



2025 MIDYEAR OUTLOOK

Hope Is Not a Strategy

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Key Takeaways

- A BUMPY ROAD HIGHER

Can equities push higher in the back half of 2025?

The path of least resistance looks to be higher, as the U.S. economy's resilience is reason for hope.

- A BATTLE BETWEEN HARD AND SOFT DATA

Where should investors look when hard and soft data point in opposite directions?

What people do can be more telling than what they say, and hard data are painting a brighter picture.

- TARIFF TACTICS

How do you position when the end game isn't clear?

Charting the direction on tariffs is nearly impossible, but investors can be aware of where potential volatility triggers lie.

- EQUITY PERFORMANCE FACTORS

First half returns masked significant volatility; where were pockets of outperformance?

Low beta themes and commodities were among the standouts and could continue to offer opportunities.

- PROFITABLE GROWTH AND VALUATION

Should investors favor growth or value?

With high-growth companies consistently delivering superior profit margins, the tradeoff may now be irrelevant.

- HEDGING VOLATILITY

How do you position when everything feels like a source of volatility?

Half or fully covered buywrite strategies are a potential solution.



01



- ▶ *A Bumpy Road Higher*
- A Battle Between Hard and Soft Data*
- Tariff Tactics*
- Equity Performance Factors*
- Profitable Growth and Valuation*
- Hedging Volatility*

A Bumpy Road Higher

THE PATH OF LEAST RESISTANCE entering the second half of the year would be to say risk-on, with equity markets trending higher from here. But we can't forget a timeless piece of strategic wisdom: "Hope is not a strategy."

The phrase has no true owner, having been attributed to figures as varied as U.S. Army General Gordan Sullivan, football coach Vince Lombardi, and even philosopher Friedrich Nietzsche. That it's tied to such a broad range of disciplines speaks to its applicability.

In the context of this midyear outlook, the phrase feels particularly appropriate, with risk assets still buoyant despite a series of shocks that threaten to derail what has been a remarkable period of growth and profitability in the United States. The U.S. economy's resilience is reason for hope, but investors need more than hope because there is no shortage of concerns—tariffs aimed at supporting U.S. business that risk isolationism,

inflationary White House policies at odds with a cautious Fed, tax cuts that increase the deficit, friction between the executive and judiciary branches, and renewed military escalation in the Middle East to name a few.

When uncertainty runs high, one thing that always makes sense: identifying investment strategies that can perform across a variety of macroeconomic and geopolitical scenarios. Ancient Chinese military strategist Sun Tzu's maxim applies: "Every battle is won before it's ever fought." Patience and calm have been valuable tools so far in 2025, but we believe the first half also revealed compelling strategies worth considering that can resonate across investing styles.

A FIRST HALF IN THE TRENCHES

Investing in 2025 has been a lot like the trench warfare of World War I—long periods of waiting and boredom interrupted by short, unnerving periods of uncertainty and fear, yet frontlines that barely move. Major U.S. equity indexes are largely flat, bond yields seesawed to a level below January, and international equities offered modest outperformance for the year.¹ The modest returns seem to understate the battles that markets have been through to hold the line.

Tech darlings charged ahead in early January, but later that month were supplanted by enthusiasm for cyclicals and industrials poised to gain from continued economic expansion and onshoring. This sentiment gave way to the low-beta trade in early April when tariffs threatened to upend the goods sector and flows surged out of the U.S. and into international equities.² The subsequent rebound has once again put market leadership under scrutiny going into the second half.

We continue to believe that the U.S. economy is likely to prove resilient despite the policy and geopolitical onslaughts. Growth may be

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able to outpace expectations following a series of downward revisions based on soft, high-frequency data that may not prove dependable.³ Tariff questions continue to loom, with no one entirely clear what the end game looks like. That uncertainty could help to support continued flows to international, but it's also possible that the flows may be more about going equal weight the rest of the world after a long period of overweight U.S. equities.





02

A Bumpy Road Higher

► *A Battle Between Hard and Soft Data*

Tariff Tactics

Equity Performance Factors

Profitable Growth and Valuation

Hedging Volatility

A Battle Between Hard and Soft Data

SOFT DATA usually refers to sources like forward-looking surveys and high-frequency indicators that are constantly updated, while hard data refers to historical and fundamental reports that are not as readily available.⁴ Currently, both hard and soft data are pointing in opposite directions, telling two different stories about the U.S. economy.

The Federal Reserve is admittedly stuck between as it tries to balance its dual mandates of full employment and price stability. The hard data suggests a focus on price stability and soft data a focus on full employment. The Fed has signaled it will remain patient.

The soft data portends a tough road ahead. Consumer sentiment recently recently reached one of the lowest readings since 1980, casting doubt on the resilience of consumer spending that drives the U.S. economy. Small business optimism has also dipped, and while the drop was not as dramatic as the fall-off in consumer surveys, only 22% of small business owners expect to make a

capital investment in their business over the next six months.⁶

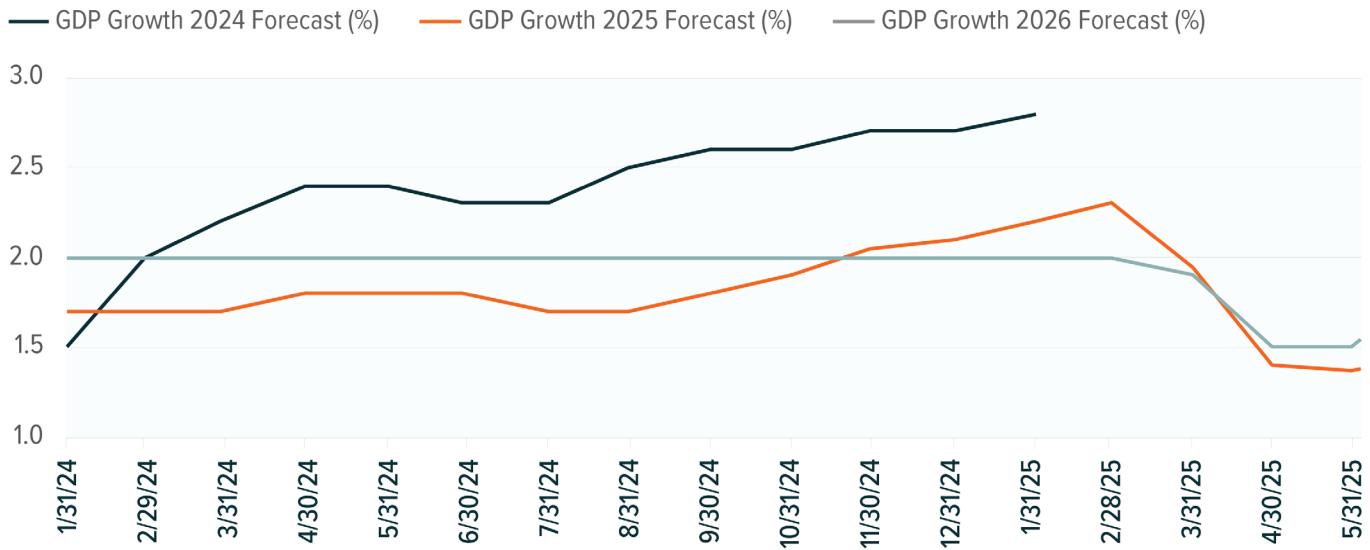
When consumers stop spending and businesses stop investing, the economy is likely to slow. Consensus U.S. GDP growth forecasts reflect that reality, having been revised down after peaking in February. Much of the optimism that was pervasive to start the year has deteriorated in the aftermath tariff uncertainty, fiscal uncertainty around taxes, and geopolitical challenges in key regions.⁷

The irony is that the economy has remained strong. The labor market remains incredibly robust, beating expectations since February of this year. Average monthly job creation from 1999 to 2019 was 89,000.⁸ Post-pandemic, monthly growth since 2021 has averaged 314,000. The labor market was

always going to soften from those atmospheric levels, but it's seemingly not a cause of concern for now.

The headline Q1 GDP numbers indicated that the economy contracted, but the entirety of the slowdown was attributable to an increase in imports as an attempt to front-run forthcoming tariffs. On a year-over-year basis, consumption still grew by 3% and corporate investment was up 8%.⁹ First-quarter earnings were also excellent, with the S&P 500 growing sales by 5% and delivering EPS of 13% with 13% margins.¹⁰ Both sales and earnings growth were distributed across sectors. These historical measures account for the period of greater optimism through March before the economic policy uncertainty, but taken together, they suggest a favorable backdrop.

GDP FORECASTS ARE ACHIEVABLE AFTER REVISION

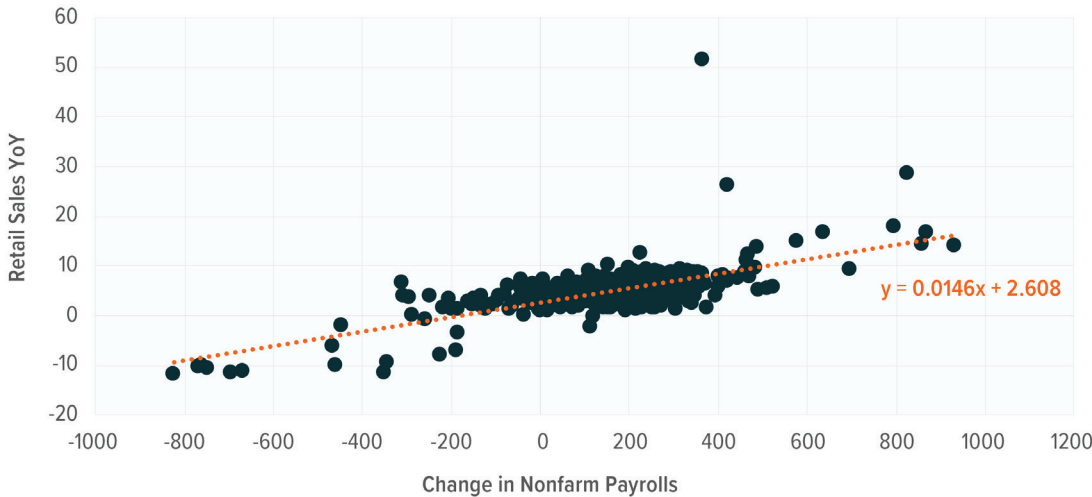


Source: Bloomberg as of June 2, 2025.

A LOWER BAR IS EASIER TO HURDLE

Consumer uncertainty and geopolitical challenges drove GDP forecasts lower, but hard data suggest a favorable backdrop. Consequently, economic growth could surprise to the upside and provide a potential tailwind for equities.

CONSUMER SPENDING CORRELATES WITH NEW JOBS



Source: Bloomberg as of June 2, 2025.

SOFT VS. HARD DATA

Soft data are painting a bleaker picture than hard data, but we think hard data provide more clarity. For instance, consumer spending is strongly related to job growth but not consumer sentiment.

SIGNAL TO NOISE RATIO

Conflicting economic data signals certainly don't help alleviate confusion. But conflicting data isn't unusual, and there are ways to cut through their noise, including by putting it in the proper context in these conditions.

Survey data is often considered a leading indicator relative to historical readings like employment or GDP, but its high variability and susceptibility to rapid change introduce noise and can make it misleading.¹¹ For example, the lowest reading in consumer confidence data came in February 2022, but real GDP growth was running at 4% and retail sales that month grew 17%.¹² This scenario isn't unusual. Interestingly, consumer spending is largely uncorrelated with sentiment but is strongly related to job growth. People will spend even if they don't feel good about the economy, provided the data suggests there are jobs to be found.

Soft data certainly has value, but in this environment the hard data may provide a better picture of the economy. While small businesses are pulling back on investment, mega-cap tech firms have reaffirmed their plans to sustain record capital expenditures.¹³ Meanwhile, companies have not been aggressive in revising down their revenue and earnings guidance. Since March, S&P 500 earnings have been revised from \$269 to \$259, with the average company reducing EPS guidance by just 4%.¹⁴

Despite the challenges, businesses still believe they can grow and reach near-record profitability, so the recent negative revisions to U.S. GDP may be underestimating U.S. economic resilience and gone too far in overemphasizing the deterioration in soft data. This scenario may be a setup for upside growth surprises in the coming quarters.¹⁵

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A Bumpy Road Higher

A Battle Between Hard and Soft Data

► **Tariff Tactics**

Equity Performance Factors

Profitable Growth and Valuation

Hedging Volatility

Tariff Tactics

TARIFF POLICY remains a persistent source of uncertainty.

We outlined a series of potential scenarios in our annual outlook in late 2024 and followed up in January 2025 with a look at the potential risks around policy sequencing and communication.¹⁶ We expect to be writing about tariffs for some time, as this issue will likely remain critical to consumers, businesses, and investors through at least year-end. The new administration campaigned on a platform of tariffs, so their prominence was not a surprise, but the end goal is now more opaque.¹⁷

At first glance, the administration wanted to use tariffs as a bargaining tool to secure better market access for U.S. goods and to stimulate investment by encouraging some manufacturing to move onshore. Tariffs also serve as a means of raising tax revenue to help deal with the growing deficit and fund further tax cuts.¹⁸ But the April 2 Liberation Day tariff announcement liberated all prior policy assumptions.



The proposed tariffs went far beyond what most prognosticators expected.¹⁹ Our maximal or detrimental policy scenario involved a 40% across-the-board tariff and an incremental 80% tariff on China. The economic effects of those assumptions were far-reaching—and April 2 went even further.²⁰ The market volatility that followed the announcement was substantial, particularly in the debt markets.²¹ Eight days later, the administration put a 90-day pause in effect, setting a 10% global tariff, excluding China. These levels started to align with our base case.

That respite contrasted with spiraling U.S.-China trade relations. China’s initial response was unsurprisingly hostile, prompting a series of announcements that escalated U.S. tariffs on Chinese goods to 145% and China’s tariffs on U.S. goods to 125%.²² Eventually, the two sides started working towards a negotiating framework and agreed to a separate 90-day pause with a 30% tariff in the U.S. on goods from China.

CHANGES TO TARIFF POLICY

		Bull (5% RoW / 30% China)	Base (10% RoW / 40% China)	Bear (15% RoW / 50% China)	Maximal (20% RoW / 60% China)
Average Tax Rate	Bull (15%)	1.5%	0.7%	-0.1%	-0.8%
	Base (16%)	0.5%	-0.3%	-1.1%	-1.8%
	Bear (17%)	-0.7%	-1.5%	-2.3%	-3.0%

Source: Bloomberg as of June 3, 2025.

CONFUSING THE UNFAMILIAR WITH THE IMPROBABLE

Charting the direction from here on tariffs is almost a metaphysical question—on par with “Why are we here?” Tariffs can serve many purposes. They can be a negotiating tool, protect industries, raise tax revenue, and potentially even rewire the global economy. The apparent consensus—that this administration views tariffs primarily as a negotiating tool—may be slightly off the mark, though the administration is working to secure deals on numerous fronts.²³ The use of tariffs to raise revenues has perturbed allies and become one of many stumbling blocks to getting deals done. There seems to be legitimate interest in reshaping the global economy, but recent moves suggest a realization that this is a much longer-term project.

It is difficult to tell whether the tariff campaign is over or lying dormant, ready to bubble back up. The former seems too easy. The fervor or veracity with which tariff risks resurface depends on the administration’s end goals, and those quite possibly remains in flux.²⁴ Currently, China seems to be the priority, and both sides seem to recognize the risks of mutually assured destruction. That recognition translates to mild optimism for the second half, but there are a series of potential speed bumps ahead that investors should keep in mind as potential volatility triggers.

Overview

2025 TRADE WAR: A FORWARD-LOOKING TIMELINE

- 1 **JUNE 15**
Annual summit of G7 nations held in Canada.
- 2 **JUNE 23**
Annual EU-Canada summit to discuss bilateral partnership.
- 3 **JUNE 30**
President Trump may implement tariffs affecting cell phone makers.
- 4 **JULY 8**
End of the 90-day pause on global reciprocal tariffs on most nations.
- 5 **JULY 9**
Deadline for the U.S. and EU to reach an agreement.
- 6 **JULY 14**
End of EU’s 90-day pause on its retaliatory tariffs.
- 7 **AUGUST 12**
End of the 90-day pause on retaliatory tariffs on China.
- 8 **NOVEMBER 22**
Annual summit of G20 nations held in Johannesburg, South Africa.

The recognition of mutually assured tariff destruction between the U.S. and China translates to mild optimism for the second half, but there are a series of potential speed bumps ahead that investors should keep in mind as potential volatility triggers.



04

A Bumpy Road Higher

A Battle Between Hard and Soft Data

Tariff Tactics

► *Equity Performance Factors*

Profitable Growth and Valuation

Hedging Volatility

Equity Performance Factors

MOST BROAD EQUITY INDEXES have been flat this year—a decent outcome considering the constant news churn and economic uncertainty.²⁵

Off the beaten path, however, a few interesting corners of the equity markets have outperformed.²⁶ One way to characterize these sources of outperformance is through factors, or specific characteristics that add or detract from returns.

This year, the factors driving equity performance seem more unusual. In an environment where most measures of volatility were elevated, low-volatility stocks have been the top performers.²⁷ Ordinarily, that might mean a bias towards value investing, but value is one of the worst-performing factors this year. Low-vol stocks generating outperformance and value stocks generating underperformance is a difficult web to untangle, because the two categories

are often correlated.²⁸ The next best-performing factors are companies with large size, positive earnings revisions, and high quality.²⁹

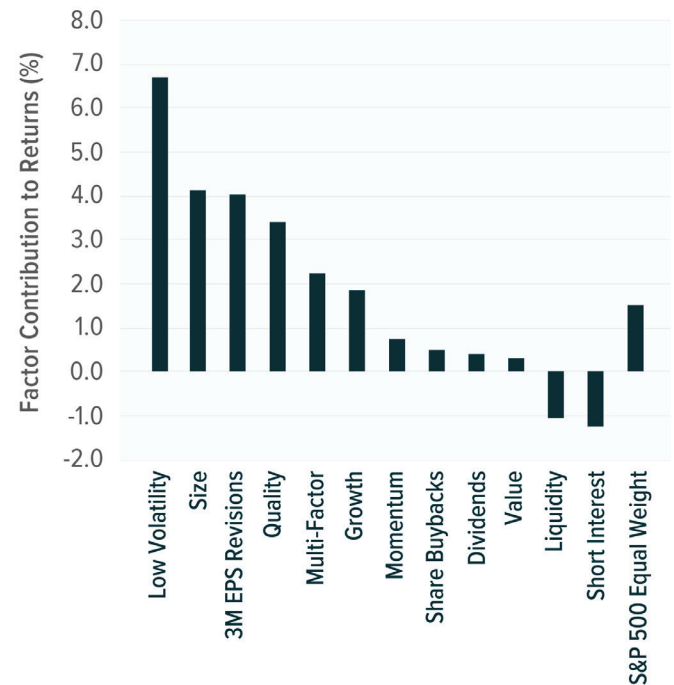
TO FIGHT EVERYWHERE IS TO FIGHT NOWHERE

For investors who were able to keep their heads, stay the course, and ignore the headlines and market volatility, things probably worked out okay in the first half. Broad equity exposure served as a ballast through the volatility, but we also highlight that many secular themes performed quite well, boosting their investment case for the current environment. Targeted themes with common factors that cut across a broad swath of industries, including industrials, consumer discretionary, technology, utilities, and healthcare, offered opportunities for investors.³⁰

Unsurprisingly, low-beta themes led, with Defense Technology a standout. These companies tend to have stable cash flows from long-term contracts on critical inputs to national security, but strategic and geopolitical shifts have created new opportunities.³¹ Global tensions and shifting diplomatic allegiances have encouraged countries to increase defense spending. While the U.S. maintains the largest defense budget—close to \$850 billion, with an expected budget increase to \$1 trillion on the horizon—European allies are also making commitments to increase spend that amounts to about one-third of NATO's current total.³² Perhaps most important, U.S. and China will continue their quiet yet inter-dependent arms race.

Cybersecurity also falls into the category of low-beta outperformers, but this is a recent development. Traditionally, cybersecurity was part of a two- or three-year tech upgrade cycle, but now most firms use software as a service models.³³ In a world of digitalization and

FACTORS DRIVING S&P 500 PERFORMANCE



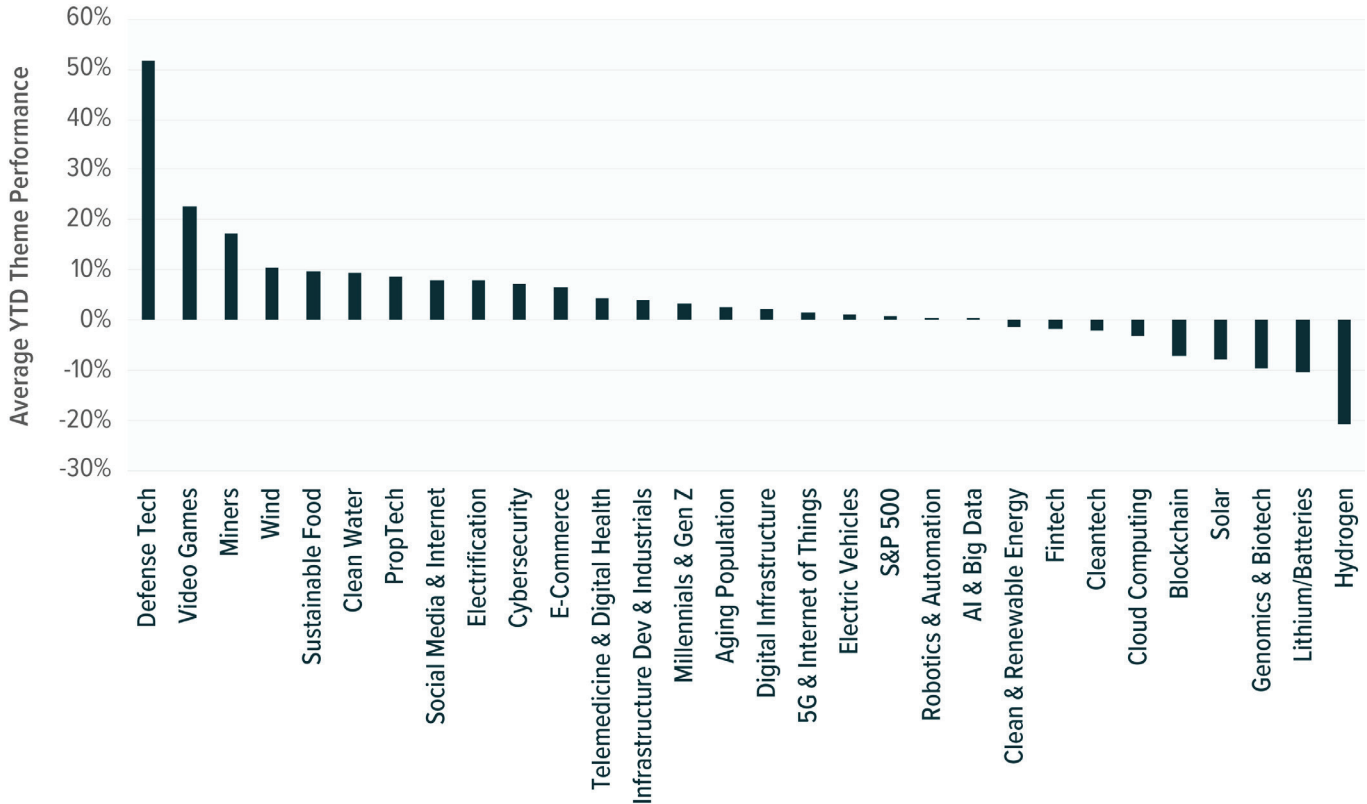
Source: Bloomberg as of June 2, 2025.

WHAT'S DRIVING PERFORMANCE?

Most broad equity indices have been relatively flat, masking the volatility of the first half. Factors, or specific characteristics that add or detract from returns, can highlight pockets of outperformance.

Targeted themes with common factors that cut across a broad swath of industries, including industrials, consumer discretionary, technology, utilities, and healthcare, offered opportunities for investors.

LOW VOLATILITY THEMES, SERVICES, AND SOME CYCLICALS STANDOUT



Source: Bloomberg as of May 28, 2025.

LOW-BETA THEMATICS

Many secular themes, including a number of low-beta themes, performed well in the first five months of the year, boosting their investment case for the current environment.

automation, protecting both data and algorithms is critical, and that need translates into stable cash flows with relatively high profit margins. Companies focused on providing cybersecurity have also managed to skirt investor worries tied to tech hardware and tariffs. Tariffs have largely focused on goods, but the U.S. is also a large supplier of services, which is why that segment has largely been left be, making cybersecurity one of the fast growing technology themes that has not been adversely impacted by fears of export controls or a potential slowdown in AI spend tied to material access.³⁴ Cyber companies are forecast to grow

earnings by 9% and deliver reasonably strong profit margins of 15%.³⁵

Other low-vol themes that have held up relatively well this year include HealthTech tied to Aging Population.³⁶ Notably, the health care sector has been a leading source of U.S. job creation in recent months.³⁷ Utilities are also relatively low beta, and U.S. Electrification has performed well given the exposure to regulated and unregulated energy providers along with companies focused on grid technology.³⁸

CONTRARIAN CYCLICALS WITH A TWIST

Another interesting development is that some traditional cyclical themes now rank as leading low-beta themes. Materials providers like miners are usually sensitive to economic conditions and can be quite volatile, but that has not been the case in 2025.³⁹ Two areas that have delivered relatively decent returns are copper miners and uranium mining and refining.

Copper is traditionally sensitive to demand from China, and risks mounted in April and May amid the U.S. and China trade tensions.⁴⁰ Copper did sell off, but there was also some additional ballast from the U.S. data center buildout when mega-tech cap companies reaffirmed their intentions

to sustain the current pace of investment, which requires significant copper wiring.⁴¹

The strength in uranium and companies tied to the nuclear buildout is likely more of a secular than cyclical trend, as automation and AI require significant energy resources. In recent months, major tech players announced transactions to source nuclear power from different providers.⁴² Also, most of these deals are not yet even tied to the rollout of small modular reactors (SMRs), which offer several advantages over legacy large-scale facilities, but SMR adoption is still in its earliest phases.⁴³



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05

A Bumpy Road Higher

A Battle Between Hard and Soft Data

Tariff Tactics

Equity Performance Factors

► *Profitable Growth and Valuation*

Hedging Volatility

Profitable Growth and Valuation

PERHAPS EVEN MORE TELLING than the equity market's performance in the first half was the recovery in broad valuations.

After briefly dropping below 20 times in April, the market bounced back to trading at around 22-23 times this year's earnings. Earnings are expected to grow by 11% relative to 2024, bringing valuations almost back to where they started the year.⁴⁴

The S&P 500 seems fairly valued at this level, supported by expected profit margins and earnings stability. We had been optimistic that stability would improve this year, and early signs pointed in that direction, but the trajectory shifted as uncertainty increased and earnings estimates were revised downward.⁴⁵ Modest multiple expansion is possible in the second half if greater policy consistency sets the stage for greater

earnings stability given expectations of 13% profit margins.

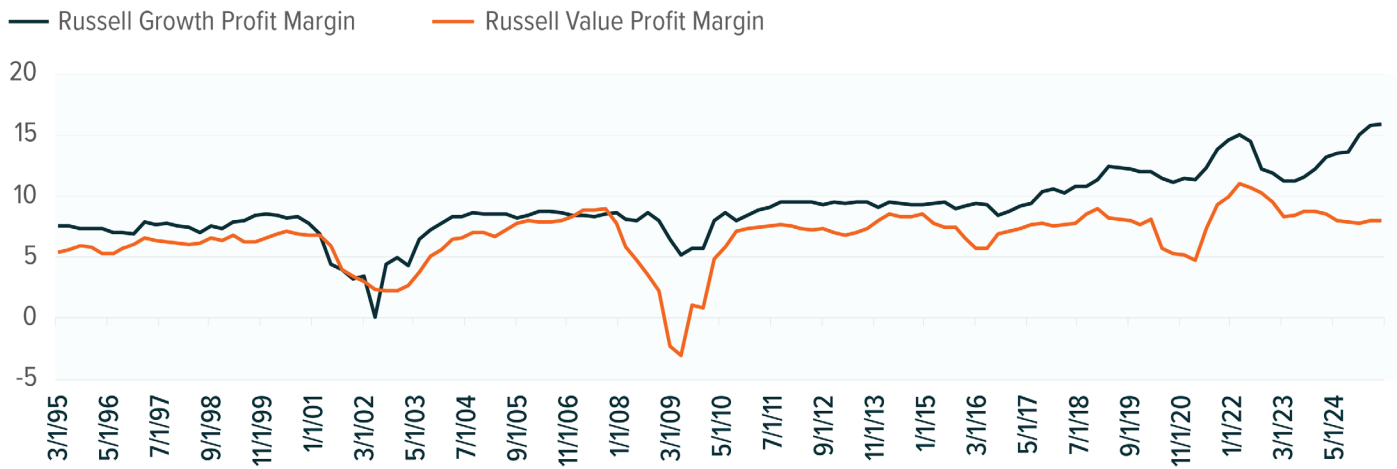
Outside of the major indexes, we believe investors have a particularly interesting opportunity: historically profitable growth companies.⁴⁶ In the past, there was a clear distinction—and tradeoff—between growth and value. Growth companies delivered above-trend topline expansion, but often at the expense of profit margins. Value companies did the opposite—consistently delivering profit margins, but at the expense of topline growth.⁴⁷ Today, high-growth companies consistently deliver profit margins that are better than their value counterparts. The gap in profitability is at an all-time high, which suggests the traditional tradeoff is diminishing.⁴⁸ Investors can get both at the same time.

S&P VALUATION SCENARIOS

		Earnings Stability		
		St. Deviation 3	St. Deviation 5	St. Deviation 7
Profit Margins	9	20.3	19.9	19.6
	10	21.3	20.7	20.1
	11	22.3	21.4	20.6
	12	23.2	22.2	21.1
	13	24.2	22.9	21.6
	14	25.2	23.7	22.1
	15	26.2	24.4	22.6

Source: Bloomberg as of June 3, 2025.

GROWTH EQUITY HAS NEVER BEEN MORE PROFITABLE

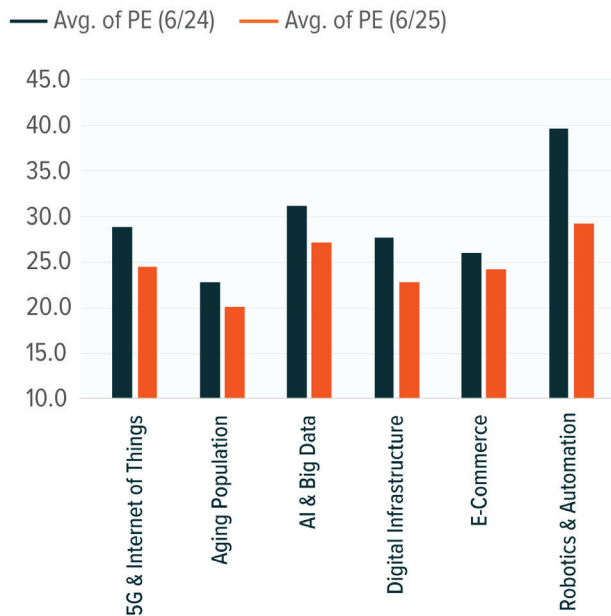


Source: Bloomberg as of June 2, 2025.

GROWTH OR VALUE?

With high-growth companies consistently delivering profit margins that are better than their value counterparts, investors can get both at the same time.

REASONABLE VALUATIONS FOR SELECT HIGH GROWTH AND MARGIN THEMES



Source: Bloomberg as of June 3, 2025.

UPENDING THE STRATEGIC BALANCE

Valuations across several growth themes haven't rebounded as fast as the broad market, but their fundamentals are superior to the S&P 500. The opportunity to buy growth at a reasonable price that is also delivering record profitability is unique and interesting.

A few themes stand out when comparing fundamentals relative to the broad market. The first one is artificial intelligence. For those investors who believe they missed the AI opportunity, valuations across a broad basket of companies are actually cheaper now. The multiple is approximately 4 times lower than it was a year ago.⁴⁹ Meanwhile, 2025 revenue for this group is expected to be double that of the S&P 500, with profit margins about 3% higher.⁵⁰ Considering how important AI is likely to become as companies move from pilot projects to deployment in the months ahead, the AI story still appears to be in its early stages. Ironically, tariffs that raise the

risk to costs may help to accelerate adoption as companies look to offset higher input prices with more efficient operating models.⁵¹

A second growth theme, which is closely tied to the AI buildout, is Data Centers & Digital Infrastructure, the hardware components required to deploy the software at scale. The mega-cap tech companies are likely to spend over \$250 billion this year alone to support additional capacity needs.⁵² This capital expenditure run rate might not be sustainable over the long term, but these companies are unlikely to pull back just yet given global competition. While revenue growth is only slightly better than the broad market in 2025, it is expected to accelerate in 2026. Further, these companies are proving tremendously profitable with margins above 20%.⁵³ They are trading at a valuation that is roughly 4 times lower than this time last year.

For those who believe they missed the AI opportunity, valuations across a broad basket of companies are actually cheaper now. The multiple is approximately 4 times lower than it was a year ago.

Another theme to consider is robotics, which ties to the onset of the automation age and will be increasingly integrated with AI and data centers over time. Robot penetration in the U.S. manufacturing sector remains below its main competitors, making it a critical input to attempt to effectively onshore production.⁵⁴ Profit margins are largely in line with the broad market, but revenue growth is expected to outpace it. Also, these companies are trading at roughly 10 times cheaper than they were a year ago.⁵⁵



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Hedging Volatility

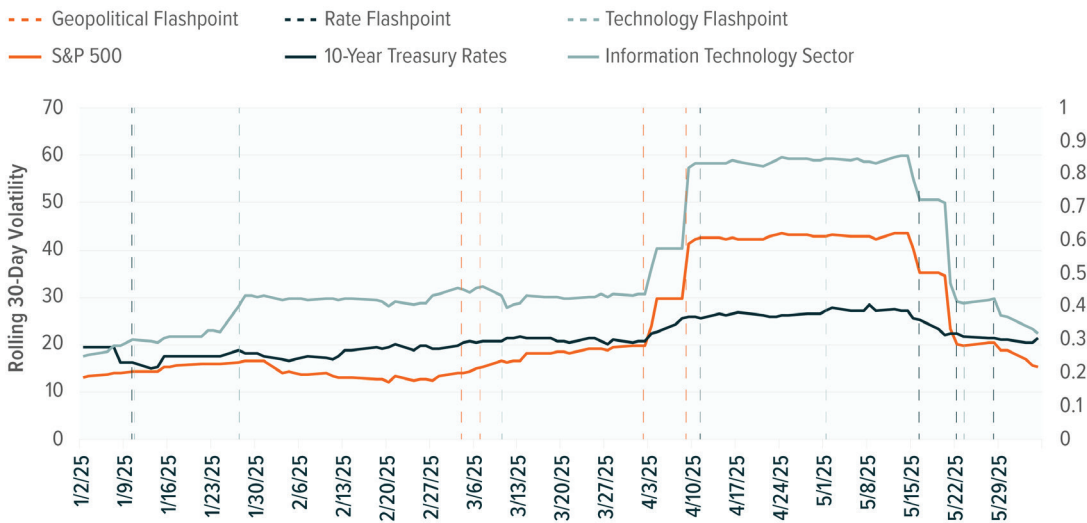
MARKETS HAVE ZEROED IN ON VOLATILITY tied to geopolitical frictions in 2025, especially those playing out through trade policy.⁵⁶

The tunnel vision is not surprising given the far-reaching impacts of the tariffs, including those that are on pause or merely threatened, but it potentially underappreciates other forces driving volatility across sectors and asset classes.⁵⁷ This also potentially overlooks over forms of geopolitical upheaval like the recent escalation between Israel and Iran.

Technology is one of those forces. Some sharp disruptions in the first half had nothing to do with trade, but they still rattled investors and reshaped the global landscape. DeepSeek's January release and its rapid rise past ChatGPT in app store downloads signaled just how fast the AI arms race is accelerating. The introduction of a new player raised questions about the staying power of U.S. mega caps in the space.⁵⁸ Since then, slowing growth for key cloud players and public disputes

As volatility rises, so do the premiums that hedged equity strategies collect. Those premiums can help lower portfolio volatility.

VOLATILITY IS CAUSING DISLOCATION ACROSS DIFFERENT AREAS OF THE MARKET



Source: Bloomberg as of June 2, 2025.

HOW TO MANAGE VOLATILITY

Sources of volatility can seem endless, but hedged equity strategies provide a potential solution.

between the Trump administration and Apple over manufacturing abroad have kept the tech sector in the spotlight this year. Google and Meta are also likely still on the administration’s radar for reasons unrelated to trade.

Another driver is the fresh upward pressure on interest rates this year. The pressure is due in part to a combination of a Federal Reserve signaling near-term neutrality and an aggressive fiscal spending package that’s putting the creditworthiness of longer-term Treasuries under the microscope.

IF YOU WANT PEACE, PREPARE FOR WAR

One approach to help ride out the storm is hedged equity strategies like a half-covered or

fully covered buywrite. They maintain exposure to equity indices like the S&P 500 or Nasdaq 100 while selling calls on some or all of the portfolio.⁵⁹ As volatility rises, so do the premiums that these strategies collect. Those premiums can help lower portfolio volatility. If distributed, they may also reduce the need for other yield-seeking tactics, like stretching duration in fixed income.

In that way, hedged equity strategies could play a role in paring back interest rate risk in a traditional 60/40 portfolio. For investors looking to stay in the market without fully bearing its swings, this kind of structure may be worth a closer look.

Appendix

A BUMPY ROAD HIGHER

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A BATTLE BETWEEN HARD AND SOFT DATA

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TARIFF TACTICS

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