2025

Q2 Commentary and Q3 Asset Allocations

Zacks
INVESTMENT MANAGEMENT

Zacks ETF Model Commentary – June 30, 2025

The second quarter of 2025 marked a sharp rebound in U.S. equity markets following a weak start to the year. Growth stocks recovered strongly, outpacing value as investor sentiment improved. The S&P 500 climbed +10.46% in Q2, led by a resurgence in large-cap growth names. The Nasdaq Composite gained an impressive +16.94%, while the Dow Jones Industrial Average rose a more modest +5.49%. The Russell 2000 also rebounded, up +8.47% after a challenging Q1. Markets responded positively to a 90-day pause in new tariff actions, a more stable inflation outlook, and rising confidence in a potential Federal Reserve rate cut later this year.

Much of the rally was driven by renewed enthusiasm for technology, communication services, and consumer discretionary stocks sectors with high growth exposure and strong balance sheets that tend to benefit most from falling rate expectations. Investor appetite for innovation and earnings momentum returned in force, with mega-cap names leading the charge. At the same time, cyclical sectors like industrials and financials saw a moderate recovery as economic data stabilized.

Q1's weakness in growth sectors gave way to a broader risk-on tone, supported by improving clarity on global monetary policy. The pause in tariff escalation acted as a relief valve for equity markets, while resilient companies demonstrated their ability to manage cost pressures and margin uncertainty. Although inflation remains above the Federal Reserve's target, volatility in policy expectations declined during the quarter. Importantly, several European central banks began cutting interest rates, while the Fed held steady enhancing the relative appeal of developed international markets as global monetary policy paths continued to diverge.

Portfolio Adjustments and Strategy

Equity Allocation: Earlier in the year, we increased our allocation to U.S. growth stocks in response to market weakness and favorable forward earnings expectations. Following their strong rebound in Q2, we made the decision late in the quarter to trim this exposure, harvesting gains and reallocating toward areas of the market with more reasonable valuations. Specifically, we increased our allocation to international equities, both developed and emerging markets.

International markets have become increasingly attractive as central banks abroad particularly in Europe have begun cutting rates ahead of the U.S. Federal Reserve. Coupled with a weakening U.S. dollar, this policy divergence improves the relative outlook for international equities. Developed markets benefit from easing monetary conditions, while select emerging markets offer compelling long-term opportunities driven by valuation support, demographic growth, and structural reform. These moves reflect our continued focus on diversification and valuation discipline in a dynamic global environment.

Fixed Income Allocation: This quarter marked a notable shift in our fixed income positioning. For the first time in several quarters, we reduced our allocation to short-term U.S. Treasuries and added to intermediate-term corporate and government bonds. This adjustment reflects our view that intermediate duration offers better risk-adjusted returns in the current environment balancing income generation with interest rate sensitivity as we approach a potential Fed policy shift. With credit conditions stabilizing and market expectations pointing toward rate cuts later this year, we see intermediate-term bonds as an important source of stability and yield within the portfolio.

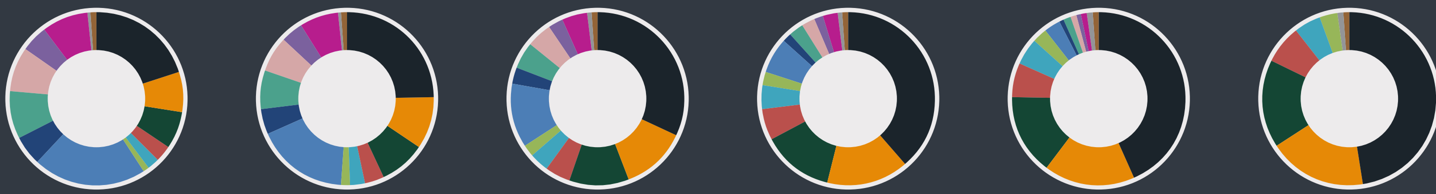
Market and Economic Outlook

Looking ahead, we expect:

- **Economic Growth:** U.S. growth remains resilient but uneven. The short-term tariff pause has stabilized activity, but forward visibility remains limited.
- **Inflation:** Inflation is sticky and may edge higher in the near term, particularly if tariffs resume or supply chains face renewed pressure.
- **Federal Reserve Policy:** The Fed is expected to cut rates in September, with a potential follow-up in November, depending on inflation and labor data.
- **Earnings:** Q2 earnings season will be pivotal in gauging whether tariffs have materially affected corporate margins and consumer demand.
- **International Markets:** With easing already underway in Europe, a declining U.S. dollar, and more attractive relative valuations, developed and emerging market equities may continue to gain favor.
- **Fixed Income:** Intermediate-term bonds remain a core allocation as we seek to balance yield, duration, and economic sensitivity amid a shifting rate landscape.

Conclusion: Q2 delivered a strong rebound in growth equities and improved investor confidence as macro conditions stabilized. Our recent portfolio adjustments trimming U.S. growth exposure following its rally, reallocating to international markets, and shifting fixed income toward intermediate-term bonds demonstrate a proactive, valuation-aware approach. As inflation, tariffs, and Fed policy remain key drivers of market direction, we continue to emphasize quality, diversification, and downside protection.

Our Q3 2025 Asset Allocations



Asset Class	Ticker	Conservative	Moderate Conservative	Moderate	Moderate Aggressive	Aggressive	Ultra Aggressive
US Lrg Comp Stock	ZECP	20.00%	24.90%	32.00%	38.80%	43.60%	47.60%
US Small Mid Comp Stock	SMIZ	7.70%	9.60%	12.30%	15.10%	16.80%	18.40%
Intl Dev Lrg Comp Stock	IEFA	6.90%	8.60%	11.10%	13.50%	15.10%	16.50%
Intl Emrg Mkt Stock	SCHE	3.00%	3.70%	4.80%	5.80%	6.40%	7.00%
Large Cap Value	VONV	2.20%	2.70%	3.50%	4.30%	4.80%	5.20%
Large Cap Growth	GROZ	1.30%	1.70%	2.20%	2.60%	2.90%	3.20%
US Aggregate Bond	AGG	21.10%	17.40%	11.90%	6.60%	3.10%	0.00%
Short Term Corporates	VCSH	5.50%	4.50%	3.10%	1.70%	0.80%	0.00%
Intermediate Term Corporate Bond	SPIB	8.90%	7.30%	5.00%	2.80%	1.30%	0.00%
1-3 year Treasuries	VGSH	8.30%	6.80%	4.70%	2.60%	1.20%	0.00%
Treasury Bills	BIL	5.00%	4.10%	2.80%	1.60%	0.70%	0.00%
Mortgage Backed Securities	VMBS	8.60%	7.10%	4.80%	2.70%	1.30%	0.00%
Base Metals	PDBC	0.50%	0.60%	0.80%	1.00%	1.10%	1.20%
Cash	CASH	1.00%	1.00%	1.00%	0.90%	0.90%	0.90%

Source: Zacks Investment Management as of June 30, 2025.

Strategic allocations are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.

All asset allocation scenarios are for simulation purposes only and are not intended to represent a specific asset allocation strategy or recommend a particular allocation.

Each investor's situation is unique and asset allocation decisions should be based on an investor's risk tolerance, time horizon and financial situation. Information above should not be construed as a recommendation to invest in a particular security.

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The Nasdaq Composite Index is the market capitalization-weighted index of over 3,300 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs)and tracking stocks, as well as limited partnership interests. The index includes all Nasdaq-listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debenture securities. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The S&P 500 Index is a well-known, unmanaged index of the prices of 500 large company common stocks, mainly blue chip stocks, selected by Standard & Poor's. The S&P 500 Index assumes reinvestment of dividends but does not reflect advisory fees. An investor cannot invest directly in an index. The volatility of the benchmark may be materiallydifferent from the individual performance obtained by a specific investor.

The Dow Jones Industrial Average measures the daily stock market movements of 30 U.S. publicly-traded companies listed on the NASDAQ or the New York Stock Exchange (NYSE). The 30 publicly-owned companies are considered leaders in the United States economy. An investor cannot directly invest in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The Russell 1000 Growth Index is a well-known, unmanaged index of the prices of 1000 large-company growth common stocks selected by Russell. The Russell 1000 Growth Index assumes reinvestment of dividends but does not reflect advisory fees. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The Russell 1000 Value Index is a well-known, unmanaged index of the prices of 1000 large-company value common stocks selected by Russell. The Russell 1000 Value Index assumes reinvestment of dividends but does not reflect advisory fees. An investor cannot directly invest in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The Russell 2000 Index is a well-known, unmanaged index of the prices of 2000 small-cap company common stocks, selected by Russell. The Russell 2000 Index assumes reinvestment of dividends but does not reflect advisory fees. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

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