Good afternoon,

I hope this message finds you well! In June, The Eleven Twenty Seven Group had the exciting task of moving office spaces. We now occupy a corner of the 81st floor in Willis Tower. Our new space is beautiful, and getting to see a bird's eye view of the city leaves me feeling impressed with the foresight of our city's architects. Many of these visionaries built skyscrapers they knew would need to last for generations and each structure became part of their legacy. The word legacy has a few definitions, but the one that our team spends time thinking about is the lasting impact of a person's life on those they leave behind. An investment portfolio is only one piece of one's legacy, but ensuring that it is built and structured correctly is a meaningful endeavor, and one that our team does not take lightly.

In Q2 2025, the S&P 500 saw an increase of approximately 10.9%, reversing the correction we experienced in Q1 entirely, and bringing year-to-date returns to 6.2%. Growth stocks, represented by the Russell 1000 Growth index, led the charge, with a return of 17.8%, while the Russell 1000 Value index rose 3.8%. As of June 30th, 2025, the Russell 1000 Growth was up 6.1% and the Russell 1000 Value up 6.0%. Internationally, the MSCI EAFE rose 12.2%, bringing year-to-date returns to 19.9%. The MSCI Emerging Markets index also fared well, returning 12.2% in the last quarter and 15.5% year-to-date.[1]

During the quarter, much attention was paid to the One Big Beautiful Bill Act (OBBBA). Airtime was filled with analysts and lawmakers sharing their feedback on a range of topics such as State and Local Tax (SALT) deductions and cuts to Medicaid benefits. After months of negotiations, the bill was signed into law on July 4th, 2025.[2] The reason politicians and pundits took an interest in the bill is clear: the policies included within the bill will impact millions of Americans and there is little agreement about how. In a recent publication by our Global Investment Office, titled *A Big Beautiful Guide to the Big Beautiful Bill*,[2] our analysts explored the potential impacts of the legislation on capital markets. The first and most notable expected impact of the bill is deficit expansion, with deficit increase estimates ranging from about $3.3 trillion to $4 trillion over the next ten years.[3] Our analysts break down the expected impact of this deficit expansion below:

> The issuance of new debt to cover the recent deficit expansion could support a supply and demand mismatch in the US Treasury market, which could add upward pressure to the 10-year US Treasury term premium … While foreign demand has modestly increased for the year to date, it remains range bound and is unlikely to offset expectations for notable debt issuance… Should foreign holdings of US Treasuries meaningfully decline, the term premium may experience further upward pressure… Reaffirmation of the [Tax Cuts and Jobs Acts'] business tax framework and introduction of new corporate tax provisions are likely to provide the greatest benefit to corporate stakeholders. While the average statutory corporate income tax rate remains at 21%, reinstatement of the TCJA's business provisions… could push the effective corporate rate to as low as 12%, the lowest level in US history… A reduced tax burden may support capex tailwinds in advanced technology sectors such as semiconductors, semiconductor equipment and AI data centers, and could favor industrials, communication services and energy stocks with elevated capex needs and revenue derived in the US. [3]

Another factor driving markets has been tariffs. Although trepidation decreased significantly after President Trump announced a 90-day pause on reciprocal tariffs on April 9th, the deadline for deal creation came and went on July 9th. It's worth noting that this announcement is, in large part, responsible for the remarkable US equity market recovery in the second quarter. This, coupled with better-than-expected earnings results from large cap companies and healthy (albeit slowing) economic data, buoyed markets. That said, earlier this month, President Trump redeployed the tariff troops. He announced a levy of 50% on copper imports and sent a barrage of letters to trading partners citing the need to come to an agreement or suffer a slew of tariffs by August 1st. Unlike his liberation day announcement, these new actions drew little in the way of a response from US equity markets.[4,5]

Similarly, markets also managed to recover from the scare precipitated by the US, Iran, and Israel conflict ramp-up earlier this summer. Our Chief Investment Officer, Lisa Shalett, explains that “Middle East conflicts that close the Strait of Hormuz send global oil prices up double-digit percentages... That US stocks have thus far shrugged off the headlines is surprising and could yet pose downside risks.”[6] While it is comforting to see markets responding to uncertainty with resilience, it also indicates that investors are pricing in optimism at a time when the impact of changes surrounding many important economic factors, such as interest rates, budget deficits, political tensions, and tariffs, remains unclear.[7]

Our economists view many of these factors as a recipe for slower US GDP growth,[8] and the outperformance of international and emerging market equities this year reflects this perspective. Jitania Kandhari, Deputy CIO of the Solutions and Multi-Asset Group at Morgan Stanley explains this nicely in a piece titled *The International Rebalance*:

> Since 2009, U.S. companies have consistently outperformed their European and Asian peers. They have leveraged superior technology, optimized global supply chains and enjoyed unmatched access to capital. U.S. firms also benefited from outsourcing production to lower-cost countries. Post COVID, aggressive fiscal measures further bolstered U.S. performance compared to the rest of the world. But many of these tailwinds are now fading. Additionally, a large part of U.S. outperformance was supported by the rise of the dollar over the last 15 years…The U.S. dollar is up over a rare 14.5-year cycle and looks stretched based on long-term metrics, like real effective exchange rates and purchasing power parity. Today, fiscal and monetary policies are increasingly more favorable outside the U.S.[9]

Such a reversal, even if it is temporary, highlights the value of a diversified portfolio and thoughtfully crafted asset allocation. Although our role in legacy planning does not result in the construction of a large skyscraper, it does result in clients who have a clear vision and a plan for the future, and it is part of my job that I cherish. Thank you for your continued trust in our team!

Best,
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Awards Disclosures

1. myGIO: Powered by the Global Investment Office
2. US Policy Pulse: A Big Beautiful Guide to the Big Beautiful Bill
3. US Economics Weekly: Fiscal impulse insufficient to offset drags from tariffs and immigration
4. The return of 'tariff man': the week Donald Trump revived the global trade war
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8. On the Markets: The New Bull Market
9. The International Rebalance | Morgan Stanley

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For index, indicator and survey definitions referenced in this report please visit the following: https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions

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