

QUALIFIED PLAN NEWS

CAPITAL MARKETS REVIEW			PERIOD ENDING JUNE 30, 2025			
U.S. Equity Markets	Qtr	Ytd	1 Yr Return	3 Yr Return	5 Yr Return	10 Yr Return
S&P 500 TR USD	10.94	6.20	15.16	19.71	16.64	13.65
Russell 3000 TR USD	10.99	5.75	15.30	19.08	15.96	12.96
Russell 3000 Value TR USD	3.84	5.55	13.30	12.48	13.87	9.04
Russell 3000 Growth TR USD	17.55	5.80	16.89	25.07	17.55	16.38
Russell 1000 TR USD	11.11	6.12	15.66	19.59	16.30	13.35
Russell 2000 TR USD	8.50	-1.79	7.68	10.00	10.04	7.12
Non-U.S. Equity Markets						
MSCI ACWI Ex USA NR USD	12.03	17.90	17.72	13.99	10.13	6.12
MSCI EM NR USD	11.99	15.27	15.29	9.70	6.81	4.81
Fixed Income						
Bloomberg US Agg Bond TR USD	1.21	4.02	6.08	2.55	-0.73	1.76
Bloomberg US Treasury US TIPS TR USD	0.48	4.67	5.84	2.34	1.61	2.67
Real Assets/Natural Resources						
DJ US Select REIT TR USD	-1.71	-0.56	8.09	4.77	8.55	5.45
S&P North American Natural Resources TR	-1.93	5.07	3.64	10.86	19.42	5.69
Cash Equivalents						
FTSE Treasury Bill 3 Mon USD	1.09	2.21	4.88	4.75	2.88	2.01

MARKETS CLOSE HIGHER DURING VOLATILE QUARTER

U.S. EQUITIES

The S&P 500 finished a tumultuous quarter by closing at a new all-time high. Over the quarter, the S&P 500 rose 10.9%, bringing year-to-date returns for the index to 6.2%.

The path to the 10.9% quarterly climb was a rocky one, as the unveiling of “reciprocal” tariffs by President Donald Trump on April 2 (dubbed “Liberation Day”) caught most investors off guard.

Market reaction to the markedly higher than anticipated tariff rates was swift, prompting a broad sell-off of equities at home and overseas. The tech-heavy Nasdaq Composite entered a bear market, defined as a decline of at least 20% from a recent high, and the S&P 500 narrowly escaped one.

On April 9, President Trump announced a 90-day pause of tariffs on social media, prompting a near immediate end to the market sell-off. In response to the announcement, investors piled into equities, propelling the S&P 500 9.5% higher for the day, the largest one-day return for the index since October 2008.

For the remainder of the quarter, the market climbed a wall of worry, steadily continuing its upward ascent from its prior low. Among U.S. large-cap stocks, the Russell 1000 Value Index added 3.8% while the Russell 1000 Growth Index jumped 17.8%. For the year, the indexes are neck and neck, with the Russell 1000 Value Index up 6.0% and the Russell 1000 Growth Index up 6.1%.

U.S. small-cap stocks also bounced higher, although not as significantly as their large-cap peers. The Russell 2000 Index added 8.5% over the quarter. On the year, the Russell 2000 Index is in negative territory, down -1.8%.

The Russell 3000 Index rose 11.0% for the quarter, bringing its year-to-date return to 5.8%.

INTERNATIONAL EQUITIES

International stocks moved in tandem with U.S. stocks for much of the quarter. The MSCI All Country World Index (ACWI) ex USA closed out the quarter up 12.0%, slightly outpacing the 11.0% return for the Russell 3000 Index of U.S. stocks.

In local currency, the quarterly return for the MSCI ACWI ex USA was just half this number, 6.0%. Year to date, the MSCI ACWI ex USA has returned 17.9% (USD) and 8.8% (local currency).

The marked difference in returns for international stocks in USD and local currency is due to significant depreciation of the U.S. dollar. Over the first half of the year, the value of USD fell -8.5%, according to the Wall Street Journal Dollar Index.

The MSCI EAFE Index of developed international stocks rose 11.8% over the quarter, bringing its year-to-date return to 19.5%. The MSCI Emerging Markets Index returned 12.0%.

FIXED INCOME

The Bloomberg US Aggregate Index (the Agg) ticked up 1.2% over the second quarter while the broader Bloomberg US Universal Index added 1.4%. For the year, the Agg has returned 4.0%, and the Universal has returned 4.1%. High-yield bonds, which tend to rally alongside equities, rose 3.6% over the preceding three months.

The yield on the 10-Year U.S. Treasury closed the quarter flat, starting at 4.23% and ending at 4.24%. The yield on the 2-Year U.S. Treasury fell slightly, opening at 3.89% and closing at 3.72%.

Midway through the quarter, credit-rating agency Moody’s downgraded its credit rating of the U.S. federal government from Aaa to Aa1, citing fiscal deficits and rising interest costs as drivers behind its decision.

ECONOMY

U.S. real gross domestic product (GDP) contracted at an annual rate of -0.5% over the first quarter of 2025, the latest period for which data is available. In anticipation of heightened tariff rates, U.S. imports rose 37.9% over the quarter, their fastest increase since 2020. The -0.5% contraction in economic activity was primarily driven by this surge in imports, which are a negative value in the calculation of GDP. Despite the first-quarter contraction, the Federal Reserve (Fed) projects real GDP to increase 1.4% in 2025.

The U.S. unemployment rate remained unchanged at 4.2% for the month of May, the latest month for which data is available. The consumer price index (CPI) increased 2.4% year-over-year in May.

The Federal Reserve Open Market Committee (FOMC) met twice during the quarter, in May and in June. At both meetings, the Fed left the federal funds target rate unchanged at a range of 4.25% - 4.50%.

GET EMPLOYEES TO CONTRIBUTE MORE TO YOUR RETIREMENT PLAN

Employers can use various strategies to get their employees to contribute more to their employer-provided retirement plans.

Many employees focus on current spending needs rather than on saving for a retirement that could be many years in the future. That focus and inertia are generally responsible for low participation rates in employer-provided retirement plans, such as 401(k) plans. Businesses want to help their employees lay the groundwork for a financially secure retirement and are often frustrated by the apparent indifference of some employees to the opportunity they are being offered.

In an attempt to boost participation rates, many have tried a variety of strategies. For example, some organizations have chosen to take a proactive approach by automatically enrolling their employees in their 401(k) plans. Unless the employee explicitly states that they want to contribute at a different rate or want to completely opt out, the employee is enrolled in the plan at a default contribution rate. The most common default deferral percentage is 3%, but has been on the rise as a 3% savings rate most often will not get an employee saving enough.

More retirement plans are taking automatic enrollment to another level by automatically increasing (also known as “escalating”) the deferral rate every year until it reaches a certain percentage of the employee’s annual compensation. Research has consistently found that automatic enrollment, especially in combination with automatic escalation, helps encourage employees to make saving for retirement a priority.

Plan sponsors are able to choose from several different types of investment alternatives for employees’ automatic contributions. These alternatives are referred to as qualified default investment alternatives (QDIAs). Their use can limit a plan sponsor’s liability as a plan fiduciary for any automatic enrollment plan losses that are a result of investing participant contributions in these default investments.

QDIA choices are:

- One with an investment mix that changes asset allocation and risk based on the employee’s age,

projected retirement date, or life expectancy (a target date or lifecycle fund, for example). This is the most common.

- A product with an investment mix that considers a group of employees as a whole (a balanced fund, for instance).
- One that spreads contributions among plan options to deliver an asset mix that accounts for the individual’s age, projected retirement date, and life expectancy (a professionally managed account).
- Capital preservation products, such as money market or stable value funds. However, this option can only be used for the first 120 days after the participant’s first automatic contribution.

MATCHING CONTRIBUTIONS

An offer to match part of employees’ plan contributions is another strategy designed to drive employee participation in the retirement plan. For example, the employer could match 50 cents for every dollar that the employee contributes to the retirement plan up to 6% of the employees’ annual salary. Some employers have attempted to move a step beyond the simple match and are experimenting with stretch matches and fixed-dollar matches.

With a stretch match, a plan sponsor could, for example, offer a match of 25 cents on every dollar contributed by a participant up to 10% or 15% of pay instead of offering a match of 50 cents on every dollar contributed up to 6% of pay.

A fixed-dollar match occurs when the employer contributes a fixed-dollar amount to each employee’s retirement account if the employee saves at a certain level. For example, an employer might offer to contribute \$1,800 to the retirement account of each employee who saves 2% of salary. An employee making \$45,000 a year would only have to contribute \$900 to get the \$1,800 employer match.

EMPLOYERS WANT TO HELP

Employers overwhelmingly want to help their employees move toward retirement security. You may benefit from the insights of a financial professional if you are looking for ways you can improve your retirement plan’s participation and contribution rates.

WEB RESOURCES FOR PLAN SPONSORS

Internal Revenue Service, Employee Plans

› irs.gov/ep

Department of Labor, Employee Benefits Security Administration

› dol.gov/ebsa

401(k) Help Center

› 401khelpcenter.com

BenefitsLink

› benefitslink.com

Plan Sponsor

› plansponsor.com

Plan Sponsor Council of America

› psca.org

Employee Benefit Research Institute

› ebri.org

S&P 500 is a commonly used measure of common stock performance. Russell 2000 is a commonly used measure of small capitalization stocks. Russell 3000 Value measures performance of U.S. equity universe broad value segment with lower price-to-book ratios and lower forecasted growth values. Russell 3000 Growth measures performance of Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. MSCI ACWI EX U.S. tracks 850 stocks traded in 22 world markets (excludes U.S. based stocks). Barclays U.S. Aggregate Bond Index tracks domestic investment grade bonds (including corporate, government, and mortgage-backed securities). Citigroup 3-Month U.S. Treasury Bill Index tracks short-term U.S. government debt instruments. All referenced indices are unmanaged and not available for direct investment. Past performance is not a guarantee of future results.

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