CAPITAL GROUP®

World markets review — Second quarter 2025

Equities

Global stocks advanced in a volatile quarter marked by erratic trade policy, surging technology stocks and a ceasefire in the Iran-Israel war. The quarter opened with a wave of new U.S. tariffs, sending stocks sharply lower, and ended with a powerful rally as some levies were paused and global trade negotiations progressed.

Information technology stocks rallied, supported by renewed enthusiasm for advancements in artificial intelligence. AI-related stocks such as chip maker NVIDIA and software giant Microsoft were among the biggest gainers for the quarter. Energy stocks slipped on lower oil prices, and health care stocks came under pressure amid a proposal to lower U.S. prescription drug costs.

Equity index returns (%)	Jun 2025		2Q 2025		YTD 2025	
	U.S. dollar	Local currency	U.S. dollar	Local currency	U.S. dollar	Local currency
S&P 500	5.1	5.1	10.9	10.9	6.2	6.2
MSCI ACWI	4.5	3.9	11.5	9.3	10.0	7.0
MSCI ACWI ex USA	3.4	1.7	12.0	6.0	17.9	8.8
MSCI World	4.3	3.8	11.5	9.5	9.5	6.6
MSCI Emerging Markets	6.0	4.9	12.0	7.9	15.3	10.8
MSCI EAFE	2.2	0.2	11.8	4.8	19.4	7.8
MSCI Europe	2.1	–0.7	11.4	3.0	23.0	9.4
MSCI Pacific	2.3	2.0	12.3	8.3	12.7	4.9

Source: RIMES

Fixed income

Bonds generally posted solid gains. U.S. Treasuries advanced amid market expectations that the Federal Reserve would begin cutting interest rates as soon as its July meeting. European bonds rallied as the European Central Bank slashed its key policy rate for the eighth time in the past 12 months.

In foreign exchange markets, the U.S. dollar fell against the euro, the yen, the pound sterling and most emerging markets currencies. After a strong run up last year, the U.S. Dollar Index lost 7% in the second quarter, bringing its year-to-date decline to 10.7%, as capital flows shifted to non-U.S. assets.

Fixed income index returns (%)	Jun 2025	2Q 2025	YTD 2025
Bloomberg U.S. Aggregate	1.5	1.2	4.0
Bloomberg Global Aggregate	1.9	4.5	7.3
Bloomberg U.S. Corp IG	1.9	1.8	4.2
Bloomberg U.S. Corp HY	1.8	3.5	4.6
JPM EMBI Global Diversified	2.4	3.3	5.6
JPM GBI-EM Global Diversified	2.8	7.6	12.3

Source: RIMES. Returns are in USD.

Exchange rates (% change vs. USD)	Jun 2025	2Q 2025	YTD 2025
Euro	3.4	8.7	13.4
Japanese yen	–0.1	3.5	8.8
British pound	1.6	6.2	9.4
Canadian dollar	0.8	5.5	5.4
Australian dollar	1.8	5.2	5.8
Swiss franc	3.2	11.1	13.9

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

North America

U.S. equities rebounded strongly, recovering from a sharp correction in the first quarter. Easing trade tensions helped stabilize markets, despite intermittent bouts of volatility. The information technology sector led the rally, although gains were broad-based across most sectors. Overall, the S&P 500 Index rose 11%, while the Russell 1000 Growth Index advanced 18%.

Trade tensions peaked in early April but subsided as negotiations progressed between the U.S. and its trading partners. Most notably, the U.S. and China agreed to temporarily scale back reciprocal tariffs, which had previously reached as high as 145%. President Donald Trump's April 2 announcement of sweeping tariffs on all imported goods initially rattled markets and stoked recession fears. Meanwhile, Federal Reserve (Fed) Chair Jerome Powell emphasized that policymakers were "well positioned to wait" and assess how tariffs and other developments might shape the economic outlook. The Fed held interest rates steady throughout the quarter.

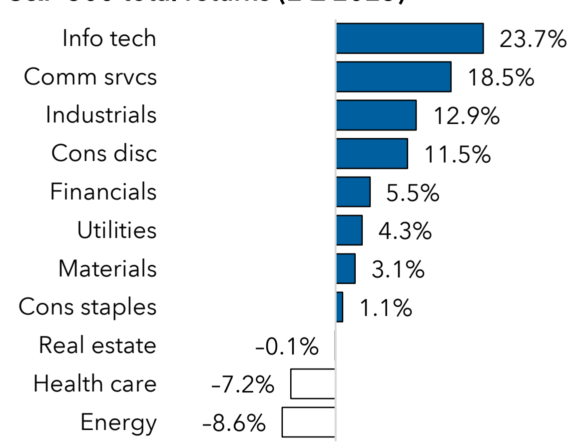
The U.S. economy contracted in the first quarter, with gross domestic product (GDP) declining 0.5% on an annualized basis – the first negative quarter since 2022. However, signs of a rebound emerged in the second quarter, supported by a resilient labor market and inflation data. In May, the Consumer Price Index (CPI) rose 2.4%, slightly above April's four-year low of 2.3%. The unemployment rate held steady at 4.2%.

The information technology sector soared 24%, as growth stocks significantly outpaced value. Shares of software companies Palantir and Oracle each gained more than 50%. Semiconductor firms were also among the top contributors to index returns, with NVIDIA rising 46% and Broadcom soaring 65%.

In contrast, health care stocks declined sharply. UnitedHealth plunged 40% following the resignation of its CEO amid disappointing first-quarter earnings and an uncertain outlook. Several pharmaceutical and biotechnology companies traded sharply lower. The energy sector also posted negative returns, pressured by falling oil prices.

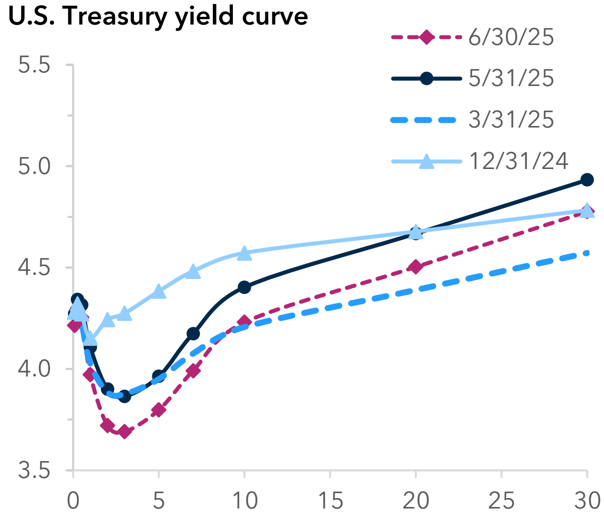
U.S. bonds produced solid results in the second quarter. The Bloomberg U.S. Aggregate Index grew by 1.21%, as front-end interest rates fell and corporate spreads tightened. The U.S. Treasury yield curve steepened throughout the quarter, with the yield on 10-year notes rising two basis points (bps) to 4.23%, while the two-year yield dropped by 16 bps from last quarter to reach 3.72%. Within U.S. credit markets, investment-grade bonds (BBB/Baa and above), as measured by the Bloomberg U.S. Corporate Investment Grade Index, gained 1.82% and high-yield bonds, as measured by the Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index, rose by 3.53%.

S&P 500 total returns (2Q 2025)



Source: RIMES.

U.S. Treasury yield curve



Source: Bloomberg. The x-axis represents Treasury maturities (years). The y-axis represents the U.S. Treasury yield (%).

Europe

European stocks rose, boosted by signs of progress on global trade negotiations and continuing interest rate cuts by the European Central Bank (ECB). In a volatile quarter, European stocks fell in April after the U.S. placed high tariffs on nearly all of its trading partners. Market sentiment quickly reversed, however, after many of those levies were paused to allow further negotiations. Overall, the MSCI Europe Index gained 11%.

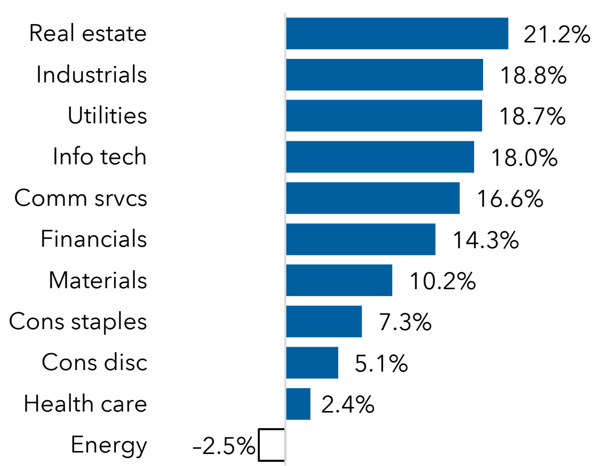
The ECB lowered its key policy rate by 25 basis points in June, seeking to jump-start an economy that has been hurt by bitter trade disputes, high energy prices and the ongoing war in Ukraine. The ECB has cut rates eight times over the past 12 months, bringing its policy rate to 2%. With eurozone inflation also at roughly 2%, ECB president Christine Lagarde hinted that the central bank may be near the end of its monetary easing cycle.

Rate-sensitive stocks generated the largest returns, highlighted by a 21% gain in the real estate sector and a 19% rise among utilities stocks. Shares of Iberdrola rose as the Spanish electric utility reported a sharp increase in first-quarter profit. Industrials stocks also rallied as many European countries, led by Germany, announced plans to increase spending on defense and infrastructure projects. Shares of German electrical equipment maker Siemens Energy rose more than 80%.

Energy was the only sector in negative territory, losing 2.5% amid falling oil prices. Health care and consumer-related sectors lagged the overall market. Shares of luxury giant LVMH declined more than 20% amid a prolonged slump in demand for high-end consumer goods. Shares of drug manufacturer Roche fell 11%. The entire pharmaceutical sector came under pressure as the U.S. government floated a plan to cut prescription drug costs by tying them to lower prices in other countries.

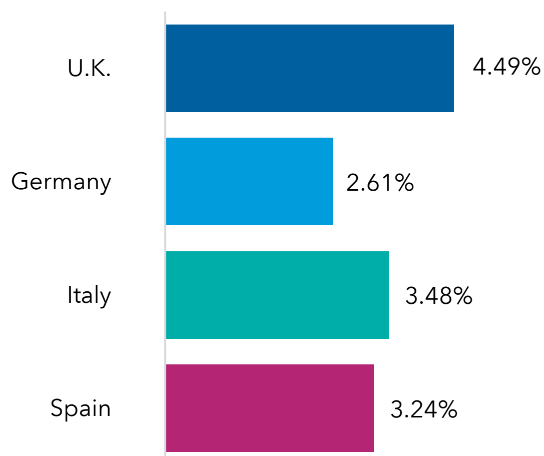
In fixed income markets, European bonds rallied in line with the ECB's rate-cutting cycle. The yield on Germany's benchmark 10-year note dropped 13 basis points to 2.61%. The same maturity in Italy fell 39 basis points to 3.48%. In currency markets, the euro rose nearly 9% against the U.S. dollar. For the year-to-date period, the euro is up 13% versus the dollar.

MSCI Europe total returns (2Q 2025)



Source: RIMES. Returns are in USD.

10-year government bond yields



Source: Bloomberg. As of June 30, 2025.

Asia-Pacific

Japanese equities rose by double digits. Optimism surrounding U.S. trade negotiations fueled a market rally after the U.S. and China moved toward an agreement. Most sectors were positive. Only the energy sector declined with communication services and information technology leading gains. The yen rose 3.5% against the U.S. dollar.

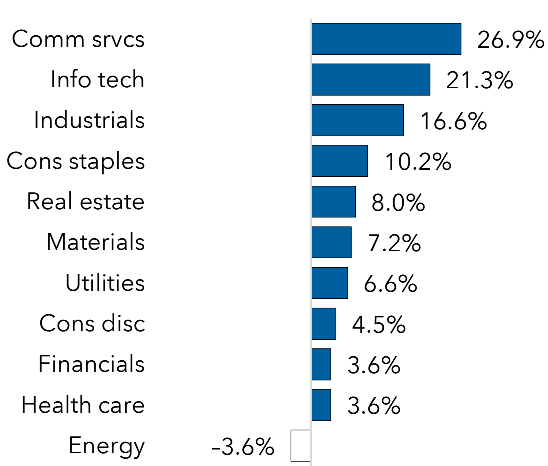
The Bank of Japan (BOJ) kept rates steady. The central bank held its key rate at 0.5%, despite mounting pressure to raise it due to rising inflation. Bond yields also rose as the bank continued its strategy to taper bond purchases. Yields on 30-year bonds hit a record high of 3.2% in May, pushed up by an ongoing buyers' strike among domestic life insurers. Meanwhile, core inflation, which excludes fresh food, rose 3.7% in May from a year earlier, up from 3.5% in April and well-above the bank's 2% target. Uncertainty on the impact of U.S. tariffs on Japanese exports prompted the BOJ to lower its GDP growth forecast to 0.5% from 1.1% for the fiscal year ending in March 2026.

In June, Japan's factory activity grew for the first time in 13 months. The expansion was supported by an upswing in output even as demand remained weak and new orders shrank, driven by international trade tensions. The au Jibun Bank Japan Manufacturing Purchasing Managers' Index (PMI), an indicator of manufacturing performance, rose to 50.1 in June from 49.4 in May. Elsewhere, Nintendo stock rallied sharply on the back of strong demand for its newly released Switch 2 console. Similarly, shares of electrical equipment and electronics corporation Mitsubishi Heavy Industries rose after it projected a 9.6% growth in operating profit for the year. Conversely, shares of Toyota Industries, which produces forklifts, car parts and textile looms, declined as investors criticized plans to take the company private. Panasonic's shares also fell. The electronics manufacturer reported declining profits and staff reductions.

Australian shares gained. All sectors rose with the information technology and real estate sectors gaining the most ground. Yet, the economy grew at a muted pace in the first quarter as consumers remained thrifty despite cooling inflation. The Reserve Bank of Australia (RBA) cut its interest rate to a two-year low to 3.85% at its May meeting. Shares of one of the "big four banks," Commonwealth Bank of Australia, advanced as it benefited from demand from offshore investors. Meanwhile, miners like Rio Tinto and South32 lost ground on worries that tariff negotiations would dampen appetite for iron ore and gas. The Australian dollar gained 5.2% against the greenback.

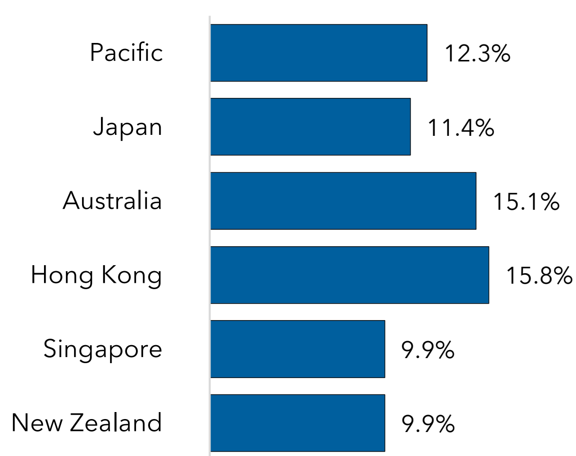
Hong Kong stocks led regional gains. Stocks advanced from record investment flows from mainland China and enthusiasm for tech companies not listed in the mainland. All sectors rose. Real estate and financials outperformed.

MSCI Japan total returns (2Q 2025)



Source: RIMES. Returns are in USD.

MSCI Pacific total returns (2Q 2025)



Source: RIMES. Returns are in USD.

Emerging markets

Emerging markets (EM) equities rose during the quarter, helped by strong gains in South Korea, Greece and Taiwan. Equities declined in Saudi Arabia and Argentina. The MSCI Emerging Markets Index climbed 12%, as EM regions continued to benefit from weakness in the U.S. dollar. Year-to-date, EM returns are more than double the returns of the S&P 500. The information technology and industrials sectors posted the largest gains. The only sector that fell was consumer discretionary.

Chinese stocks rose modestly, up 2%, well below the broader MSCI EM Asia Index, which gained 12%. In May, China and the U.S. agreed to temporarily lower tariffs for 90 days while they work on a broader agreement and in June both countries confirmed they are nearing a final framework. Among the top contributors to the broader MSCI EM Index was smartphone maker Xiaomi, which drew better-than-expected initial orders for its second electric vehicle. Several Chinese consumer discretionary stocks, including Alibaba, were among the largest detractors.

Indian equities climbed 9%. Indian shares benefited from the global trade turmoil that peaked earlier this year and investor sentiment may be cooling now that U.S. trade deals appear close. Investors are also cautious about slowing earnings growth and high valuations after a four-year run for Indian stocks.

The MSCI EM Latin America Index continued its streak, gaining 15% during the quarter to end the first half of the year, up 30%. Stocks in Mexico and Peru climbed the most while shares in Argentina declined. The U.S. and Mexico are nearing a trade agreement that could alleviate the burden that steel tariffs have put on U.S. automakers and other manufacturers.

Developing market currencies mostly rose against the U.S. dollar during the quarter, as U.S. policy measures continued to weaken the dollar. The Hungarian forint and Czech koruna both rallied on the back of Germany's significant expansion of fiscal stimulus, as the uptick in spending will likely have a positive impact on neighboring trade partners. The Taiwan dollar gained 13.7% against the U.S. dollar, making it the best performer in Asia so far this year. The Turkish lira and the Argentinian peso declined the most against the dollar.

Hard and local currency denominated emerging markets bonds posted positive returns during the quarter. EM local-currency government debt rose by 7.62% in dollar terms, as measured by the J.P. Morgan GBI-EM Global Diversified Composite Index. U.S. dollar-denominated debt gained 3.32% in dollar terms, as measured by the J.P. Morgan EMBI Global Diversified Index. Local debt in Brazil and Mexico both gained nearly 12% in dollar terms. Brazil's central bank raised interest rates to 15%, the highest since 2006, due to stubbornly high inflation and a mostly benign growth outlook. The lowest performing bonds among the major EM regions was in China, where local debt rose 2.69% in dollar terms. ■

2Q 2025 total returns (%)

Equity indexes	(USD)
MSCI Emerging Markets	12.0
MSCI Brazil	13.3
MSCI China	2.0
MSCI India	9.2
MSCI Mexico	20.5
MSCI South Africa	13.6
MSCI Korea	32.7
MSCI Saudi Arabia	-5.1
MSCI Taiwan	26.1
MSCI Thailand	0.4

Fixed income / currency	USD debt (USD)	Local debt (USD)	Local debt (Local)	Exchange rate (vs. USD)
JPM EMBI Global Div	3.3	---	---	---
JPM GBI-EM Global Div	---	7.6	3.2	---
Brazil	2.5	11.8	6.5	4.9
China	1.3	2.7	1.5	1.2
Indonesia	2.7	5.4	3.4	2.0
Malaysia	1.8	8.0	2.4	5.4
Mexico	4.2	11.7	3.2	8.3
Poland	1.8	10.3	2.8	7.3
South Africa	3.7	9.6	5.9	3.5
Turkey	3.0	9.6	14.9	-4.6

Source: RIMES

Returns are in USD unless otherwise noted.
Past results are not predictive of results in future periods.

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S&P Global purchasing manager indexes (PMIs) track business trends across both manufacturing and service sectors for various countries. The indexes are based on data collected from companies and follow variables such as sales, new orders, employment, inventories and prices. The **au Jibun Bank Japan Composite PMI**, compiled by S&P Global, provides similar information about Japan.

J.P. Morgan Emerging Markets Bond Index (EMBI) Global Diversified and related country-specific indexes track total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, eurobonds. **J.P. Morgan Government Bond Index – Emerging Markets (GBI-EM) Global Diversified** and related country-specific indexes cover the universe of regularly traded, liquid fixed-rate, domestic currency emerging market government bonds to which international investors can gain exposure.

MSCI indexes are free-float-adjusted, market-capitalization weighted indexes. Developed market index results reflect dividends net of withholding taxes. Emerging market index results reflect dividends gross of withholding taxes through December 31, 2000, and dividends net of withholding taxes thereafter. Each index is unmanaged, and its results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or U.S. federal income taxes. **MSCI All Country World Index (ACWI)** is designed to measure results of more than 40 developed and emerging equity markets. **MSCI All Country World (ACWI) ex USA Index** is designed to measure equity market results in the global developed and emerging markets, excluding the United States. **MSCI EAFE® (Europe, Australasia, Far East) Index** is designed to measure developed equity market results, excluding the United States and Canada. **MSCI Emerging Markets Index** is a free-float-adjusted market-capitalization-weighted index designed to measure equity market results in more than 20 global emerging markets. Individual emerging markets listed herein represent a subset of the MSCI Emerging Markets Index. **MSCI EM Latin America Index** measures equity results in the Latin America region. **MSCI Europe Index** is designed to measure developed equity market results across 15 developed countries in Europe. **MSCI Pacific Index** is designed to measure the equity market performance of the developed markets in the Pacific region. It consists of Japan, Australia, Hong Kong, New Zealand and Singapore. **MSCI World Index** is designed to measure equity market results of developed markets. The index consists of more than 20 developed-market country indexes, including the United States.

S&P 500 Index is a market-capitalization-weighted index based on the results of 500 widely held common stocks. This index is unmanaged, and its results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or U.S. federal income taxes.

Russell 1000 Growth Index is a market capitalization-weighted index that represents the large-cap growth segment of the U.S. equity market and includes stocks from the Russell 1000 Index that have higher price-to-book ratios and higher expected growth values.

Gross domestic product is the value of final goods and services produced in a country during a specified time period.

The **Consumer Price Index (CPI)**, reported by the U.S. Bureau of Labor Statistics, measures the change in prices paid by consumers for goods and services.

The **ICE U.S. Dollar Index** is a geometrically averaged calculation that measures the value of the U.S. dollar relative to a basket of foreign currencies: the euro, the yen, the British pound, the Canadian dollar, the Swedish krona and the Swiss franc. The U.S. Dollar Index, together with all rights, title and interest in and related to the U.S. Dollar Index, including all content included therein and all related intellectual property and property rights, is the exclusive property of ICE Data Indices, LLC.

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