Alliant Retirement Consulting

Quarterly Insights

From the Desk of our CIO – Quarterly Market Perspective

US markets pushed higher by 11% on the quarter, while international continues to outperform by 12% on the quarter and 17.9% YTD.

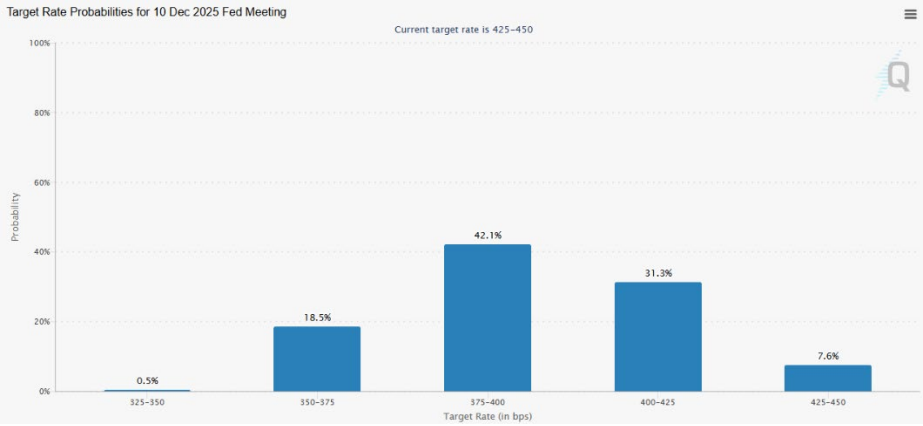
- **The Case for International Investing -** Global equity markets appear to be priced for perfection; unfortunately, we live in an imperfect world and the risk reward ratio given historically high valuations warrants a defensive posturing. In Q4'24 we identified the tactical opportunity in international markets purely from a relative valuation basis, as relative valuations between international and domestic equity begin to approach historical averages one should consider tactically rotating out of international and back into US LCV or fixed income.

- **The Fixed Income Story -** Fixed income pushed marginally higher by 1.2%, up 4% YTD. Minutes from the FOMC meeting on July 9 shows that consensus amongst the FED Board of Governors is split in regard to the timing and degree of any proposed 2025 policy rate cuts. Futures markets are projecting a targeted range for front end rates between 350 to 425 BPS (with a combined probability of 91.9%), SWAP markets are currently pricing in one 25 BPS rate cut before the end of the year. The narrative for peak rates still seems to be intact.

- **Where should you look Further?** - US fixed income investors continue to experience equity like returns across the term structure of rates (with the exception of long duration bonds). As outlined in prior quarters, the three-to-five-year duration provides the best balance of return and interest rate vol profiles, up 1.8% on the quarter and 7.1% YTD. There is no need to stretch for yield in the five to seven year durations for an extra 10 BPS in total return on a YTD basis. The yield curve experienced a bullish front-end twist with a bearish spike in longer term rates. High yield bonds were the best performing segment of the fixed income complex; interestingly, high yield bonds can be viewed as a forward-looking signal for future US equity performance as HY is the most sensitive fixed income sector to corporate earnings and economic growth conditions which bodes well for US equity markets.

- **And Now Back to US Equities -** IT and telecom lead the charge on the quarter bouncing back from the drawdowns earlier this year. Our CIO is always a fan of selling into strength especially given the push into new ATH territory. Energy was the worst performing sector largely driven by the governments proposed spending cuts in clean energy technologies. Given that the majority of AI power consumption needs is projected to be filled by traditional forms of energy the drawdowns in Q2'25 provide an opportunity to buy into the sector given our bullish outlook on energy as discussed in prior quarters.

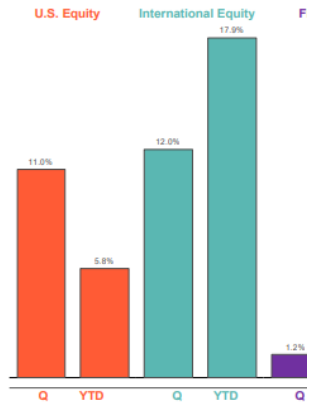
- **In Summary – It's always Best to Balance -** In terms of overall asset class performance, international was best in class returning 17.90% YTD. It is important to note that a balanced portfolio (40% US equity, 40% BBagg, 20% international) has outperformed US LCG on a YTD basis. Essentially, balanced has had a more favorable volatility profile and higher absolute returns than LCG for participants who are closer to their normal retirement age, further illustrating the importance of drawdown reduction in periods of market volatility rather than maximum upside capture. For participants who did not assume a defensive posture prior to the drawdowns earlier this year, now is the perfect opportunity to tactically sell into LCG strength and rebalance into LCV or fixed income while we are above the high watermark in overall US equity price levels.



SUMMARY

- Global Equity markets posted strong returns over the quarter with both International equities and U.S. equities returning over 10%. Fixed income markets were also positive over the quarter.
- U.S. equities returned 11.0% (Russell 3000) with Information Technology and Telecommunication Services as the best performing sectors and Energy and Health Care as the worst performing sectors. In a reversal from Q1 2025, large cap growth outperformed large cap value by about 1400 basis points (17.8% for Russell 1000 Growth vs. 3.8% for Russell 1000 Value).
- International equities and Emerging Markets equities performed well over the quarter, returning 12.1% (MSCI EAFE) and 12.0% (MSCI Emerging Markets), respectively.
- The broad U.S. fixed income market returned 1.2% (Bloomberg Barclays Aggregate) over the quarter. The Fed held the Fed Funds Rate steady over the quarter, and the 10-year treasury rate remained largely unchanged from the previous quarter end.
- The unemployment rate ticked down slightly to 4.1% this quarter from 4.2% at the previous quarter end.

TRAILING RETURNS (6/30/2025)



Quarterly and year-to-date returns of the following indices (Russell 3000 Index), Fixed Income (Bloomberg Barclays Bond Index) and International Equity (MSCI ACWI ex U.S

ASSET CLASS RETURNS

The following chart exhibits the volatility of asset class returns from year to year by ranking indices in order of performance, highlighting the importance of diversification.

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	YTD
Global REIT 22.81	Large Growth 5.67	Sm Value 31.74	Large Growth 30.21	Cash 1.87	Large Growth 36.39	Large Growth 38.49	Global REIT 32.50	Commodities 16.09	Large Growth 42.68	Large Growth 33.36	International 17.90
Large Value 13.45	Global REIT 0.59	Large Value 17.34	International 27.19	Fixed Income 0.01	Sm Growth 28.48	Sm Growth 34.63	Sm Value 28.27	Cash 1.46	Sm Growth 18.66	Sm Growth 15.15	Balanced 7.52
Large Growth 13.05	Fixed Income 0.55	Commodities 11.77	Sm Growth 22.17	Large Growth -1.51	Large Value 26.54	Balanced 14.24	Large Growth 27.60	Large Value -7.54	International 15.62	Large Value 14.37	Large Growth 6.09
Balanced 6.58	Cash 0.05	Sm Growth 11.32	Balanced 14.95	Balanced -4.77	Global REIT 24.49	International 10.65	Commodities 27.11	Fixed Income -13.01	Balanced 15.52	Balanced 10.80	Large Value 6.00
Fixed Income 5.97	Balanced -0.49	Balanced 7.18	Large Value 13.66	Global REIT -4.77	Sm Value 22.39	Fixed Income 7.51	Large Value 25.16	Sm Value -14.48	Sm Value 14.65	Sm Value 8.05	Commodities 5.53
Sm Growth 5.60	Sm Growth -1.38	Large Growth 7.08	Global REIT 8.63	Large Value -8.27	International 21.51	Sm Value 4.63	Balanced 10.75	Balanced -15.80	Global REIT 11.53	International 5.53	Global REIT 4.76
Sm Value 4.22	Large Value -3.83	Global REIT 6.90	Sm Value 7.84	Sm Growth -9.31	Balanced 20.11	Large Value 2.80	International 7.82	International -16.00	Large Value 11.46	Commodities 5.38	Fixed Income 4.02
Cash 0.03	International -5.66	International 4.50	Fixed Income 3.54	Commodities -11.25	Fixed Income 8.72	Cash 0.67	Sm Growth 2.83	Global REIT -23.60	Fixed Income 5.53	Cash 5.25	Cash 2.07
International -3.87	Sm Value -7.47	Fixed Income 2.65	Commodities 1.70	Sm Value -12.86	Commodities 7.69	Commodities -3.12	Cash 0.05	Sm Growth -26.36	Cash 5.01	Global REIT 3.92	Sm Growth -0.48
Commodities -17.01	Commodities -24.66	Cash 0.33	Cash 0.86	International -14.20	Cash 2.28	Global REIT -8.11	Fixed Income -1.54	Large Growth -29.14	Commodities -7.91	Fixed Income 1.25	Sm Value -3.16

- Large Value (Russell 1000 Value)
- Large Growth (Russell 1000 Growth)
- Small Value (Russell 2000 Value)
- Balanced (40% Russell 3000, 40% Bloomberg Barclay's U.S. Aggregate, 20% MSCI ACWI ex US)
- Small Growth (Russell 2000 Growth)
- International (MSCI ACWI ex-US)
- Fixed Income (Bloomberg Barclays Agg)
- Global REIT (S&P Global REIT)
- Commodities (Bloomberg Commodities)
- Cash (Merrill Lynch 3-Mo T-Bill)

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