Market & Legal Update

June 2025

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MARKET UPDATE | Markets Reach Record Highs Despite Geopolitical Turbulence

June saw a convergence of complex economic and geopolitical challenges that tested the resolve of investors and policymakers alike. From persistent inflation and cautious monetary policy to evolving trade negotiations and escalating conflict in the Middle East, the month brought heightened volatility and uncertainty. Despite these headwinds, domestic equity markets showed notable resilience, with the S&P 500 and tech-heavy NASDAQ ending the month at new record highs, gaining 5.1% and 6.6% in June, respectively. Foreign stocks also rose during the month, with the MSCI EAFE returning 2.2%, and the MSCI Emerging Markets Index rising 6.0%. Meanwhile, bond yields dropped by the end of the month as the volatility eased causing bond prices to rise, with the Bloomberg U.S. Aggregate Bond Index increasing 1.5%.

Market Return Indexes	June 2025	QTD 2025	YTD 2025
Dow Jones Industrial Average	4.5%	5.5%	4.6%
S&P 500	5.1%	10.9%	6.2%
NASDAQ (price change)	6.6%	17.8%	5.5%
MSCI Eur. Australasia Far East (EAFE)	2.2%	11.8%	19.5%
MSCI Emerging Markets	6.0%	12.0%	15.3%
Bloomberg High Yield	1.8%	3.5%	4.6%
Bloomberg U.S. Aggregate Bond	1.5%	1.2%	4.0%
Yield Data (Month End)	**June 2025**	**May 2025**	**April 2025**
U.S. 10-Year Treasury Yield	4.24%	4.41%	4.17%

A tense geopolitical environment was the primary contributor to the volatility during the month following the sharp escalation of hostilities between Israel and Iran, and the eventual involvement of the United States. Oil prices surged due to supply concerns, while gold rallied and the U.S. dollar strengthened as investors flocked to safe-haven assets. Equity markets sold off sharply at the height of the tensions, particularly in sectors sensitive to energy prices and global supply chains. However, by June 24, a tentative ceasefire appeared to take hold following diplomatic efforts led by the United States. Oil prices quickly fell back to pre-crisis levels while equities rebounded, with the S&P 500 rising more than 1% on the day that the news of the ceasefire broke. While the ceasefire is holding for now, this remains a fragile situation, and any major violation could reignite oil and market volatility.

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June also brought dramatic developments on the trade front, with the Trump administration doubling tariffs on key steel and aluminum imports, raising them to 50%. While the U.K. was excluded from these new tariffs, the measures prompted alarm among U.S. manufacturers and farmers, who feared cost increases and retaliatory actions. Trade negotiations were simultaneously heating up, as the U.S. and China reached a tentative agreement during mid-June talks, with both sides pledging to reduce trade barriers on key commodities, including rare-earth minerals critical to the technology sector. Meanwhile, trade talks with Canada and the European Union remained strained. Despite these frictions, equity markets took comfort in the China breakthrough. Tech and industrial stocks led the rally, with semiconductor and AI-related companies outperforming, driven by hopes of supply chain relief. The perception that the U.S. is backing away from aggressive tariff escalation helped calm inflation expectations and restored optimism about global trade stability.

MARKET UPDATE *continued*

May's initial inflation readings measured by the Consumer Price Index (CPI) came in lower than expected, with CPI increasing 0.1% for the month and 2.4% on an annual basis. Meanwhile, Core CPI, which excludes volatile food and energy categories, increased 0.1% for the month and 2.8% annually. While inflation remains at elevated levels, the softer than expected readings came as a surprise as markets and consumers continued to brace for the imminent price pressures from tariffs. A decline in energy prices helped offset some of the monthly increases, while other items that were expected to be impacted by tariffs such as vehicles and apparel actually posted declines. Economists speculated that weakening consumer demand may have prevented companies from being able to pass along price hikes, while many businesses also loaded up on inventory at the beginning of the year, which may have allowed them to delay price hikes for longer than expected. While the softer prices were welcomed, they also created more uncertainty for the path of interest rates. More inflation data came at the end of the month with the release of May's Personal Consumption Expenditure (PCE) Price Index, the Fed's preferred inflation gauge, which revealed a monthly increase of 0.1% and a gain of 2.3% from one year ago, which was mostly in line with expectations. However, Core PCE (excluding food and energy) came in hotter than expected with a monthly increase of 0.2% and a rise of 2.7% from one year ago. PCE's broader underlying goods baskets captured growing price pressures for the month, showing potential signs of the impacts of tariffs, which is expected to reinforce the Fed's caution around cutting rates too soon.

At the June 18 Federal Open Market Committee (FOMC) meeting, the Fed held its benchmark rate steady at 4.25%–4.50% for the fourth consecutive meeting, as Fed Chair Jerome Powell emphasized that recent tariff increases could drive "meaningful" inflation over the summer. The Fed stated that they need to monitor if these potential price impacts will be one-off price level shifts or lead to persistent inflation. Powell reiterated his stance a week later in the Fed's semiannual testimony before the House Committee on Financial Services, where he noted that they are "well positioned to wait" on any interest rate changes as "increases in tariffs this year are likely to push up prices and weigh on economic activity". The Fed's wait-and-see approach continued to spark criticism from President Trump, who has been calling for a significant reduction in interest rates. The Fed's updated Summary of Economic Projections (SEP) for June downgraded 2025 U.S. growth expectations from March's estimate of 1.7% to 1.4%, while upwardly revising inflation forecasts measured by Core PCE from 2.8% to 3.1%. Importantly, Fed officials now expect two rate cuts before the end of the year, down from three previously projected, with fewer cuts seen in 2026.

> The Fed is walking a delicate line between caution and accommodation, trade conflicts threatened to upend global supply chains, and the Middle East teetered on the edge of war.

June tested the limits of investor patience and global coordination. Inflation remained a persistent challenge, the Federal Reserve walked a delicate line between caution and accommodation, trade conflicts threatened to upend global supply chains, and the Middle East teetered on the edge of war. Yet, in the face of these pressures, U.S. equity markets proved surprisingly resilient. As the second half of 2025 unfolds, much will depend on the Fed's monetary policy execution, the durability of geopolitical ceasefires, and the outcomes of critical trade negotiations. Inflation remains above target, and the Fed's room to maneuver may be constrained by political and economic crosscurrents. The U.S. trade agenda remains in flux, with many key negotiations set to conclude in July. In the Middle East, the current ceasefire remains fragile and could unravel quickly, with wide-ranging implications for markets and global stability. Investors are optimistic, but they are also alert. The months ahead will test whether this rally is sustainable or if it is merely a peak before the next storm.

One of the foundational elements of the Employee Retirement Income Security Act (ERISA) when it was enacted over fifty years ago was the establishment of fiduciary standards of conduct for retirement plan administration. While the fundamental ERISA fiduciary duties have remained consistent, additional rules, regulations and judicial guidance have expanded their scope and added complexity.

ERISA Section 404 outlines specific obligations or duties of a plan fiduciary, including:

- Acting solely in the interest of plan participants for the purpose of providing benefits and defraying reasonable plan administration expenses.
- Exercising the skill, prudence and diligence that a prudent person acting in a similar capacity and familiar with such matters would exercise.

The fiduciary responsibilities under ERISA present potential liability; however, fiduciaries can mitigate liability by following established best practices and prudent processes, including:

- Regularly benchmarking and reviewing fees, utilizing RFPs and other processes for selecting service providers.
- Thoroughly documenting the procedures used to fulfill fiduciary responsibilities.
- Engaging third-party experts when fiduciaries lack personal expertise.

Three recent court rulings emphasize the importance of best practices in mitigating liability for employee benefit plan fiduciaries.

1 England, et al. v. DENSO Int'l Am. Inc. et al

Plan fiduciaries should regularly review and benchmark fees, including reviewing the type and quality of services in addition to baseline cost.

In *England v. Denso*, plan participants claimed that the plan fiduciaries breached their duty of prudence by failing to negotiate lower recordkeeping and administrative fees. In support of their claim, the plaintiffs presented a table of 15 "comparable plans with similar amounts of money under management" that were paying less in recordkeeping and administrative fees.

The court dismissed the plaintiffs' claims because the plaintiffs did not prove the fee was excessive under the circumstances. The court found that the plaintiffs' allegations were conclusory and focused on the cost disparity between the plans without reviewing evidence of the type and quality of services offered. This was insufficient to show that the plan fiduciaries failed to comply with their fiduciary obligations. The court's ruling highlighted that in an excessive fee case, a plaintiff must show context-specific facts indicating that fees are "excessive relative to the services rendered".

The *Denso* ruling emphasizes that fiduciaries should consider not only the bottom-line cost disparity but also the types and quality of services provided when selecting and hiring service providers.

2 Nunez et al. v. B. Braun Medical Inc. et al

Plan fiduciaries should document the processes and procedures relied upon when making fiduciary decisions.

In *Nunez v. B. Braun Medical*, the plaintiffs alleged that the defendant plan fiduciaries breached their fiduciary duties by not investigating or selecting lower-cost funds and by failing to monitor and control recordkeeping expenses. After a three-day trial, the U.S. District Judge ruled in favor of the defendants, holding that they had engaged in objectively prudent conduct.

In support of his ruling, the judge cited the following processes and procedures that the plan committee followed:

- The plan committee met regularly to evaluate the plan's investment options.
- The plan committee relied on advisors and watchlists to ensure the plan's investment options were not underperforming.
- The plan committee considered making changes to the plan such as moving to lower-fee share classes and adopting collective investment trusts.

The judge's written opinion cited the plan committee's meeting minutes in five separate parts of the opinion and referenced the minutes of at least 25 different committee meetings. For example, he noted that the "Committee's meeting minutes reflect discussion on investment performance at numerous meetings" and listed seven different dates those issues were considered. The opinion also cited meeting minutes, reviewing recordkeeping fees and investment share class discussions.

The ruling in *Nunez* emphasizes that evidence of a thorough process, including committee meetings minutes, guidance from third party advisors and benchmarking, is crucial in demonstrating that fiduciaries acted prudently.

3 Spence v. American Airlines Inc. et al

Plan Sponsors should engage expert advisors in areas that require specific expertise.

The *Spence v. American Airlines* case has garnered significant attention as it is the first case to receive a decision on the merits regarding Environmental, Social and Governance (ESG) investing in qualified plans. The plaintiff, a participant in the plan, brought two claims under ERISA against American Airlines and its Employee Benefits Committee. First, he claimed the defendants violated their ERISA fiduciary duty of prudence by hiring and failing to monitor an investment manager that embraced ESG objectives. Second, the plaintiff claimed the defendants breach their duty of loyalty by investing plan assets in a manner that served the defendants own corporate objectives. The judge found for the plaintiff on the duty of loyalty claim but did not find a breach of the duty of prudence.

The opinion mentioned the defendants' robust process for selecting, monitoring and retaining service providers met or exceeded industry standards. This process included hiring well-qualified advisors by engaging in a comprehensive and competitive search, regularly meeting with the advisors and reviewing their oral and written reports, and engaging advisors to assist in the selection and monitoring of plan service providers. U.S. District Judge's findings emphasized the defendants' hiring of independent experts and advisors and reliance on their advice provided demonstrable evidence that the plan's fiduciaries were acting in a prudent manner. The opinion clarified however that a fiduciary may not blindly rely on an expert and generally when relying on an expert must investigate the expert's qualification, provide the expert with complete and accurate information and ensure the expert's advice is reasonably justified under the circumstance.

The aforementioned rulings reinforce that fiduciaries can best protect themselves and their plans by establishing—and consistently following—robust processes for monitoring investments, documenting decisions and leveraging expert guidance when specialized knowledge is needed. Comprehensive meeting minutes, ongoing benchmarking and engagement of qualified advisors are critical tools to show compliance with fiduciary standards.

Employers face ever-evolving, complex fiduciary responsibilities. While this can feel overwhelming, USICG has the expertise to help you better understand your fiduciary responsibilities, minimize risk and create better outcomes for your retirement plan participants.

Retirement Resources for You

USI Consulting Group's team of experts is happy to assist employers with all retirement plan compliance matters and changes in the market, including those discussed here, to help you mitigate risk and financial impact to your organization.

To learn more, please contact your local USICG representative, visit our Contact Us page or reach out to us at information@usicg.com.

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An index is a measure of value changes in a representative grouping of stocks, bonds, or other securities. Indexes are used primarily for comparative performance measurement and as a gauge of movements in financial markets. You can not invest directly in an index and, for comparative purposes; they do not reflect the effect of the various fees inherent in actual investment vehicles.

The S&P 500 Index is a market value weighted index showing the change in the aggregate market value of 500 U.S. stocks. It is a commonly used measure of stock market total return performance.

The Dow Jones Industrial Average is a price weighted index comprised of 30 actively traded blue chip stocks; primarily industrial companies, but including some service oriented firms.

The NASDAQ Composite Index is a market-value weighted index that measures all domestic and non-U.S. based securities listed on the NASDAQ Stock Market.

Gross Domestic Product (GDP) is the market value of the goods and services produced by labor and property in the U.S. It is comprised of consumer and government purchases, net exports of goods and services, and private domestic investments. The Commerce Department releases figures for GDP on a quarterly basis. Inflation adjusted GDP (or real GDP) is used to measure growth of the U.S. economy.

The MSCI Europe and Australasia, Far East Equity Index (EAFE) is a market capitalization weighted unmanaged index developed by Morgan Stanley Capital International to measure approximately 1,100 securities in 21 major overseas stock markets. It is a commonly used measure for foreign stock market performance.

The Barclays Capital U.S. Aggregate Index covers the U.S. Dollar denominated investment grade, fixed-rate, taxable bond market of SEC-registered securities.

The Barclays Capital U.S. Corporate High Yield Index covers the U.S. Dollar denominated, non-investment grade, fixed income, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's Fitch, and S&P is Ba1/BB+/BB+ or below.

The MSCI Emerging Markets Index (EM) is a free-float-adjusted market-capitalization index developed by Morgan Stanley Capital International. It is designed to measure the equity market performance of 26 emerging market countries.

The 10 Year Treasury Yield is the interest rate the U.S. government pays to borrow money for a 10-year period. In addition to influencing how much the government pays to borrow over this time-frame, the 10-year Treasury Yields also determines how much investors earn by investing in this debt and it is a good indicator of investor sentiment.

The higher the yield, the better the economic outlook.

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