Quarterly Investment Report

July 2025

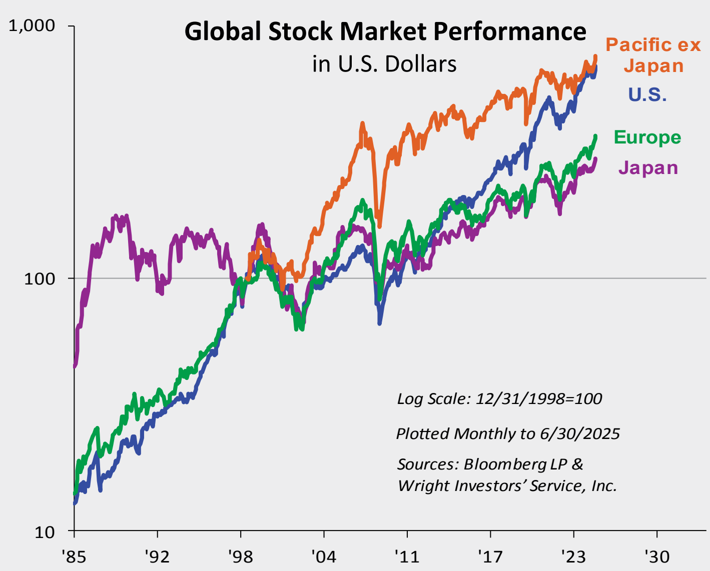
Simmons Bank WEALTH MANAGEMENT

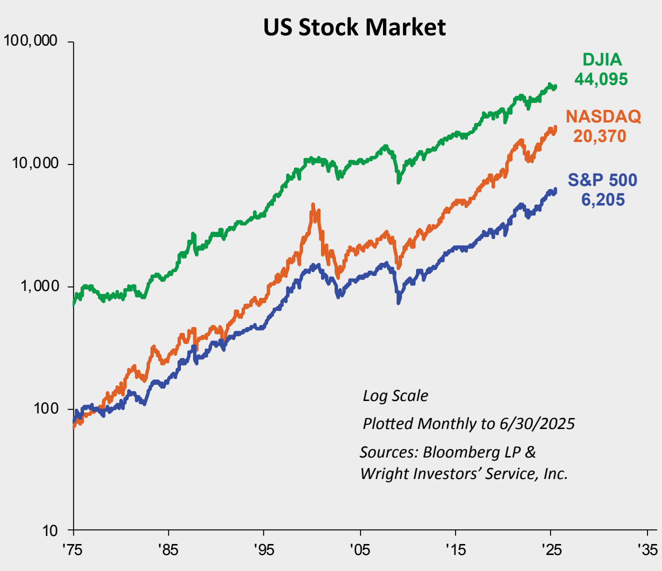
US equities rebounded sharply in Q2 2025, with the S&P 500 climbing +10.9% and the Nasdaq soaring +18.0%, reversing Q1 losses. Gains were driven by strong corporate earnings and signs of global manufacturing stabilization. The Dow Jones rose a more modest +5.5%. Growth stocks led the rally, with Large-cap Growth advancing +18.9%, while Value stocks lagged. Technology (+23.7%) and Telecoms (+18.5%) led sector performance, while Energy (-8.6%) and Healthcare (-7.2%) underperformed despite solid earnings in healthcare. International stocks also rallied, supported by a weaker dollar. Europe ex-UK gained +12.2%, Pacific ex-Japan rose +14.2%, and Emerging Market equities added +12.0%. China lagged with a +2.0% increase. The US dollar weakened sharply, falling -10.3% versus the Swiss Franc and -8.2% against the Euro. Bonds posted solid gains. The Bloomberg Global Aggregate ex-US jumped +7.3% as the dollar's drop lifted currency-adjusted returns. US High Yield gained +3.5%, while Treasury yields were mixed; mid-term yields declined, but 20- and 30-year yields rose, reflecting longer-term fiscal concerns. Commodities lagged, with the Bloomberg Commodities Index falling -3.1%. Natural Gas slid -16.1%, while Gold gained +5.9% as a safe-haven asset. Copper was flat, and Corn and Wheat dropped. The MSCI US REIT Index slipped -1.5%, amid high interest rates and refinancing risks. Economic data indicated continued though slower, growth. The S&P Global Flash US Composite PMI eased to 52.8 in June. Payrolls declined by 139,000 in May, while unemployment stayed at 4.2%. The Fed held rates steady at 4.25%–4.50% for a fourth straight meeting, citing sticky inflation, with Core PCE rising to 2.7%. Fed Chair Jerome Powell emphasized a cautious, data-driven stance amid ongoing tariff and inflation uncertainties.

Stock Market

U.S. equities ended the second quarter of 2025 on a strong note. Investor sentiment strengthened amid solid corporate earnings and improving manufacturing data. Mega-cap tech stocks rebounded after a weak Q1, with the 'Magnificent Seven' returning a strong +18.6% for the quarter. The Nasdaq Composite rose +6.6% in June, closing Q2 up +18.0%. The S&P 500 gained +5.1% in June to end the quarter up +10.9%, while the Dow Jones Industrial Average, though less robust, advanced +4.5% in June and +5.5% for the quarter. Growth stocks outpaced value, led by Large-cap Growth with a +18.9% gain, while Large-cap Value rose a more modest +3.0% while Mid-cap Growth added +9.6%, and Small-cap Value edged up +2.5%.

Sector performance was mixed during the quarter. Strong corporate earnings helped sustain investor optimism. Information Technology led with a +23.7% gain, followed by Telecoms (+18.5%) and Industrials (+12.9%).





In contrast, Energy dropped -8.6%, while Healthcare fell -7.2%, reflecting investor caution despite solid fundamentals. Notably, Healthcare posted one of the highest earnings growth rates at +44.0%, highlighting a disconnect between market performance and profitability. Overall, 100% of S&P 500 companies reported earnings, with Materials and Energy showing the weakest growth at -14.3% and -13.0%, respectively. All sectors posted positive earnings surprises except Real Estate, which remained under pressure from elevated rates and refinancing risks.

International equities, too, posted strong gains. The Developed World ex-U.S. Index climbed +12% for the quarter, while Europe ex-UK advanced +12.2%. The Pacific ex-Japan region gained +14.2%, and Emerging Markets rose +12.0%. In contrast, China lagged with a modest +2.0% gain. The U.S. dollar extended its decline, weakening significantly — most notably by -10.3% against the Swiss Franc and -8.2% against the Euro — boosting returns on international investments.

Bond Market

The Bloomberg Global Aggregate ex-USD Index led fixed income returns with a strong +7.3% gain, followed by the Bloomberg U.S. High Yield Bond Index at +3.5%. The Bloomberg US Aggregate posted a modest +1.2% for the quarter. Treasury yields moved unevenly. The 1-month yield dropped 8.9 bps, while the 2-month rose 8.5 bps, reflecting shifting views on short-term policy. Intermediate yields declined, with the 2-year yield down -16.4 bps to 3.72% and the 5-year off -15.2 bps to 3.80%, signaling growing confidence in future rate cuts. In contrast, longer yields climbed, as the 20-year and 30-year rose +17.5 bps and +20.4 bps, respectively. The 10-year yield edged up to 4.23%. Bonds outperformed commodities but trailed equities.

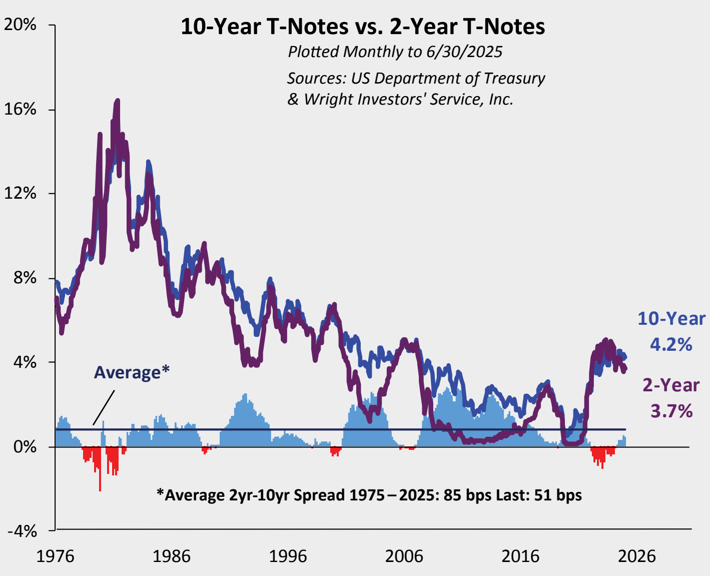
Alternatives

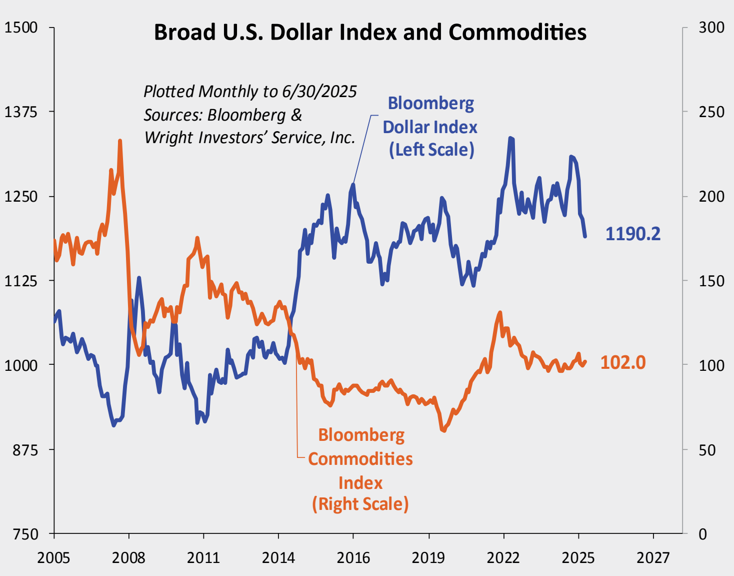
Commodities underperformed in the second quarter, with the Bloomberg Commodities Index declining by -3.1%. Natural Gas saw a steep decline, dropping -16.1%. Crude oil lost -8.9% for the quarter and is down -9.2% year-to-date, despite a +7.1% rise in June. Heating Oil recorded a modest +1.4% quarterly increase, supported by a +16.3% jump in June. Industrial and agricultural commodities showed mixed results. Copper finished nearly unchanged (-0.1%), lacking a clear catalyst as Chinese demand remained weak. In contrast, Gold outperformed, rising +5.9% amid persistent geopolitical tensions and renewed safe-haven buying. Gold prices are up 25.2% in 2025. Corn and Wheat declined -8.0% and -1.5%, respectively.

Meanwhile, real estate investment trusts (REITs) came under renewed pressure. The MSCI US REIT Index fell -1.5% for the quarter, as elevated interest rates, rising financing costs, and sector-specific headwinds dampened sentiment. Investor concerns over refinancing risks and continued rotation out of interest-rate-sensitive areas further weighed on the sector, contributing to its underperformance relative to other major asset classes.

U.S. Economy

June 2025 reflected a modest but ongoing expansion in U.S. business activity, though the pace of growth showed signs of softening compared to earlier in the quarter. The S&P Global Flash US Composite PMI dipped slightly to 52.8 in June from 53.0 in May, representing a two-month low. Nevertheless, the reading remained firmly above the neutral 50.0 mark, signaling continued growth and marking the strongest growth and marking the strongest average quarterly performance in over two years, dating back to May 2022.





The services sector remained a key driver of activity, though its momentum cooled, with the S&P Global Flash U.S. Services PMI slipping to 53.1 from 53.7. A slower rise in services sector prices helped offset some of the increasing cost pressures faced by the manufacturers. However, input price inflation overall remained elevated, registering the second-largest increase since early 2023, suggesting that underlying cost pressures persist. Similarly, output price inflation stayed high, with the rate of price increases for goods and services reaching its second-highest level since September 2022, highlighting the continued challenge of pricing dynamics across the economy. In contrast, the manufacturing sector held steady, with the S&P Global Flash U.S. Manufacturing PMI unchanged at 52.0 in June — matching May's 15-month high and reflecting resilient factory activity. While there were signs that inflationary pressures had eased from recent highs, manufacturers still faced a significant cost burden due to lingering supply chain disruptions and input price volatility, indicating that inflation remains an ongoing concern across the production side of the economy.

Labor market data for May pointed to signs of weakening. The employment-population ratio declined by 0.3 percentage points to 59.7%, while the labor force participation rate slipped by 0.2 percentage points to 62.4%, indicating reduced engagement in the workforce. Total non-farm payrolls rose by 139,000 in May, a slowdown from the downwardly revised gain of 147,000 in April, reflecting softer hiring momentum. Job gains were concentrated in health care, leisure and hospitality, and social assistance, suggesting continued strength in services-related sectors. However, the federal government continued to shed jobs, contributing to the overall moderation in employment growth. The unemployment rate held steady at 4.2% in May, though the Federal Reserve recently revised its year-end unemployment forecast slightly upward to 4.5%, from a prior estimate of 4.4%. Taken together, these developments point to a cooling labor market characterized by slowing job creation, declining labor force participation, and steady but elevated unemployment — potentially easing pressure on wage inflation but raising concerns about underlying economic resilience.

The Federal Reserve held interest rates steady at 4.25%-4.50% for the fourth consecutive meeting in June, following a series of rate cuts implemented in late 2024. Inflation remained sticky, with headline PCE inflation rising to 2.3% year-over-year, from an upwardly revised 2.2%. Core PCE, which excludes volatile food and energy components, edged higher to 2.7%, also up from a revised 2.6% in May, reinforcing signs of persistent underlying inflation. Mortgage rates stayed elevated, with the average 30-year fixed mortgage rate holding at 6.77%. Federal Reserve Chair Jerome Powell noted that tariff-driven inflationary pressures have contributed to the delay in further rate reductions. While the Fed's dot plot continues to suggest the possibility of two additional cuts by the end of the year, Powell stressed that monetary policy decisions would follow a cautious, data-dependent path, reaffirming that each decision would continue to be made "meeting by meeting."

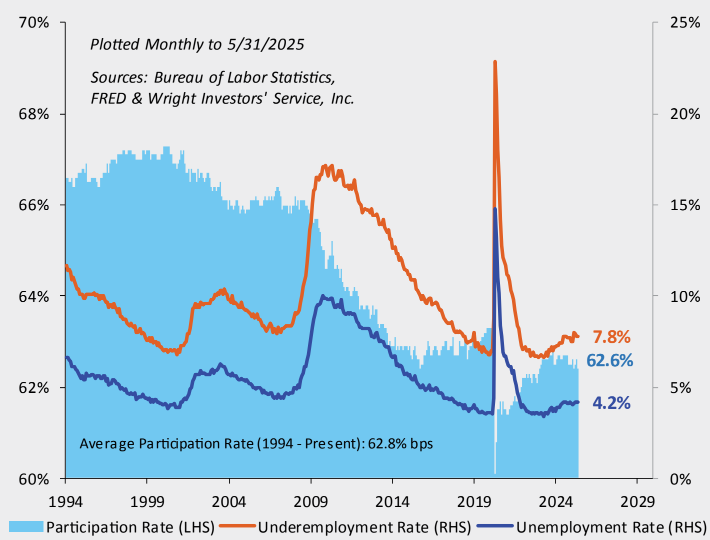
Housing market conditions remained constrained by elevated interest rates, though some signs of resilience emerged. Existing home sales edged up slightly in June, reaching an annualized rate of 4.03 million units, compared to 4.00 million in April. Despite this modest improvement, overall activity remained sluggish due to ongoing affordability challenges. New residential construction showed notable weakness. Housing starts dropped sharply in May to a seasonally adjusted annual rate of 1.25 million, down from an upwardly revised 1.39 million in the prior month. Similarly, New Home Sales fell 13.7% to 623,000 units, reflecting further softness in home construction.

The U.S. Economy 2022–2025

		% Change In			End of Period Rates	
		Real GDP*	PCE Core Deflator*	Profits from Operations#	90-Day T-Bills	10-Year T-Notes
2022	Q1	**-1.0%**	**6.1%**	**48.4%**	**0.5%**	**2.3%**
	Q2	0.3%	4.8%	37.0%	1.6%	3.0%
	Q3	2.7%	5.2%	20.9%	3.2%	3.8%
	Q4	3.4%	4.7%	12.9%	4.3%	3.9%
2023	Q1	**2.8%**	**4.7%**	**4.6%**	**4.7%**	**3.5%**
	Q2	2.4%	3.8%	1.8%	5.3%	3.8%
	Q3	4.4%	2.4%	-1.6%	5.4%	4.6%
	Q4	3.2%	2.0%	-1.3%	5.3%	3.9%
2024	Q1	**1.6%**	**3.7%**	**0.8%**	**5.4%**	**4.2%**
	Q2	3.0%	2.8%	2.8%	5.4%	4.4%
	Q3	3.1%	2.2%	6.9%	4.6%	3.8%
	Q4	2.4%	2.6%	7.4%	4.3%	4.6%
2025	Q1	**-0.5%**	**3.5%**	**10.1%**	**4.3%**	**4.2%**
	Q2 e	2.1%	2.7%	11.6%	4.3%	4.2%
	Q3 e	0.8%	3.1%	39.5%	4.1%	4.4%
	Q4 e	1.2%	3.3%	39.4%	3.9%	4.3%

e: Bloomberg Consensus Estimates; *: Quarter-Over-Quarter Annual Rates; #: Year-Over-Year Change in S&P500 EPS Sources: Bloomberg LP, Wright Investors' Service, Inc.

U.S. Employment



The combined decline in new home sales, slower construction activity, and muted existing home transactions suggests that residential investment could be a drag on second-quarter GDP, following flat growth in the first quarter. Building permits also fell in May, declining to 1.39 million, the lowest level since June 2020, as higher mortgage rates and increased tariffs on imported materials weighed on demand. The sustained pressure from elevated financing costs and rising input prices continued to undermine builder sentiment and limit future housing supply.

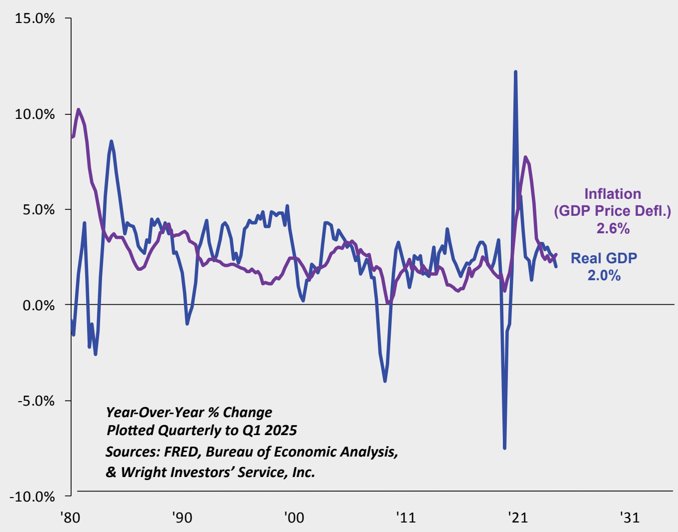
Investment Outlook

Rising input costs and ongoing trade-related uncertainty continue to shape the economic landscape as the U.S. enters the second half of 2025. Geopolitical tensions persist, and while business activity remains in expansion territory, inflationary pressures, especially in the manufacturing sector, have intensified. Although inflation remains within the Federal Reserve's long-term target range, the persistence of cost pressures has complicated the policy outlook. The Fed kept interest rates unchanged for a fourth consecutive meeting, citing volatility from tariffs and signs of labor market softening. While the potential for rate cuts later in 2025 remains, the timing has become increasingly uncertain, hinging on the trajectory of inflation and trade developments.

Despite stronger PMI readings and rising output, underlying conditions suggest a fragile balance. Much of the recent improvement in manufacturing appears linked to inventory accumulation driven by tariff concerns, raising the possibility of a growth slowdown later this year. Domestic and international demand have shown signs of strength, yet business confidence remains cautious amid lack of clarity on trade agreements. Encouragingly, sentiment has improved from April's lows, supported by hopes for a greater economic stability and stronger sales ahead. Labor market data, however, reveal growing degree of slack. May saw job losses, and participation rates declined, pointing to a slowdown in hiring momentum. Employers appear increasingly cautious, constrained by elevated costs and uncertain policy environment. Housing data deteriorated meaningfully — declines in housing starts, permits, and new home sales reflect the drag from high mortgage rates, further dampening housing-related investment and mobility.

Against this backdrop, the outlook for the remainder of 2025 remains cautiously optimistic. A soft landing is still achievable, but it will require the economy to navigate the dual challenges of inflation and trade disruptions effectively. Investors should continue to prioritize high-quality assets, remain flexible in asset allocation, and brace for market volatility. With inflation proving persistent and the Fed maintaining a data-dependent stance, market reactions are likely to be sharp in response to new economic data. Discipline, selectivity, and a long-term focus will be essential as the cycle continues to unfold.

Real GDP vs. Inflation



Global Investment Returns In U.S. Dollars

	Q2 2025		Trailing 12 Months	
	Stocks	Bonds	Stocks	Bonds
U.S.	**11.2%**	**1.2%**	**15.3%**	**6.1%**
Canada	14.2%	4.1%	27.0%	4.7%
Mexico	20.5%	3.4%	13.1%	9.2%
Japan	**11.4%**	**3.3%**	**13.9%**	**8.5%**
Pacific ex Japan	14.2%	4.3%	19.1%	7.7%
Australia	15.1%	8.0%	10.7%	4.3%
China	2.0%	3.0%	33.8%	7.2%
Hong Kong	15.8%	4.4%	35.7%	9.8%
Europe	**11.4%**	**10.6%**	**18.4%**	**14.7%**
France	9.3%	10.3%	16.4%	11.5%
Germany	16.3%	10.0%	40.3%	11.7%
Italy	15.4%	12.1%	37.1%	18.2%
Netherlands	18.3%	10.3%	0.8%	12.4%
Spain	16.8%	10.3%	47.6%	15.1%
Switzerland	7.5%	12.2%	15.4%	16.2%
U.K.	8.7%	8.5%	20.0%	11.0%
World	**11.5%**	**4.5%**	**16.3%**	**8.9%**
World ex U.S.	12.0%	7.3%	18.7%	11.2%

Sources: MSCI Stock & Bloomberg Barclays Bond Indexes as of 6/30/2025