

Fayez Sarofim & Co. Global Equity ADR Strategy

SEPARATELY MANAGED ACCOUNTS | MANAGER COMMENTARY | Q2 2025

MARKET REVIEW

The MSCI World Index gained 11.47% in the second quarter; however, these strong gains mask the heightened volatility throughout the period due to tariff policy uncertainties. Announced U.S. trade policies triggered a global equity sell-off in April, driven by concerns of potential trade wars, rising consumer prices, and the heightened risks of a broader economic slowdown. However, markets recovered in the second half of the quarter as investors welcomed a de-escalation in trade tensions, along with strong corporate earnings reports, resilient consumer spending data, and accommodative central bank policies.

“We expect volatility to continue as markets await further clarity on the potential impacts of tariffs and the direction of monetary and fiscal policies.”

At the beginning of April, President Trump announced sweeping tariffs on America's trade partners, stating a goal to lower America's trade imbalances and achieve bilateral trade deficits of zero. Specifically, these policies would include tariffs on China at 34%, the European Union (E.U.) at 20%, and Asian trade partners, such as Vietnam, Japan, Taiwan, and South Korea (with tariffs ranging from 20-46%). For countries where the U.S. runs a trade surplus, a baseline 10% tariff was announced. Investors were shocked and rattled; stocks sold off as the magnitude of these tariffs were far more pervasive than initially anticipated. A week later, a 90-day pause was instituted, and a universal 10% baseline tariff was enacted to allow for further negotiations.

The only country excluded from the 90-day pause was China, which saw a 145% tariff applied (a level reached through a series of escalations); China responded by levying a 125% tariff on American-made goods. After trade representatives from the U.S. and China met in May, the U.S. trimmed Chinese tariffs from 145% to 30% and China cut its tariffs on American-made goods from 125% to 10%. This de-escalation between the world's two largest economies set the stage for further negotiations and drove a rebound in global equity performance. As similar patterns emerged in trade negotiations with countries across Asia, the E.U., Canada, and elsewhere, global equity markets rallied, and market participants expected that trade deals with the U.S. were ultimately achievable, despite the Trump administration's tough initial stance.

Trade tensions between the U.S. and the E.U. also flared up during the quarter. President Trump threatened a 50% tariff on imports from the E.U., on top of the already announced 10% baseline tariff, and then quickly paused its implementation to allow for negotiations. America's tariff announcements would likely challenge growth prospects for an already stagnant Europe. In response, the European Central Bank, the Bank of England, and other major central banks of Europe cut rates to ease credit conditions. With these cuts, the central banks of Europe signaled the shift of their collective focus from fighting inflation to supporting economic growth.

During the first quarter earnings season, corporations reported better-than-expected earnings growth and addressed key investor themes, including the consumer outlook, continued artificial intelligence (AI) investments, and strategies to navigate a dynamic tariff environment. Overall, consumer spending remained strong and undeterred by the myriad of tariff threats, which drove earnings growth. However, companies have issued more cautious outlooks and have paused investment plans. Many are opting for a “wait-and-see” approach, preferring finalized trade deals to be signed before implementing price adjustments or reorganizing supply chains.

The large technology companies within the Index reported strong earnings and continue to spend on AI infrastructure. These tech giants reported continued demand for their AI hardware and services, which was driven by efficiency gains and product improvements in the quarter. Consequently, they issued better-than-expected guidance and higher capital expenditure plans to expand AI computing capacity in the year ahead, which drove equity gains and positive sentiment.

The Index recovered from the tariff shocks, but uncertainty related to global trade policies continues to weigh on investor sentiment. Geopolitical risk re-entered the conversation as conflict between Israel and Iran erupted, but the two nations quickly agreed to a ceasefire. This caused volatility in the price of crude oil globally, but didn't derail the stock gains that were driven by tariff de-escalation and strong earnings.

PERFORMANCE REVIEW

Positive stock selection effects across the industrials and communication services sectors supported relative performance in the quarter. An overweight allocation in the information technology sector contributed to a positive allocation effect which overshadowed a smaller negative selection effect to support relative performance.

Conversely, negative stock selection effects across the consumer discretionary, financials, and energy sectors detracted from relative results in the period.

TOP CONTRIBUTORS

The top contributors to relative performance include **Microsoft, NVIDIA, BAE Systems, Amazon.com, and Taiwan Semiconductor Manufacturing.**

TOP DETRACTORS

The top detractors from relative performance include **Apple, Chevron, LVMH Moet Hennessy Louis Vuitton, UnitedHealth Group, and ICON.**

MARKET OUTLOOK

Fayez Sarofim & Co.'s investment philosophy remains steadfast during periods of heightened uncertainty. While we expect volatility to continue as markets await further clarity on the potential impacts of tariffs and the direction of monetary and fiscal policies, we have conviction in the long-term strength of the capital markets. We believe that our portfolio companies, which we believe are comprised of global industry leaders, are well-equipped to navigate near-term market challenges.

Top 10 Holdings (6/30/25)*	
Microsoft	8.00%
Amazon.com	5.75%
Nvidia	5.50%
Apple	5.00%
Alphabet	4.50%
ASML Holding ADR	3.50%
LVMH Moet Hennessy Louis Vuitton ADR	3.50%
Meta Platforms	3.50%
Visa	3.50%
BAE Systems ADR	3.00%
*Source: Fayez Sarofim & Co. Top 10 equity weights are based on a representative model account, exclusive of cash. Individual accounts may vary. There is no assurance that the securities will remain in the portfolio or that other securities have not been purchased. The holdings listed should not be considered recommendations to purchase or sell a particular security. It should not be assumed that securities bought or sold in the future will be profitable or will equal the performance of the securities in this list. Fayez Sarofim & Co. will provide a list of all securities purchased and sold during the past year upon request.	

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RISKS

Equities are subject to market, market sector, market liquidity, issuer, and investment style risks, to varying degrees. Investing in **foreign denominated and/or domiciled securities** involves special risks, including changes in currency exchange rates, political, economic, and social instability, limited company information, differing auditing and legal standards, and less market liquidity. These risks generally are greater with emerging market countries.

Index Definition

The **MSCI World Index** is a free-float adjusted, market capitalization-weighted index that is designed to measure the equity market performance of developed markets. Investors cannot invest directly in any index.

Definitions

FDIC is Federal Deposit Insurance Corp.

Artificial intelligence (AI) refers to computer systems that can perform tasks typically requiring human intelligence, such as visual perception, speech recognition, decision-making, and language translation.

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