MARKET INSIGHTS

Third Quarter 2025

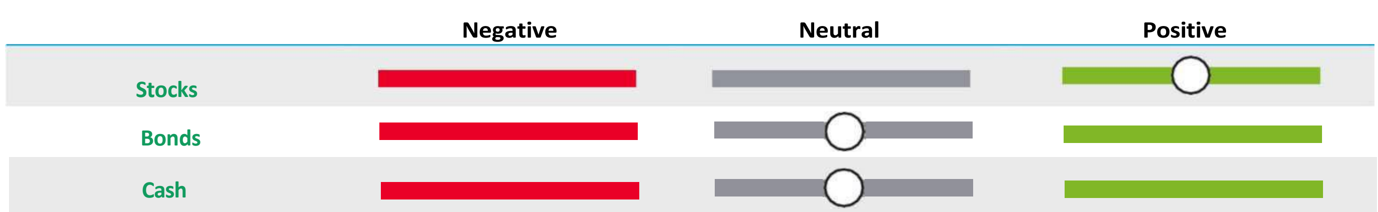
UNITED BANK
Wealth Management

Investors are often caught up in the quandary of perspective. Is my time frame too long or too short? How long will the current factors influencing the financial markets be in effect? If the government enacts certain policies or laws, are they good or bad for the markets or will they eventually be changed? Our perspective on the world around us is heavily influenced by recent events and activities. The "Recency Bias" causes individuals to overemphasize recent events when making decisions even when more dependable historical information is available. We introduce this concept to explain why some investors may quickly change course based on recent information and alter the prevailing path. By severely altering a path, resounding messages may be sent. In fact, this is what has occurred with the equity markets of late. Investors knew the Trump administration would likely achieve only a portion of their tariff objectives. The stock market's waterfall 20% correction sent no message to the administration about the policy itself, but it did suggest that both the time frame, and magnitude of this pursuit was destabilizing. The administration heard the resounding message and quickly altered their stance. A V-shaped recovery typical of event-driven, waterfall sell-offs developed as investors embraced the reversal and moved the markets back to pre-tariff levels. Our observations three months ago led us to state that, **while the current environment is full of heightened uncertainty, we do not think it is permanent.** The financial markets are perhaps one of the most powerful forces influencing politics today.

INVESTMENT TAKEAWAYS

- After setting record highs earlier this year, investors quickly shifted to defensive positions through early April. Concern grew over several emerging risks, particularly the Trump administration's implementation of sweeping global tariffs. While new tariffs were anticipated, their historically high levels imposed broadly came as a surprise to allied trading partners. Consequently, domestic stocks dropped approximately 10% from their earlier peaks as investors reduced risk and temporarily reallocated capital to bonds and gold.
- With a brief reprieve in market volatility lasting a few weeks, fresh turmoil erupted once tariffs were announced on April 2—dubbed "Liberation Day." Over the ensuing four trading days, stocks declined an additional 12% from their closing values, with intra-day drops reaching as much as 15%. The U.S. equity market sent a clear message. By April 9, the fifth trading day after the tariffs were announced, the administration delayed the implementation and offered to enter negotiations. With that one announcement, stocks rallied and continued their climb for nearly three full months.
- At the start of the year U.S. economic conditions had been broadly positive and appeared set to improve under the presumed Republican agenda. Forecasts predicted stronger growth and renewed inflation concerns; however, the tariff controversy soon rendered such projections uncertain. The range of possible outcomes became staggering—and largely unfavorable. Investors welcomed the abrupt tariff pause and reversal, which significantly reduced the downside risk. As we move into Q3, inflation remains subdued, employment is stable, consumer spending is lethargic, and housing starts and building permits are weaker than in previous years. The Fed is likely to cut rates at least twice by year-end. Meanwhile, corporate earnings are growing, and the One Big Beautiful Bill should prove a net positive for investors.
- As we mentioned, the first half of 2025 was volatile, but we expect most market gains to come in H2. Despite the S&P 500's solid 5.5% gain through June 30, we anticipate further upside by year-end. International equities have outperformed—EAFE (EFA) is up about 20% year-to-date. While we expect international equities to continue performing well, the relative return gap versus U.S. equities should narrow.
- We expect short-term rates will decline in Q3 following the Fed's activity. 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 maintaining risk-managed portfolios, as evidenced by their resilience during April's market volatility. United Wealth and Investment Management supports both value and growth companies, allocating equally to each style. Most equity assets remain tactically tilted toward U.S. large-cap companies based on current market expectations.

BROAD ASSET CLASS VIEWS



EQUITY ASSET CLASSES

The power of the pack. Strong negative investor reaction elicits administration reversal.

Investor sentiment shifted and heightened concerns grew when the administration's tariff policy emerged shortly after taking office and equity markets declined nearly 10% over the following month. The situation intensified on April 2, when the administration announced increased tariffs causing an immediate 10% drop in the markets. Recognizing investor backlash, the administration delayed the tariff implementation and announced a 90-day window for negotiation. This move was well received by investors, who reversed course and by the end of June stocks were again reaching all-time highs across several domestic indexes.

The current and prior Trump administrations have a history of negotiating from extreme positions but ultimately reaching more measured consensus. We anticipate reduced vitriol and animosity in the second half of the year with the administration unlikely to act as a catalyst for an equity market correction. Greater economic certainty is expected as earnings forecasts become more reliable. After substantial negative revisions, first-quarter earnings exceeded expectations, and we anticipate similar outcomes for the second quarter. Earnings may still face challenges due to ongoing tariff uncertainties. However, if broad tariffs are resolved or limited, as we anticipate, full-year 2025 earnings should experience high single-digit growth. The longer the duration of uncertainty, the less confident companies will be in producing quality earnings. Nonetheless, we foresee better outcomes for the remainder of the year.

		View	Relative Trend	Rationale
Market Capitalization	Large-Caps			The first half of the year has been volatile, demonstrating both periods of growth and contraction. All-time highs in the S&P 500 were reached in January and February. However, investor sentiment shifted as the new administration announced several initiatives perceived as counterproductive in the near term. Institutional investors continued to favor large-cap stocks despite prevailing uncertainties. Growth companies, particularly mega-cap IT and communications firms, road out most of the sell-off in March and April and subsequently attracted the majority of new investments during the recent rally. Valuations have once again become stretched. With anticipated rate cuts, a favorable tax bill, and tariff controversies potentially behind us, record earnings are likely ahead. We foresee a more stable investment environment in the second half of the year.
	Mid-Caps			Mid- and small-cap stocks have not performed as well as their large-cap counterparts. While the S&P 500 has generated first-half returns of about 5%, mid-caps are breakeven, and small-caps have lost about 5%. Once again, the primary driver of first-half risk was associated with tariff impacts. Mid-caps withstood potential supply chain disruptions better than small-caps and have staged a strong comeback. We maintain our baseline weight and believe mid-caps will rise once policy clarity is established.
	Small-Caps			The small-cap sector was disproportionately impacted by rising interest rates over the past two years as the Federal Reserve sought to temper inflation. While small-cap companies typically perform well during economic expansions, they have not met expectations in recent years, despite the U.S. experiencing quality growth. The "America First" agenda espoused by the administration should serve as a tailwind for small-cap stocks. We believe it is only a matter of time and patience before this segment experiences significant gains.
Style	Growth			Large-cap growth companies led the way during 2023 and 2024 with mega-cap growth companies driving much of the overall performance. But during the first half correction, many of these companies felt the sting of extended valuations and a severe reversion to the mean. 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. However, valuation still matters. In less certain times, investors benefit from a diverse portfolio. As expressed in the last issue of our Insight; a return to growth-oriented stocks will occur once the brief corrective phase is completed. Growth stocks are up 18% in 2Q.
	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. Despite strong interest in value stocks during the market correction, investors have favored higher alpha opportunities in the growth sector with compelling valuations and persistent risks. We anticipate further gains in 2025.
Region	United States			It is our continued position that better relative long-term performance will be generated from the U.S. stock market than from international markets. However, the Trump administration is making few friends overseas and all investors, no matter where domiciled, are reluctant to embrace a purely nationalistic agenda. Valuations in the U.S. are still only reasonable in the large-cap segment given the recent rally. And valuations remain relatively attractive internationally despite stocks growing at close to 20% YTD. We anticipate further quality gains.
	Developed International			Initially, Trump 2.0 appeared to appeal to many investors. But as Presidential directives and executive orders flooded nearly every aspect of the global political and economic landscape, investors grew skeptical of the U.S direction and a correction ensued. Though the U.S market has stormed back, developed country performance never wavered and has far exceeded that of the U.S. in H1 by over 1300 basis points. Valuation still favors international stocks. International alliances (ex-U.S.) have become stronger and the U.S dollar's value has fallen over 10%, setting a three-year low. Governments and companies outside of the U.S. are competing effectively and investors benefit from holding foreign assets.
	Emerging Markets			Global investors are analyzing emerging markets in a different manner than they did during the Biden administration. Current investors are less concerned with foreign government's political or moral belief systems. Though the Chinese government has been provocative, investors are now heavily focused on bottom line delivery. With tariff issues resolved, EM looks healthy.

FIXED INCOME

Short and long rates reflect worry about inflation, while the "belly" casts worry about growth.

Despite a volatile economic backdrop, U.S. Treasury yields remain little changed from the start of the year. The main shift occurred in the "belly" of the curve where 1-year rates, 2-year and 10-year rates declined about 20 bps, 50 bps, 30 bps respectively, while the 30-year has been range bound around 4.80%.

Taxable fixed income returns have been positive, although municipal bond returns have lagged principally due to the potential reduction in federal government services and commensurate increase in services by the states. The start of the second quarter brought volatile financial markets. President Trump's tariff announcement on April 2 quickly delivered dramatic uncertainty. Investors quickly derisked by selling equities and buying fixed income instruments as a defensive measure. The flood of Treasury securities purchases lowered yields abruptly. By mid-April, the Trump administration reversed course, Treasuries sold off, and yields rose nearly 50 basis point in only a few days. Yields have remained relatively constant since April.

The Fed has held steady in 2025. They have not changed their position or their policies. To date, they support this posture as economic conditions in the U.S. remain healthy and inflationary pressures are more acute due to potentially higher tariffs. Although inflation is at stable levels and is nearing its target, the Fed is wary that a new period of higher inflation may be in store. The Fed's June minutes indicated that two 25 basis point cuts are likely in the second half of 2025 and perhaps one more in Q1 2026.

United maintains a neutral duration for managed bond portfolios. We think the new and revised tariff policies are unlikely to materially add to actual downstream inflation in a substantial way. We continue to recommend a blend of high-quality intermediate-term bonds with appropriate exposure to shorter maturities. Quality corporate and municipal bonds are still strong across credit tiers and issuer sizes. High-yield bonds issued from stable, growing companies offer attractive opportunities and support our allocation to a modest high-yield position in both corporate and municipal markets. For tax-sensitive accounts, we favor municipal bonds. States should not be dramatically disadvantaged by absorbing federal government reductions in services.

		Low Medium High	Rationale
Positioning	Credit Quality		To protect asset values, United prefers fixed-income portfolios dominated by high-quality bonds. Credit spreads have returned to a normalized state.
		Short Int. Long	
	Duration		United believes short-term rates will continue to decline and will mirror actions taken by the Fed. Longer-term rates will remain close to present levels.

COMMODITIES

Sluggish Economic Growth Amid Elevated Geopolitical Risks

Global oil prices have lagged for much of this year. West Texas Intermediate (WTI) is down about 12% year-to-date, weighed down by oversupply, easing geopolitical tensions, and softer demand. The recent conflict between Israel and Iran briefly increased oil prices but fortunately this was short lived. Precious metals have surged amid elevated global risks and instability. Gold was up around 26% year-to-date as investors allocated to safe haven assets as a result of geopolitical tensions, central bank buying, and a weaker dollar. Equities and metals rarely move together for long. Eventually, correlations decline, and one outperforms the other in total return. Other commodities have remained stable, with notable exceptions in industrial and agricultural sectors. Broader commodity benchmarks are up 5% YTD as investors explore alternative asset opportunities.

CONCLUSION

The events of the first half of the year were highly unique. President Trump clearly campaigned on rapid change and a departure from the status quo. That campaign promise was fulfilled quickly and with minimal consultation with some key members of the Republican party. The result left many constituents, politicians, and investors unsure how to respond. With negative market reaction to new policy announcements, the President softened his positions and extended tariff deadlines. This new pattern of the President's more tempered decision making, followed by the equity markets assessment and reaction, has been the pattern followed by the administration. Policy changes have recently been less severe, less controversial, and susceptible to revision. We see this pattern being used for the remainder of the year. A new environment for the second half of the year is emerging, where the Fed should reduce short-term rates, tariff agreements will continue to be announced, and corporate earnings results should be stronger. Investors will benefit from the One Big Beautiful Bill tax provisions, and we see less market volatility in the second half.

Important Disclosures

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Economic forecasts set forth may not develop as predicted.

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