



# Quarterly Letter July 2025

Comments as of  
June 30<sup>th</sup>, 2025

Dear Clients and Friends,

## EXECUTIVE SUMMARY

If the 2<sup>nd</sup> quarter statement was the first time you reviewed your accounts this year, and you haven't followed financial headlines along the way, 2025 may appear to be unfolding like a typical market year. Following a strong 2<sup>nd</sup> quarter, as highlighted in [Exhibit 1](#), stock and bond indices have generated mid and low-single-digit percentage returns on average respectively, roughly half of what would be expected in a full calendar year. Consistent with our expectations for heightened volatility, however, the journey to this point has been notably turbulent. Buried within the S&P 500's +6% 1<sup>st</sup> half return was a -19% drawdown and a subsequent +23% recovery, which eventually culminated in new all-time highs. To provide perspective on this degree of volatility, [Exhibit 2](#) illustrates the distance traveled over four short months this year compared with that of prior corrections and bear markets.

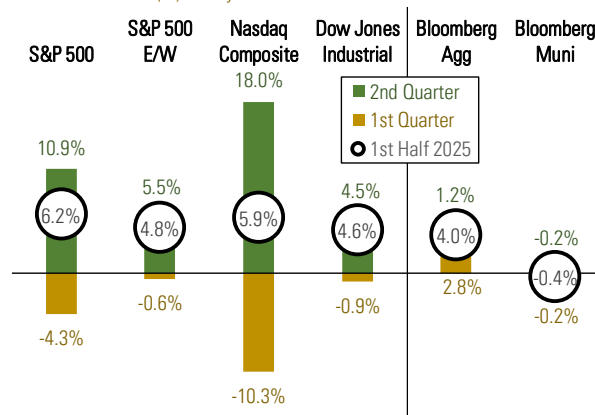
In line with the recent rally off the lows, developments on trade and the fiscal budget have dampened some of the policy uncertainty we referenced in our April letter. Still, this remains one of the more policy-driven markets in recent memory, and a significant degree of uncertainty remains. As we look ahead to the 2<sup>nd</sup> half of the year, our attention will be focused on the economic, inflationary, and interest rate implications of ongoing tariff negotiations and the newly signed One Big Beautiful Bill Act (OBBBA), both of which we discuss in this letter. We continue to navigate this uncertain environment by maintaining a defensive portfolio posture to reduce volatility and preserve dry powder for opportunistic investments. Building on the latter, we recently took advantage of the market dislocation to increase exposure to growth stocks and select fixed income securities, such as municipal bonds and structured products, at attractive valuations, while opportunistically harvesting tax losses across both asset classes.

We close the letter by discussing the sweeping changes to the US tax code from the OBBBA. If you'd like to discuss how to best plan for these changes, please reach out to your United financial advisor.

Respectfully submitted by the Professional Staff at United Asset Strategies.

### Exhibit 1: Late 2<sup>nd</sup> quarter rally recovers early year losses to drive healthy returns half way through year.

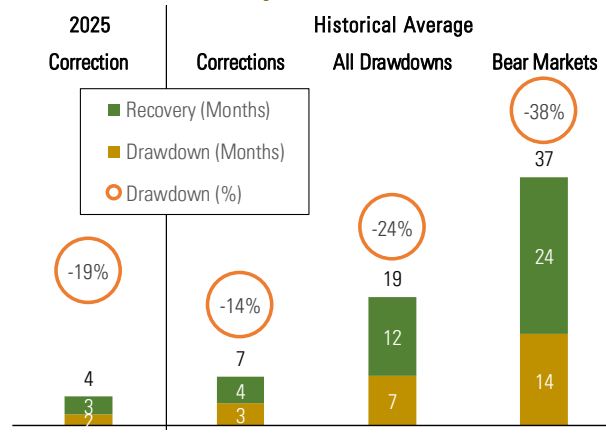
Year-to-date returns (%) for major market indices



Source: United Asset Strategies, FactSet as of 6/30/2025

### Exhibit 2: Consistent with expectations for volatile year, deep correction followed by swift V-shape recovery

2025 Correction vs. historical average drawdowns (1980-2024)



Source: United Asset Strategies, FactSet as of 6/30/2025

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## MACRO ENVIRONMENT

**“One Big Beautiful Bill” signed into law.** As anticipated, this year’s policy activity has been a whirlwind, fueling economic uncertainty and market volatility. To that end, on July 4<sup>th</sup> the President signed the “One Big Beautiful Bill Act” (OBBBA) into law. At its core, the bill extends the 2017 Tax Cuts and Jobs Act (TCJA), with some of the key provisions including:

- 1) Permanent extension of the individual tax rates;
- 2) Expanded standard deduction;
- 3) Business benefits such as permanent qualified business income deduction, R&D expense deduction, 100% bonus depreciation and expanded interest expense deduction;
- 4) Increased child tax credit;
- 5) Permanent lifetime gift and estate tax exclusion;
- 6) No tax on tips or overtime up to certain limits and bonus tax deductions for seniors up to certain thresholds;

- 7) An increase in the state and local tax (SALT) deduction; and
- 8) A \$5 trillion increase to the debt ceiling.

The \$4 trillion bill was paid for, in part, through the phase out of clean energy tax credits, changes to Medicaid work requirements and Medicaid cuts, increased college endowment taxes and increased tariffs, with the Congressional Budget Office (CBO) estimating the bill will increase the budget deficit by more than \$3 trillion over a 10-year period.

The Administration believes much of the bill will be offset by tariff increases. While we have seen an increase in tariff-related revenue to the Treasury, the ultimate impact is mired in uncertainty around court hearings on legality, the President’s latest August 1<sup>st</sup> deadline for tariff negotiations and how tariffs ultimately impact the economy.

**Normalized for tariffs, macro growth is moderating.** As noted previously, there is significant uncertainty around the implementation of tariffs, both from negotiating and legal standpoints. After announcing a series of sweeping tariffs on its global trading partners on April 2<sup>nd</sup>, the Administration has since placed a 90 day pause on implementation until July 9<sup>th</sup> on most partners (which was subsequently extended to August 1<sup>st</sup>), while announcing deals with other trading partners.

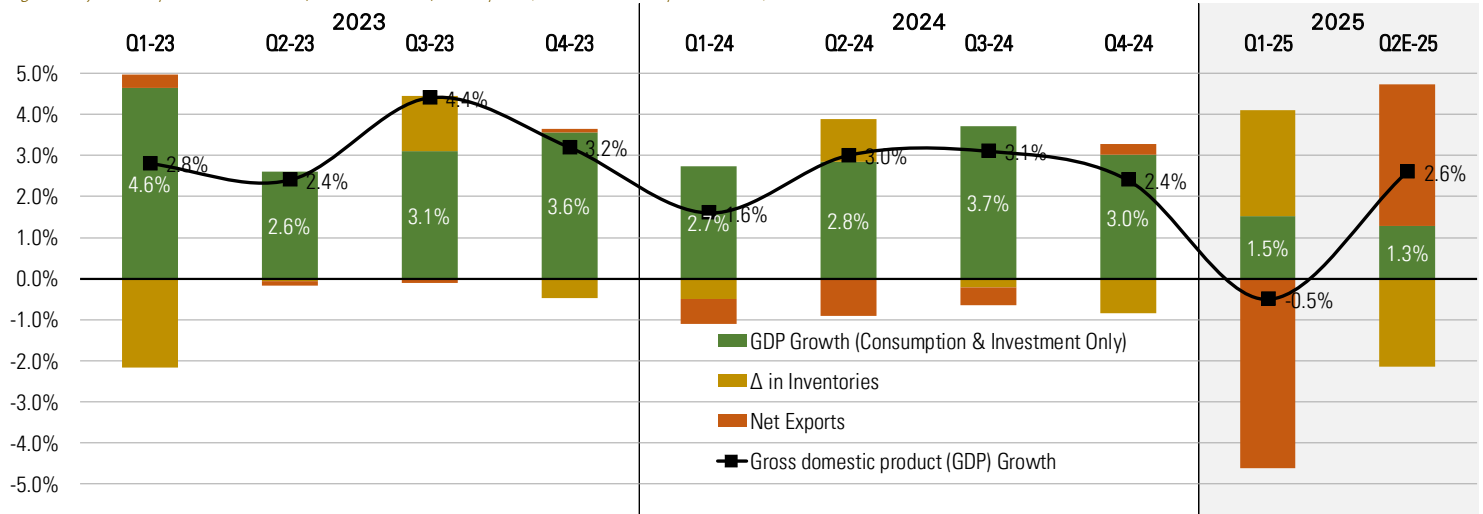
The tariff rollout has driven volatility in economic data, with many businesses pulling forward imports to build up inventories ahead of the potential rollout of tariffs down the road. This is most clearly seen in [Exhibit 3](#), with Gross Domestic

Product (GDP) growth dipping to -0.5% in the 1<sup>st</sup> quarter but expected to rebound to +2.6% in the 2<sup>nd</sup> quarter (as per GDPNow). Stripping out net imports and inventories, however, the run-rate for GDP growth, as seen through consumption and investment alone, is just above ~1%, stable vs. the reported numbers but moderating vs. the ~3% seen in 2023 and 2024.

We continue to believe that the consumer (68% of GDP) remains the key support to economic growth in the 2<sup>nd</sup> half of 2025. While the recent consumer spending numbers have shown a slowdown, most likely impacted by tariff uncertainty, solid labor market data underpins the strength of the consumer, and therefore the economy overall.

**Exhibit 3: 1<sup>st</sup> Half 2025 GDP growth impacted by tariff policy induced swings in imports & inventory, while more normalized trends in consumption & investments point to positive, though moderating, growth.**

*GDP growth by Consumption & Investments, Δ in Inventories, Net Exports (2Q25 estimate as per GDPNow)*



Source: United Asset Strategies, Bureau of Economic Analysis, Atlanta Fed

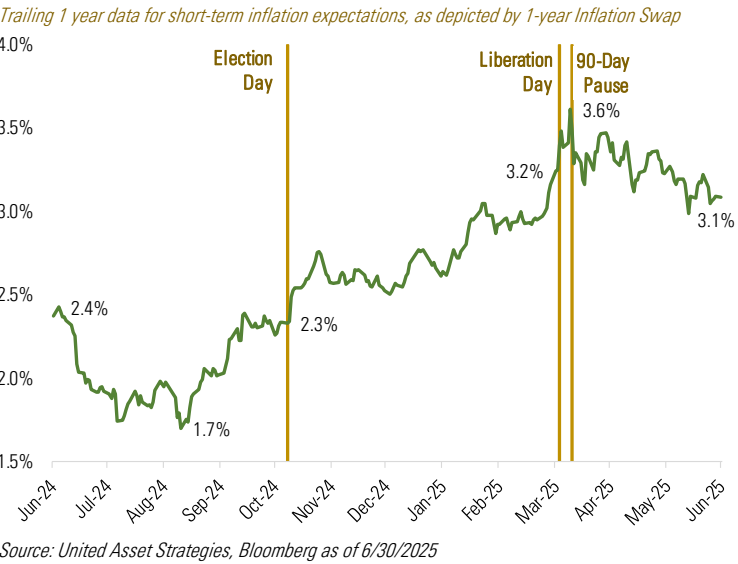
**The policy implications for rates are broad.** Much like we saw in GDP, the ripple effects of tariff negotiations were also felt on inflation data. **Exhibit 4** charts the one-year inflation swap, a gauge of market expectations for near-term inflation. As seen, inflation expectations increased in response to the elevated tariff levels announced on Liberation Day (April 2<sup>nd</sup>), given concerns of a looming trade war and potential for tariffs to pass through to consumer prices. However, with trade tensions cooling from peak levels, and real-time inflation data remaining tame (mostly on moderating housing costs), inflation expectations have moderated back to pre-Liberation Day levels.

That said, tariff negotiations are ongoing, which complicates Fed policy given broad tariffs usually work in opposition to both sides of its dual mandate: full employment and price stability. Despite the evolving trade environment since April, guidance in the Fed’s June Summary of Economic Projections (SEP) for employment, inflation and the Fed Funds rate were largely unchanged from the March SEP. While the Fed appears to be in wait-and-see mode, still signaling three rate cuts through 2026, the eventual direction and level of the Fed Funds rate are likely to hinge on trade negotiations and labor market conditions.

Another potential driver of rates is the incoming Fed Chair, who is expected to succeed Powell when his term ends May 2026. President Trump will nominate Powell’s successor and has

expressed interest in a more dovish Fed, favoring lower rates to spur economic growth and ease the interest burden of our nation’s growing debt. As another means of reducing our interest burden, the Treasury may manage its debt maturities by issuing short-term at rates likely to decline alongside future rate cuts, and paying down debt on the long end, which would in turn apply downward pressure on long-term rates. In the end, while crosscurrents on interest rates are plentiful, it is clear the administration wants rates lower.

**Exhibit 4: Post the 90-day tariff pause, short-term inflation expectations have since moderated to pre-Liberation Day levels.**



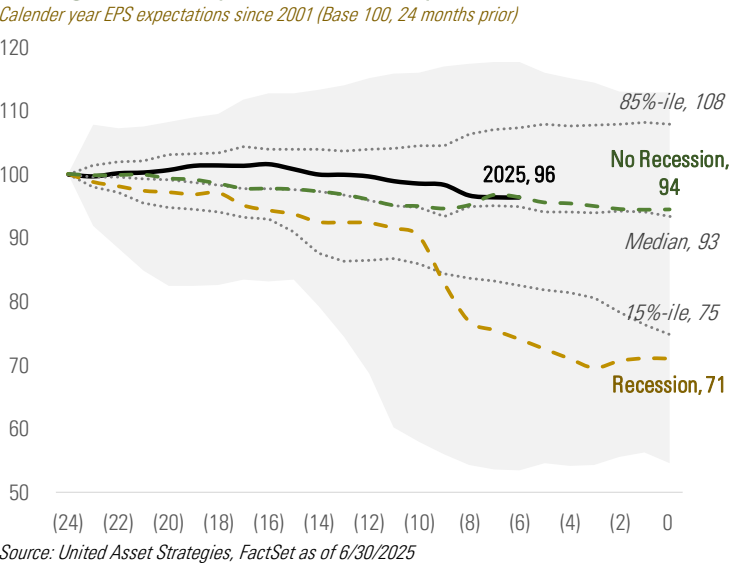
## PORTFOLIO MANAGEMENT

### Navigating fiscal & monetary policy cross currents.

Policy uncertainty has eased from peak levels, but markets remain sensitive to a wide range of potential outcomes. Tariff talks are ongoing, and while worst-case scenarios appear less likely, the timing and extent of their potential drag on profits remain uncertain. Conversely, deregulation and favorable tax policies may offer offsetting macro tailwinds. Despite a broad set of policy implications, **Exhibit 5** shows earnings (EPS) revisions remain on a glide path consistent with past non-recessionary years, suggesting negligible net impact from these combined policies is reflected in current EPS expectations.

Rates add further complexity to the outlook. The Fed expects to cut rates this year. All else equal, this supports EPS, through reduced financing costs, and stock valuation multiples, via less competition from bonds for investment dollars. Still, the outlook for long-term rates is complicated by potential upward pressure from accommodative policy, which risks hotter inflation, and a growing fiscal deficit, which risks a widening term premium.

**Exhibit 5: 2025 earnings (EPS) estimates have moderated but still tracking in-line with past non-recession years.**

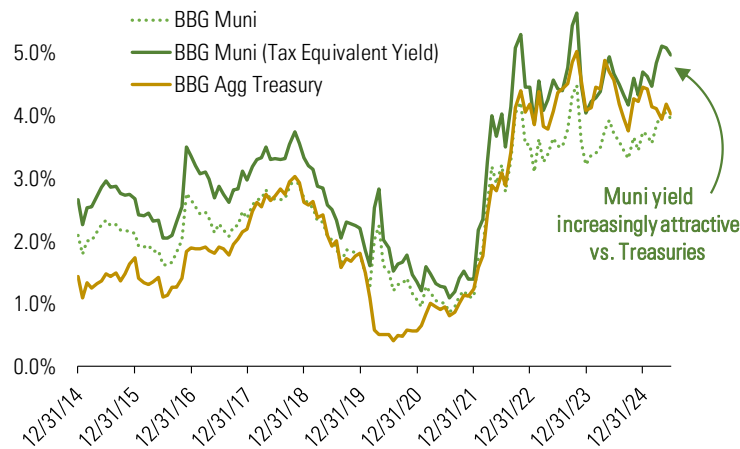


**Exhibit 6** charts the equity risk premium (ERP), defined as the earnings yield offered above the risk-free rate as compensation for the added risk in stocks. It is a measure of confidence, and as highlighted, the narrow spread suggests markets are pricing in little downside risk to the EPS outlook previously outlined.

Valuation isn't a great timing tool, and as we've recently seen, markets often climb a wall of worry. That said, with valuations painting a rosy picture, markets appear vulnerable to negative developments. While we continue to favor a defensive portfolio posture, targeting value stock and defensive sector tilts, along with available dry powder, we aren't sitting on our hands. 1<sup>st</sup> half volatility was most severe in high-beta growth stocks, with a sharp drawdown (-23%) followed by a swift rebound to drive leading 1<sup>st</sup> half returns (+7%). So, since our last letter in mid-April, we capitalized on that volatility by selectively inching into growth at attractive valuations, partially reducing our value tilt.

**Exhibit 7: Municipal bonds offer a superior yield to Treasuries after accounting for their more favorable tax treatment.**

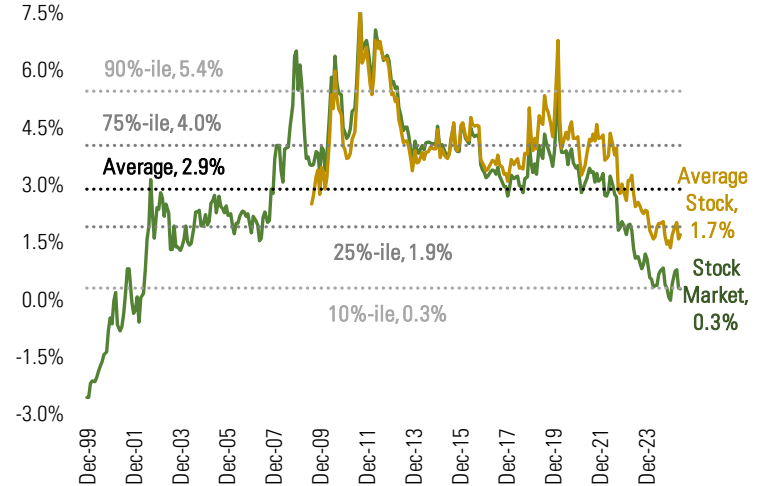
*Yield to Worst (%) for Bloomberg Muni (inc'l tax equivalent) vs. Bloomberg Agg, Treasury Index*



Source: United Asset Strategies, Bloomberg as of 6/30/2025

**Exhibit 6: Current stock valuations suggests investors are optimistic, assigning little weight to downside earnings risk.**

*Historical equity risk premium (earnings yield less risk free rate) for stock market & average stock*



Source: United Asset Strategies, FactSet as of 6/30/2025

Volatility also provided opportunities in fixed income. This was most easily seen in equity-linked structured notes, where the stock market's drawdown provided the opportunity to add exposure at increasingly attractive terms. We also saw unique opportunities in municipals, as concerns that municipal bonds may lose tax-exempt status as part of the OBBBA prompted issuers to come to market with new supply, all while investor hesitation led to reduced demand. Concerns never materialized, but as highlighted in **Exhibit 7**, the combination allowed us to add to our municipal exposure at increasingly attractive yields.

We also opportunistically extended portfolio duration, locking in higher yields on longer term bonds as concerns of growing federal deficits and a foreign buyer "strike" resulted in a steeper yield curve and a more attractive term premium for treasuries (the benchmark for the pricing of fixed income more broadly). Still, we remain patient in credit. While credit spreads widened in sympathy with the stock declines, they have yet to reach levels that adequately compensate investors for risk and would prompt us to increase our corporate bond exposure.

**New ROW leadership, or another head fake?** While the US market has staged an impressive rally off lows, it still trails the rest of the world (ROW) this year. International has generated 18% returns year-to-date, far exceeding 6% for the US. As shown in **Exhibit 8**, however, half of those international returns have come from a weakening US dollar. For long-term investors, currency fluctuations tend to cancel each other out, making international returns in local currency a better gauge of long-term fundamentals. To that end, international markets returned a more moderate, but still healthy, 9% year-to-date.

Again, fundamentals are the driver of long-term returns, and as highlighted in **Exhibit 9**, they have favored US stocks for much of the last 15 years, with ROW underperforming by 500-600% over that time frame. It is unclear to us if the recent strength in ROW is the start of a new trend in leadership or another head fake, but we continue to monitor international markets for improving fundamentals, with potential catalysts including relatively favorable fiscal and monetary policy. But as made clear in the exhibit, we have the luxury to wait for confirmation given the long-term upside mean reversion would imply.



### Exhibit 8: ROW has outperformed the US year-to-date, even more so when accounting for currency translation & weaker US dollar.

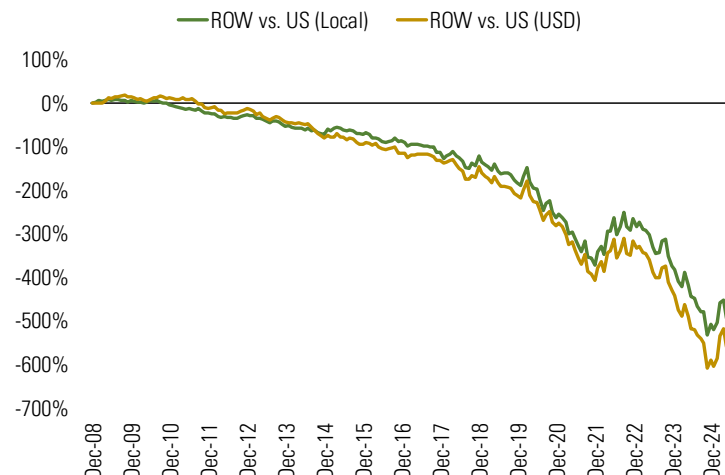
Year-to-date total returns for major global stock market indices (in US and local currencies)

Global Wt. (Mkt Cap)		Total Return (Local FX)	FX Translation	
1%	Latin America	18%	12%	30%
8%	Eurozone	12%	15%	26%
6%	Emerging Asia	10%	4%	14%
3%	Canada	10%	6%	16%
5%	Pacific Ex-Japan	10%	5%	15%
36%	International	9%	9%	18%
4%	United Kingdom	9%	10%	19%
100%	Global	7%	3%	10%
64%	United States	6%		6%
2%	Switzerland	6%	15%	21%
5%	Japan	3%	9%	12%

Source: United Asset Strategies, Bloomberg as of 6/30/2025

### Exhibit 9: Putting recent ROW strength in historical context, it is unclear if this is the start of a new trend or another head fake.

Cumulative underperformance of international markets vs the US (in US and local currencies)



Source: United Asset Strategies, Bloomberg as of 6/30/2025

## FINANCIAL PLANNING

**OBBBA tax planning opportunities.** Signed into law July 4<sup>th</sup>, the One Big Beautiful Bill Act (OBBBA) significantly reshapes the tax landscape for millions of Americans. While it cements many provisions from the 2017 Tax Cuts and Jobs Act (TCJA), it also introduces critical changes to tax deductions, making strategic tax planning more important than ever.

Starting in tax year 2025, the OBBBA permanently raises the standard deduction amounts and adjusts them annually for inflation: \$31,500 for joint filers, \$23,625 for head of household, and \$15,750 for all other filers.

Additional key deduction and credit changes include:

- A temporary senior deduction of \$6,000 per qualifying individual (age 65+), available to both itemizers and non-itemizers from 2025 through 2028. This deduction phases out for taxpayers with modified adjusted gross income over \$75,000 (single) or \$150,000 (married), making early planning essential for eligible seniors.

- A temporary expansion of the state and local tax (SALT) deduction cap, which rises to \$40,000 in 2025 and increases by 1% annually through 2029. The expanded cap phases out for incomes above \$500,000 and reverts to the prior \$10,000 cap in 2030.
- A permanent extension of the home mortgage interest deduction cap, which locks in the \$750,000 principal limit for acquisition debt on a primary residence.
- A permanent increase to the Child Tax Credit, raising the maximum to \$2,200 per child in 2026, with inflation adjustments in future years.

Because many of these provisions include income-based phaseouts, strategic timing, income management, and contribution planning can make a substantial difference. Contact your United financial advisor to discuss planning strategies that may be available to you.



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