

THE CAPITAL MARKETS

New Covenant Trust Company

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MARKET UPDATE AT A GLANCE

The Dow Jones Industrial Average (DJIA) finished June at 44,095, up +4.32% for the month and up +3.64% so far in 2025. The S&P 500 closed June at 6,205, up +4.96% for the month and up +5.50% year-to-date. The NASDAQ Composite gained +6.57% in June, up +5.48% for the year. Small-company stocks as measured by the Russell 2000 ended June up +5.26% for the month, down -2.47% so far for the year. Communication services (+10.87%) is the best-performing sector year-to-date.

MID-YEAR 2025 REVIEW: EXPECT THE UNEXPECTED

In some ways, a whip-saw market with historic volatility was not a far-fetched outcome for the first half of 2025.

Following the 2024 election, and with a January inauguration looming, many strategists were in fact calling for elevated volatility and uncertainty heading into 2025.

The way the first 100 days of the new administration went, however, and the apparent appetite for rapid policy pivots and uncertainty took many by surprise.

This eventually culminated in the late afternoon press conference on April 2, where new tariffs were declared on most of the world, which were much higher than what markets were expecting. These were then put on hold a week later for a 90-day period, a deadline which has now been extended three times.

“Expect the Unexpected” is a catchphrase on a popular reality TV show that millions of Americans watch each summer. It may offer a timely reminder for investors that one of the most expected things in 2025 was that we may experience unexpected surprises.

From here, investors have some signals for what the market drivers may be in the second half of 2025, and these can help inform how to best position for what may be ahead.

In our view, here are some of the key factors for the rest of this year.

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“Inflation picked up in June, a potential sign that companies are starting to pass tariff costs on to consumers.”

The Wall Street Journal, Konrad Putzier, July 15, 2025

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Inflation and the Fed

One of the most direct impacts of higher tariffs across the economy is thought to be an increase in inflation. Inflation, however, has remained subdued through 2025.

An ongoing debate among those convinced that tariff inflation will be meaningful and begin to appear in the data in the coming months, as stockpiles of inventory from early in the year dwindle, and those who view any inflation from tariffs as mild and transitory is likely to be settled by the end of the year.

Markets are currently pricing in additional rate cuts beginning in September with around three to four rate cuts priced in for the next 12 months.

The President, however, is publicly calling for significant rate cuts immediately — potentially complicating the issue for a Fed, whose independence and appearance thereof remains important for global markets.

Signs that inflation is picking up in the coming months, or any meaningful doubt on the Fed's ability to operate independently, are downside risks to markets in our view. Better-than-expected inflation news, or greater than expected rate cuts, will be bullish for stocks.

Trade Policy and Tariffs

While it's tempting to forget about tariffs, since the stock market appears to have done so in recent months, it may be helpful for investors to remember that the current tariff levels in the United States, even after the pause on the round of reciprocal tariffs, are as high as they have been since the 1920s.

While employment has remained healthy, GDP growth has appeared resilient, and inflation has remained in check — major potential changes to tariff levels and trade policy are still on the table with ongoing negotiations still unresolved.

Major escalations in trade disputes could be the catalyst for a return to market volatility. Even less flashy risks such as a delayed inflationary response or a gradual economic slowdown due to higher import costs are still potential outcomes as the data continues to build.

Artificial Intelligence

2025 has seen the transition from AI intrigue to AI adoption. Not just in our personal lives, but also for many businesses. The potential for improved efficiencies across industries is just beginning to be fully grasped.

Should AI spark the kind of productivity boom in the economy seen from other technological advances such as electricity or the internet, then the economy may be able to shrug off issues such as growing budget deficits and a declining workforce.

If AI fails to live up to the hype, these problems may become exacerbated and provide a meaningful, structural headwind for markets, which could persist for some time.

Strategies to Navigate Volatility

Investors should expect the unexpected for the rest of 2025, and perhaps for some time to come. With the stock market at all-time highs and valuations stretched, we view the risk as tilted to the downside from here.

When faced with uncertainty, broad diversification, a disciplined and documented plan, and a healthy cash reserve are evergreen strategies to prepare for potential turbulence. We consider these tools as important as ever during this time.

As always, New Covenant Trust Company is available to answer questions during this period of uncertainty. Don't hesitate to contact us at 800-858-6127, Option 6.

“The small declines seem even more surprising given the fact that the S&P 500 trades at 22.4 times 12-month forward earnings, its peak valuation over the past three years. With earnings season starting, any disappointments due to tariffs or other factors could send the market lower.”

*Barron's The Trader,
Jacob Soneshine,
July 11, 2025*



Market Metrics

Index or Metric	Close as of 5/31/2025	Close as of 6/30/2025	Change Previous Month End	2025 YTD % Change
Dow Jones Industrial Average	42,270.07	44,094.77	+1,824.70	3.64%
S&P 500	5,911.69	6,204.95	+293.26	5.5%
NASDAQ Composite	19,113.77	20,369.73	+1,255.96	-5.48%
RUSSELL 2000	2,066.29	2,191.70	+125.41	-2.47%
Fed Funds Rate	4.25% - 4.50%	4.25% - 4.50%	UNCHANGED	
2-Year Treasury	3.89%	3.72%	-0.17%	
10-Year Treasury	4.41%	4.24%	-0.17%	
Crude Oil \$ per Barrel	\$60.79	\$65.11	+\$4.32	-9.22%
Gold \$ per Troy oz.	\$3,315.40	\$3,307.70	-\$ 7.70	25.24%
UK Point in U.S. \$	\$1.3486US=1£	\$1.3704US=1£	\$ WEAKER	9.42%
Euro in U.S. \$	\$1.37495US=1	\$1.1739US=1	\$ WEAKER	13.36%
Canada \$ per U.S. \$	\$1.37495C=\$1.00US	\$1.3645C=\$1.00US	\$ WEAKER	-5.12%
Japan Yen per U.S. \$	144.295¥=\$1.00US	144.445¥=\$1.00US	\$ STRONGER	-8.09%

