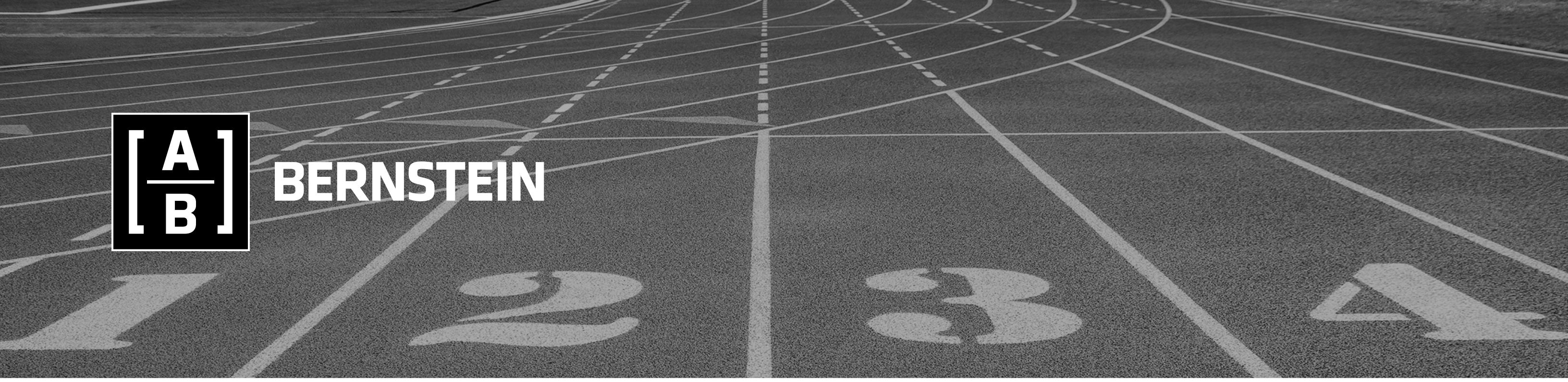


Your Starting Point Matters

All asset classes have performed quite well through the end of June. But a simple six-month end-to-end recap obscures the volatility we've faced along the way. At several points, those six months felt like six years.

In the pages ahead, I won't rehash each turn of events—you've likely seen the major news stories. Instead, I'll explore the market impact of these headline-grabbing moments. But before I do, let's consider just how revealing this period has been for investors.

We often talk about investing for the long term and looking through the noise. In truth, we're usually thinking in terms of six years (or 60, if you read the recent *WSJ* article), not six months. But the first half of this year has highlighted the importance of sticking to your plan and not being oversensitive with portfolio positioning. There have been many times during these tumultuous months when investors had a chance to either hurt or help themselves with their actions. Our goal is to actively communicate our views in times of stress, keep reactive decision-making and trading to a minimum, focus on the long term, pick our spots to be nimble as profit opportunities arise, and watch out for potential dangers for our clients.

Volatility Bites

Asset class returns have met our expectations this year, but the path has been far from smooth (*Display 1*).

Leading the way, developed international equities have bucked their recent trend and meaningfully outperformed US markets so far in 2025. In recent years, we've repeatedly fielded the question: "Why invest in anything other than the S&P 500?" or "Why own anything but large-cap tech?" Yet market leadership shifts can be unpredictable, and we aim to ensure our clients benefit from them (without sacrificing too much). Diversification has proven its value over time, even if it takes the occasional hiatus.

And here, too, the round-trip six-month return masks the interim fluctuations. By April 7 (shortly after the initial tariff announcements), developed international stocks were down over 4% year-to-date due to extreme levels of tariff and policy-driven uncertainty. Of course, by that point, US markets were hurting much more—and for the same reasons. As tariffs have been relaxed, US large-cap stocks ultimately managed to deliver a respectable 6% return so far this year, recovering from the lows that had pushed the US market briefly into bear market territory.

You're likely sensing a pattern: again, that "respectable" figure overshadows the underlying volatility in US stocks, which closed April 8 down 15% for the year. From their mid-February peak to early April's intraday lows, they plummeted over 21%. Yet as we close out the second quarter, the broad US market has rebounded to all-time highs. Advice matters. And our advice over this period to stay invested has proven sound.

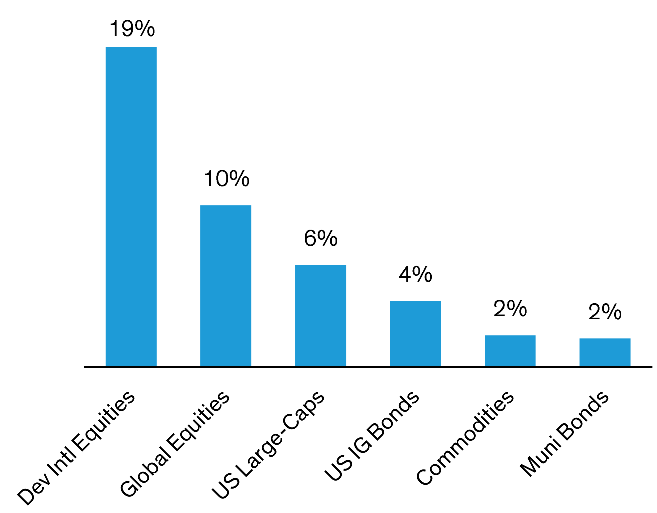
Outside of equities, the markets have been choppy, but thankfully less so. Taxable investment grade bonds are up 4% while municipal bonds rose 2%. Commodities have also returned 2%. All in all—and despite the turbulence so far this year—returns have been strong.

Starting Points Matter

In many ways, uncertainty peaked right as we released my last quarterly letter the morning of Liberation Day. While it has eased somewhat from those levels, it remains the economic watchword

DISPLAY 1: YEAR-TO-DATE RETURNS OF MAJOR ASSET CLASSES

Percent



As of June 30, 2025.
Source: Bloomberg and Bernstein analysis

of the moment. From survey data to news stories to Q1 corporate earnings calls, all we've heard about is uncertainty.

The good news is that we entered this period from a position of strength. Labor markets were solid. The consumer was in good shape… and spending. That also translated to fertile pockets in the housing market. Corporate earnings continued to grow at a healthy clip. And AI is adding value to companies of all stripes.

In our view, the economy now faces a test between resilience and fragility. We came into the year with a robust economy—the envy of other developed countries in the post-pandemic world. That strength has been tested in the first half, but it might be resilient enough to prevent the shocks we've experienced from causing a full-blown downturn.

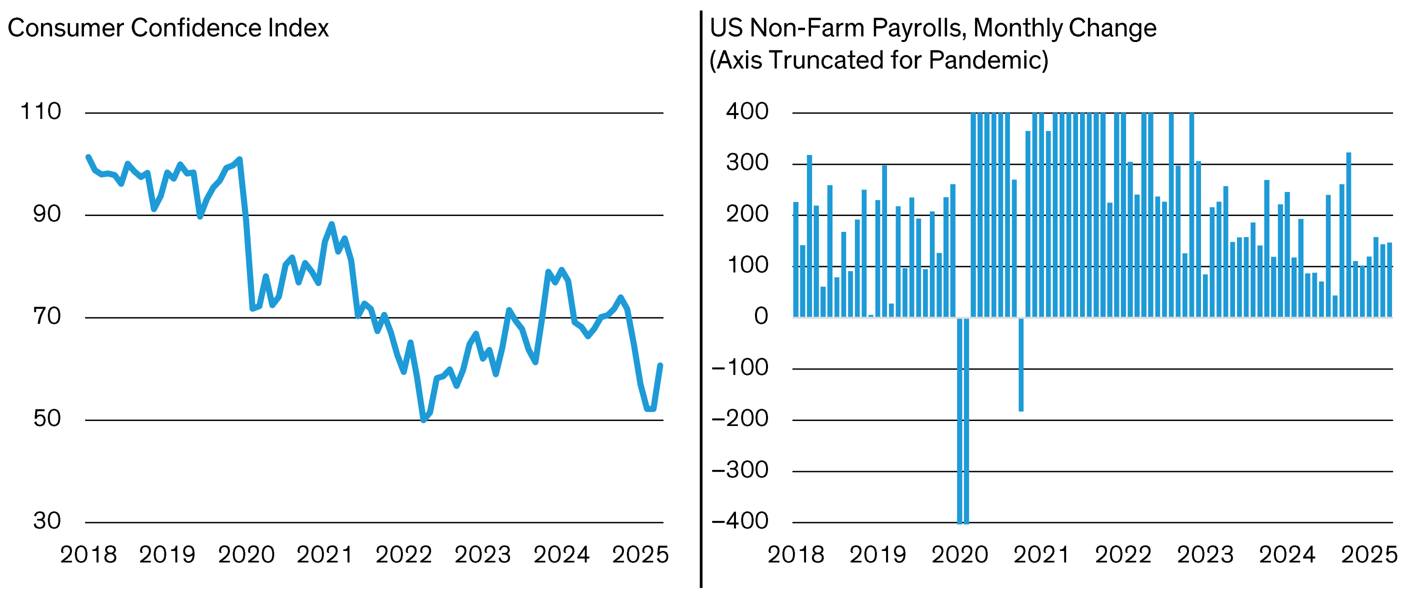
Uncertainty poses the risk that consumers pull back on their spending and/or management teams curtail their hiring and growth plans. That's the mechanism through which economic and market impacts could be transmitted, and it's what we're closely monitoring as we move into the back half of 2025.

Currently, there's a clear split in the economic data: the "hard" data versus what we deem "soft" data. Hard data—actual results, measured in dollars, jobs, hours, etc.—has remained fairly strong. After years of above-trend growth, we've expected some slowdown, and we're seeing it, but there's no sign of an outright downturn or recession. Take monthly jobs added in the economy (arguably the most important datapoint we're focused on right now). We've notched around 600,000 jobs through the end of May this year, compared to 900,000 by the same point last year—underscoring that the starting point matters. Still, this expansion in the labor market remains solid and sustainable and continues to underpin consumer spending. June's job number (announced July 3) gave further evidence of strength in the labor market, with the jobs added seemingly in a stable equilibrium. In the face of concern about slowing economic growth due to tariffs and the emerging risk of job replacement by artificial intelligence, the results have been solid.

On the other hand, "soft" data like surveys and sentiment, look grim. Much of this negativity seems tied to policy-driven uncertainty, political polarization, and momentous geopolitical events. The emerging concern is that soft data, being forward-looking, suggests a gloomy economic outlook for the latter half of the year. When people are anxious, economic results tend to suffer (*Display 2*).

We think that weak soft data is largely offset by relatively strong corporate guidance. In May, our investment teams reviewed companies' outlooks and plans to deal with pervasive uncertainty. For the most part, companies remain fairly optimistic, even if they've widened their range of expectations. Looking ahead, management teams seem to have dusted off their recession playbooks even though they're not ready to use them. Most appear to be waiting for a more dramatic negative economic shock. As long as those playbooks stay on the shelf, economic expansion can persist. But the fragility arises from the mere readiness to act if any further hiccups emerge. A shock that may not have tipped the balance a year ago stands a higher chance of doing so today.

DISPLAY 2: "SOFT" DATA IS WEAK, WHILE "HARD" DATA IS STRONG



As of June 30, 2025.
Source: Bureau of Labor Statistics, University of Michigan, Bloomberg, and Bernstein analysis

Balking at US Assets?

Tariffs and their ensuing reversals have dominated market narratives so far in 2025. In my letter last quarter, I discussed the "Trump put"—the notion that President Trump would reverse himself if the market consequences grew too severe. So far this year, we've learned that it's not the equity markets prompting him to backtrack; it's the bond markets.

Twice this year, Trump has reversed himself. Each time, it came when the bond markets appeared to be on the brink of what we'd call a "mini-crisis," similar to what we described in last year's national debt white paper. The press has dubbed these "Liz Truss moments," in (dis)honor of the British prime minister whose budget proposal tanked UK markets and led to her swift ouster in 2022. In such scenarios, we see the rare confluence of US stocks, US bonds, and the US dollar selling off simultaneously—a pattern more typical of a crisis in emerging-market economies.

Thankfully, due to those major policy reversals, we've dodged a true disaster in the bond markets. Indeed, the US dollar continues to attract international capital, a testament to its resilience. Yet, with these risks now at the forefront of investors' minds, a heightened sense of fragility lingers.

Navigating Elevated Uncertainty

Coming into this year, we primarily advised investors to ensure proper diversification—and that strategy has paid off amid the uncertainty we've faced. In the quarters to come, we hope for calmer markets, but we also rest easy knowing that well-diversified portfolios should perform respectably no matter what comes to pass.

Ultimately, investors aim to own yesterday's laggards before they become tomorrow's leaders. But you can't count on timing. That's what makes diversification so valuable—it keeps you covered across the widest swathe of outcomes. This summer will not be boring, I can promise you that. We will be hard at work so you can enjoy it nonetheless.

As ever, thank you for trusting us with your assets. We'll continue to shepherd them responsibly.

Best regards,

Alex Chaloff
Chief Investment Officer

Alex Chaloff is the Chief Investment Officer and Head of Investment and Wealth Strategies at Bernstein. In this role, he leads a national team of strategists across investments and wealth planning—including asset allocation advice, investment platform oversight, model portfolio construction, new product development, manager research, tax planning and solutions, and estate planning research—while remaining continuously focused on moving our clients forward with strong after-tax risk-adjusted returns. Alex has spent his Bernstein career refining our investment platform, listening to clients, and conducting deep research into investment and wealth planning topics that are critical to achieving clients' goals.

BPWM-765880-2025-07-08