2025 Midyear Investment Outlook

Confidence Tested

June 2025

MEMBERS TRUST COMPANY

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Letter to Investors

June 2025

After recording its second consecutive year exceeding a 20% return, U.S. large cap equities were poised to move higher amid lofty expectations for the second act of President Trump's America-first and pro-growth policies seen during his first term. However, the post-inauguration flood of executive orders and policy announcements had the opposite effect, shaking markets and testing investor resolve.

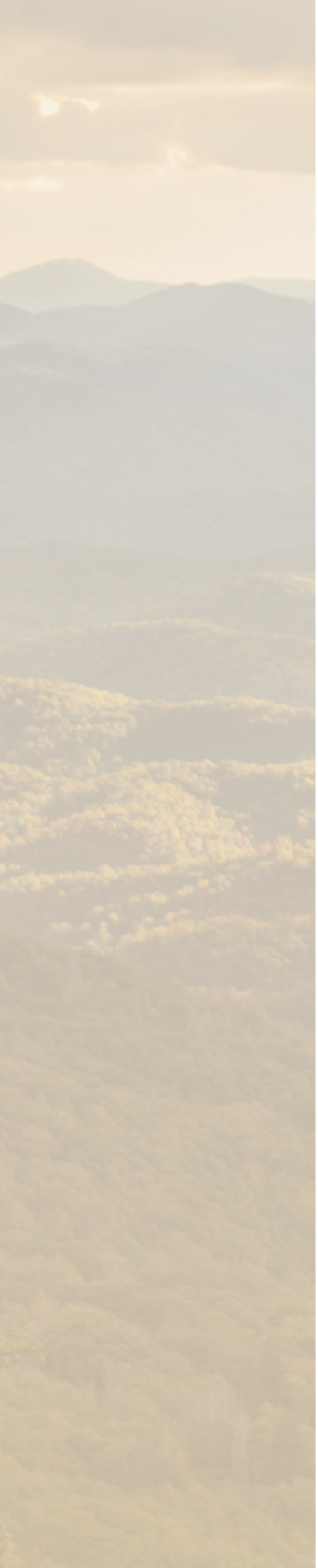
Confidence will be the key stimulus for our economy and the market.

In early February, the tariff rhetoric went into high gear. Various segments of the U.S. stock market entered bear market territory and bond market volatility jumped. The staggering amount of tariff announcements clouded the economic outlook, prompting many companies to pull financial guidance for the year and pause spending. Imports rose sharply and appeared to be driven by a "front loading" of purchasing activity in anticipation of tariff-fueled price increases. Trade negotiations with major trade partners appeared to be at a standstill, raising doubts about the longer-term prospects for our global leadership. The rising uncertainty drove Wall Street analysts and economists to lower forecasts for earnings and growth.

Markets reached a boiling point on "Liberation Day," when a baseline 10% tariff on all imports took effect. However, just a short week later the announcement of a 90-day pause on tariffs cooled temperatures and unlocked animal spirits. In eight weeks thereafter, U.S. stocks surged back into positive territory for the year. We believe that this pronounced market recovery supports our view that confidence will be the key stimulus for our economy and the market, especially in the earlier stages of this recovery in sentiment. As trade policy concerns fade the widely anticipated pro-growth policies should take center stage. We expect that this will positively impact markets and overall confidence in ways seen in the period leading up to Trump's inauguration. As such, we remain constructive on the U.S. economic and market outlook for the remainder of this year. More volatility is likely on the horizon, so our confidence will be tested. We encourage our fellow investors not to succumb to fears that are fueled by sensationalized headlines but rather to stay focused on the fundamentals.

Our 2025 Midyear Investment Outlook provides a recap of how our year-end 2025 investment outlook themes have played out during the first-half and introduces our refreshed outlook and forecasts. We hope that you enjoy reading it and find it to be a useful guide to help you navigate through this period of heightened uncertainty. On behalf of my colleagues at Members Trust Company, thank you for your continued trust and the confidence that you place in us, and we wish you continued success in 2025 and beyond.

Kei Sasaki, CFA
Chief Investment Officer, Members Trust Company



At a Glance

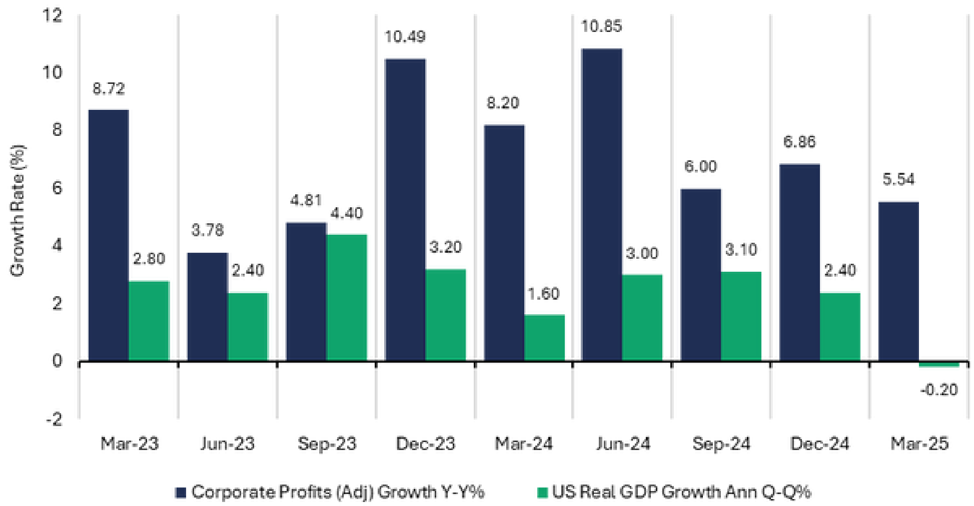
Policy Murkiness, Prospective Clarity

Trade Fears Trumped Fundamentals

As we continue through 2025, we take time to reflect on the events of the first half of the year while preparing for the second. We had expected the new administration would focus on trade, tax, and regulatory policies. While we expected a dichotomy of the policy proposals versus actual implementation, we underestimated the emphasis that would be placed on trade policy and its magnitude. The messy reconciliation of the trade policy announcements and their erratic implementation broadly fractured confidence, which contributed to an early year market sell-off. There remains the risk of continued tariff rhetoric, which could cause fears to linger and thereby further slow economic activity and render markets vulnerable to more volatility. However, we believe that these fears will prove temporary and fundamentals will decide the fate of the economy and markets.

At the time of this writing, fundamentals still look healthy. Take for instance our economic growth. First quarter Real Gross Domestic Product (GDP) growth declined by 0.2%, but this was attributable to the surge in imports, which was likely caused by companies that were frontloading purchases in anticipation of tariff-led price increases. Consumer spending and capital investment trends remained positive[1]. First quarter U.S. Large-Cap corporate earnings growth was roughly +11% year-over-year[2]. Chart 1 illustrates this through corporate profit growth and its resilience despite the recent economic contraction. As we move past the tariff uncertainty, we expect a recovery in confidence as focus shifts back to fundamentals and prospective pro-growth policy initiatives including fiscal, monetary, and regulatory. A resurgence in confidence could potentially increase spending and investment, which could in turn drive further growth for our economy.

Chart 1: Corporate Profits Relative to Real GDP Growth



Source: FactSet financial data and analytics, Members Trust Company, 6/10/25

Key Takeaways

- Trade policy fears shook confidence, but a renewed focus on anticipated pro-growth policies and resilient fundamentals could bode well for U.S. growth.
- A more moderate and stable pace of inflation could encourage households and businesses to spend and invest.
- Evolving global trade alliances can introduce the potential for new international and cross-border economic opportunities.

Good Inflation

In the world of investing, inflation is often viewed as a negative as it is commonly associated with reduced profits and affordability, and higher interest rates. In recent years inflation has been in the economic spotlight, influenced by the historic supply shocks and monumental stimulus amid the COVID-19 pandemic, when all eyes were on the Federal Reserve's (Fed) rate policy. While the rate of inflation, as measured by the Consumer Price Index (CPI), has declined from its June 2022 high of 9% year-over-year to a rate of 2.3% as of April 2025, the impact from tariffs may test this moderation[2]. The mentioned surge of first quarter imports has likely reduced the risk of price increases. However, as the baseline and targeted tariffs take hold, price increases could lie ahead for American consumers and businesses.

Higher for longer inflation has been and continues to be one of our key investment themes for 2025. We expected several factors could keep inflation higher for longer, with one being tariffs which could impart a derivative form of tax hike. The aggressive U.S. tariff proposals drove up consensus expectations for inflation. Other factors like restrictive immigration policies and pro-growth policy initiatives could also prove inflationary. Consensus estimates for annual CPI have risen to 3.1% from the 2.1% estimate at the start of the year[2,3]. Coupled with our low unemployment rate of 4.2%, it is understandable why the Fed remains patient and has yet to lower rates this year[3]. Inflation expectations have also climbed overseas for some of our largest trade partners like the eurozone, U.K, Canada, and Japan[2]. However, unlike the Fed these central banks (except Japan) lowered interest rates. Still rising demand from lower interest rates and the broad impact from the U.S. tariff policy could keep inflation elevated.

Contrary to the negative views on inflation, we believe when stable it could encourage spending and investment. When prices increase dramatically, as we saw in 2022, uncertainty grows, affordability wanes, and economic activity can stall. While there is a chance that inflation spikes from tariffs in the near-term, we expect this will be short-lived and revert to a more stable rate of moderate price increases. We expect that through the coming five-year market cycle, CPI will grow at an average annual rate of 2.5%, compared to the 20-year historical average rate of +2.2%[2,3]. Over this period, including those periods with transient spikes in CPI, we have seen our economy grow 45.8% to over $23.3 trillion[1]. Two key drivers behind this growth were Gross Private Domestic Investment and Consumer Spending, which grew 55.9% and 50.3%, respectively[1,2]. Over this period rising prices did not deter economic activity. Rather, recognizing that price increases could persist, consumers and businesses were likely encouraged to spend and invest today and thereby contributed to economic growth. Thus, we maintain a favorable economic outlook as inflation normalizes amid the current state of economic resilience.

Investor Implications

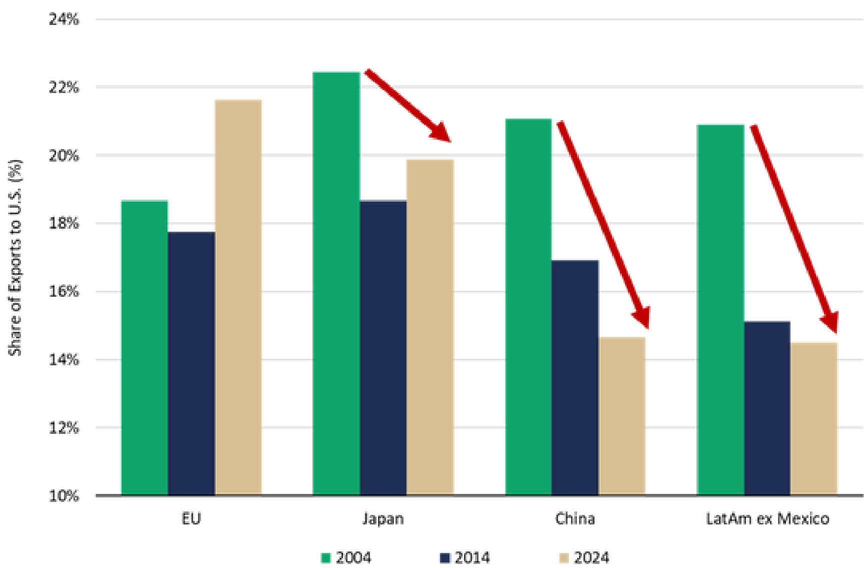
- As broader sentiment and confidence recover, reviving economic activity, and lead to positive surprises on corporate earnings.
- A stable and moderate rate inflation can offer the Fed flexibility to lower interest rates if the economy continues to contract.
- International economic resilience amid the trade rhetoric could signal possible upward revisions to global economic growth.

Global Economy

A Global Standoff

Prior to President Trump's second inauguration, there was a widely held view that the prospective tariffs and their modest economic impact would mirror those during his first term. We subscribed to this view as well. However, the new wave of tariff announcements was beyond our expectations, especially the wide-sweeping 10% baseline and country-specific tariffs that were implemented on April 2, known as Liberation Day[4]. This exertion of authority did not have its intended effect as key trade partners including China and Canada quickly retaliated and broadcast unified messages of defiance toward the U.S. trade policy. In just a short week thereafter, the U.S. put the country-specific tariffs on hold and invited countries to negotiate. These engagements also did not progress in the manner that many might have hoped, as no firm resolutions were reached and there were growing indications that our trade partners were ready to reduce their dependency on U.S. demand by moving trade elsewhere. As Chart 2 illustrates, two of our largest trade partners, China and the Latin American region, have been shifting trade away from the U.S. for two decades in terms of their respective total exports.

Chart 2: Share of Total Exports to the U.S.



Source: Federal Reserve Bank of St. Louis, Members Trust Company

Despite the ongoing tariff uncertainty, we continue to expect that the near-term economic impact will be limited. In our view, the bigger unknown is where the global balance of power ultimately settles. For the past several years, there has been a growing consensus view that globalization is ending[4]. However, we take the view that globalization is evolving, not ending. While the economic dominance and influence of the U.S. might be lessening, it has by no means lost its position of overall leadership. However, the emergence of China as an economic superpower amid the emerging wealth of developing countries and shifting national interests have given rise to a more holistic form of globalization. We expect to see nations pursue strategic trade agreements, accelerating growth in emerging economies, and new cross-border opportunities. Thus, while we expect that current trade issues will cause more disruption, we believe that over time there will be many opportunities to unlock economic prosperity.

Risk Considerations

- If trade negotiations fail, tariff fears could resurface and stall economic activity.
- A sharp resurgence in U.S. economic activity could spark a reflationary scenario.
- Widening military conflict could exert upward pressure on fuel prices and negatively impact the global economy.

Global Economy Citations
1 U.S. Bureau of Economic Analysis, 2 FactSet, 3 Bureau of Labor Statistics, 4 Wall Street Journal

A Broadening View

Key Takeaways

- Artificial intelligence and related technology stocks fell in the first quarter, but their issuing companies continue to exhibit strong fundamentals.
- There has been broadening equity market participation this year, despite relatively lackluster fundamentals.
- International equities outperformed the U.S, due in part to attractive relative valuations and tariff-related concerns.

Fundamental, Not Artificial

At the beginning of the year, our 2025 equity market outlook emphasized the belief that innovation, particularly in artificial intelligence (AI), would drive equity markets higher. Our market forecasts anticipated a year defined by strong U.S. leadership in AI, which was a factor behind maintaining our overweight in U.S. equities. However, in hindsight, we may have overestimated the market's ability to sustain momentum through heightened policy uncertainty and without adequate support of the underlying fundamentals.

The "Magnificent 7" (Mag 7) cohort of stocks, which are regularly associated with AI, continue to have commanding exposure that exceeds 30% of the U.S. Large-Cap Equity market[1]. After collectively returning over 60% in 2024 and exceeding an average trailing 12-month price-to-earnings (P/E) multiple of nearly 40 times, the Mag 7 stocks declined by over 15% through March[1,2]. Short-term enthusiasm, especially around trends in technological innovation and disruption, can quickly drive valuations higher. However, as seen with the sharp first quarter decline in the technology sector alongside the broader market decline, fundamentals at some point will matter. Fortunately, Mag 7 fundamentals still appear healthy, with the consensus expectations for earnings per share (EPS) growth in 2025 exceeding 12%, well above the market average of about 9%[1]. The Mag 7 along with the broader technology sector began to rally in early April to finish down 2% for the year-to-date period through May. This offered investors some solace that they were being recognized for their relatively strong fundamentals.

The recent rally of the Mag 7 has not been uniform, with four of the seven still down this year through May, including Tesla (TSLA) and Apple (AAPL), which were down over 14% and 19%, respectively[1]. However, it is worth noting that these two companies were each impacted by government-related issues. CEO Elon Musk's involvement with DOGE and the spat he had with President Trump did little to allay concerns about TSLA's future. In similar fashion, AAPL CEO Tim Cook came into Trump's tariff crosshairs raising concern for AAPL's long-term profit outlook. However, as short-term market enthusiasm can suddenly wane, short-term concerns can quickly lift. For both TSLA and AAPL, consensus expectations for their earnings growth beyond 2025 remain robust, which leaves a chance for their valuations to catch up to future fundamental prospects[1].

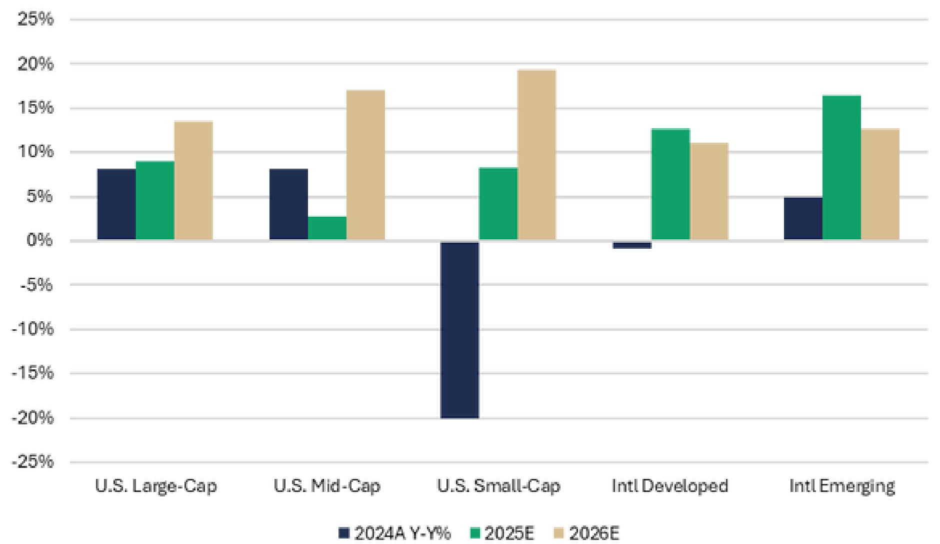
We continue to believe that long-term equity performance remains anchored to the health and progression of fundamentals. As seen during the second half of 2024, sustained fundamental trends in AI-related and technology stocks could boost investor confidence and furthermore, encourage a rotation toward other areas of the U.S. equity market if their valuations become frothy again. For instance, the relatively attractive valuations of the financial and industrial sectors could draw bids as they benefit from more relaxed regulation and accelerating economic activity. We believe that such a broadening of market participation could lead to more sustained market gains and a more expansive opportunity set.

Sharing the Magnificence

One of our key themes this year called for an expansion in domestic equity market breadth. In other words, U.S. Large-Cap Equity performance would be driven by stocks other than the largest of Large-Cap stocks. So far, this view has held up as reflected in the performance of the Equal-Weighted U.S. Large-Cap Equity Index (RSP), which has outperformed the Cap-Weighted index for the year-to-date period through May[1]. Currently the Equal-Weighted index has a trailing 12-month P/E valuation that is a 17% discount to the 26.5 times P/E of the Cap-Weighted index. Consensus currently expects annual EPS growth to accelerate from last year's 5.4% rate to over 13.2% by year-end 2026. If the Equal-Weighted index meets these expectations, it provides viable support for further upside through multiple expansion.

Also taking part in the expansion of market breadth are U.S. Small-Caps. In 2024, the U.S. Small-Cap Index returned 8.6%, dwarfed by the 25% return of Large-Caps[1]. When considering its 9.4% decline in 2024 annual earnings growth, perhaps this underperformance is warranted. However, anticipated pro-growth policies and lower interest rates, neither of which definitively materialized, could enhance Small-Cap fundamentals due to their heavier exposure to domestic demand and their greater reliance on floating-rate debt financing compared to their larger peers[3]. Unfortunately, fiscal support has been limited thus far, and the Fed has pointed to risks of tariff-driven reflation and held firm on its policy rate. These policy shortcomings appear to have dented small business optimism, which continues to hover near historical lows[4]. As seen in Chart 3 below, EPS expectations for Mid-Caps and Small-Caps in 2025 remain the lowest among equity asset classes, suggesting that investor sentiment remains cautious.

Chart 3: Annual EPS Growth by Equity Asset Class



Source: FactSet financial data and analytics, Members Trust Company, 6/15/25

However, much like the U.S. Equal-Weighted Large-Caps, consensus estimates call for an accelerating path of earnings growth for U.S. Mid-Caps and Small-Caps to 16.9% and 18.9%, respectively through 2026[1]. While considering this outlook, relative valuations, and our view that the policy outlook is not as bleak as widely believed, we maintain our expectation for the expanding breadth of U.S. equity market performance.

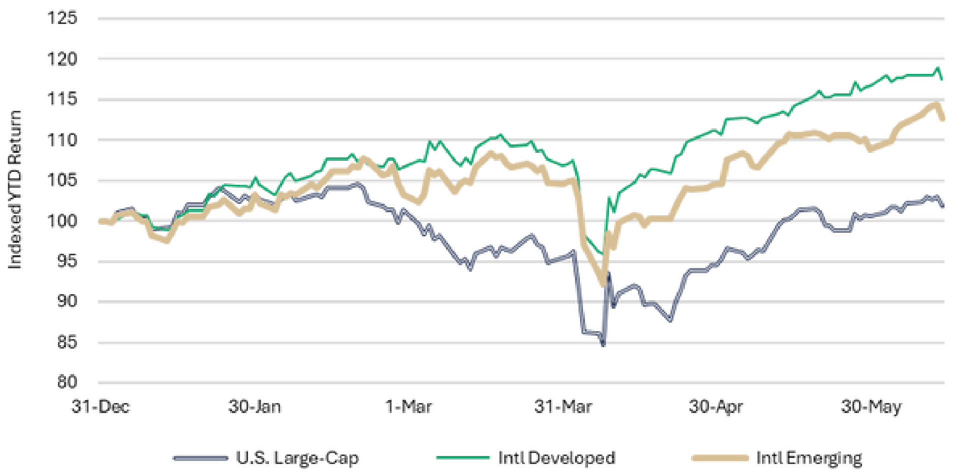
Investor Implications

- Sustained fundamentals in AI and related technology stocks could boost investor confidence encouraging a rotation into other areas of the U.S. equity market.
- The broadening participation of U.S. equities should extend down to Mid-Caps and Small-Caps, especially with lower interest rates.
- International Developed Equities fundamentals have held firm, with relative valuations remaining attractive.

Flight to International Equities

Few could have anticipated the rapidity with which policy implementations started occurring. In particular, the tariff turmoil with its ever-changing percentages, start dates, and affected countries created such uncertainty that the equity market was violently whipsawed. The concerns over tariffs and their potential to increase inflation and unemployment and create a drag on corporate earnings likely helped contribute to the Fed putting the brakes on any further rate cuts. These events also likely contributed to a flight to international stocks, both developed and emerging, to the extent that they were the top two performing equity sub-asset classes at the end of the first quarter. Investors exuded their concerns for the U.S. economy, the near-term future of the dollar, and their disapproval of the handling of tariffs and resulting trade tensions by moving their money elsewhere, to a surprising and unforeseen degree. As seen in Chart 4 below, U.S equities have underperformed international developed and emerging equities for the year-to-date period[1].

Chart 4: 2025 Year-to-Date Regional Equity Market Performance (Indexed to 100)



Source: FactSet financial data and analytics, Members Trust Company, 6/13/25

Even with their outperformance, the International Developed and Emerging Equities still appear attractively valued, with trailing 12-month P/E multiples of 17.2 and 14.7 times, respectively, relative to the U.S. Large-Cap P/E of 25.5[1]. As earnings expectations for these international regions continue trending higher, so too could their valuations. Having moved money across the pond, investors may also be drawn to the fact that technology stocks comprise about 11% of International Developed Market Equities versus the approximate 32% weighting in U.S. Large-Cap Equities[1]. The Financials sector is the largest of the International Developed Equities, which should benefit with the continued improvement in economic growth seen in key developed markets, including Europe, and Japan[1]. The Industrials sector makes up a larger share of Europe's economy compared to the U.S. and could experience stronger growth from inventory replenishment and rising demand. Also, European manufacturing has experienced growth in new orders as indicated by the rise of the HCOB Eurozone Manufacturing PMI Index which reached 50.5 in March, the highest level in nearly three years[5,6]. Along with the lower interest rate path set forth by the European Central Bank and the Bank of England, we feel there is reason to reassess our cautious views on International Developed Markets. However, we remain sensitive to persistent challenges for these international markets, including low and often inconsistent growth rates and a complex regulatory, legal, and political landscape.

Risk Considerations

- Valuations and growth expectations of AI-themed and the largest of U.S. stocks remain elevated.
- A watered-down version of the proposed budget reconciliation bill and a hawkish Fed could delay a U.S. small-cap earnings recovery.
- Rising geopolitical turmoil might lead to another fear-induced market sell-off.

Global Equity Citations
1 FactSet, 2 Members Trust Company, 3 Lazard & Goldman Sachs, 4 NFIB, 5 S&P Global, 6 Hamburg Commercial Bank AG
*ETF tickers IJR, IDEV, EEM, and AGG used as index proxies

Near-Term Shifts, Long-Term Risks

Interest Uncertainty Created by Tariffs

Upon Liberation Day's raft of tariff announcements, fixed income markets were rattled leading to considerable interest rate volatility. These proposed tariffs, combined with the new administration's expansive fiscal policies and pro-growth agenda, are widely expected by investors to fuel inflation, widen deficits, and increase debt issuance, all contributing to a highly reactive bond market. The market's immediate response was sharp, with the 10-year U.S. Treasury yield briefly dipping to 3.90% before swiftly reversing to 4.50% within days[1]. This rapid surge in the 10-year Treasury yield, occurring within just three days, highlighted concerns among traders about higher input costs, potential supply chain disruptions, and the risk of retaliatory trade actions.

The news was widely interpreted as both inflationary and fiscally destabilizing. These concerns have led to downward revisions in economic growth forecasts. In the first quarter, U.S. GDP contracted by 0.2% largely attributed to firms "front-running" the tariffs by building up inventories[2]. For the Federal Reserve, the larger-than-expected tariffs have compounded the uncertainty surrounding its dual mandate of price stability and maximum employment. All said, tariffs have raised concern of an economic slowdown, while simultaneously increasing inflation risk, thereby limiting the Fed's ability to lower its policy rate decisively. This episode marked the reemergence of "bond vigilantes," with investors selling long-duration Treasuries in protest, causing the yield curve to steepen slightly as short-term yields declined on safe-haven flows while long-end yields climbed[3]. The resulting market volatility was so impactful that it prompted the administration to temporarily pause its tariff plans, underscoring the fixed income market's considerable influence on fiscal policy.

The interest rate outlook has become increasingly complicated by conflicting signals from economic data and political pressure to lower rates. On top of this, the new budget legislation is making its way through the government that has garnered the attention of the Congressional Budget Office with respect to the precarious fiscal situation that could arise from its passage in its current form. With the rising specter of inflation, deficits, and the heightened policy uncertainty, we expect that the Fed will hold firm on rates in the near-term, with its future policy moves contingent on evolving macroeconomic and political developments. While our base case anticipates a gradual easing of trade tensions, which could support the U.S. in avoiding a formal recession, we believe that the immediate challenge for fixed income markets remains inflation uncertainty. While recent developments pushed consensus inflation expectations above our estimate of 2.8%, we feel that the market may now have overshot, which should allow the Fed to lower rates at least once in the second half of the year. Furthermore, earnings season may offer further insights into how corporations are responding to tariffs and slowing economic momentum and may help reestablish confidence concerning their resilience and that of our economy. However, until greater policy clarity emerges, volatility is expected to remain a defining feature of the fixed income markets.

Key Takeaways

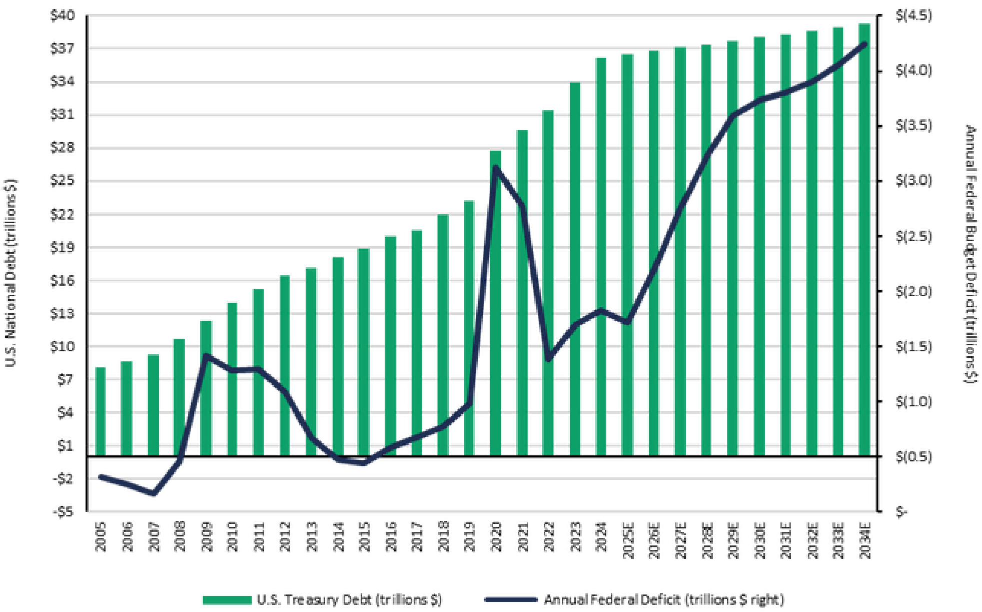
- Prospective tariffs have raised the prospect for higher inflation, clouding the outlook for Fed policy and interest rates.
- The proposed One Big Beautiful Bill Act has the potential to considerably increase our national debt and deficits.
- Global central banks have broadly begun the process of lowering interest rates, but the Fed has maintained its patient stance.

A Big Bill, Debts, and Deficits

The new administration's proposed tariffs, combined with its expansive fiscal policies and pro-growth agenda, are expected to widen federal deficits and significantly increase debt issuance. As May ended, market attention shifted specifically to budget negotiations, particularly given the already elevated national debt levels[1]. Adding to fiscal anxieties, President Trump's sweeping tax bill, the One Big Beautiful Bill Act (OBBBA), passed the House and is currently under review in the Senate. These fiscal concerns have been amplified by a weak Treasury auction and signs of rising fiscal stress in Japan, both of which have exerted upward pressure on longer-dated yields. The market reaction to the early April tariff announcement also highlighted these concerns, as traders interpreted the news as not only inflationary but also fiscally destabilizing. Finally, while the market reaction was initially negative, the Moody's downgrade of the U.S. credit rating in May increased uncertainty and was significant in the sense that now all three major credit rating agencies have done so.

While our base case anticipates that the U.S. will avoid a formal recession, supported by a gradual easing of trade tensions and new trade agreements, the fiscal landscape remains complex. We believe that a significant and long-term challenge for fixed income markets is rising federal debt and deficits. This concern has become more widespread following the introduction of the OBBBA and its impact on this debt dependency, as illustrated in Chart 5 below. We foresee more interest rate stability upon attaining greater policy clarity, including the final drafting of the OBBBA. However, we are carefully monitoring how the fiscal challenges of today might be resolved to assess our long-term interest rate forecasts, which remain lower than present levels.

Chart 5: Debt and Deficit Projections Adjusted for the "One Big Beautiful Bill Act"



Source: FactSet financial data and analytics, Members Trust Company, Source: Congressional Budget Office, crfb.org, U.S. Department of the Treasury, Federal Reserve Bank St. Louis, Members Trust Company. Treasury debt forecasts reference CBO projected increase of $3 trillion over 10 years with straight-line assumption.

Investor Implications

- The impact and uncertainty stemming from tariff and other policy rollouts could keep interest rate volatility elevated.
- Rising debts and fiscal challenges could keep U.S. interest rates higher for longer and suppress bond prices.
- The Fed will likely remain on hold in the near-term, potentially leading to upward revisions to consensus interest rate expectations.

Fixed Income

Easing Global Monetary Policy

Central banks around the world have initiated monetary policy easing in response to a slowing global economy, persistent inflation concerns, and heightened uncertainty[3]. While the Federal Reserve has maintained a cautious stance, holding its target rate steady at 4.25–4.50%, several other major central banks have shifted towards accommodative policies[4]. Federal Reserve Chair Jerome Powell has emphasized the need for patience as policymakers assess the cumulative effects of prior tightening measures. Table #1 below summarizes respective actions made recently by major central banks.

Table 1: Central Bank Policy Comparison

Country	Central Bank	Current Rate	Recent Actions
United States	Federal Reserve	4.25-4.50%	Maintained steady rates
Eurozone	European Central Bank	2.75%	Reduced deposit rate by 125 bps
United Kingdom	Bank of England	4.50%	Expressed caution on further rate cuts
Canada	Bank of Canada	3.00%	Cut key policy rate by 25 bps
Australia	Reserve Bank of Australia	3.85%	Cut cash rate by 50 bps
China	People's Bank of China	Varies	Reduced benchmark interest rates
India	Reserve Bank of India	Varies	Considering deeper rate cuts
Sweden	Sveriges Riksbank	2.25%	Reduced policy rate; signaled further easing
Switzerland	Swiss National Bank	1.00%	Lowered policy rate; may ease further

Source: Powered by Factset, Members Trust Company, 6/9/25

These globally coordinated easing efforts reflect attempts to counterbalance slowing growth, policy uncertainty, and inflationary headwinds. The exacerbation of such issues could pose a dilemma for the Fed and global central banks as they look to right-size their respective monetary policy efforts. For fixed income markets, potential near-to intermediate-term positives include prospects for additional Fed rate cuts and lower yields across the Treasury term structure. However, despite the more accommodative actions taken by other global central banks, Chair Powell acknowledged growing uncertainty within the Fed's dual mandate, noting that inflation remains elevated while risks of rising unemployment loom. In a related move, the Fed announced at its March meeting a halving of its balance sheet runoff pace, citing the need for a "longer runway" to reduce its balance sheet[4]. Although this specific action had a minimal market impact, the next step - an eventual end to balance sheet reduction - could mark a more market-relevant shift. We expect the Fed will remain on hold in the near term, with its future policy decisions contingent on evolving macroeconomic and political developments. Overall, we expect interest rate and fixed income volatility to persist until greater policy and economic clarity emerge.

Risk Considerations

- Delayed inflationary impact from tariff implementation and limits on immigration could keep the Fed from lowering interest rates.
- With tight corporate yield spreads, a recession could trigger a devaluation of credit.
- While Jerome Powell's term as Fed chair expires next year, an early nomination for his successor could rattle markets.

Global Fixed Income Citations
1 U.S. Department of the Treasury, 2 U.S. Bureau of Economic Analysis, 3 FactSet, 4 Federal Reserve

Asset Allocation Reset

The Path to Normalization

Our 2025 outlook was well-aligned with consensus views, which called for pro-growth policies under the new Trump administration. However, we were caught off guard with the magnitude and disruptive nature of initial policy rollouts, which led to a broad market sell-off from its February highs[1]. Economic growth declined in the first quarter and broader U.S. confidence surveys fell to new lows[1,2,3,4]. Despite the heightened uncertainty and market volatility, our Investment Policy Committee (IPC) remained squarely focused on our assessment of economic and market fundamentals used to inform our asset-class views. We share our latest perspectives in Table 2 and the outline below.

Key Takeaways

- Despite several first-half surprises, we expect a recovery in confidence will lead to normalizing economic conditions that will help aid in portfolio positioning.
- Favorable earnings expectations for smaller capitalization stocks suggest that their valuation discounts are unwarranted and present an opportunity.
- Policy uncertainty, rising debts, and geopolitical shocks are expected to continue feeding into rising market volatility, whose effects can be mitigated through a thoughtful and long-term investment strategy.

Table 2: IPC Asset Class Views

	Less Attractive			More Attractive	
Asset Classes					
Equity				●	
Fixed Income			●		
Cash			●		
Global Equities					
U.S. Large Cap				●	
U.S. Mid Cap				●	
U.S. Small Cap				●	
International Developed Markets		→	●		
International Emerging Markets		●	←		
Growth vs Value	→	●			
Fixed Income					
U.S. Treasuries			●		
U.S. Investment Grade Corporates			→	●	
Duration			●		

Source: Members Trust Company, 6/15/25

- Global Equities: improving economy, earnings growth, broader participation
- International Equities: valuations, stable fundamentals, lower policy rates
- Growth vs Value: Growth-style equity valuation improved post-Q1 correction
- Duration: volatile interest rates, pending path to normalization
- U.S. Corporate Bonds: yield spreads briefly widened, improved valuations

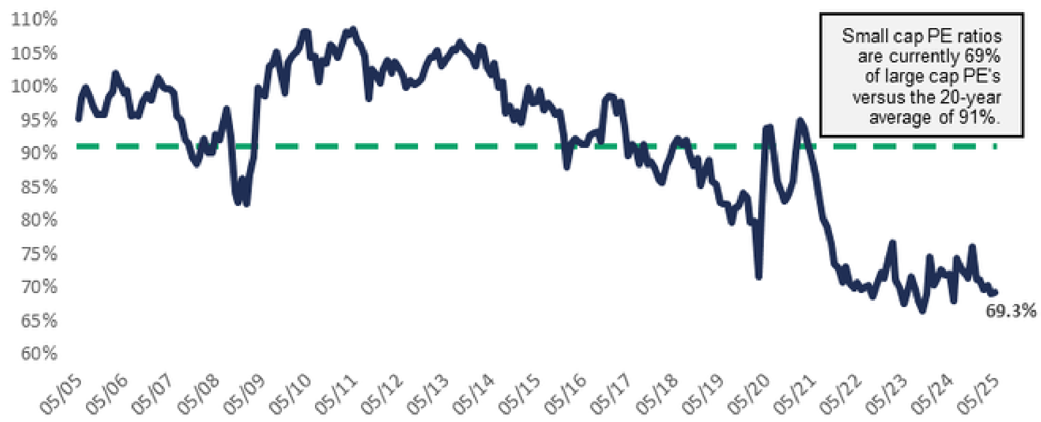
The heightened uncertainty surrounding tariffs appear to be fading, and we expect U.S. confidence will recover putting our economy on a path toward normalization. We also believe that we are in the early innings of asset class normalization, which suggests that the currently high correlation between stock and bond returns will decline. All other things equal, this should help diversification have a more profound mark on risk-adjusted portfolio returns.

Broadening Equity Opportunity

U.S. equity markets have not seen the degree of concentration that we have seen in 2023-2024 with the rise of the Mag 7. We believe that with the top 10 stocks in the U.S. Large Cap Equity benchmark constitutes roughly 38% of the total market value. We see this as a temporary condition but one which still causes us concern with inflated valuations against a backdrop of decelerating earnings. To remedy this and reduce portfolio risk, we have included the Equal-Weight version of U.S. Large Cap Equity, which in effect represents the “average stock” and a tilt toward Value. Also, we maintained a modest overweight in U.S. Small-Cap stocks, a view we believe is supported by lower relative valuations compared to Large-Caps, and accelerating EPS growth through 2026.

In Chart 6 below, we illustrate how U.S. Small-Cap Equity valuations are at an approximate 31.7% discount relative to U.S. Large-Caps. Over the last 20 years, this discount has been closer to 9%[1].

Chart 6: Price-to-Earnings Ratio of U.S. Small-Cap vs Large-Cap Equities



Source: FactSet financial data and analytics, Members Trust Company, 6/12/25

We believe this degree of discount is unwarranted. After several years of relative underperformance by U.S. Small-Caps, we believe that they are in the initial stages of a period of outperformance relative to Large-Cap stocks. Supporting this view are expectations for incrementally improved earnings and broader market participation outside the dominant technology sector. While we believe that the technology sector remains critically important, we conclude that fundamentals support Mid-Caps and Small-Caps to contribute meaningfully to portfolios.

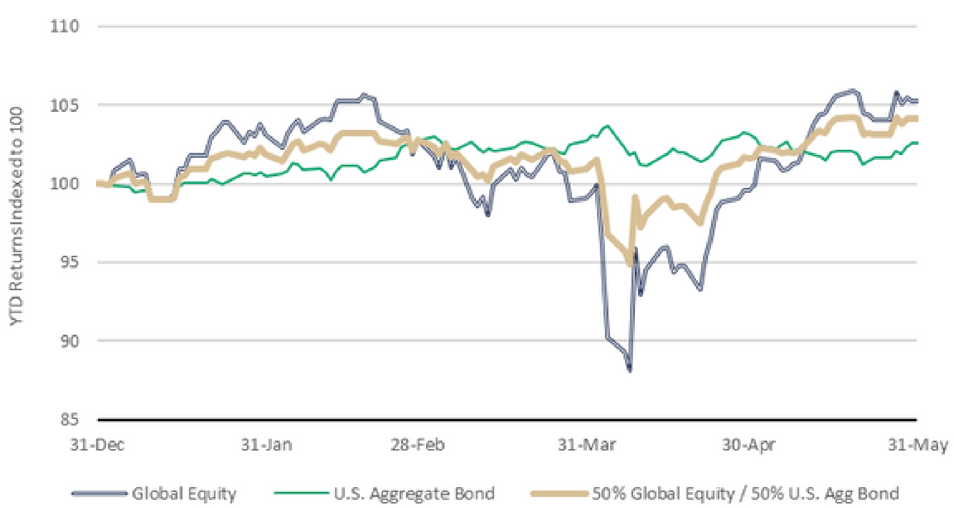
Opportunistic Overlay

- Overweight Global Equities: favor U.S. with broader exposure
- Underweight International Developed: cautious given sharp rally and persisting challenges, but reassessing in light of compelling valuations and improving fundamentals
- Favor Growth Over Value: valuation improved following Q1 market correction
- Neutral Duration: volatile interest rates and pending normalization
- Favor U.S. Corporate Bonds: yield spreads briefly widened amid healthy fundamentals

Maintaining Conviction

We had and continue to expect the broadening performance contribution of U.S Equities and more recently, we have grown more constructive toward International Developed Equities. Fixed Income performance should stabilize with less policy rhetoric and more interest rate visibility. In such a backdrop, we expect the returns of diversified portfolios will achieve a "tight" fit around the benchmark returns of these asset classes. Chart 7 below shows the indexed returns of Global Equities, U.S. Fixed Income, and 50/50 Diversified Portfolio since the start of the year. As illustrated, the returns for all three have been very tightly grouped. These support our view that returns for 2025 across our various asset allocation strategies will likely be tightly grouped. The primary differences for each would be reflected in the level of volatility.

Chart 7: Market Returns Relative to a Diversified 50/50 Portfolio



Source: FactSet financial data and analytics, Members Trust Company, 6/12/25

We remain keenly aware of distinct risks during this period of heightened volatility that could derail us from the path toward normalcy. Ongoing policy uncertainty, rising debts and deficits, "bond vigilantes," and geopolitical conflicts can all feed into further bouts of market disruption. Furthermore, U.S. equities are trading at premiums to historical P/E multiples which diminishes the margin of error for earnings misses and increases the risks to the downside.

As we were reminded during the market turbulence in April, market volatility can test an investor's resolve. We understand that as investors, life goals and objectives change and so too can investment plans. However, we caution that it can be hazardous to modify a long-term investment plan based on short-term headlines or events. Patience can be difficult to exercise in the short-term and especially during times like this. However, we continue to believe that patient investors will be rewarded over the long-term.

Portfolio Strategy Citations
1 FactSet, 2 U.S. Bureau of Economic Analysis, 3 Conference Board, 4 NFIB

2025 Forecasts

Global Economy

We expect the U.S. economic expansion to resume, and continue through and past 2025. We now have a more constructive outlook for international economies as the announced U.S. tariffs have not had their intended, constraining effect.

Y-Y Change (%)	2024 Actual	As Of 6/15/25	2025 Year-End Forecast	5-Year Average Forecast
U.S. Real GDP	2.8%	-0.2%	2.4%	2.3%
U.S. CPI	3.0%	2.4%	2.8%	2.5%
U.S. Unemployment	4.1%	4.2%	4.4%	4.4%
Global Real GDP	3.3%	3.3%	3.3%	3.0%
Global CPI	4.9%	4.9%	3.0%	2.8%
Eurozone Real GDP	0.8%	0.6%	1.3%	1.5%
Eurozone CPI	2.4%	1.9%	2.0%	2.0%
China Real GDP	5.0%	5.4%	4.5%	4.1%
China CPI	0.3%	-0.1%	1.1%	1.3%

Global Capital Markets

We expect further upside for U.S. Equities and with broader participation, including a resurgence of U.S. Small-Caps. International Developed Equities rallied sharply and now appear fully valued, but show improving fundamentals. Gradually declining interest rates could modestly lift U.S. Fixed Income, but we expect a volatile backdrop for this asset class.

Total Return	2024 Full-Year Actual	Year-To-Date 6/15/25	2025 Full-Year Forecast	5-Year Annualized Forecast
U.S. Large Cap Equity	24.9%	2.2%	8.3%	10.7%
U.S. Mid-Cap Equity	13.9%	-3.0%	10.0%	11.4%
U.S. Small-Cap Equity	8.6%	-7.4%	10.2%	11.4%
Intl Developed Mkt Equity	4.7%	17.6%	15.7%	6.1%
Intl Emerging Mkt Equity	6.5%	12.1%	10.2%	4.7%
U.S. Fixed Income	1.3%	2.7%	4.6%	4.1%

Interest Rates

We expect the Fed will remain patient with its monetary policy amid rising risks of tariff-induced inflation and other market uncertainties. Longer-dated Treasuries could face fiscal related headwinds as the budget reconciliation bill advances.

	2024 Year-End Actual	As Of 6/15/25	2025 Year-End Forecast	5-Year Normalized Forecast*
Fed Funds Rate (Upper)	4.50%	4.50%	4.25%	3.25%
2-Year US Treasury	4.24%	3.96%	3.75-4.25%	3.50-3.75%
10-Year US Treasury	4.57%	4.41%	4.10-4.60%	4.00-4.25%

Source: Members Trust Company, Financial Data and Analytics Provider FactSet, International Monetary Fund. Past performance is not indicative of futures results, forecasts are not meant to be construed as investment advice or recommendations, * 5-Year Normalized Interest Rate forecasts represent MTC IPC's average forecasted value to which each would be expected to converge of the time period, with all pertinent factors and conditions for monetary policy, economy, and capital markets remain generally stable.

Contributing Authors

MTC Investment Policy Committee

Kate Braddock, CFA
Senior Vice President,
Managing Director of Investments

Gleisy Cruz
Senior Investment Associate

Jonnathan De Jesus, CFA, CIPM®
Senior Vice President,
Head of Operations

Sharon Giuffre, CFA, CAP®
Vice President,
Senior Investment Officer

Ericka Gonzalez, CTFA
Assistant Vice President,
Portfolio Management Lead

Tania Gooch, CTFA
Assistant Vice President,
Investment Administration Lead

William McAllister, CFA
Vice President,
Senior Investment Officer

Kei Sasaki, CFA
Chief Investment Officer

Autumn Strunk
Investment Associate

Jeff Terrell, CFA
Senior Vice President,
Senior Investment Officer

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Contact Us

National Headquarters:

14055 Riveredge Drive
Suite 525
Tampa, FL 33637

(888) 727-9191
Local: (813) 631-9191
Fax: (813) 631-9898

MembersTrust.com