

MARKET INSIGHTS

JUNE 2025



Last month we highlighted the potential for “risk on transitory Quad 2” market dynamics to take hold, and that view became reality. Interestingly, the market regime scores have shifted to risk-on with Quad 1 and 2 leading, with a conviction score of 51%. This leads to potential confusion as investors attempt to navigate the on and off nature of the administration’s tariff policy. For now, we continue to see Quad 3 Stagflation as the probable outcome and will monitor current risk-on market dynamics to determine potential longevity or potential lack thereof. This month we will take the opportunity to share our view on Tariffs and the US trade deficit, and how they might impact domestic and international stocks for the remainder of the year, and potentially beyond.

The trade deficit is the flip side of a capital surplus, a reflection of double-entry accounting in the balance of payments. While the United States consistently imports more goods than it exports, it effectively “exports” dollars — which are then recycled into dollar-denominated assets, from Treasuries to equities and real estate. These annual capital inflows have contributed to a growing net international investment position (NIIP) deficit, now totaling around \$26 trillion. In other words, foreign investors own \$26 trillion more in U.S. assets than Americans own abroad — a figure that has doubled in the past five years.

Should these capital flows slow or reverse, the investment implications could be significant. It would likely mean fewer buyers for U.S. Treasuries at a time when the government plans to issue a record \$11 trillion in new securities while central banks have stepped back as major buyers. This supply-demand imbalance is bearish for bonds, pushing yields higher, which could in turn weigh on equity valuations. Moreover, if trade tensions escalate and tariff negotiations become more adversarial, capital flows could begin to shift back to investors’ home countries. Such repatriation would be a tailwind for international equities, particularly in developed markets currently underweighted in global portfolios, and a headwind for U.S. equities.

ASSET CLASS SIGNAL STRENGTH:

ASSET CLASS	JUNE 2025	MAY 2025	3 - 12 MONTH OUTLOOK *
EQUITIES	DEFENSIVE LONG	DEFENSIVE SHORT	FAVORABLE
FIXED INCOME	DEFENSIVE LONG	DEFENSIVE LONG	FAVORABLE
COMMODITIES	DEFENSIVE LONG	DEFENSIVE LONG	FAVORABLE
US DOLLAR	DEFENSIVE SHORT	DEFENSIVE LONG	UNFAVORABLE
RFR (3M TBILL)	DEFENSIVE LONG	DEFENSIVE LONG	NEUTRAL
BITCOIN	OFFENSIVE LONG	DEFENSIVE LONG	FAVORABLE

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PORTFOLIO SNAPSHOT *(new format shows current exposure relative to target range)*

MODEL	EQUITIES			FIXED INCOME		
	RANGE	JUNE 2025	MAY 2025	RANGE	JUNE 2025	MAY 2025
BOND	--	--	--	-25 to 100%	45%	45%
PEA CORE STOCK	100%	100%	100%	--	--	--
MODERATE ARM	30 to 60%	45%	45%	10 to 40%	20%	20%
DIVIDEND INCOME	30 to 60%	45%	45%	10 to 40%	20%	20%
MACRO PERSIST	-40 to 40%	20%	20%	-40 to 40%	30%	30%
SYSTEMATIC MACRO	0 to 60%	30%	15%	--	--	--
ALL ASSET	-25 to 100%	24%	0%	-25 to 100%	20%	15%
FOCUS	-100 to 300%	10%	30%	-100 to 300%	23%	26%
Special Situation Equity	0 to 100%	85%	85%	--	--	--

CURRENT MARKET REGIME: *current conviction score 51%*

Quadrant	MARKET REGIME	
	Current % Share	Previous % Share
GOLDSLOCKS / Quad 1	34%	27%
REFLATION / Quad 2	33%	22%
INFLATION / Quad 3	16%	22%
DEFLATION / Quad 4	17%	29%

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