Composition Wealth

Q2 2025 Investment Outlook

Updated June 5, 2025

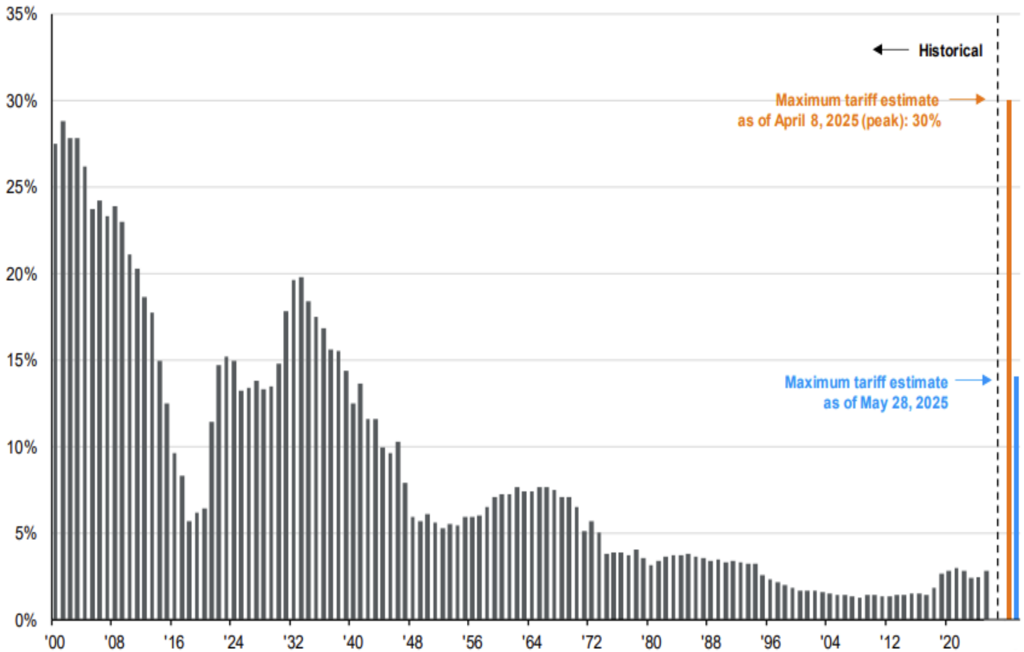
INSIDE

GEOPOLITICAL POLICY

After April 2, the U.S. effective tariff rate jumped from 3% to 23%. Subsequent policy revisions have since lowered it to 13%. These tariffs have had the most impact on five trading partners—China, the European Union, Mexico, Vietnam, and Canada—accounting for 61% of the trade deficit.

Average tariff rate on U.S. goods imports for consumption

Duties collected / value of total goods imports for consumption



Source: J.P. Morgan Asset Management, Goldman Sachs Investment Research, U.S. International Trade Commission. As of May 28, 2025

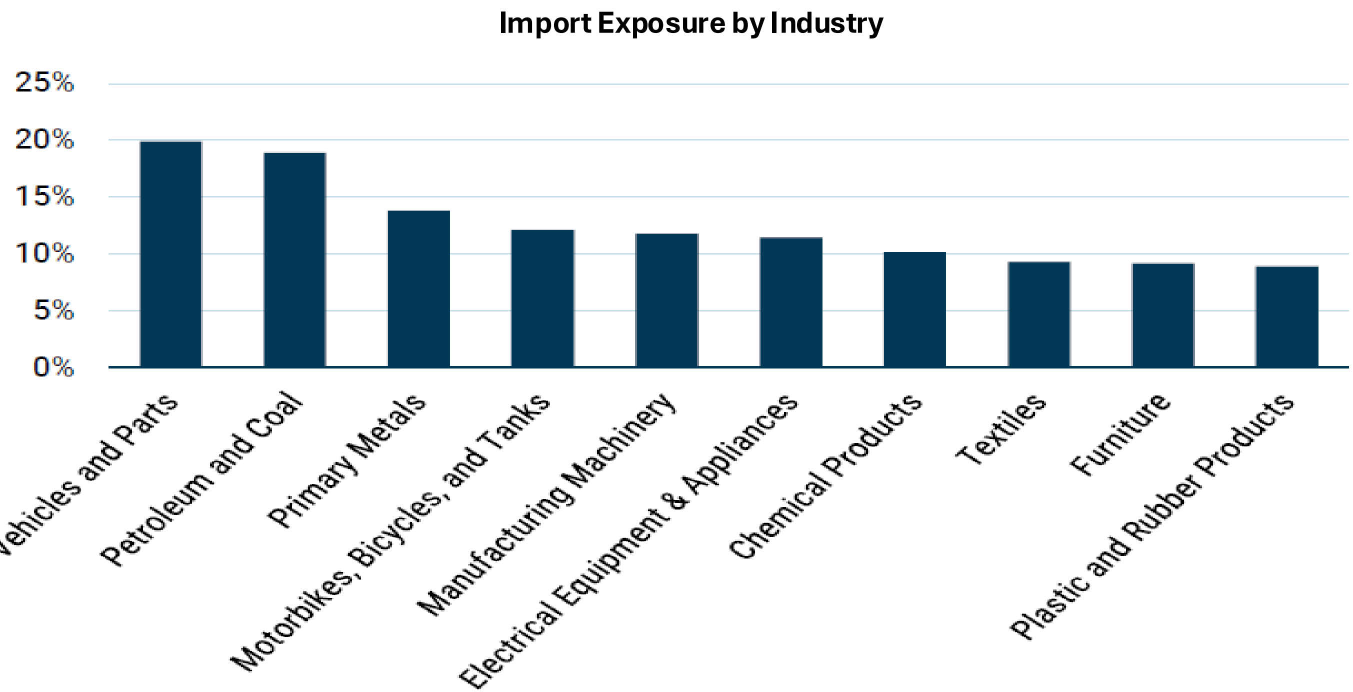
Trade Deficit by Country/Region

Rank	Region	Total Deficit ($bn)	Total Trade (Exports + Imports) ($bn)	Deficit as % of Trade	Contribution To Total Deficit (%)
1	China, Mainland	-295	577	-51%	19%
2	European Union	-236	961	-25%	15%
3	Mexico	-172	826	-21%	11%
4	Vietnam	-123	139	-89%	8%
5	Canada	-121	766	-16%	8%
6	Taiwan	-74	149	-50%	5%
7	Japan	-68	228	-30%	4%
8	Republic of Korea	-66	197	-33%	4%
9	India	-46	128	-36%	3%
10	Thailand	-46	77	-59%	3%
11	Switzerland	-38	76	-51%	2%
12	Malaysia	-25	74	-33%	2%
13	Indonesia	-18	36	-49%	1%
14	Other Europe	-15	45	-33%	1%
15	South Africa	-9	20	-44%	1%

Data as of April 2025. Source: U.S. Bureau of Economic Analysis, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

Portfolio Perspective: New U.S. tariff policies and the global response are signaling a shift toward a new economic era. This is expected to increase short-term volatility and may drive lasting structural changes to the global economy.

Industries such as auto parts and certain commodities rely heavily on imports, making them especially vulnerable to the effects of tariffs.

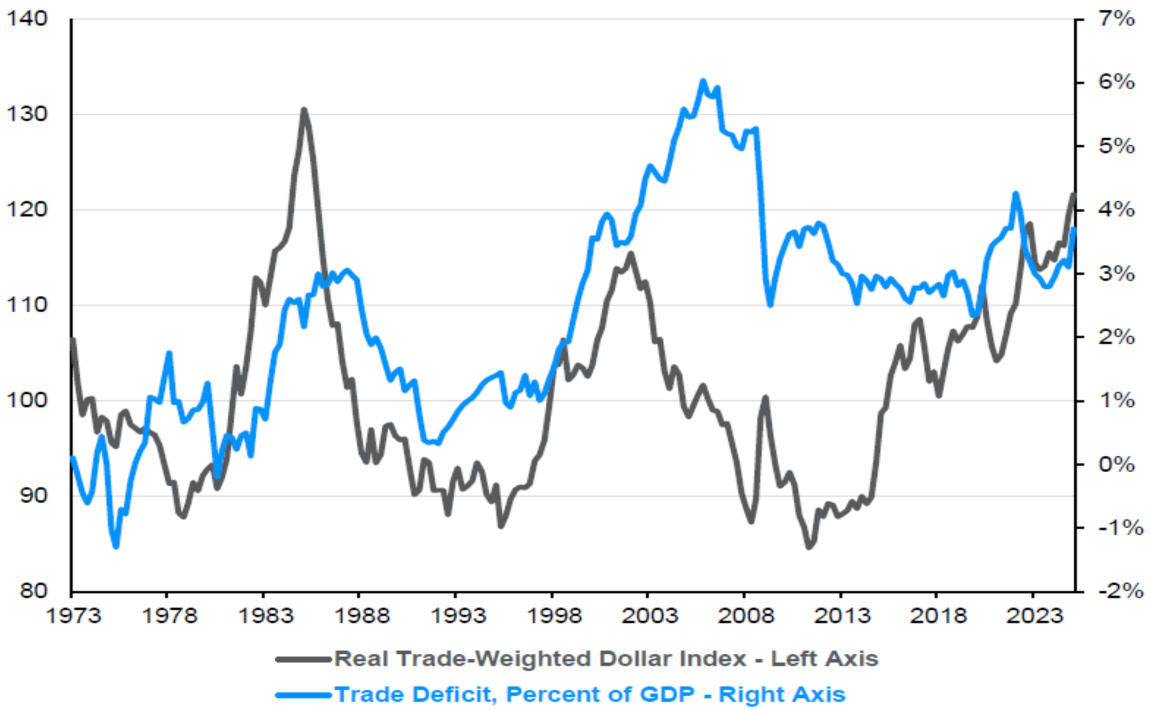


Data as of 2023, provided for historical context | Sources: Worldscope, Compustat, MSCI, S&P Global, GMO

Portfolio Perspective: The Materials and Industrials sectors will likely face the most significant challenges from increased tariffs. A key uncertainty is how much of the tariff impact will be passed on to consumers through higher prices versus being absorbed by companies through reduced profit margins.

On an inflation-adjusted basis, the trade-weighted dollar is at its strongest level since 1985.

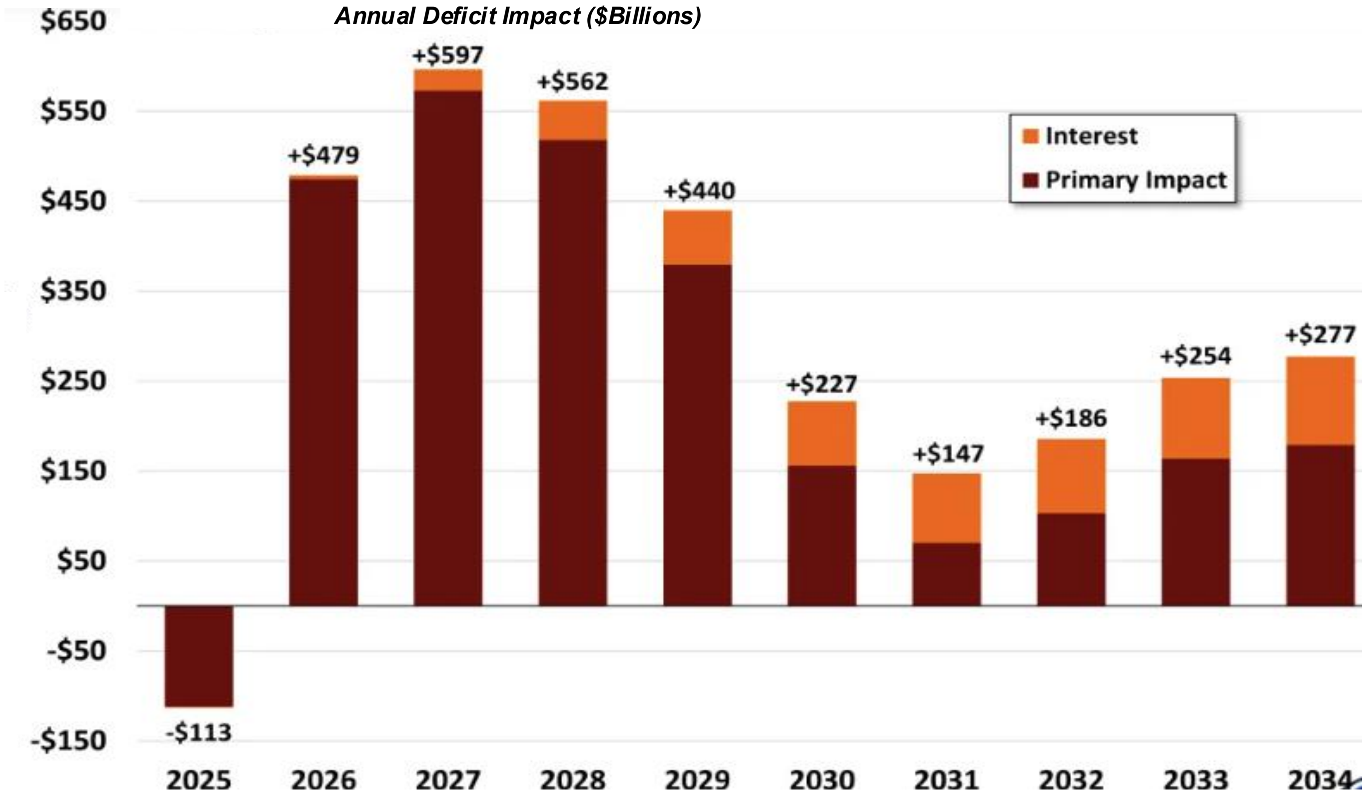
Real trade-weighted exchange rate and trade deficit



Source: Federal Reserve, BEA, J.P. Morgan Asset Management. As of 3/31/2025

Portfolio Perspective: The U.S. dollar is currently valued above its long-term historical average. Shifts in trade policy could bring it closer to more typical levels.

The current House version of the One Big Beautiful Bill Act is projected to add $500–$600 billion per year to the current deficit levels over the remainder of the decade.



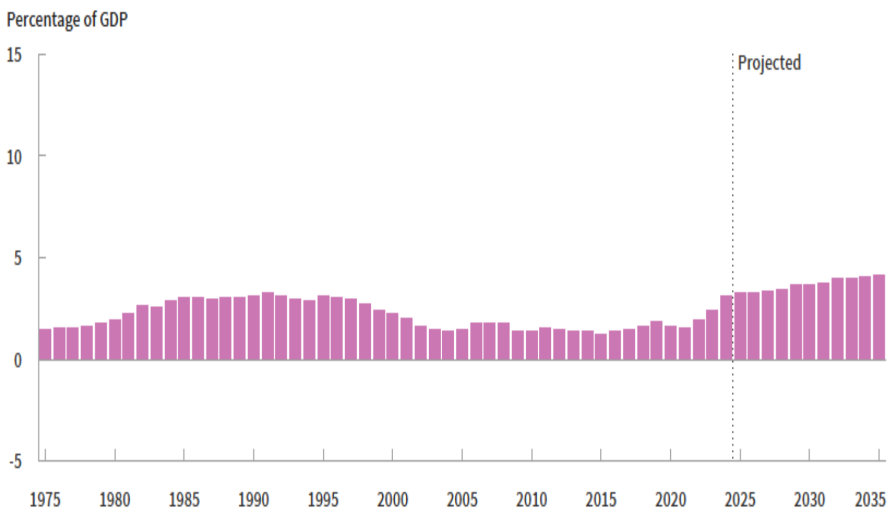
Source: Congressional Budget Office, Committee for a Responsible Federal Budget. As of 5/21/2025

Portfolio Perspective: Growth in the level of annual spending is noteworthy, given that interest costs make up a growing percentage of Federal spending.

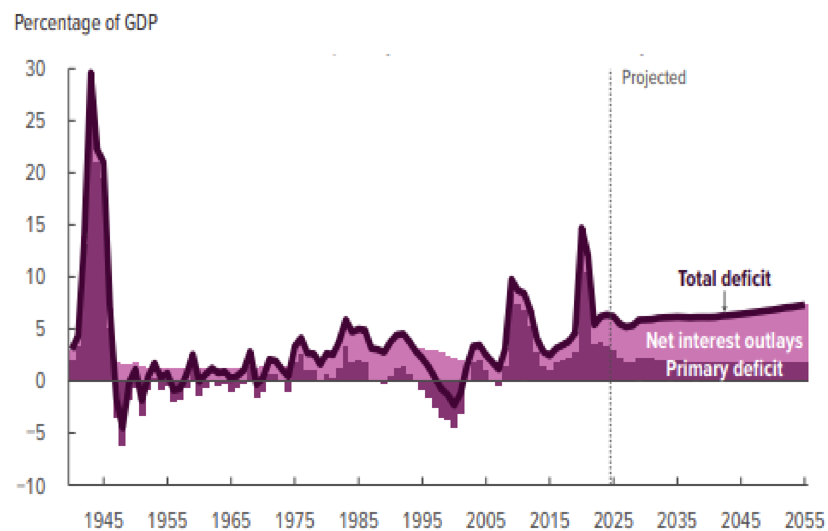
Refer to appendix for disclosures

With current Treasury yields, rising interest expenses are likely to be the primary driver of deficit growth.

Federal Interest Expense as a % of GDP



Long-Term Forecast of Deficit Contribution



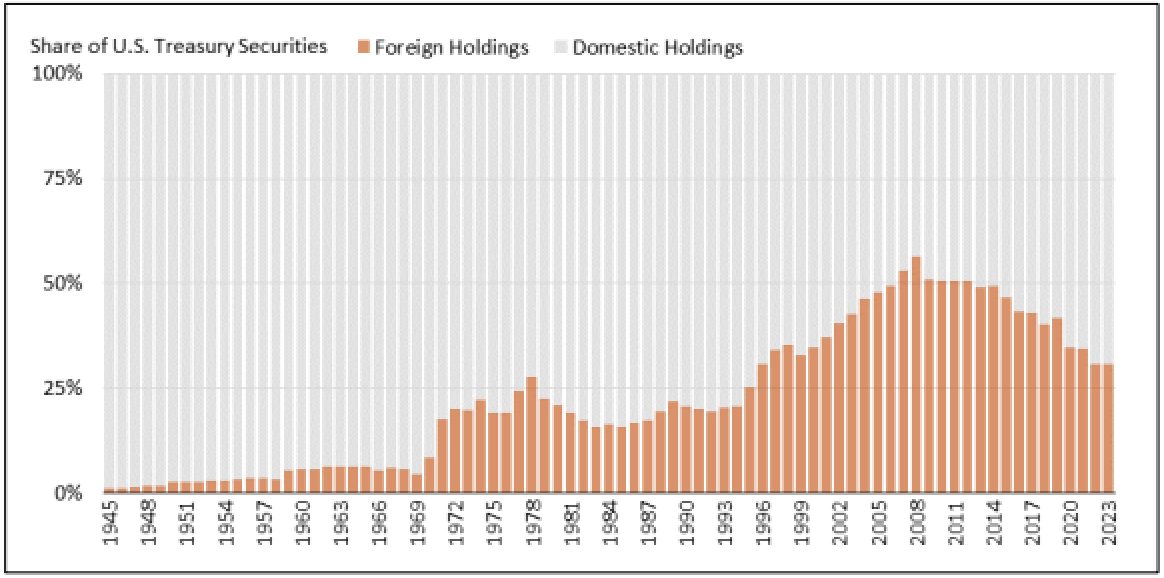
Source: Congressional Budget Office. https://www.cbo.gov/system/files/2025-03/61187-LTBO-Executive-Summary.pdf

Portfolio Perspective: We are looking for a gradual migration toward a fiscal deficit that is no more than 3% of GDP, as it will constrain the deficit from growing at a greater rate than the economy (GDP) and keep Federal interest costs from becoming an unruly constraint

The share of U.S. Treasuries held by foreign investors has been declining since 2008. Approximately 30% of Treasuries are held by non-U.S. investors, compared with over 50% in 2008.

Figure 1. Foreign and Domestic Holdings of Treasury Securities (1945-2023)

Figure is interactive in the HTML version of this report.



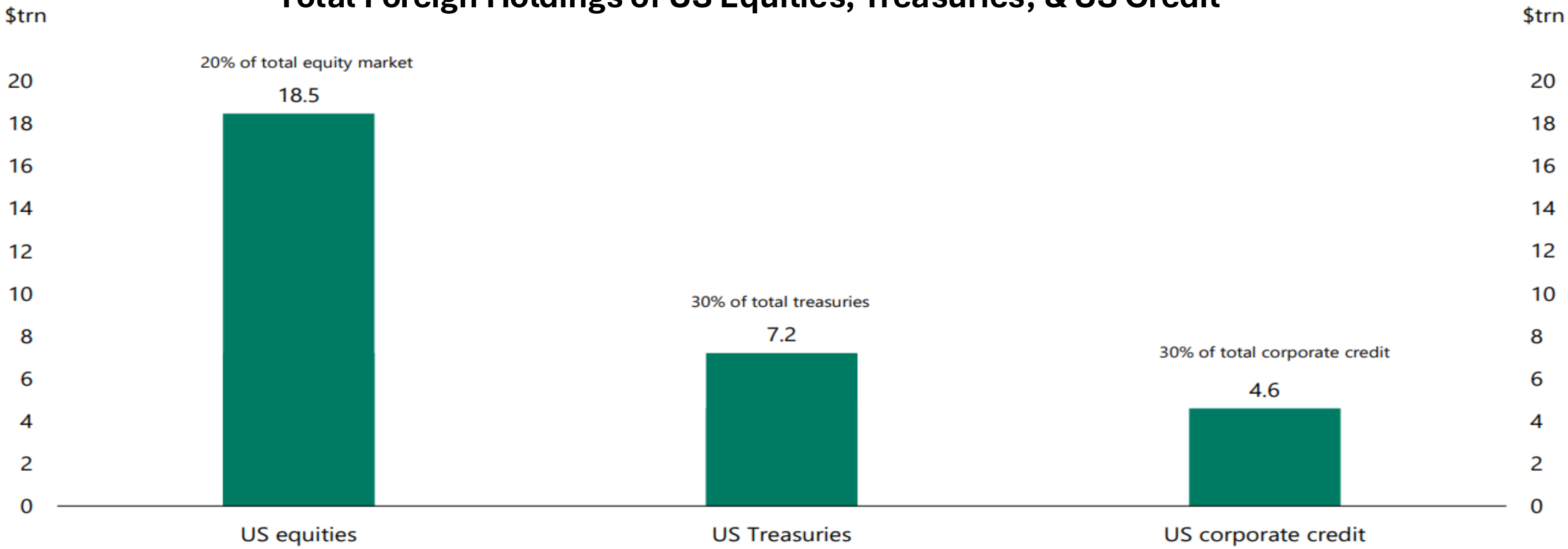
Source: Created by CRS. Data from Board of Governors of the Federal Reserve System, *Financial Accounts of the United States* (Z.1), Table L.210 (Treasury Securities), via Data Download Program at https://www.federalreserve.gov/datadownload.

Notes: Table includes marketable Treasury securities held by the public. Data current as of June 10, 2024.

Portfolio Perspective: A reduction of foreign interest in U.S. bonds could impact the yields offered on Treasury debt. However, there has been a strong and persistent trend of fewer foreign buyers in the Treasury market over the last 17 years. We expect Treasury yields will not experience too severe an impact from any foreign outflows.

Foreign investors have meaningful holdings in U.S. stocks and bonds.

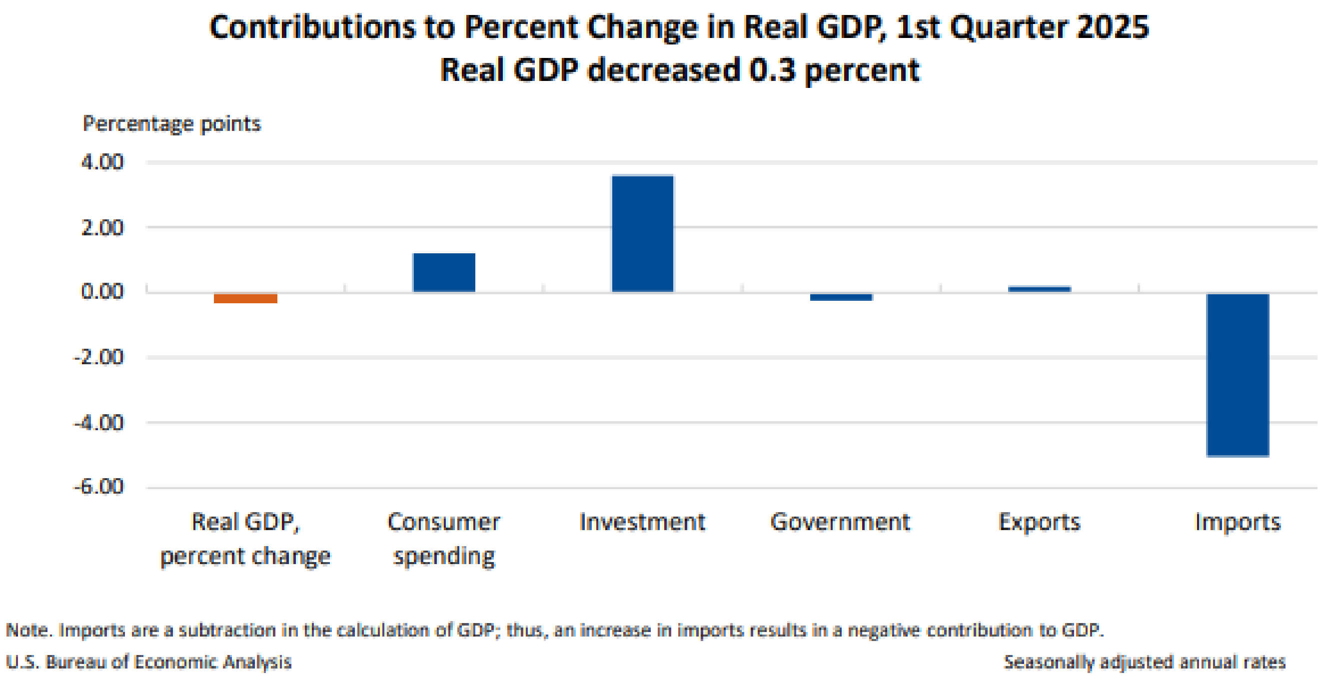
Total Foreign Holdings of US Equities, Treasuries, & US Credit



Sources: Federal Reserve, MacroBond, Apollo Chief Economist

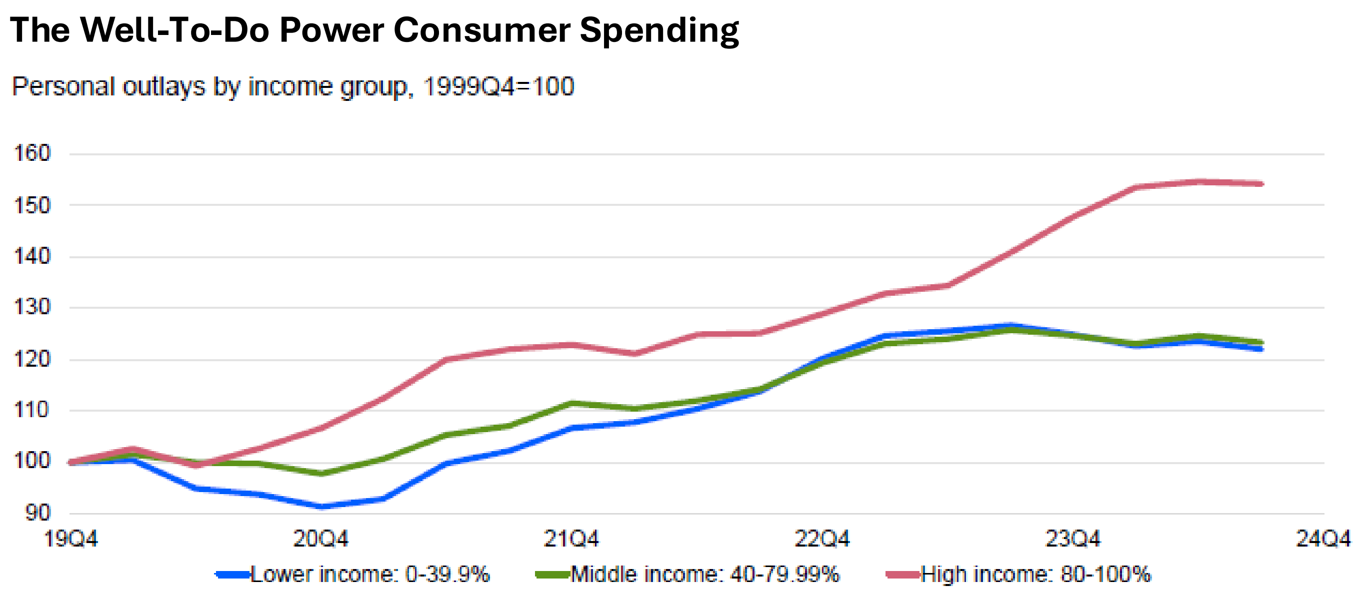
Portfolio Perspective: Evolving trade parameters and the prospect of a weaker dollar may lead foreign investors to reduce their U.S. holdings. Any elevated selling pressure from these investors could add near-term pressure on asset prices.

The U.S. Economy contracted by -0.2% in the first quarter of 2025. This deceleration is linked to a surge of imports ahead of planned tariffs.



Portfolio Perspective: This is a near-term anomaly, where a shift away from such a negative trade deficit should provide a tailwind for GDP growth. The greater question in the market is what happens with the pace of investment and consumer spending.

Over the last two years, consumer spending has been largely driven by higher-income households.



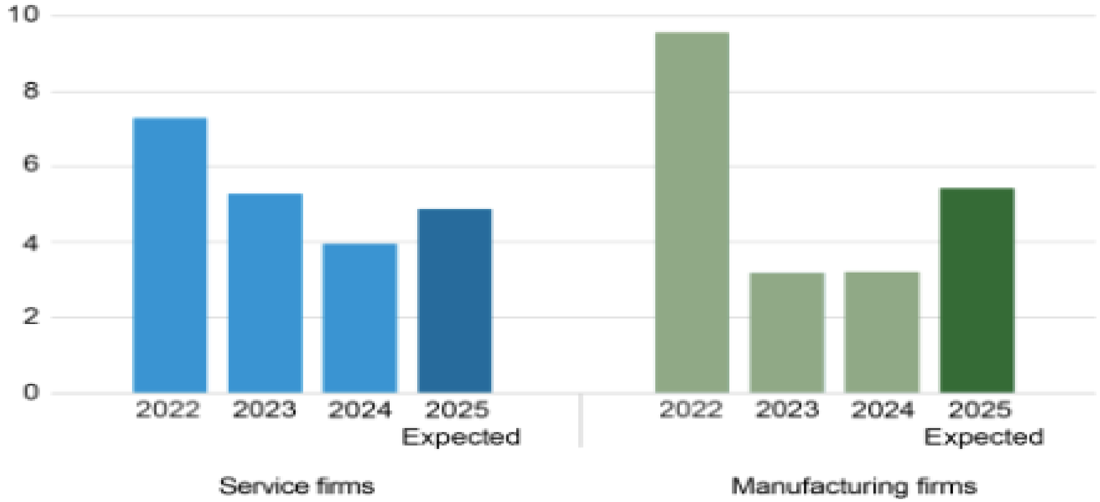
Source: Bureau of Labor Statistics, Moody's Analytics. As of Q4 2024

Portfolio Perspective: A near-term concern is that high-income consumers may scale back spending due to recent asset price declines, potentially adding to the economic headwinds already posed by tariffs.

Following a period of easing inflation, we anticipate a 1-2% increase in prices driven by the newly announced tariffs*.

Price Increases Are Expected to Pick Up

Percent



Sources: Federal Reserve Bank of New York, Supplemental Surveys, February 2024 and December 2022; Federal Reserve Bank of New York, Regional Business Surveys, February 2025.

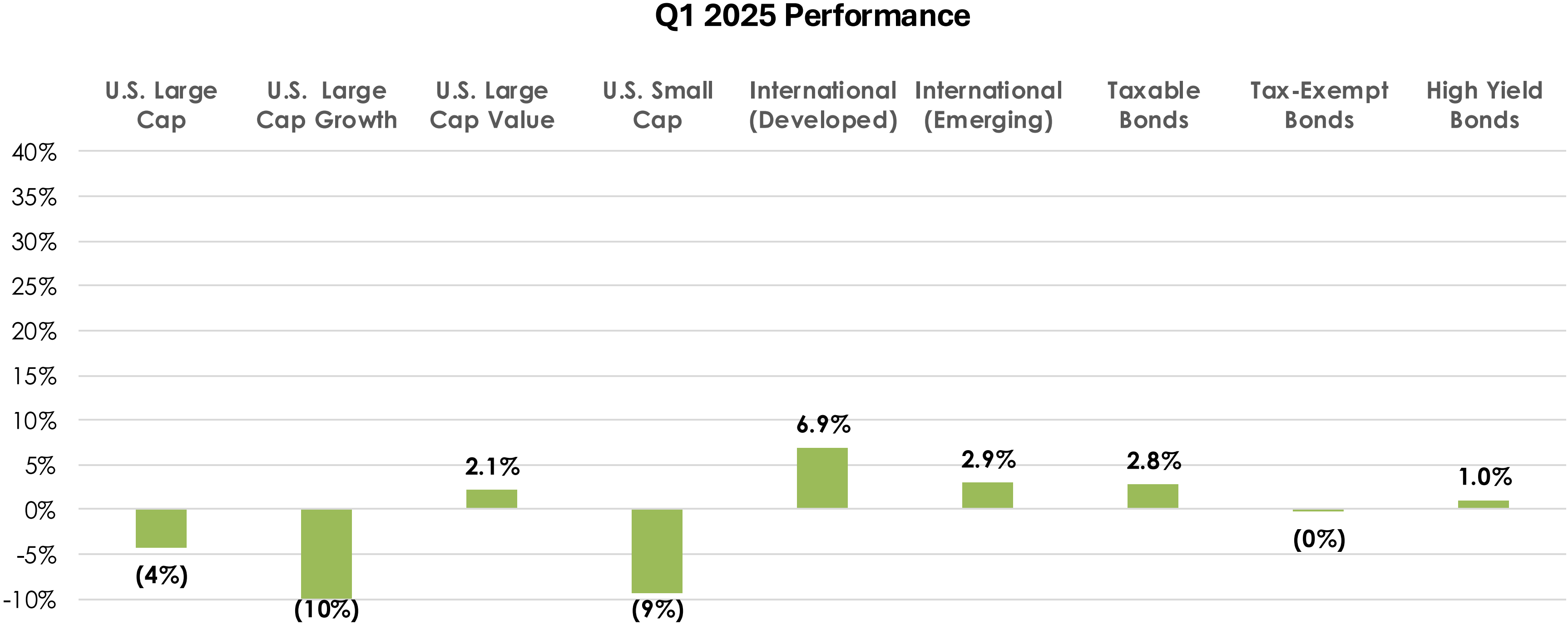
Source: Liberty Street Economics, New York Federal Reserve. March 5, 2025

*As of May 29, 2025

Portfolio Perspective: The impact of tariffs is expected to show up quickly in monthly inflation data over the next several months, resulting in elevated readings through the third quarter of 2025. These pressures are anticipated to ease later in the year. A key uncertainty remains whether this inflationary momentum triggers wage increases, potentially fueling a wage-price spiral.

MARKET DYNAMICS – EQUITY

Market performance in the first quarter of 2025 was mixed, with U.S. equities—leaders in 2023 and 2024—relinquishing some of their previous gains.



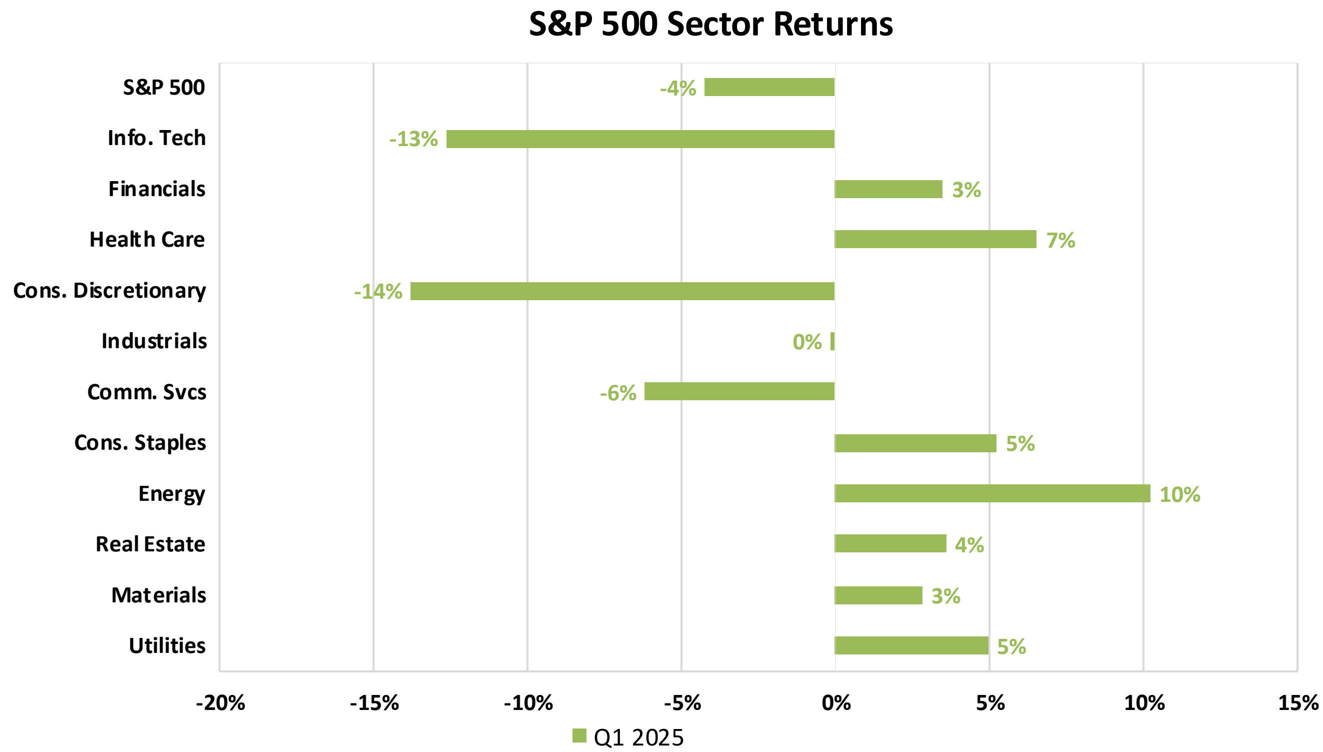
Source: Bloomberg. U.S. Large Cap represented by the S&P 500. U.S. Large Cap Growth and Large Cap Value represented by the Russell 1000 Growth and Russell 1000 Value respectively. U.S. Small Cap represented by the Russell 2000. International (Developed) represented by the MSCI EAFE, while International (Emerging) represented by the MSCI Emerging Market index. Taxable Bonds proxied by the Bloomberg U.S. Aggregate, while Tax-Exempt by the Bloomberg Municipal Bond index. High Yield Bonds represented by the Bloomberg High Yield index. Returns as of December 31, 2024.

Portfolio Perspective: Diversification added value in Q1, as gains in international equities and bonds helped offset the decline in U.S. equities.

Refer to appendix for disclosures

MARKET DYNAMICS – EQUITY

The bulk of the decline in U.S. stocks stemmed from three sectors—consumer discretionary, technology, and communication services—all of which ranked among the top performers in 2024.



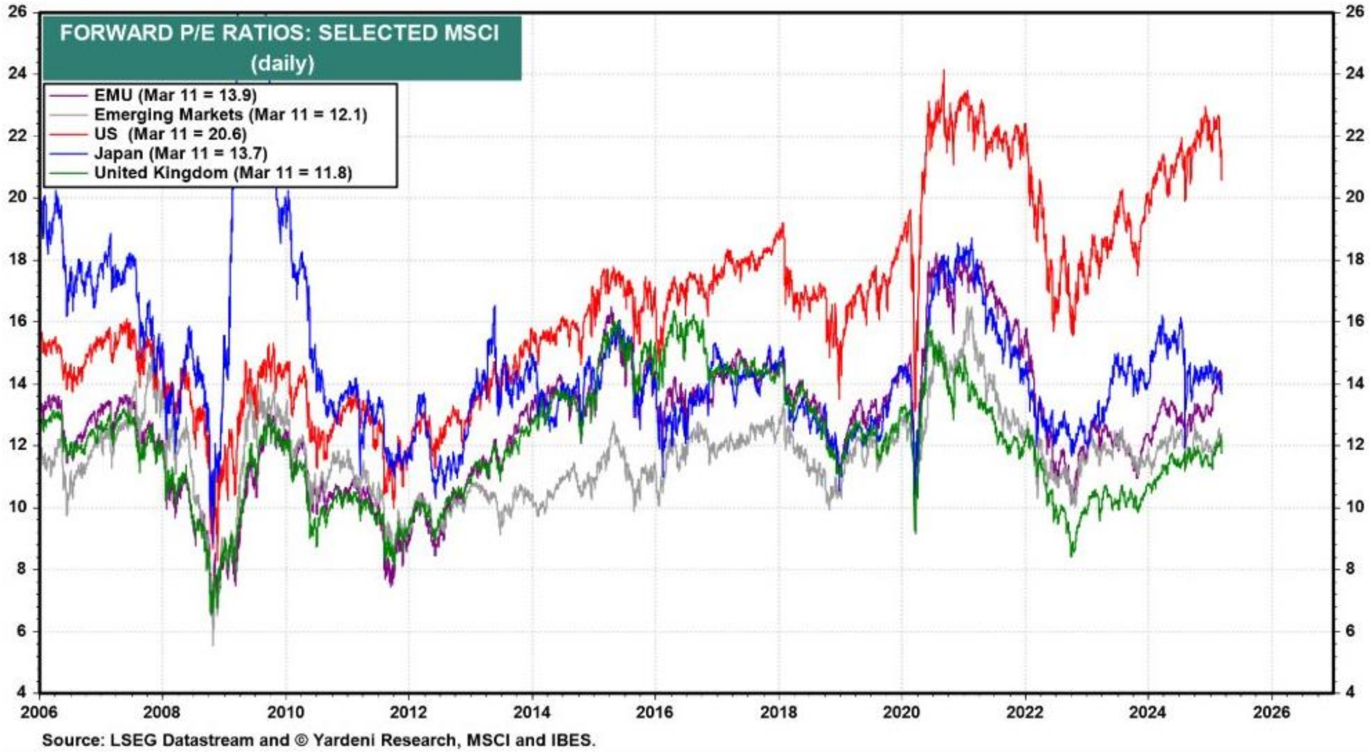
Source: Bloomberg, Standard & Poor's. Represent S&P 500 sector returns. As of March 31, 2025.

Portfolio Perspective: Market breadth improved at the start of 2025, with most sectors posting positive returns and outperforming the broader S&P 500.

Refer to appendix for disclosures

MARKET DYNAMICS – EQUITY

U.S. equity valuations have grown significantly compared to international markets, with stronger earnings growth, which helps justify the elevated multiples.

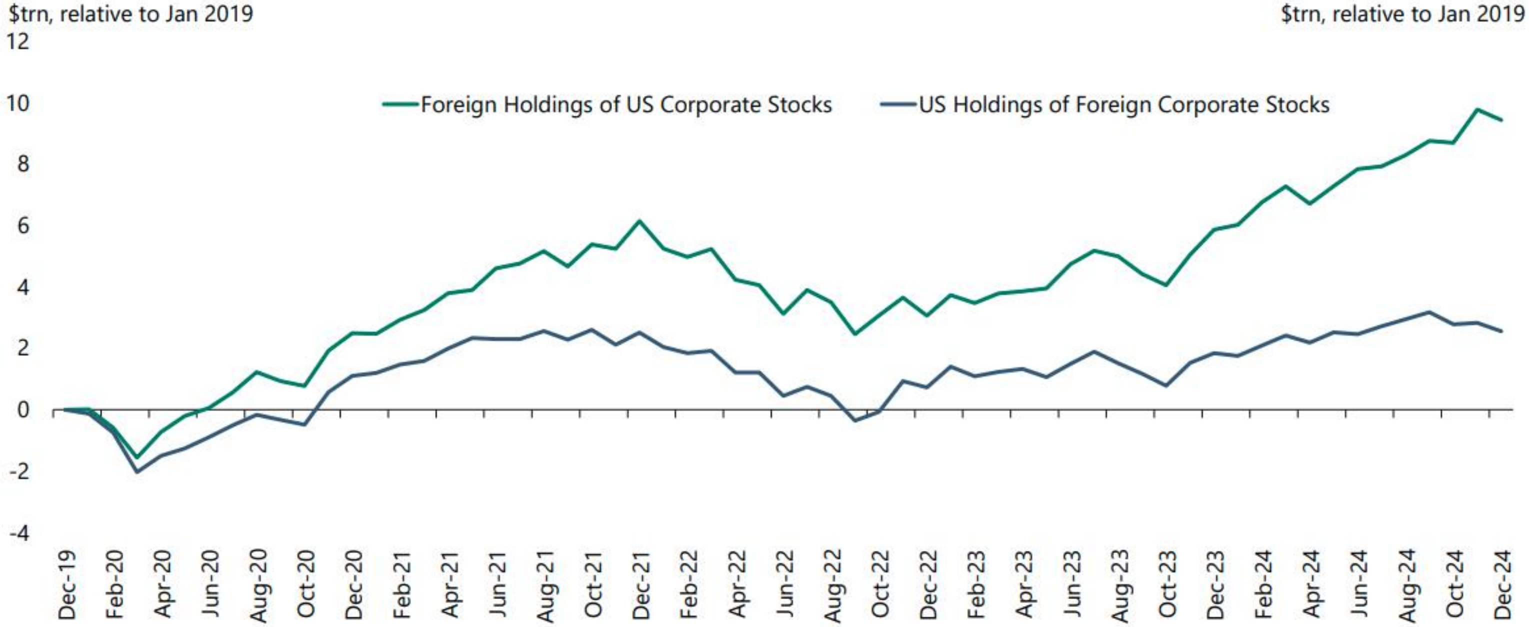


Source: LSEG Datastream and Yardini Research, MSCI and IBES. As of March 11, 2025

Portfolio Perspective: A near-term slowdown in U.S. economic growth and profit margins may prompt a narrowing of valuation multiples between U.S. and international equities.

MARKET DYNAMICS – EQUITY

In the last five years, nearly $10 trillion in foreign capital has flowed into U.S. equities.



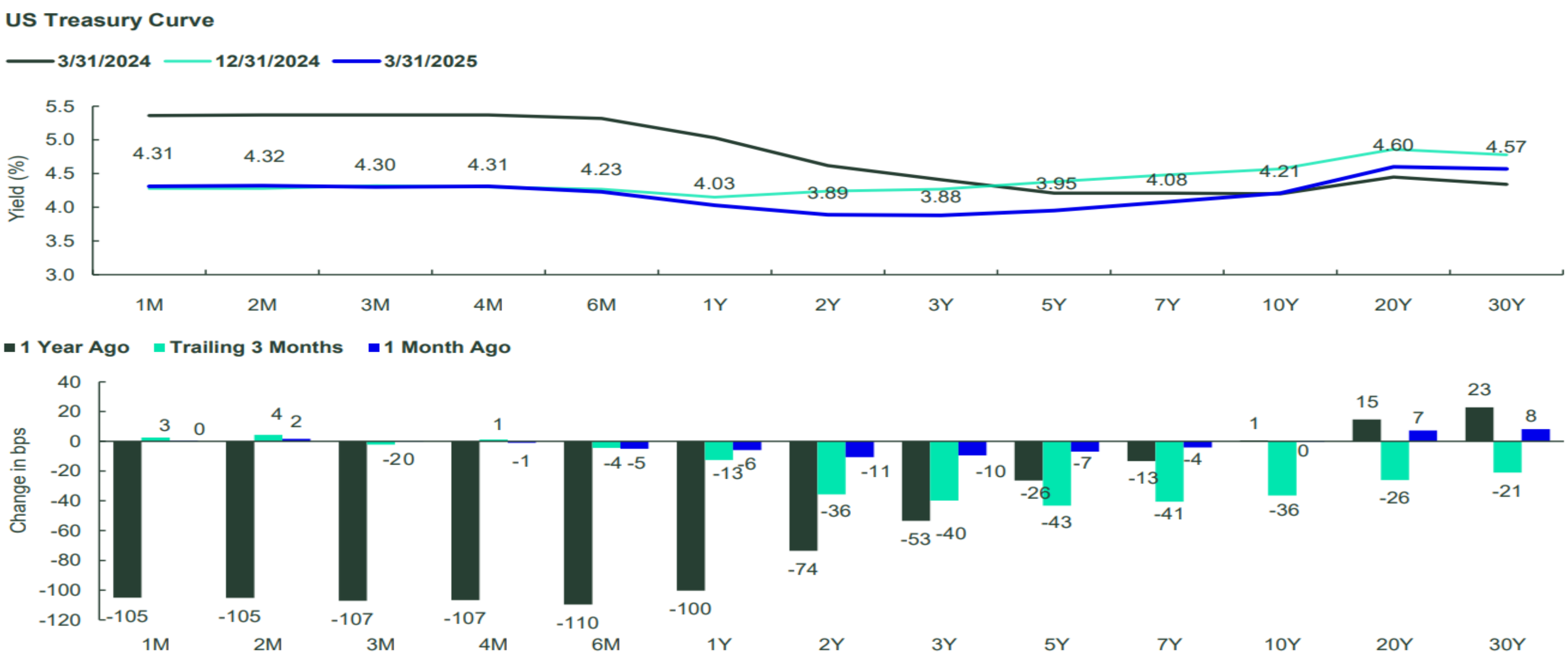
Sources: US Treasury, Haver Analytics, Apollo Chief Economist

Portfolio Perspective: After five years of substantial foreign investment into U.S. markets, shifting trade policies and evolving geopolitical alliances may prompt a reversal. Our base case anticipates some capital reallocating from the U.S. to other international markets.

Refer to appendix for disclosures

MARKET DYNAMICS – FIXED INCOME

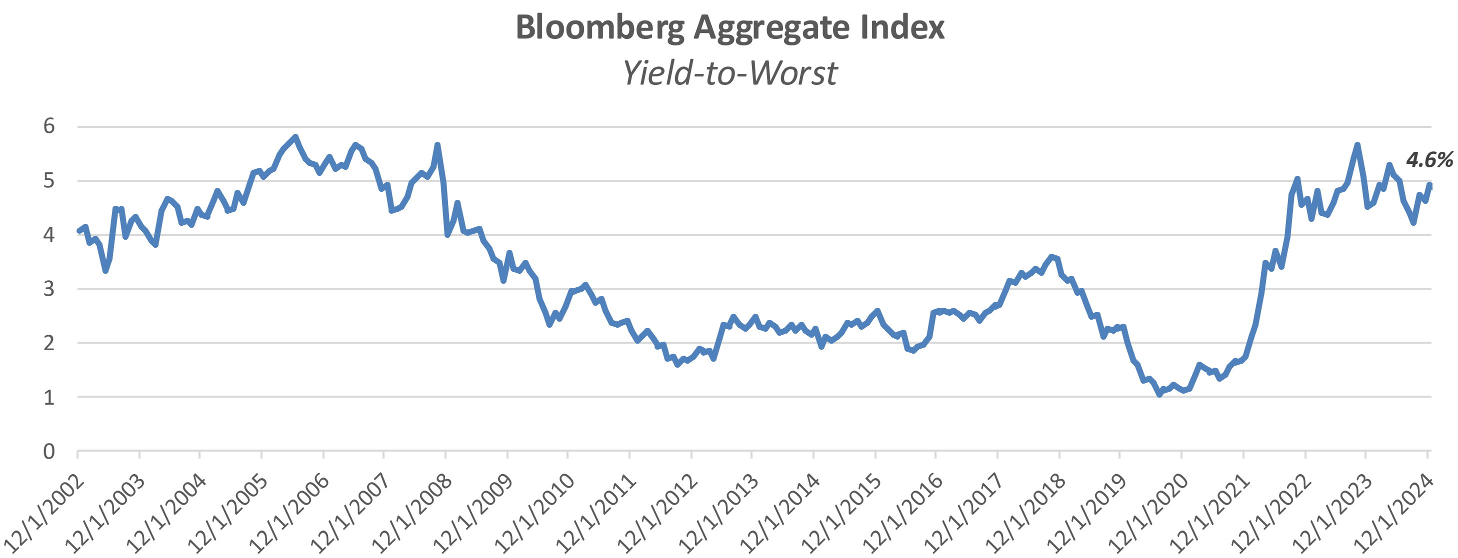
In the first quarter, Treasury bond yields declined for maturities of two years and longer.



Source: State Street, Bloomberg. As of March 31, 2025.

Portfolio Perspective: Amid potential tariff policy changes, the Treasury yield curve reflects growing economic uncertainty. This drove yields lower and bond prices higher during the quarter, offering valuable diversification as equities declined.

Bond yields continue to offer reasonable yields relative to longer-term norms.

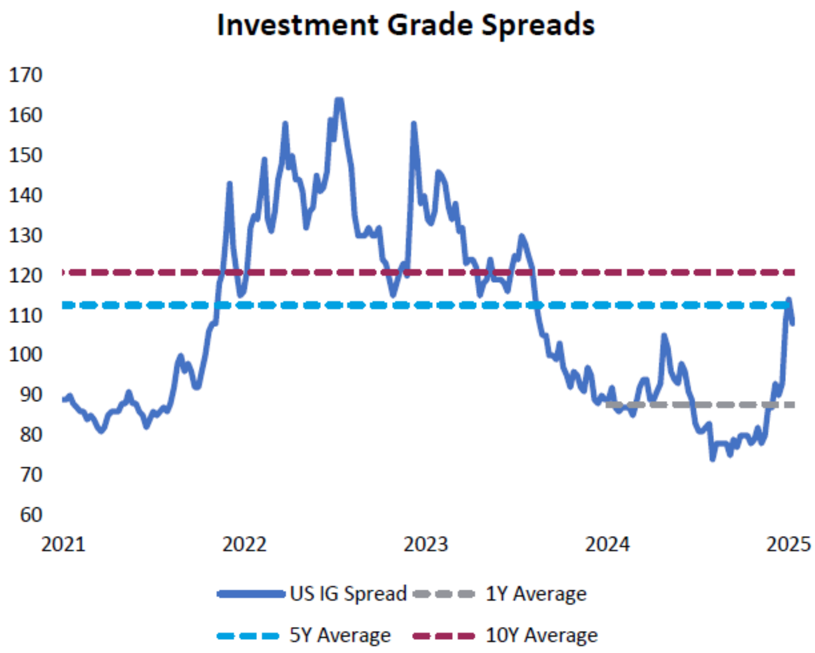


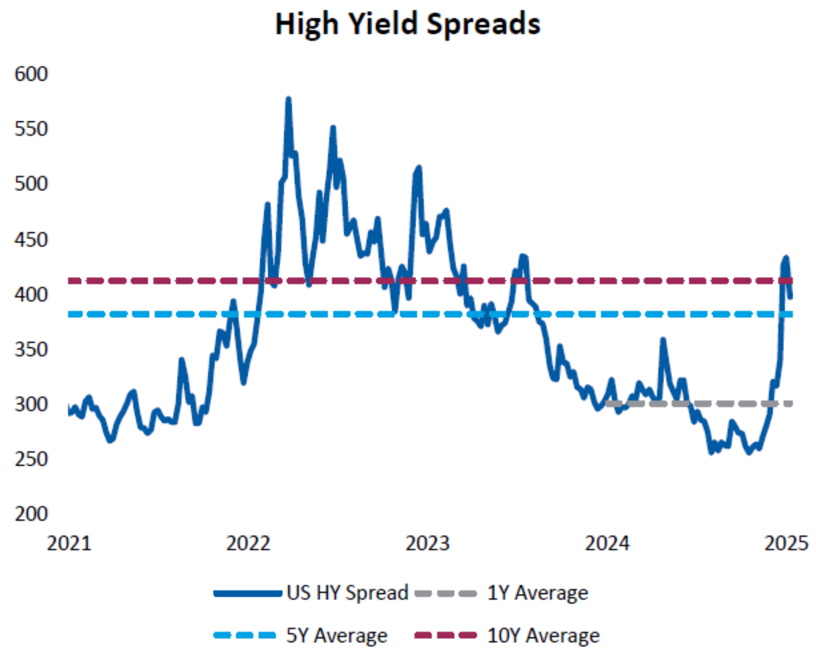
Source: Bloomberg, Composition Wealth. As of March 31, 2025.

Portfolio Perspective: Given their attractive yields and reliable diversification benefits, we see growing value in bonds.

MARKET DYNAMICS – FIXED INCOME

The additional yield offered on corporate bonds (i.e., corporate bond spreads) has increased from ultra-low levels at the start of 2025, but remains tight relative to longer-term averages.





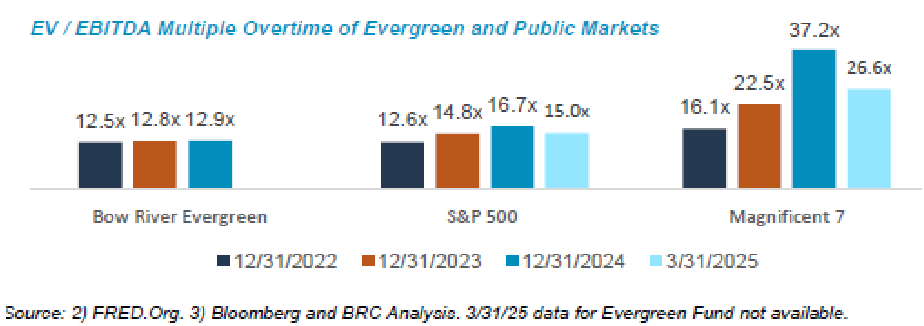
Source: Bloomberg, MSIM. As of April 17, 2025

Portfolio Perspective: Corporate bonds, and high-yield bonds in particular, are less appealing given that the compensation for assuming additional credit risk has remained below average. We are biased toward higher-quality corporate credits and prefer to avoid taking added risk without sufficient compensation.

MARKET DYNAMICS – PRIVATE INVESTMENTS

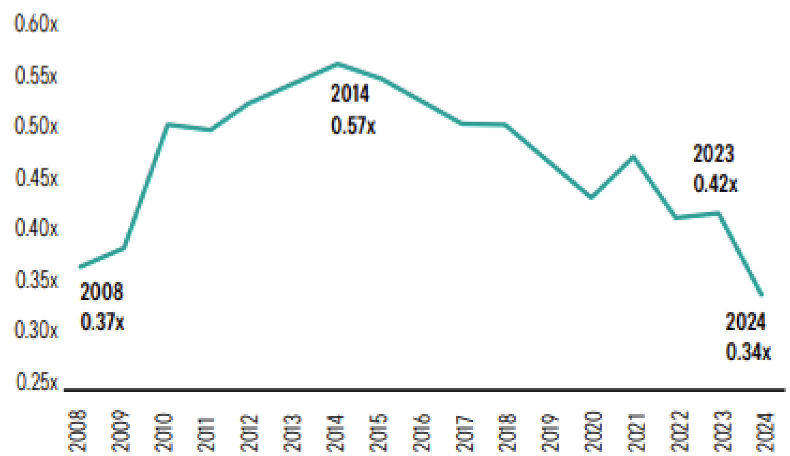
Unlike public markets, private market valuations have stayed within a tight range. Elevated borrowing costs and reduced M&A activity have led private equity funds to hold onto investments longer, even at reasonable valuations.

Private Equity Valuation Ratios
(Enterprise Value/EBITDA)



Source: Bow River, FRED.org, Bloomberg and BRC Analysis. As of March 31, 2025.

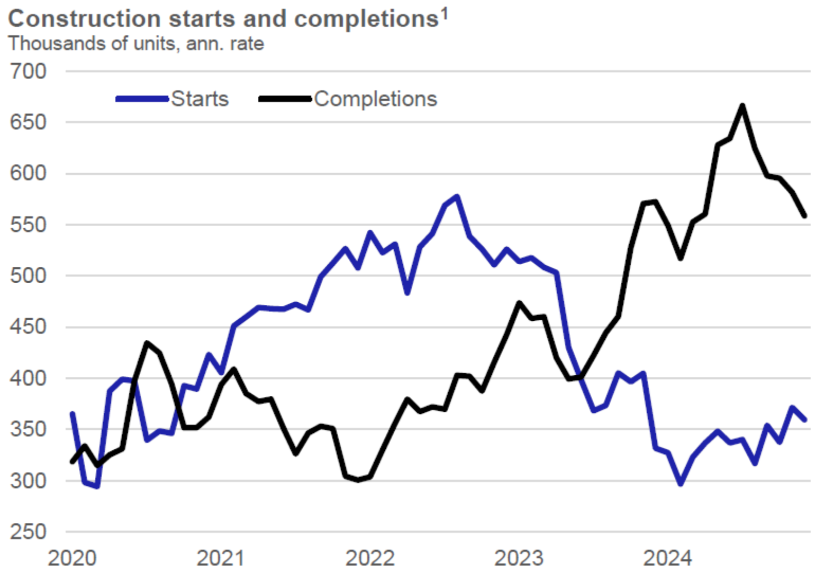
US Private Equity Exits/Investments Ratio
(Number of Exits to Number of Investments)

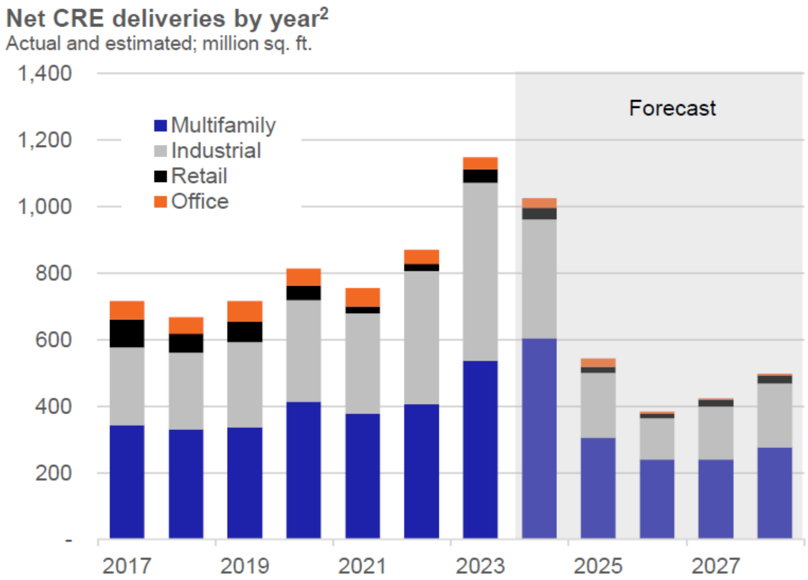


Source: Franklin Templeton, Pitchbook Q3 2024 US Private Equity Breakdown Report
As of September 30, 2024.

Portfolio Perspective: We view private equity valuations as more attractive than those in the public markets. Furthermore, the limited exit activity in recent years is likely to fuel a wave of deal-making and an increase in secondary fund sales, as private equity investors seek liquidity.

Post-pandemic construction projections have peaked. A dearth of new constructure stars is likely to lead an imbalance of supply and demand in future years.



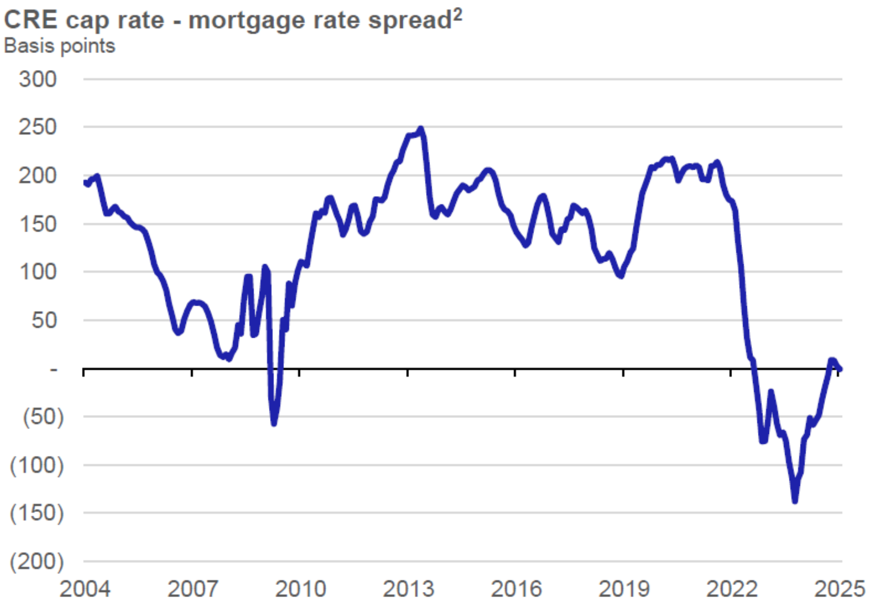


1. U.S. Census Bureau, as of March 31, 2025.
2. CoStar, as of October 31, 2024.

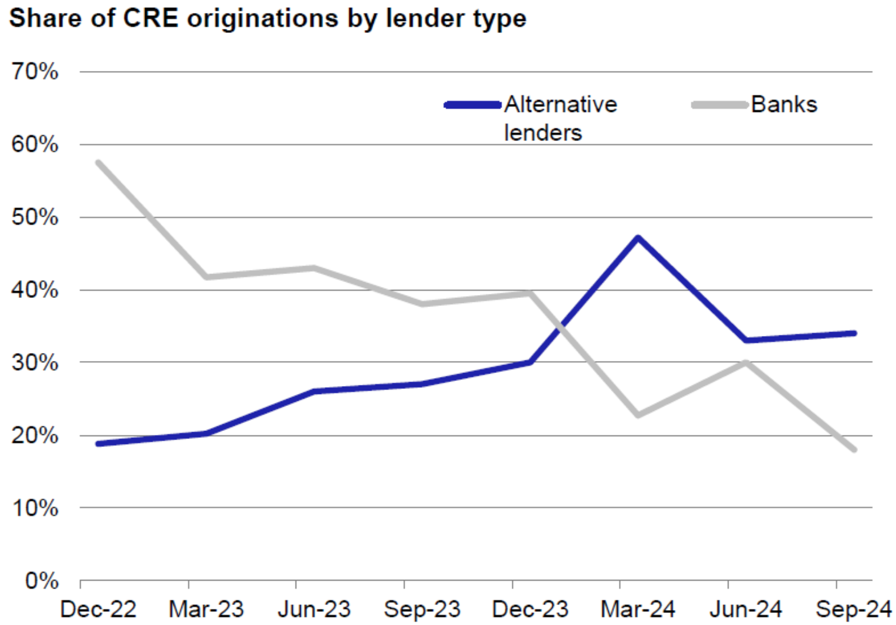
Portfolio Perspective: We believe this dynamic will lead to an acceleration in real estate rent growth in the back half of the decade. However, our analysis would indicate some of these is already incorporated in current real estate valuations.

MARKET DYNAMICS – PRIVATE INVESTMENTS

Commercial real estate (CRE) cash-flow yields (cap rates) now roughly match borrowing costs. At the same time, an overhang of real estate loans on bank balance sheets—combined with evolving regulatory pressures—has caused bank lending to CRE borrowers to decline sharply.



Source: FS Investments, MSCI Real Capital Analytics. As of February 28, 2025

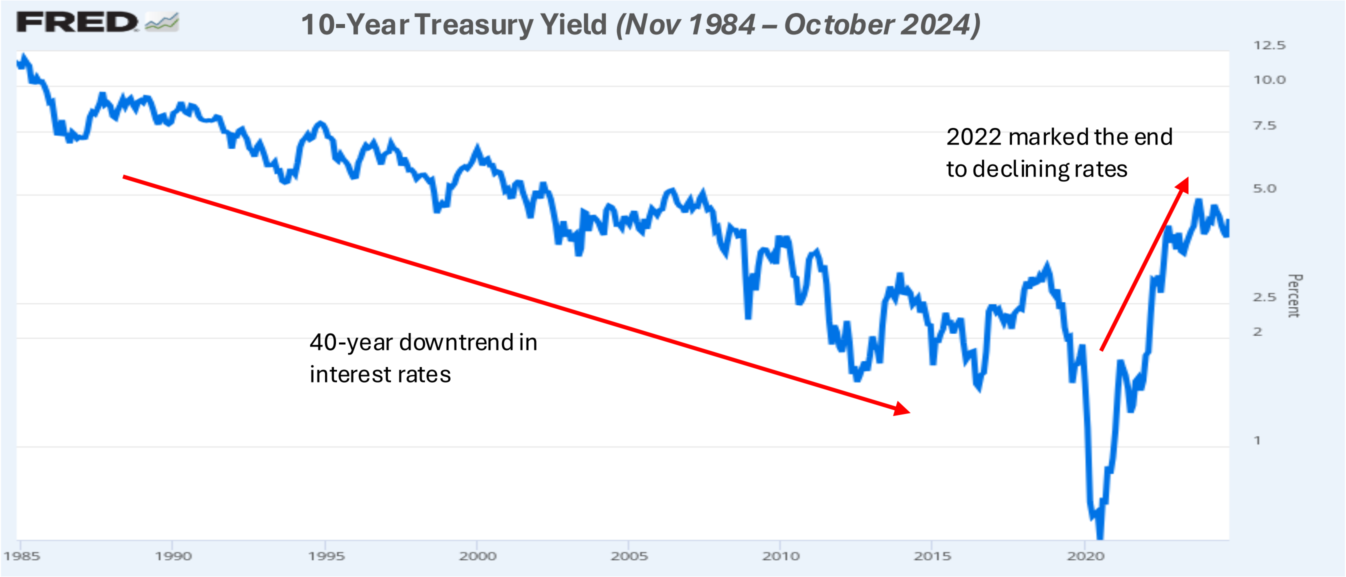


Source: FS Investments, MSCI Real Capital Analytics. As of September 30, 2024

Portfolio Perspective: The economics around owning real estate are less attractive given relatively low cash flow yields (cap rates) and higher borrowing costs. We prefer real estate debt where less competition from bank capital is leading to favorable rates for borrowers. Real estate debt is higher up in the capital structure and generates returns that are on par with or higher than what can be earned from investing in most core real estate projects.

THEMATIC TRENDS (HIGHER FOR LONGER)

After four decades of declining interest rates, we do not expect bond yields to revert to their pre-2022 levels. Instead, rates are likely to remain elevated for an extended period, meaning returns on interest rate–sensitive assets could look very different from those seen over the past 10–15 years.

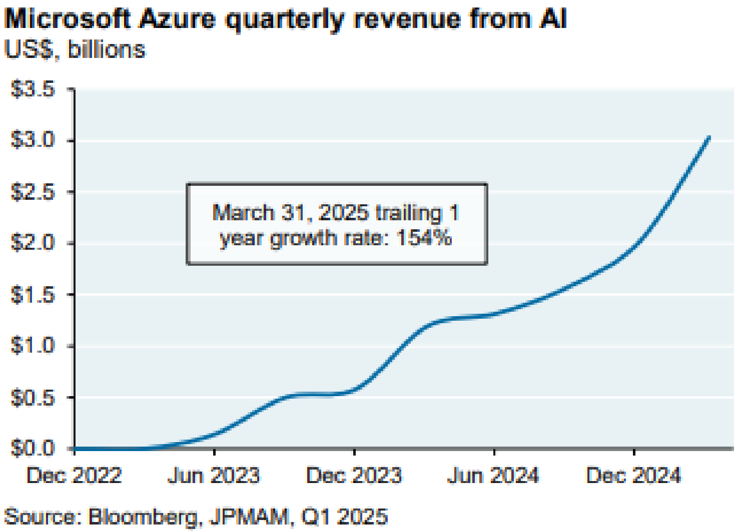


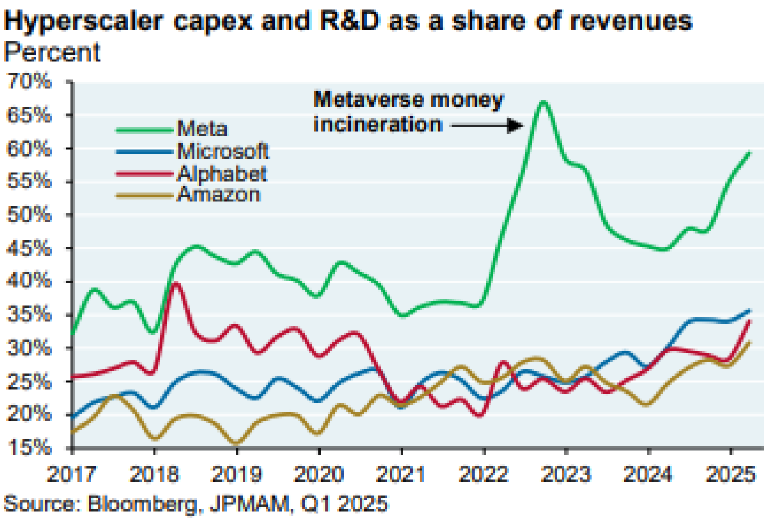
Source: Board of Governors of the Federal Reserve System. As of October 31, 2024.

Investment Impact

- Higher rates suggest stronger long-term expected returns for bonds.
- Assets and companies with higher debt levels will be pressured by the sustained uptrend in financing costs. In this environment, we favor high-quality companies less reliant on leverage.
- Financial companies, notably insurance and financial advisory firms, should benefit from higher rates.
- Higher rates support a stronger U.S. dollar, which may favor domestic stocks over international stocks in the near term.

Artificial Intelligence revenue, while accelerating, is modest relative to elevated capital spending related to building AI data center (hyperscaler) infrastructure.

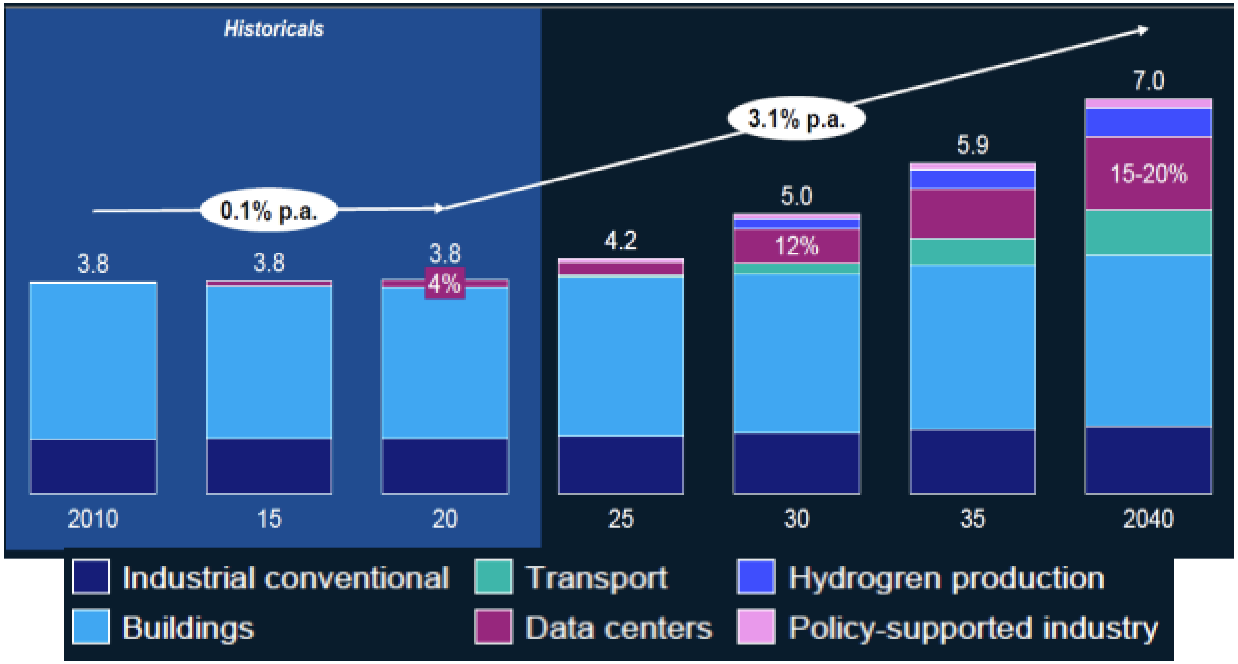




Portfolio Perspective: Utilization and use cases for artificial intelligence are increasing and will have a material impact on consumer and business behavior and productivity. To what extent various large language models compete against one another remains less certain, and whether the return on investment is sufficient to justify the magnitude of capital allocated to hyperscaler infrastructure remains to be seen.

After nearly two decades of stagnant growth in power demand, increased adoption of electric vehicles and data center demand is expected to lead to 3% annualized growth in power demand.

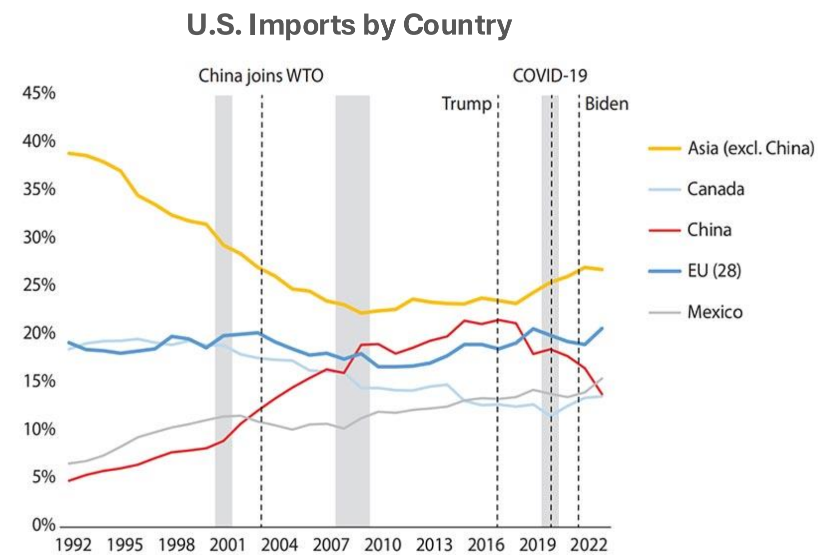
US Power Demand Forecast by Sector Through 2040, '000s TWh



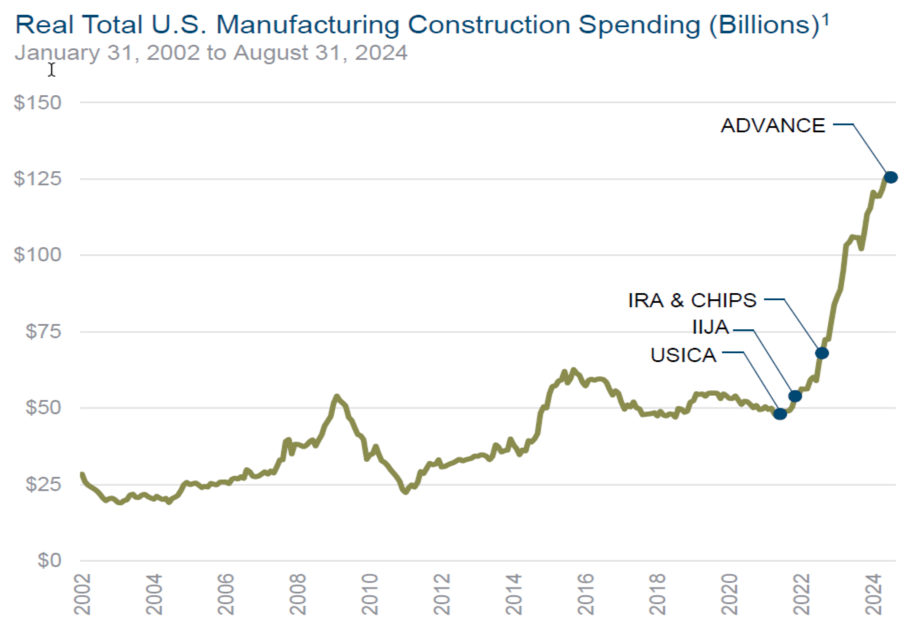
Source: Source McKinsey & Company, Quanta Services, As of March 2025

Portfolio Perspective: We see a growing need for investment in infrastructure to support power generation and transmission.

Evolving geopolitical alliances and the push for increased onshore and nearshore manufacturing are driving a significant restructuring of global supply chains.



Source: St. Louis Federal Reserve, Decoupling Where it Matters? U.S. Imports from China January 19, 2024.



Source: Aether Investment Partners. As of August 31, 2024.

Portfolio Perspective: We see a growing need for investment in infrastructure to support power generation and transmission. Trade lanes and supply chains are expected to shift, with China's ties to the West potentially weakening and countries like India and other East Asian nations standing to gain. Deglobalization reinforces the need for ongoing investment in domestic infrastructure, including bridges, roads, manufacturing plants, and distribution hubs.

ASSET CLASS RETURNS

2010–2024 Ann.	2010–2024 Vol.	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	YTD
Large Cap 13.9%	Small Cap 20.6%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	REITs 41.3%	Comdty. 16.1%	Large Cap 26.3%	Large Cap 25.0%	Comdty. 8.9%
Small Cap 10.3%	EM Equity 17.9%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	EM Equity 18.7%	Large Cap 28.7%	Cash 1.5%	DM Equity 18.9%	Small Cap 11.5%	DM Equity 7.0%
REITs 9.4%	REITs 16.8%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%	Large Cap 18.4%	Comdty. 27.1%	High Yield -12.7%	Small Cap 16.9%	Asset Alloc. 10.0%	EM Equity 3.0%
Asset Alloc. 7.2%	DM Equity 16.5%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	Small Cap 14.8%	Fixed Income -13.0%	Asset Alloc. 14.1%	High Yield 9.2%	Fixed Income 2.8%
High Yield 5.9%	Comdty. 16.1%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	Asset Alloc. 13.5%	Asset Alloc. -13.9%	High Yield 14.0%	EM Equity 8.1%	REITs 2.8%
DM Equity 5.7%	Large Cap 15.1%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	DM Equity 11.8%	DM Equity -14.0%	REITs 11.4%	Comdty. 5.4%	High Yield 1.8%
EM Equity 3.4%	Asset Alloc. 10.4%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	High Yield 1.0%	Large Cap -18.1%	EM Equity 10.3%	Cash 5.3%	Cash 1.0%
Fixed Income 2.4%	High Yield 9.4%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.5%	Cash 0.0%	EM Equity -19.7%	Fixed Income 5.5%	REITs 4.9%	Asset Alloc. 0.6%
Cash 1.2%	Fixed Income 4.7%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Fixed Income -1.5%	Small Cap -20.4%	Cash 5.1%	DM Equity 4.3%	Large Cap -4.3%
Comdty. -1.0%	Cash 0.9%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	REITs -5.1%	EM Equity -2.2%	REITs -24.9%	Comdty. -7.9%	Fixed Income 1.3%	Small Cap -9.5%

Source: Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.
Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Global HY Index, Fixed Income: Bloomberg U.S. Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg U.S. Aggregate, 5% in the Bloomberg 1-3m Treasury, 5% in the Bloomberg Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period from 12/31/2009 to 12/31/2024. Please see disclosure page at end for index definitions. All data represents total return for stated period. The "Asset Allocation" portfolio is for illustrative purposes only. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of March 31, 2025.

J.P.Morgan
ASSET MANAGEMENT

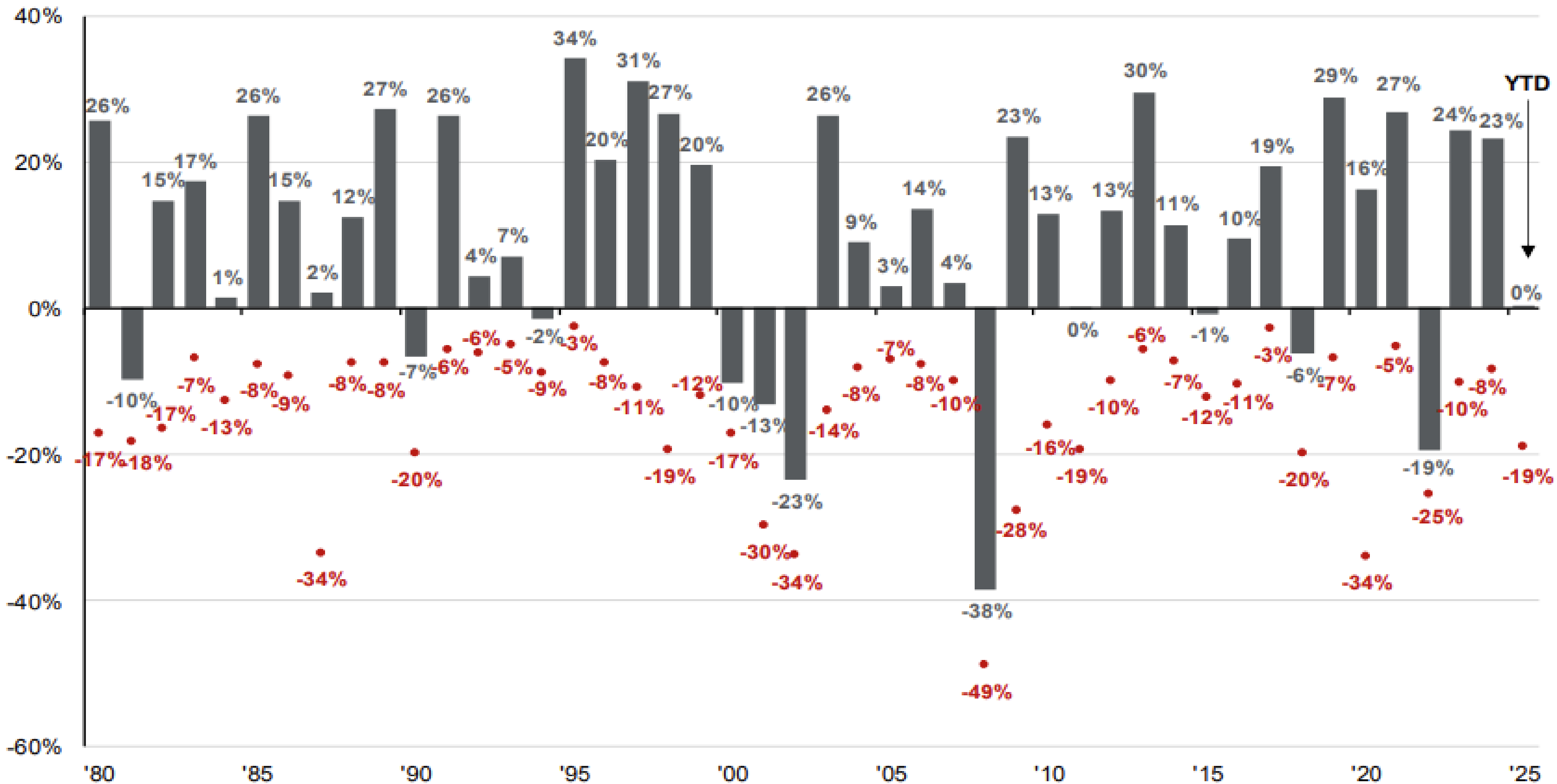
Refer to appendix for disclosures

INTRA-YEAR MARKET DECLINES

Since 1980, the S&P 500 has seen an average intra-year decline of 14.1%.

S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.1%, annual returns were positive in 34 of 45 years



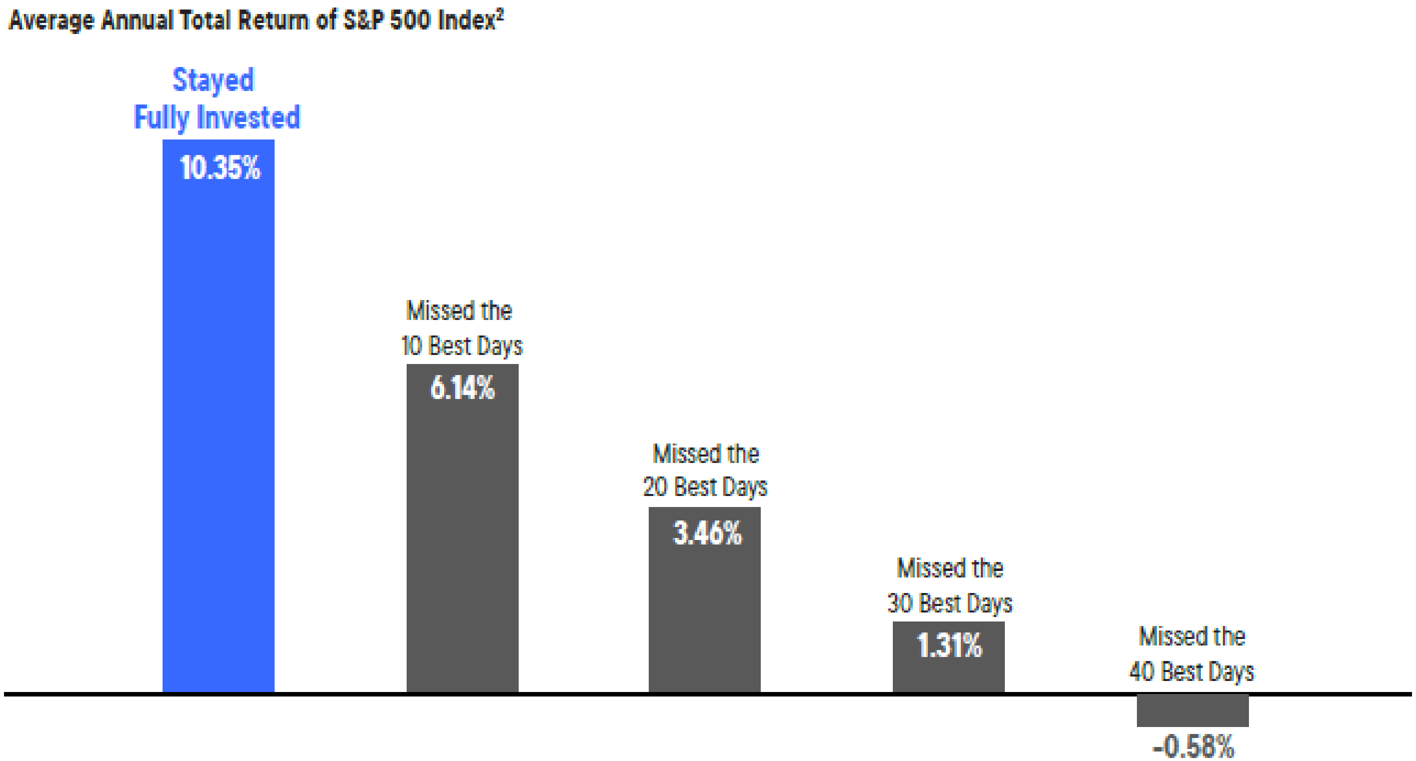
Source: JP Morgan Asset Management. As of 5/28/2025

Refer to appendix for disclosures

Attempting to time the market is difficult, and missing key turning points can significantly impact long-term performance.

Jumping In and Out of the Market May Cost You

20 Years Ended December 31, 2024



Source: Ned Davis Research Group. Franklin Templeton. As of 12/31/2024

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