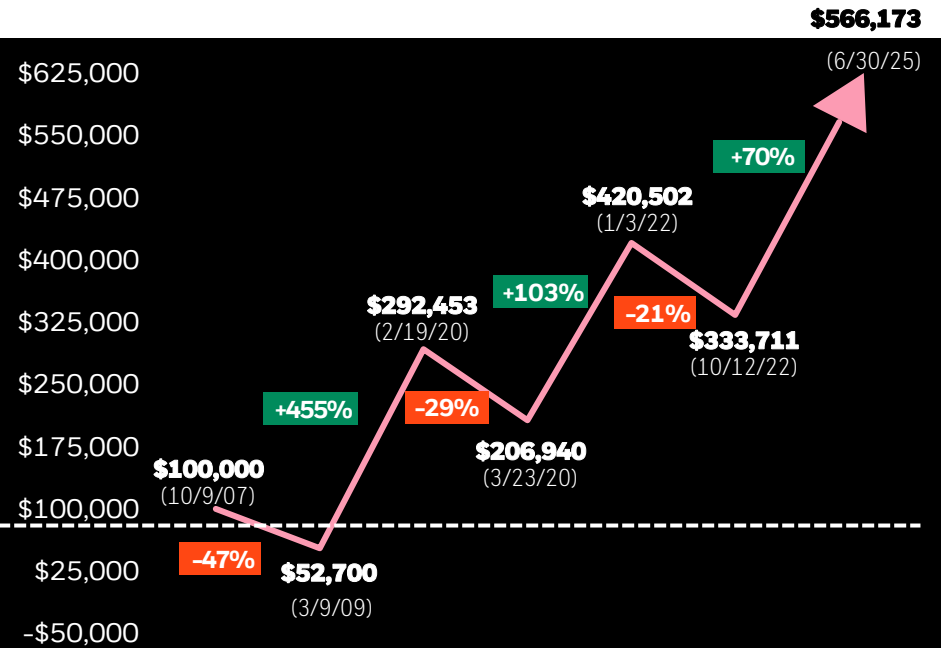
All the up and all the down

100% capture of both up and down markets of S&P 500 Index



Part of the up and down gets you all the up with less of the down

86% capture of up and down markets of S&P 500 Index



Source: Morningstar as of 6/30/24. *Hypothetical investment or portfolio that captured 86% of each bull and bear market return of the S&P 500 when benchmarked to that index. Returns shown are based on the S&P 500 index only. **Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.**

Bringing it all together

1

Don't lose out over the long run

Remaining invested in the market and considering international

2

U.S. growth to slow but remain positive

Preference for higher yielding, medium-term bonds

3

Consider new sources of return

Embracing alternatives

Index definitions

- The **S&P 500 TR Index** is an unmanaged index that is generally considered representative of the U.S. stock market on a total return basis. Included are the largest 500 stocks by market cap.
- The **IA SBBI IT US Large Stock TR Index** is an unmanaged index that is generally considered representative of the historical U.S. stock market on a price return basis prior to the inception of the **S&P 500 TR Index** in 1970.
- The **Russell 2000 TR Index** is an unmanaged index that is generally considered representative of the 2,000 largest stocks in the entire U.S. stock market on a total return basis.
- The **MSCI EAFE NR Index** is an unmanaged index that is generally considered representative of International (Ex-U.S. & Ex-Canada) Developed Market stocks on a net return basis.
- The **Bloomberg U.S. Agg Bond TR Index** is an unmanaged index that is generally considered representative of the U.S. bond market on a total return basis.
- The **IA SBBI IT Govt TR Index** is an unmanaged index that is generally considered representative of the historical U.S. bond market on a total return basis prior to the inception of the **Bloomberg U.S. Agg Bond TR Index** in 1989.
- The **Bloomberg U.S. Treasury Bill 1-3M TR Index** is an unmanaged index that is generally considered representative of the 1-3M U.S. Treasury market on a total return basis.
- The **S&P 500 Sec/Commun Services TR Index** is an unmanaged index that is generally considered representative of the Communication Services Sector of the S&P 500 Index as defined by GICS on a total return basis.
- The **S&P 500 Sec/Information Technology TR Index** is an unmanaged index that is generally considered representative of the Information Technology Sector of the S&P 500 Index as defined by GICS on a total return basis.
- The **S&P 500 Sec/Cons Disc TR Index** is an unmanaged index that is generally considered representative of the Consumer Discretionary Sector of the S&P 500 Index as defined by GICS on a total return basis.
- The **S&P 500 Sec/Financials TR Index** is an unmanaged index that is generally considered representative of the Financials Sector of the S&P 500 Index as defined by GICS on a total return basis.
- The **S&P 500 Sec/Utilities TR Index** is an unmanaged index that is generally considered representative of the Utilities Sector of the S&P 500 Index as defined by GICS on a total return basis.
- **US Fund Intermediate Core Bond** is an average of funds within the US Fund Intermediate Core Bond category as defined by Morningstar.
- **US Fund Nontraditional Bond** is an average of funds within the US Fund Nontraditional Bond category as defined by Morningstar.
- **US Fund Multisector Bond** is an average of funds within the US Fund Multisector Bond category as defined by Morningstar.
- The **Bloomberg U.S. Treasury Floating Rate TR Index** is an unmanaged index that is generally considered representative of the U.S. floating-rate treasury market on a total return basis.
- The **S&P Municipal Bond TR Index** is an unmanaged index that is generally considered representative of the U.S. municipal bond market on a total return basis.
- The **ICE BofA U.S. Corporate TR Index** is an unmanaged index that is generally considered representative of the U.S. corporate bond market on a total return basis.
- The **ICE BofA U.S. High Yield TR Index** is an unmanaged index that is generally considered representative of the U.S. high yield bond market on a total return basis.
- The **DJ U.S. Select Dividend TR Index** is an unmanaged index that is generally considered representative of U.S. dividend-yielding stocks on a total return basis.
- The **DJ EPAC Select Dividend TR Index** is an unmanaged index that is generally considered representative of non-U.S. dividend-yielding stocks on a total return basis.
- The **Bloomberg High Yield Corporate TR Index** is an unmanaged index that is generally considered representative of the U.S. high-yield corporate bond market on a total return basis.
- The **IA SBBI US 30 Day TBill TR Index** is an unmanaged index that is generally considered representative of the historical U.S. 30-Day Treasury Bill market on a total return basis.
- The **Credit Suisse Global Macro USD Index** is an unmanaged index that is generally considered representative of U.S. Dollar-denominated Global Macro investment strategies on a total return basis.
- The **Credit Suisse Multi-Strategy USD Index** is an unmanaged index that is generally considered representative of U.S. Dollar-denominated Multi-Strategy investment strategies on a total return basis.
- The **Credit Suisse Equity Market Neutral USD Index** is an unmanaged index that is generally considered representative of U.S. Dollar-denominated Equity Market Neutral investment strategies on a total return basis.
- The **S&P 500 Growth TR Index** is an unmanaged index that is generally considered representative of the U.S. stocks in the S&P 500 index that have market valuations greater than their earnings, on a total return basis.
- The **MSCI ACWI Ex USA NR Index** is an unmanaged index that is generally considered representative of all non-U.S. stocks on a net return basis.
- **US Fund Macro Trading** is an average of funds within the US Fund Macro Trading category as defined by Morningstar.
- **US Fund Multistrategy** is an average of funds within the US Fund Multistrategy category as defined by Morningstar.
- **US Fund Equity Market Neutral** is an average of funds within the US Fund Equity Market Neutral category as defined by Morningstar.

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