Wealthspire Advisors 2025 Q2 Review

Headlines, Reality, and OBBB

By the Wealthspire Advisors Investment Team

The saying goes, “Once is an accident, twice is a coincidence, three times is a pattern.” This is the second time a big policy announcement immediately followed quarter-end. As writers of these pieces who must adjust on the fly, we hope to avoid a pattern. In this missive, we touch on a few headline topics flooding our inbox, highlight the slow-moving but relevant shifts happening in capital markets overseas, and lastly, provide quick cursory comments on new tax law.

Reality > Headline

In June, many questions rolled in about possible oil price shocks following Middle East escalations. Instead, crude prices fell, treasury yields rose, and equity markets barely flinched. This surprised many, especially given the headline threats of closing the Strait of Hormuz, through which 20 million barrels of oil pass every day. Reality quickly quashed the headline. First, the Strait of Hormuz has not closed in the modern era, even during the Iran-Iraq “Tanker War” of the mid-1980s. Second, only a fraction of those 20 million barrels comes from Iran, and nearly 90% of Iranian oil is bound for China.[i] From all the other countries that ship through the Strait (think Saudi Arabia, UAE, Kuwait, Qatar, and Iran) less is shipped to the U.S. than almost any major importer. The U.S. now produces 20% of the world’s oil (compared to 12% for Saudi Arabia and another 12% for Russia), and it is now much harder to recreate the embargo-like effect of the 1970s through unilateral oil action.[ii]

We also received many questions about the dollar. In our previous quarterly letter, we offered historical context regarding currency fluctuations. This is a callback on the greenback. The headline is that the dollar is down approximately 10% to date relative to a basket of major currencies, a very rough start to the first six months of the year, the worst since 1973 in fact. The reality is that currency volatility is quite common. Over the last 20 years, we have had at least seven occurrences of comparable declines (2006-2008, 2009-2011, 2017-2018, 2020-2021, 2022-2023, and now 2025). Dollar weakness does often translate to stickier inflation. Recent work by Apollo Group showed that a 10% depreciation in the dollar translated to roughly 0.25% higher baseline inflation over the next few years.[iii] With tariffs still in limbo and inflation sticky, markets are pricing in just two Fed rate cuts in the second half of the year. This is the Catch-22 of the dollar and foreign exchange. Higher for longer again puts U.S. yields above most of the developed world, which ultimately brings demand back for the dollar. Since most commodities are priced in dollars, it also means a lower inflation environment for others (Europe and Japan, for example), which allows them to lower rates sooner/faster, exacerbating the difference in yield.

The Non-Headline Worthy Overseas Better Business Bureau

Today’s European and Japanese headlines in the U.S. focus on accelerated defense spending and ongoing tariff negotiations. More relevant changes, however, had an earlier start. Governance reform does not lend itself to splashy headlines. About four years ago in one of these letters, we discussed the slow moving (and therefore not newsworthy) capital markets changes overseas. Countries that historically put stakeholder interests ahead of shareholders were moving in another direction. Those changes are accelerating.

Take Japan, for instance. For decades, corporate Japan was associated with bloated balance sheets, low returns on equity, and a near-dogmatic reverence for corporate longevity over profitability. When Shinzo Abe stepped down in 2020, he called for better governance in hopes of not only improving stale business but also attracting foreign capital. Since, Japan put in regulatory changes to move in that direction. Amid growing pressure from the Tokyo Stock Exchange, companies with chronically low price-to-book ratios are embracing share buybacks, unwinding cross-shareholdings, and increasingly acknowledging the interests of outside shareholders. In January of last year, the exchange also began publishing a list of firms that disclosed plans to improve capital efficiency and corporate value. There is also a shift in more shareholder-driven change. According to Barclays Research, Japan is now the second most active jurisdiction (behind the U.S.) with activist campaigns, up 45% year-over-year.[iv] Those were nearly non-existent five years ago. A lot of these are formally voted down, but there has been a significant increase in preemptive acceptance of shareholder suggestions to avoid the public vote. Local asset managers are also more willing to jump on board with shareholder resolutions. All of this translates to shareholder friendliness through shame, but investors will take what they can get. Foreign ownership of Japanese equities is again on the rise (roughly 30% as compared to 20% for that of U.S.), and for the first time in a generation, global capital is being welcomed with more than just polite acknowledgment.

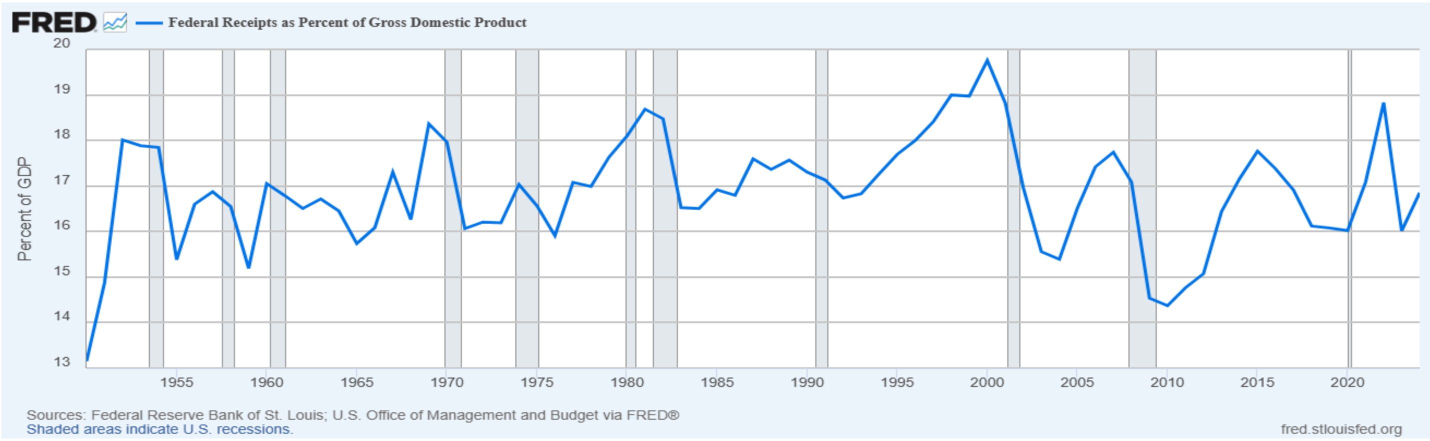
Europe, too, appears to be turning a page. Germany, long defined by export-driven conservatism and fiscal restraint, has recently committed to a meaningful increase in spending of about 25% of GDP on infrastructure and defense in the coming decade. Well before that, shareholders were getting sick of poor operational performance. A wave of leadership replacements, spin-offs, and more scrutiny toward capital allocation has been gaining momentum for some time. The paradigm is a far cry from 20 years ago, when Deutsche Börse's failed bid for the London Stock Exchange (at the time Börse shareholders were opposed) was seen by German media as a threat to the entire German economy. German companies, along with those in France, the UK, and the Netherlands, are increasingly aggressive in stock buybacks, matching, if not surpassing those in the U.S. This isn't solely driven by shareholders. To combat a legacy of lacking innovation, poor corporate behavior, and market perception, many European companies started to list in the U.S. Many are thinking of more recent names like Sweden's Spotify, but nearly 130 European companies switched their primary listings to the U.S. over the past decade. European countries are on notice; The European Commission has announced plans to reduce regulation and make it easier for European businesses to access capital, especially those that operate in "strategic" sectors.

For much of the past decade, the primary argument for international equity exposure rested on valuations. U.S. stocks were expensive; international stocks were not. But cheapness alone isn't a catalyst, and so the valuation gap persisted, even widened, as U.S. companies delivered consistently superior earnings growth and return on capital. Now, however, we're seeing early signs that the profitability gap may be narrowing. Earnings revisions outside the U.S. have held up well in 2025, and while the AI boom continues to drive U.S. tech indices, international markets, especially in Europe and Japan, have quietly improved their operating margins, shareholder payout ratios, and capital efficiency. In short: they're not just cheaper, they're getting better. None of this is to say that international markets will necessarily outpace the U.S., or that structural reform guarantees strong returns, but the old story of slow growth and inefficient capital use feels increasingly out of date.

Tax at First Blush

Now to the other **OBBB**. We will have a lot more on the tax bill and its ramifications for financial planning, markets, the economy, and beyond in coming blogs, letters, and calls. But the headline is a projected multi-trillion increase in debt over the next decade. For the record, deficits matter, just no one seems to know when. Every debt ceiling, social security solvency, Medicare/Medicaid funding problem finds itself in another can swiftly being kicked down the road. None of this is good. That said, we have seen countless economic projections fail to hit the mark. Whether it be deficit, economic growth, employment, or productivity, extrapolation of present-day state over a dynamic horizon often fails in the face of very creative can-kickers.

Not all economic theory and projections are futile, however. The math behind tax rates and tax collections surprisingly falls a lot closer to the theory of Laffer's Curve and subsequently the empirical evidence of Hauser's Law than some other economic approaches. Hauser postulated that tax receipts as a percentage of GDP stay stable regardless of tax rate. It's hard to fight that data below. Receipts have been between 15% and 19% of GDP through different tax regimes and governments. In fact, when looking at the shaded sections in the chart below (signifying recessions), the state of the economy plays a more important role in government revenues.



Sources: Federal Reserve Bank of St. Louis; U.S. Office of Management and Budget via FRED®

To close, when we write headline-fighting letters, it is with the aim of discouraging impulsive responses, as that rarely translates to positive results. The sentences that often follow can be summed up by: Stay invested. Trust the plan. Let time do the heavy lifting.

Markets

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Higher Return	INTL 3.65	FIXED INC 2.20	EM MKTS 0.52	INTL 3.76	US LC 6.29	EM MKTS 5.97							INTL 17.88
	US SM 3.54	INTL 1.05	FIXED INC 0.04	EM MKTS 1.51	US SM 5.99	US LC 5.09							EM MKTS 14.62
	US LC 2.78	MUNI 0.91	INTL -0.14	FIXED INC 0.39	INTL 4.84	US SM 4.61							STOCK/BOND 6.59
	STOCK/BOND 2.24	EM MKTS 0.05	ALTS -0.44	STOCK/BOND 0.33	EM MKTS 4.78	INTL 3.60							US LC 6.20
	HEDGE EQ 2.11	STOCK/BOND -0.17	MUNI -0.89	ALTS 0.21	STOCK/BOND 3.77	STOCK/BOND 3.09							HEDGE EQ 4.32
	ALTS 1.85	ALTS -0.43	HEDGE EQ -1.33	HEDGE EQ 0.00	HEDGE EQ 2.63	FIXED INC 1.54							FIXED INC 4.02
	EM MKTS 1.12	HEDGE EQ -0.53	STOCK/BOND -2.69	MUNI -0.56	ALTS 1.26	ALTS 1.46							ALTS 3.11
	MUNI 0.69	US LC -1.30	US LC -5.63	US LC -0.68	MUNI 0.77	HEDGE EQ 1.43							MUNI 1.75
Lower Return	FIXED INC 0.53	US SM -4.69	US SM -6.27	US SM -2.06	FIXED INC -0.72	MUNI 0.83							US SM 0.44

LEGEND

US LC	Domestic Large Cap	US SM	Domestic Small-Mid Cap	INTL	International	EM MKTS	Emerging Markets	ALTS	Alternatives
FIXED INC	Taxable Fixed Income	MUNI	Tax-Exempt Fixed Income	STOCK/BOND	60% Global Stock/40% Muni	HEDGE EQ	Hedged Equity		

Source: Morningstar and Bloomberg Finance L.P. (data as of 6/30/2025)

- Markets opened Q2 with a jolt as the "April 2nd" tariff announcement reignited volatility across global indices. The S&P 500 Index fell over 12% in just four days, dropping nearly 20% from its peak before rebounding swiftly to close the quarter at a new all-time high. Growth stocks rebounded and are now almost even with value for the year. Several of the Magnificent 7 clawed back a good portion of their Q1 sell-off. Small cap stocks continued to struggle across styles. Less financing flexibility at a time of tariff, rate, and economic growth uncertainty has translated to analysts lowering EPS growth forecasts. A falling U.S. dollar (DXY Dollar Index -7.1% in Q2) and tariff postponements helped international stocks extend their YTD lead. Emerging Markets stocks also caught a bid. Delayed tariffs helped China stocks rise 18.1% in the first half of the year.

- Bond markets followed a similarly volatile path early in the quarter. The Treasury curve steepened, with short-term yields falling on expected Fed cuts while long-end yields climbed on inflation and increased deficit concerns. Markets are now anticipating a Fed Funds rate of 3.8% by year-end, suggesting two rate cuts. The 10-year yield finished the quarter nearly flat at 4.23%, while 20- and 30-year yields rose around 20 bps. Municipals struggled earlier in the quarter, but then also rebounded and are now up 1.8% for the year.
- Despite heightened uncertainty, credit spreads narrowed, suggesting improving risk sentiment. High yield led performance, gaining 3.5%, while investment-grade corporates returned 1.8%. Asset-backed securities (both liquid and illiquid) continued to offer relative value, with more room for spread narrowing.
- Commodities were mixed in Q2 as dollar weakness clashed with geopolitical volatility. Oil rose early on Middle East tensions but reversed sharply after U.S. strikes on Iranian nuclear sites. OPEC+ announced production increases, and Iran moved quickly to offload crude. Agricultural prices declined across the board (i.e., coffee -19%, corn -8%, cotton -2%). With the dollar down more than 10% against major currencies and commodities up less than 6%, commodities are cheapening around the world.

[i] https://www.reuters.com/business/energy/chinas-heavy-reliance-iranian-oil-imports-2025-06-24/
[ii] https://www.opec.org/annual-statistical-bulletin.html
[iii] https://www.apolloacademy.com/wp-content/uploads/2025/07/070625_Chart.pdf
[iv] https://www.ib.barclays/content/dam/barclaysmicrosites/ibpublic/documents/our-insights/shareholder-q1/Barclays-Q1-2025-Review-of-Shareholder-Activism-15-04-2025.pdf