



Quarterly Investment Report



**For the period ended June 30, 2025
(Unaudited)**

Prepared by: Barbara A. Parker, County Auditor

Downtown County Annex

320 S. Campbell St., Ste 140

(915) 273-3262

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EL PASO COUNTY | TEXAS
Quarterly Investment Report
03/31/2024 - 06/30/2025



Prepared by:

Barbara A. Parker, County Auditor

320 S. Campbell, Suite 140

El Paso, Texas 79901-2407 (915) 273-3262

A report of the investment transactions for the third quarter ended June 30, 2025, is herewith submitted. All investments have been made in compliance with the County's investment policy and pursuant to Texas Government Code, Title 10, §2256.023. TexPool and TexPool Prime, investment pools authorized under the Texas Government Code, Title 10, §2256.016 and managed by Federated Investors, Incorporated, have affirmed adherence to the County's investment policy and provisions of the Texas Government Code, Title 10, §2256.023(8) (a) and (b).

Issuer	Face Amount/Shares	Market Value	Book Value	% of Portfolio	YTM @ Cost	Days To Maturity
FHLB	9,950,000.00	9,975,074.00	9,972,843.22	2.40	4.16	256
Frost Bank	277,418.16	277,418.16	277,418.16	0.07	0.00	1
TexPool	6,283,486.57	6,283,486.57	6,283,486.57	1.51	4.30	1
TexPool Prime	344,085,364.51	344,085,364.51	344,085,364.51	82.75	4.43	1
Treasury	20,000,000.00	19,701,953.13	19,734,445.31	4.74	4.10	243
Vantage Checking	15,709,942.06	15,709,942.06	15,709,942.06	3.78	0.00	1
Vantage Consolidated	19,759,035.21	19,759,035.21	19,759,035.21	4.75	2.83	1
Total / Average	416,065,246.51	415,792,273.64	415,822,535.04	100.00	4.16	19

/s/ Roxanne Davila

Roxanne Davila, Audit Accountant

Treasury

/s/ Jacobo Fuentes

Jacobo Fuentes, Audit Accountant Senior

Treasury

/s/ Raymond Gomez

Raymond Gomez, Audit Manager

Treasury

/s/ Donna Teague

Donna Teague, Director of Financial Operations

/s/ Michael Lamas

Michael Lamas, First Assistant

/s/ Barbara Parker

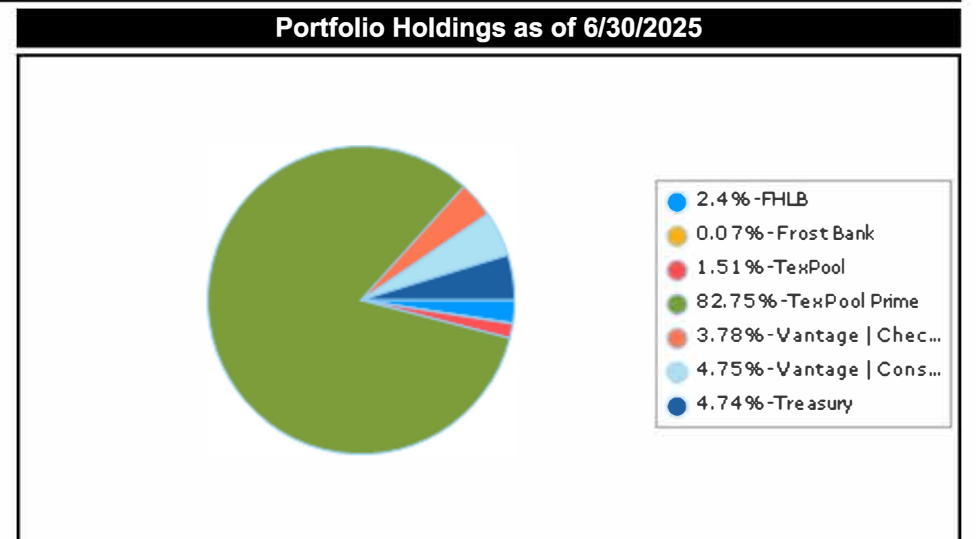
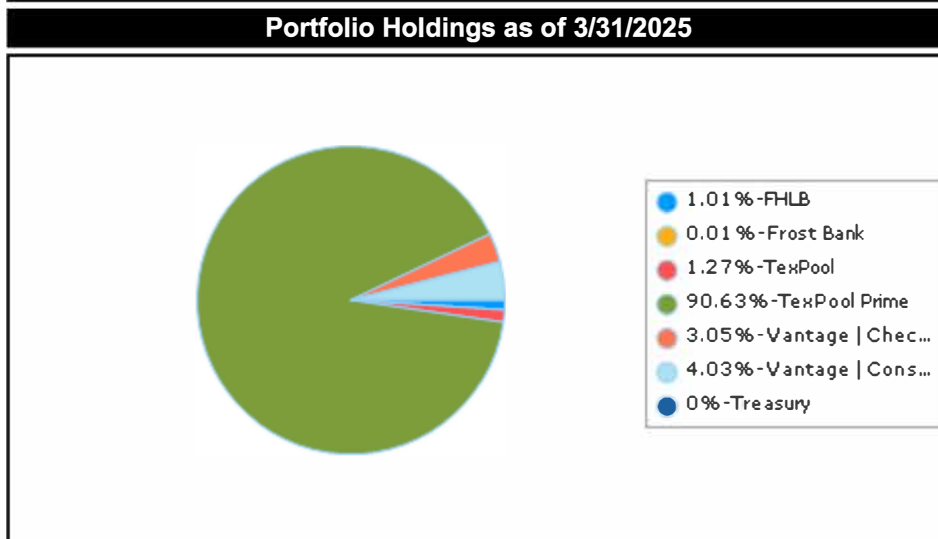
Barbara A. Parker, County Auditor



El Paso County TX **Distribution by Issuer - Market Value** **All Portfolios**

Begin Date: 3/31/2025, End Date: 6/30/2025

Issuer Allocation				
Issuer	Market Value 3/31/2025	% of Portfolio 3/31/2025	Market Value 6/30/2025	% of Portfolio 6/30/2025
FHLB	4,946,941.94	1.01	9,975,074.00	2.40
Frost Bank	70,312.13	0.01	277,418.16	0.07
TexPool	6,216,396.89	1.27	6,283,486.57	1.51
TexPool Prime	444,220,379.62	90.63	344,085,364.51	82.75
Vantage Checking	14,926,072.09	3.05	15,709,942.06	3.78
Vantage Consolidated	19,753,432.80	4.03	19,759,035.21	4.75
Treasury	0.00	0.00	19,701,953.13	4.74
Total / Average	490,133,535.47	100.00	415,792,273.64	100.00





El Paso County TX Investment Assets Maturity Date

Begin Date: 03/31/2025, End Date: 06/30/2025

Description	CUSIP/Ticker	Maturity Date	Ending BV
FHLB 0 6/4/2025	313385GL4	06/04/2025	-
FHLB 4.5 3/13/2026	3130AV6J6	03/13/2026	9,972,843.22
T-Note 0.75 4/30/2026	91282CBW0	04/30/2026	9,725,908.43
T-Note 4.25 12/31/2025	91282CJS1	12/31/2025	10,008,536.88
Total			29,707,288.53

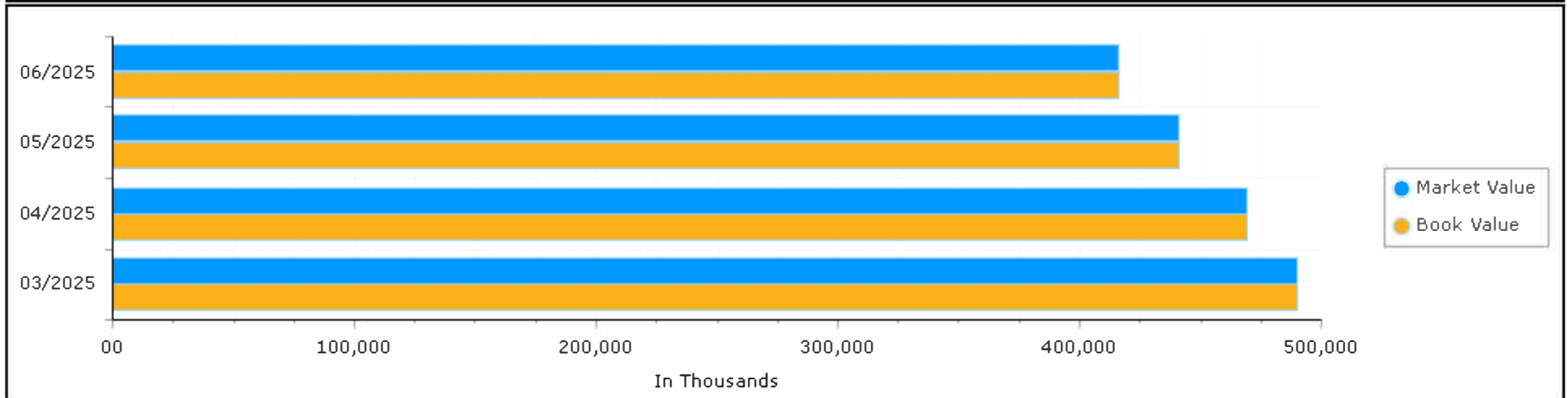


El Paso County TX Portfolio Summary by Month All Portfolios

Begin Date: 3/31/2025, End Date: 6/30/2025

Month	Market Value	Book Value	Unrealized Gain/Loss	YTM @ Cost	YTM @ Market	Duration	Days To Maturity
3/31/2025	490,133,535.47	490,148,694.92	-15,159.45	4.35	4.36	0.00	2
4/30/2025	468,957,652.63	468,989,561.40	-31,908.77	4.31	4.38	0.02	7
5/31/2025	441,059,870.25	441,117,431.64	-57,561.39	4.27	5.23	0.03	13
6/30/2025	415,792,273.64	415,822,535.04	-30,261.40	4.26	4.17	0.05	19
Total / Average	453,985,833.00	454,019,555.75	-33,722.75	4.30	4.53	0.02	10

Market Value / Book Value Comparison

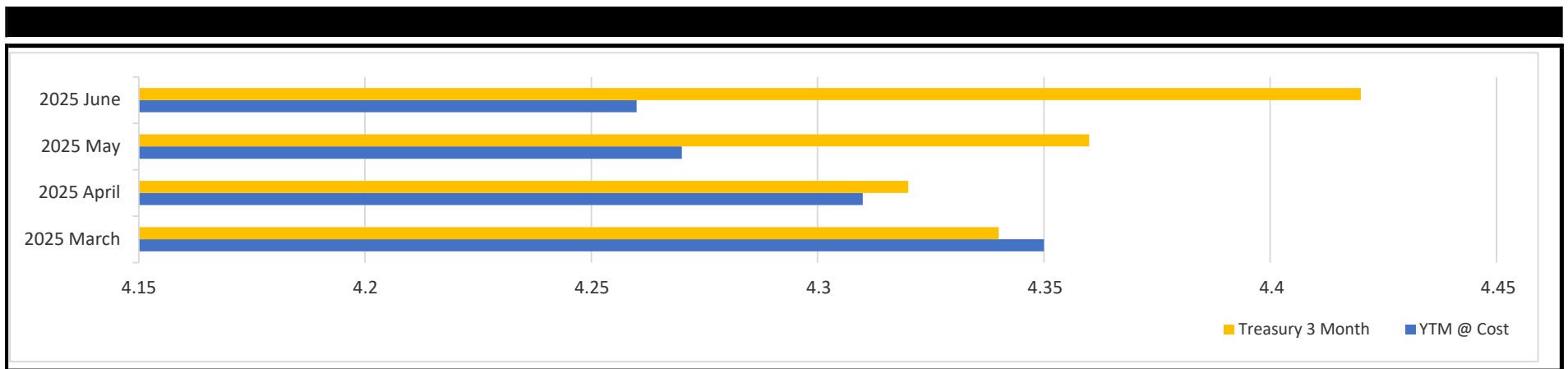




El Paso County TX Investment Income - Book Value by Month Report Group | All Portfolios

Begin Date: 03/31/2025, End Date: 06/30/2025

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
3/31/2025	512,664,652.24	1,875,350.19	0.00	1,875,350.19	490,148,694.92	4.35	4.34
4/30/2025	490,148,694.92	1,733,332.03	0.00	1,733,332.03	468,989,561.40	4.31	4.32
5/31/2025	469,130,445.38	1,671,775.22	0.00	1,671,775.22	441,117,431.64	4.27	4.36
6/30/2025	441,301,028.59	1,510,647.99	0.00	1,510,647.99	415,822,535.04	4.26	4.42
Total/Average	478,311,205.28	6,791,105.43	0.00	6,791,105.43	454,019,555.75	4.30	4.36





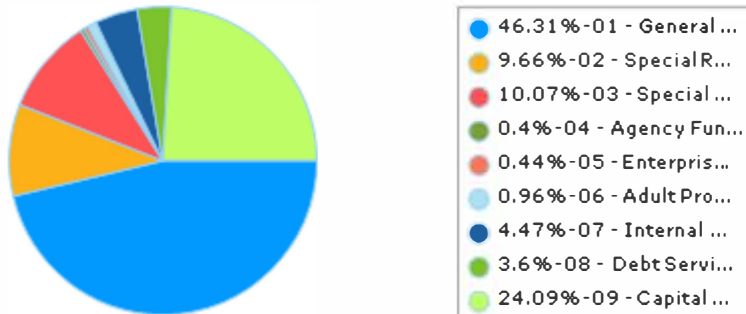
El Paso County TX **Distribution by Main Fund - Market Value** **All Portfolios**

Begin Date: 3/31/2025, End Date: 6/30/2025

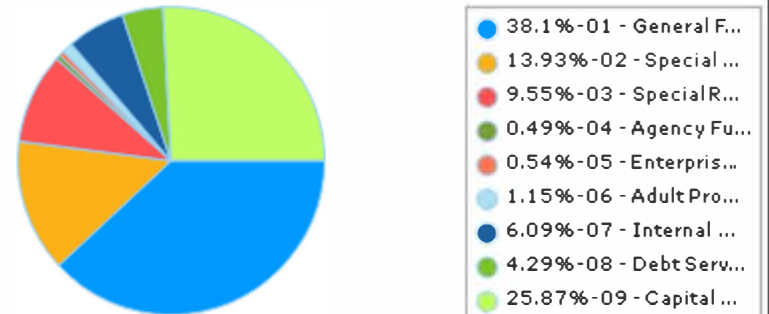
Main Fund Allocation

Main Fund	Market Value 3/31/2025	% of Portfolio 3/31/2025	Market Value 6/30/2025	% of Portfolio 6/30/2025
01 - General Fund	226,956,531.36	46.31	158,424,975.27	38.10
02 - Special Revenue	47,334,647.80	9.66	57,901,600.26	13.93
03 - Special Revenue Grants	49,350,684.18	10.07	39,694,655.42	9.55
04 - Agency Fund	1,957,143.22	0.40	2,021,416.42	0.49
05 - Enterprise Funds	2,171,625.63	0.44	2,246,872.17	0.54
06 - Adult Probation	4,723,615.85	0.96	4,774,060.37	1.15
07 - Internal Service	21,927,097.82	4.47	25,335,937.51	6.09
08 - Debt Service	17,647,074.01	3.60	17,842,466.45	4.29
09 - Capital Projects	118,065,115.60	24.09	107,550,289.77	25.87
Total / Average	490,133,535.47	100.00	415,792,273.64	100.00

Portfolio Holdings as of 3/31/2025



Portfolio Holdings as of 6/30/2025





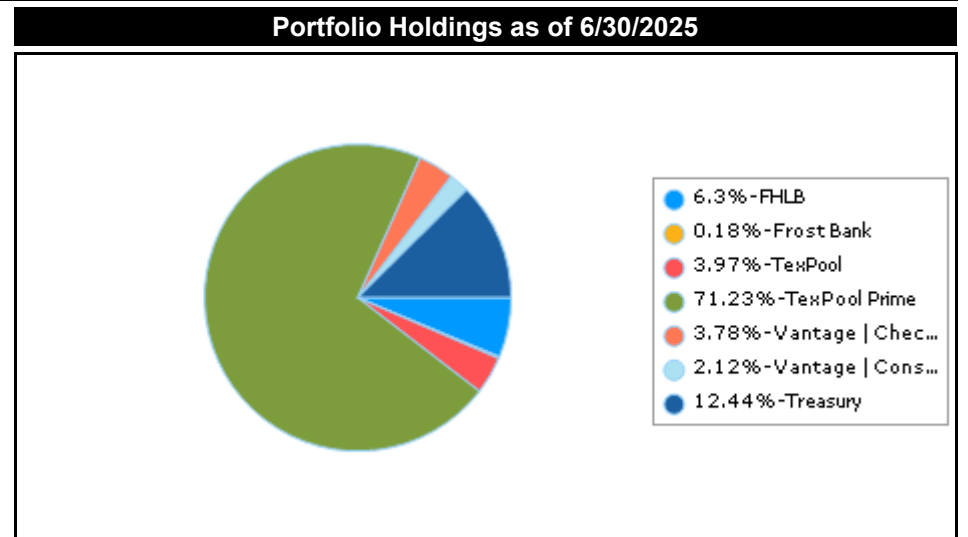
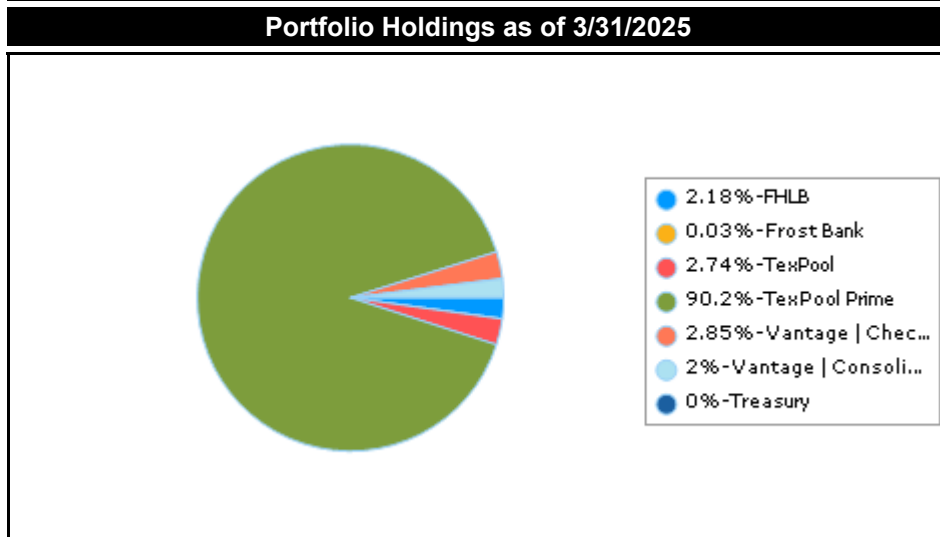
El Paso County TX

Distribution by Issuer - Market Value and Investment Income

Report Group | General Fund

Begin Date: 3/31/2025, End Date: 6/30/2025

Issuer Allocation				
Issuer	Market Value 3/31/2025	% of Portfolio 3/31/2025	Market Value 6/30/2025	% of Portfolio 6/30/2025
FHLB	4,946,941.94	2.18	9,975,074.00	6.30
Frost Bank	70,312.13	0.03	277,418.16	0.18
TexPool	6,216,396.89	2.74	6,283,486.57	3.97
TexPool Prime	204,723,452.91	90.20	112,842,230.31	71.23
Vantage Checking	6,457,222.36	2.85	5,985,531.02	3.78
Vantage Consolidated	4,542,205.13	2.00	3,359,282.08	2.12
Treasury	0.00	0.00	19,701,953.13	12.44
Total / Average	226,956,531.36	100.00	158,424,975.27	100.00



Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value
3/31/2025	242,144,328.60	1,096,533.12	0.00	1,096,533.12	226,971,690.81
4/30/2025	226,971,690.81	967,348.01	0.00	967,348.01	200,042,019.36
5/31/2025	200,182,903.34	895,545.69	0.00	895,545.69	177,424,058.12
6/30/2025	177,607,655.07	817,295.26	0.00	817,295.26	158,459,698.23
Total/Average	211,726,644.46	3,776,722.08	0.00	3,776,722.08	190,724,366.63



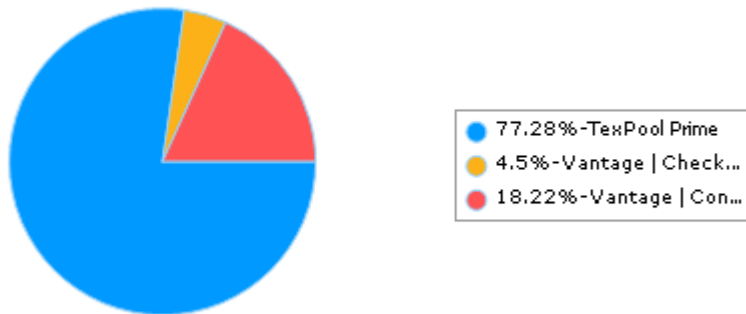
El Paso County TX **Distribution by Issuer - Market Value and Investment Income** **Report Group | Special Revenue**

Begin Date: 3/31/2025, End Date: 6/30/2025

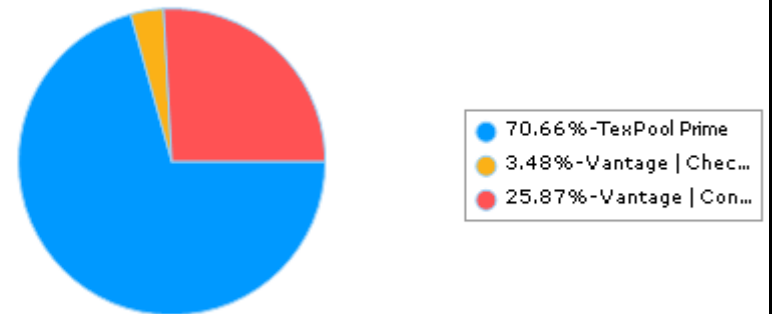
Issuer Allocation

Issuer	Market Value 3/31/2025	% of Portfolio 3/31/2025	Market Value 6/30/2025	% of Portfolio 6/30/2025
TexPool Prime	36,581,605.03	77.28	40,911,391.32	70.66
Vantage Checking	2,130,126.72	4.50	2,013,565.16	3.48
Vantage Consolidated	8,622,916.05	18.22	14,976,643.78	25.87
Total / Average	47,334,647.80	100.00	57,901,600.26	100.00

Portfolio Holdings as of 3/31/2025



Portfolio Holdings as of 6/30/2025



Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value
3/31/2025	47,268,858.39	156,949.95	0.00	156,949.95	47,334,647.80
4/30/2025	47,334,647.80	175,569.44	0.00	175,569.44	56,536,769.50
5/31/2025	56,536,769.50	173,743.46	0.00	173,743.46	57,200,401.94
6/30/2025	57,200,401.94	181,955.38	0.00	181,955.38	57,901,600.26
Total/Average	52,085,169.41	688,218.23	0.00	688,218.23	54,743,354.88



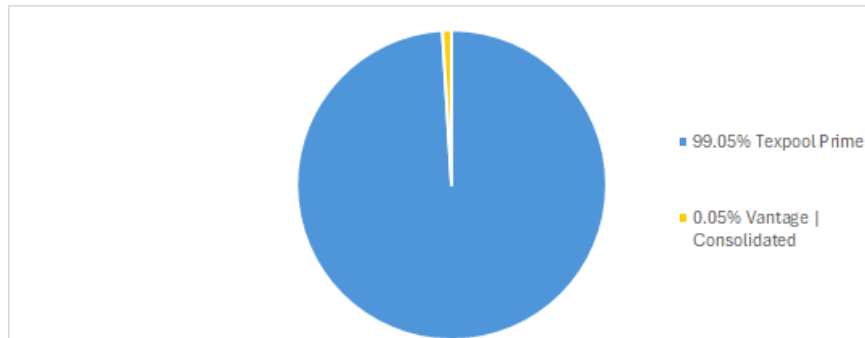
El Paso County TX **Distribution by Issuer - Market Value and Investment Income** **Report Group | Special Revenue Grants**

Begin Date: 3/31/2025, End Date: 6/30/2025

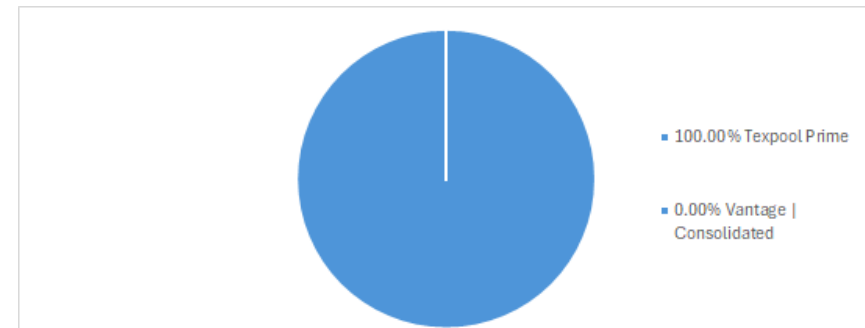
Issuer Allocation

Issuer	Market Value 3/31/2025	% of Portfolio 3/31/2025	Market Value 6/30/2025	% of Portfolio 6/30/2025
TexPool Prime	48,883,150.00	99.05	41,747,930.00	100.00
Vantage Consolidated	467,534.18	0.95	-2,053,274.58	0.00
Total / Average	49,350,684.18	100.00	39,694,655.42	100.00

Portfolio Holdings as of 3/31/2025



Portfolio Holdings as of 6/30/2025



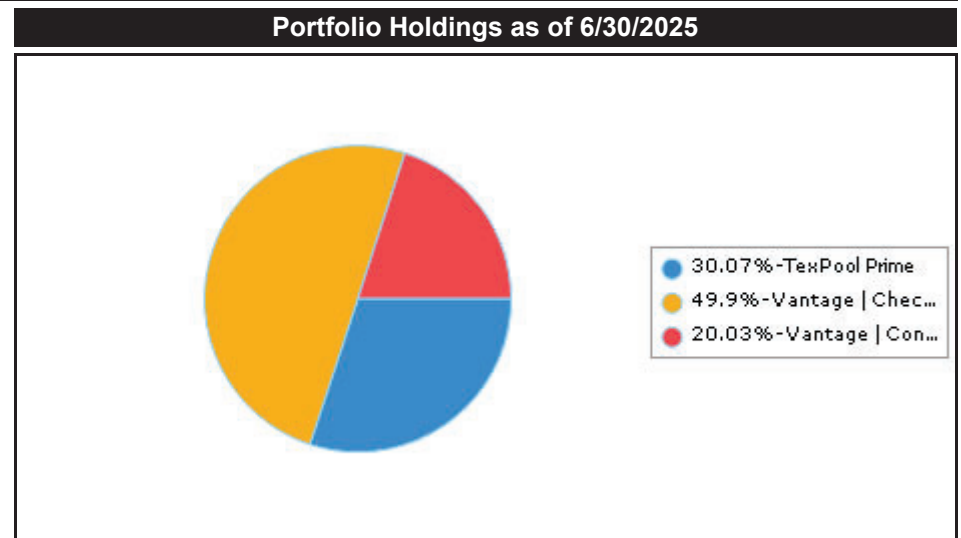
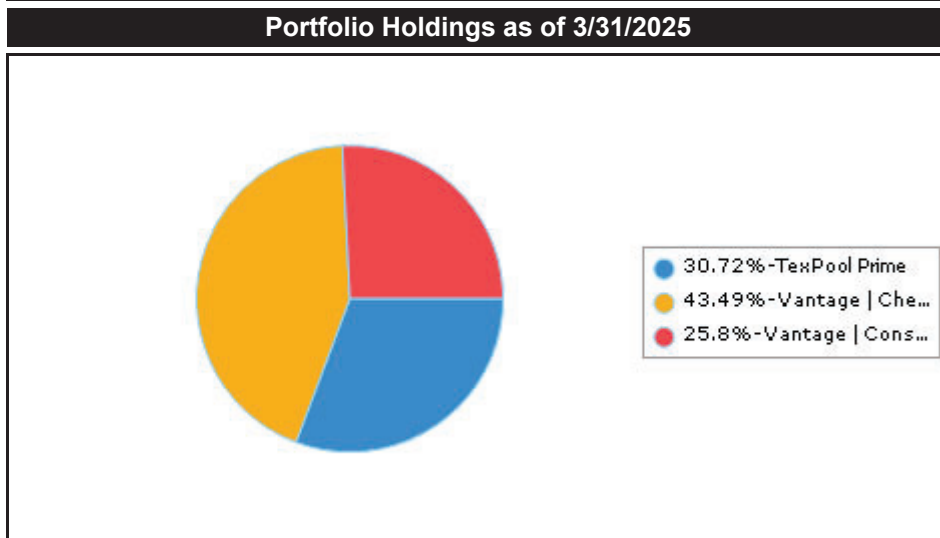
Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value
3/31/2025	57,961,646.45	8,765.29	0.00	8,765.29	49,350,684.18
4/30/2025	49,860,053.89	6,424.09	0.00	6,424.09	47,997,274.46
5/31/2025	49,094,832.66	7,704.76	0.00	7,704.76	43,831,122.08
6/30/2025	45,407,258.80	8,279.90	0.00	8,279.90	39,494,655.42
Total/Average	50,580,947.95	31,174.04	0.00	31,174.04	45,168,434.04



El Paso County TX **Distribution by Issuer - Market Value and Investment Income** **Report Group | Agency Fund**

Begin Date: 3/31/2025, End Date: 6/30/2025

Issuer Allocation				
Issuer	Market Value 3/31/2025	% of Portfolio 3/31/2025	Market Value 6/30/2025	% of Portfolio 6/30/2025
TexPool Prime	601,174.37	30.72	607,832.15	30.07
Vantage Checking	851,119.52	43.49	1,008,596.08	49.90
Vantage Consolidated	504,849.33	25.80	404,988.19	20.03
Total / Average	1,957,143.22	100.00	2,021,416.42	100.00



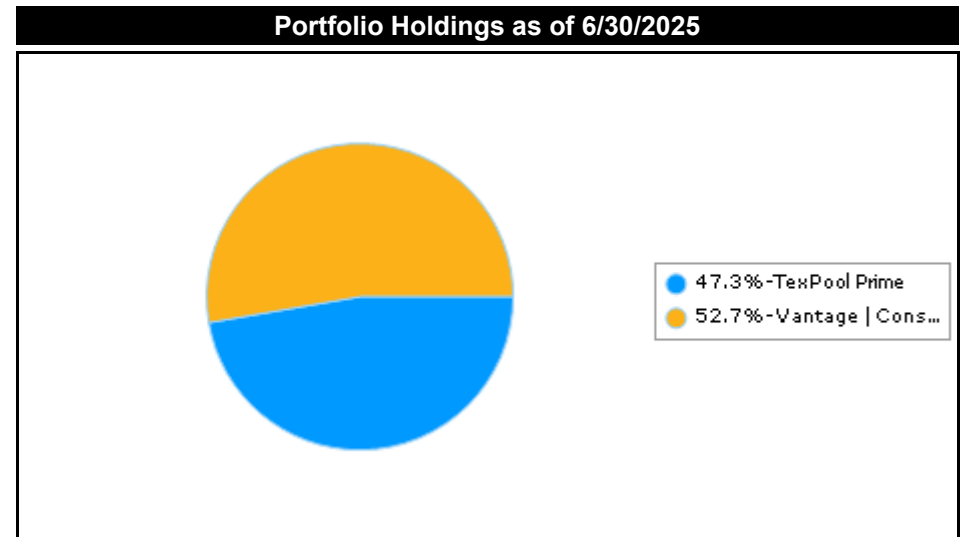
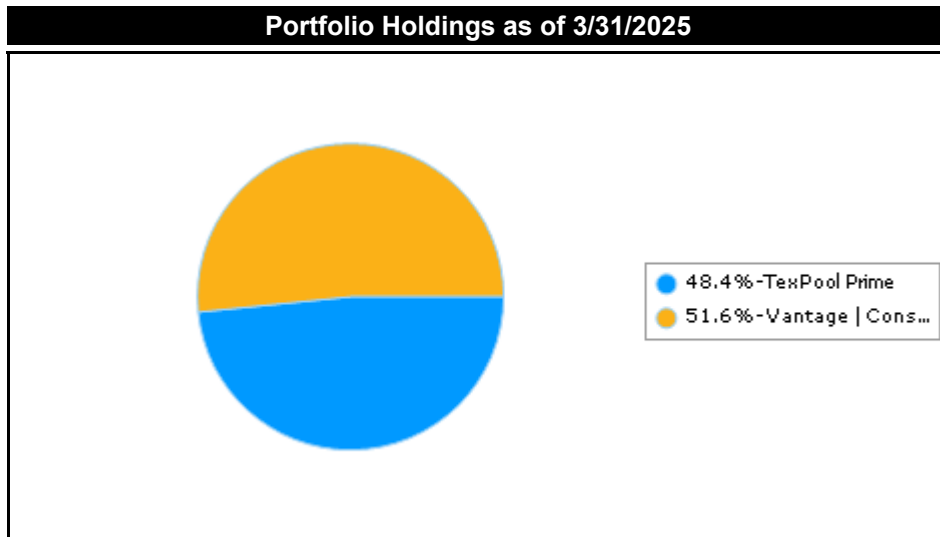
Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value
3/31/2025	1,938,950.15	6,318.66	0.00	6,318.66	1,957,143.22
4/30/2025	1,957,143.22	5,844.61	0.00	5,844.61	1,994,347.57
5/31/2025	1,994,347.57	6,230.73	0.00	6,230.73	1,966,496.92
6/30/2025	1,966,496.92	6,468.02	0.00	6,468.02	2,021,416.42
Total/Average	1,964,234.47	24,862.02	0.00	24,862.02	1,984,851.03



El Paso County TX **Distribution by Issuer - Market Value and Investment Income** **Report Group | Enterprise Fund**

Begin Date: 3/31/2025, End Date: 6/30/2025

Issuer Allocation				
Issuer	Market Value 3/31/2025	% of Portfolio 3/31/2025	Market Value 6/30/2025	% of Portfolio 6/30/2025
TexPool Prime	1,051,144.38	48.40	1,062,785.44	47.30
Vantage Consolidated	1,120,481.25	51.60	1,184,086.73	52.70
Total / Average	2,171,625.63	100.00	2,246,872.17	100.00



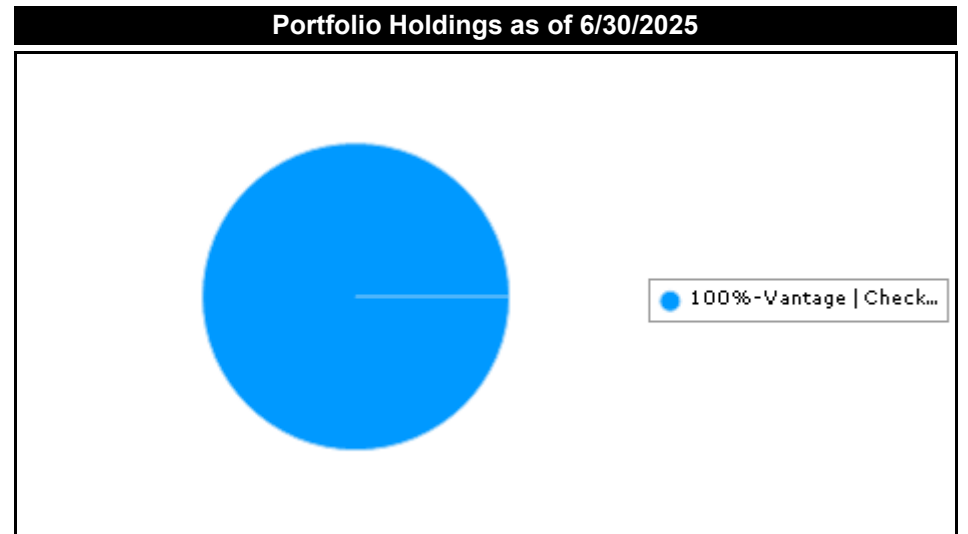
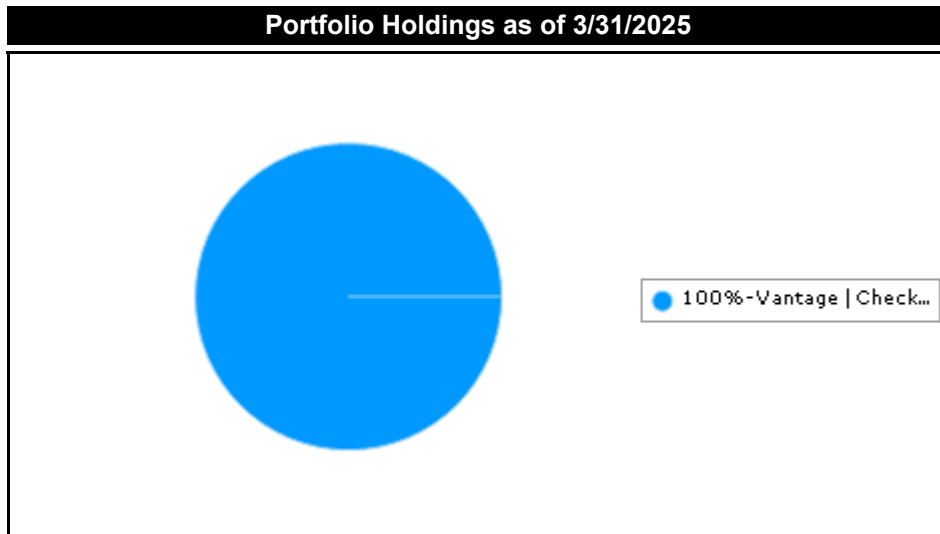
Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value
3/31/2025	2,215,456.95	6,606.98	0.00	6,606.98	2,171,625.63
4/30/2025	2,171,625.63	5,910.51	0.00	5,910.51	2,287,399.41
5/31/2025	2,287,399.41	6,410.67	0.00	6,410.67	2,216,227.63
6/30/2025	2,216,227.63	6,345.21	0.00	6,345.21	2,246,872.17
Total/Average	2,222,677.41	25,273.37	0.00	25,273.37	2,230,531.21



El Paso County TX **Distribution by Issuer - Market Value and Investment Income** **Report Group | Adult Supervision**

Begin Date: 3/31/2025, End Date: 6/30/2025

Issuer Allocation				
Issuer	Market Value 3/31/2025	% of Portfolio 3/31/2025	Market Value 6/30/2025	% of Portfolio 6/30/2025
Vantage Checking	4,723,615.85	100.00	4,774,060.37	100.00
Total / Average	4,723,615.85	100.00	4,774,060.37	100.00



Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value
3/31/2025	2,671,376.17	10,818.90	0.00	10,818.90	4,723,615.85
4/30/2025	4,723,615.85	9,367.48	0.00	9,367.48	3,896,787.71
5/31/2025	3,896,787.71	7,479.13	0.00	7,479.13	2,772,720.44
6/30/2025	2,772,720.44	11,085.49	0.00	11,085.49	4,774,060.37
Total/Average	3,516,125.04	38,751.00	0.00	38,751.00	4,041,796.09



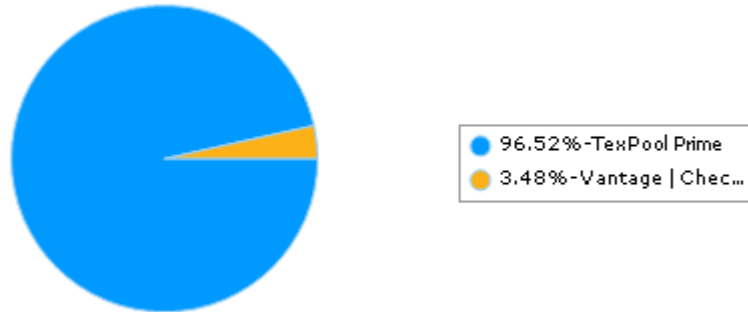
El Paso County TX **Distribution by Issuer - Market Value and Investment Income** **Report Group | Internal Service**

Begin Date: 3/31/2025, End Date: 6/30/2025

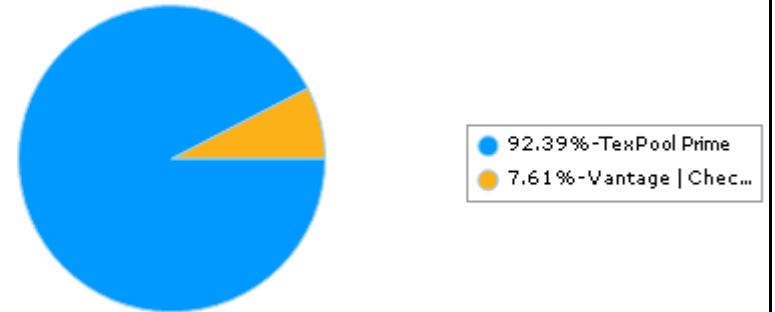
Issuer Allocation

Issuer	Market Value 3/31/2025	% of Portfolio 3/31/2025	Market Value 6/30/2025	% of Portfolio 6/30/2025
TexPool Prime	21,163,110.18	96.52	23,407,748.08	92.39
Vantage Checking	763,987.64	3.48	1,928,189.43	7.61
Total / Average	21,927,097.82	100.00	25,335,937.51	100.00

Portfolio Holdings as of 3/31/2025



Portfolio Holdings as of 6/30/2025



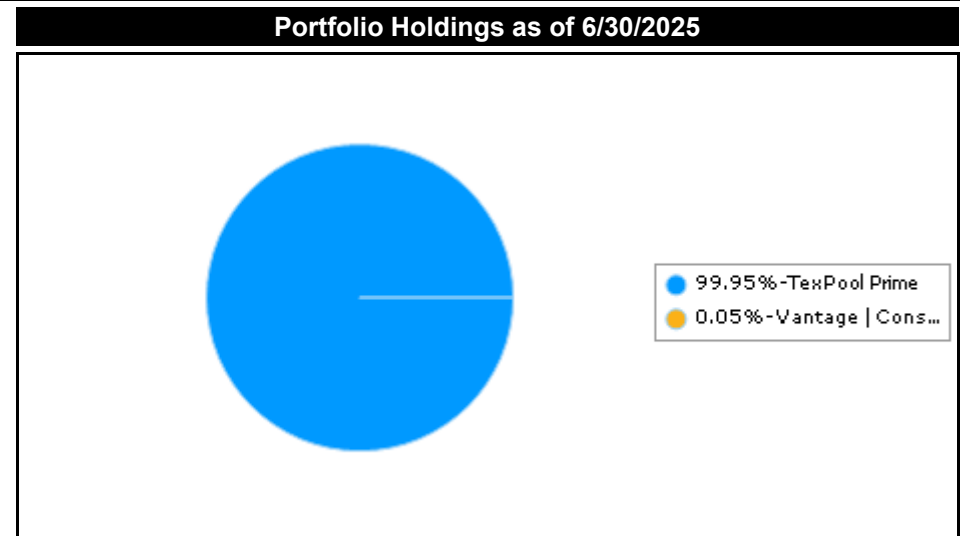
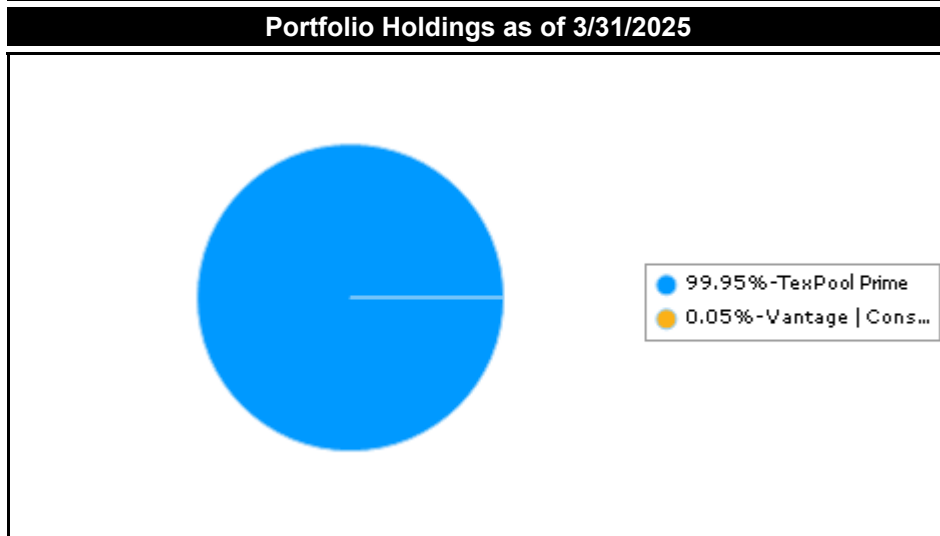
Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value
3/31/2025	21,503,370.49	82,183.81	0.00	82,183.81	21,927,097.82
4/30/2025	21,927,097.82	82,206.88	0.00	82,206.88	22,294,072.50
5/31/2025	22,294,072.50	87,264.93	0.00	87,264.93	24,375,074.90
6/30/2025	24,375,074.90	87,111.91	0.00	87,111.91	25,335,937.51
Total/Average	22,524,903.93	338,767.53	0.00	338,767.53	23,483,045.68



El Paso County TX **Distribution by Issuer - Market Value and Investment Income** **Report Group | Debt Service**

Begin Date: 3/31/2025, End Date: 6/30/2025

Issuer Allocation				
Issuer	Market Value 3/31/2025	% of Portfolio 3/31/2025	Market Value 6/30/2025	% of Portfolio 6/30/2025
TexPool Prime	17,638,891.91	99.95	17,834,236.23	99.95
Vantage Consolidated	8,182.10	0.05	8,230.22	0.05
Total / Average	17,647,074.01	100.00	17,842,466.45	100.00



Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value
3/31/2025	17,627,227.19	67,242.82	0.00	67,242.82	17,647,074.01
4/30/2025	17,647,074.01	64,600.03	0.00	64,600.03	17,711,674.04
5/31/2025	17,711,674.04	66,105.81	0.00	66,105.81	17,777,780.47
6/30/2025	17,777,780.47	64,685.98	0.00	64,685.98	17,842,466.45
Total/Average	17,690,938.93	262,634.64	0.00	262,634.64	17,744,748.74



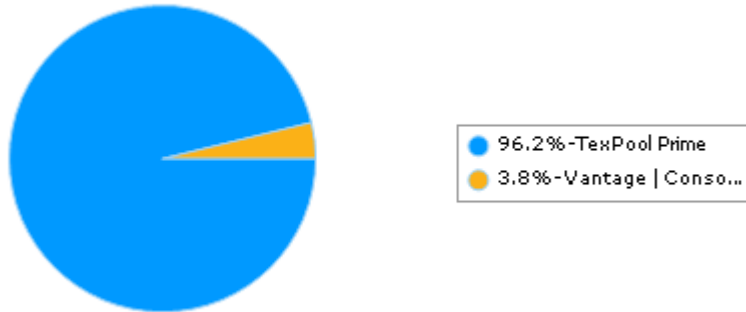
El Paso County TX **Distribution by Issuer - Market Value and Investment Income** **Report Group | Capital Projects**

Begin Date: 3/31/2025, End Date: 6/30/2025

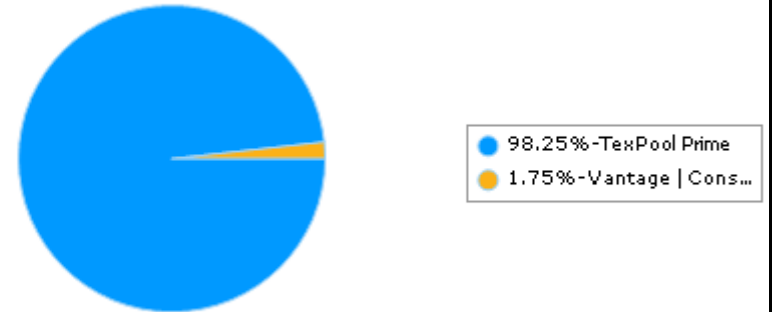
Issuer Allocation

Issuer	Market Value 3/31/2025	% of Portfolio 3/31/2025	Market Value 6/30/2025	% of Portfolio 6/30/2025
TexPool Prime	113,577,850.84	96.20	105,671,210.98	98.25
Vantage Consolidated	4,487,264.76	3.80	1,879,078.79	1.75
Total / Average	118,065,115.60	100.00	107,550,289.77	100.00

Portfolio Holdings as of 3/31/2025



Portfolio Holdings as of 6/30/2025



Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value
3/31/2025	119,642,728.42	439,930.66	0.00	439,930.66	118,065,115.60
4/30/2025	118,065,115.60	416,060.98	0.00	416,060.98	116,229,216.85
5/31/2025	116,229,216.85	421,290.04	0.00	421,290.04	113,553,549.14
6/30/2025	113,553,549.14	327,420.84	0.00	327,420.84	107,550,289.77
Total/Average	116,872,652.50	1,604,702.52	0.00	1,604,702.52	113,849,542.84

Economic Summary – Q2 2025

The second quarter began amid widespread fears that the so-called “Liberation Day” tariffs would trigger inflation, push the U.S. economy into recession, stall equity markets, and prompt the Federal Reserve to cut interest rates sooner and more aggressively. *Surprisingly, none of this happened.* Instead, most inflation measures actually fell, the economy expanded, and major stock indexes rebounded to new highs.

This unexpectedly positive outcome was largely due to a shift in trade policy early in the quarter. Most of the reciprocal tariffs announced on April 2 were postponed until July 9. The notable exception was China, where tariffs on nonexempt Chinese imports were raised to 145%, prompting China to retaliate with a 125% tariff on U.S. goods. This escalation effectively halted most bilateral trade. However, a temporary 90-day agreement followed, reducing U.S. tariffs on Chinese goods to 30% and Chinese tariffs on U.S. goods to 10%, a significant de-escalation, and a sigh of relief.

These adjustments, along with exemptions for essential goods like pharmaceuticals and semiconductors, combined to relax self-imposed restraints on the domestic economy. Still, American businesses faced an average tariff rate of 15.8% in May, the highest in nearly a century (Yale Budget Lab). Many firms accelerated purchases ahead of tariff deadlines, boosting inventories, but uncertainty surrounding trade policy has delayed investment and hiring decisions, which will impact future months.

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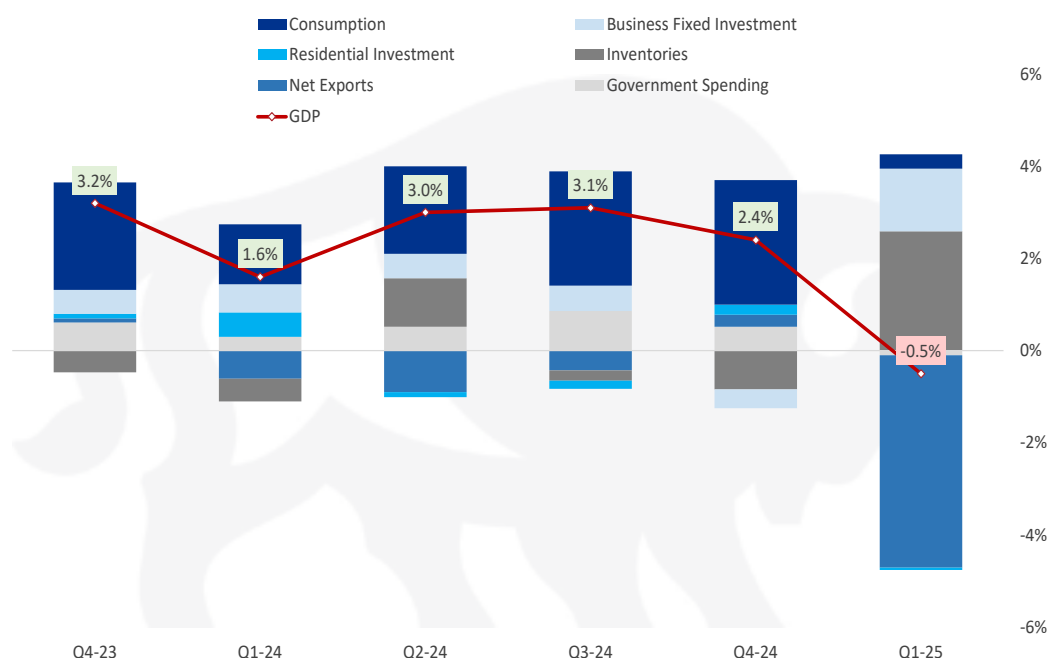
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Gross Domestic Product (Quarter-over-Quarter Annualized Percent Change)



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Source: Bureau of Economic Analysis

Recession fears, which were widespread in early April, diminished as the quarter progressed. Although first-quarter GDP contracted by -0.5%, the first negative reading in three years, the decline was driven primarily by a sharp increase in imports (+38%) with minimal export growth (+0.4%). This negative net trade subtracted nearly five percentage points from overall GDP. Inventory accumulation helped offset some of this drag but not nearly enough to keep Q1 GDP positive.

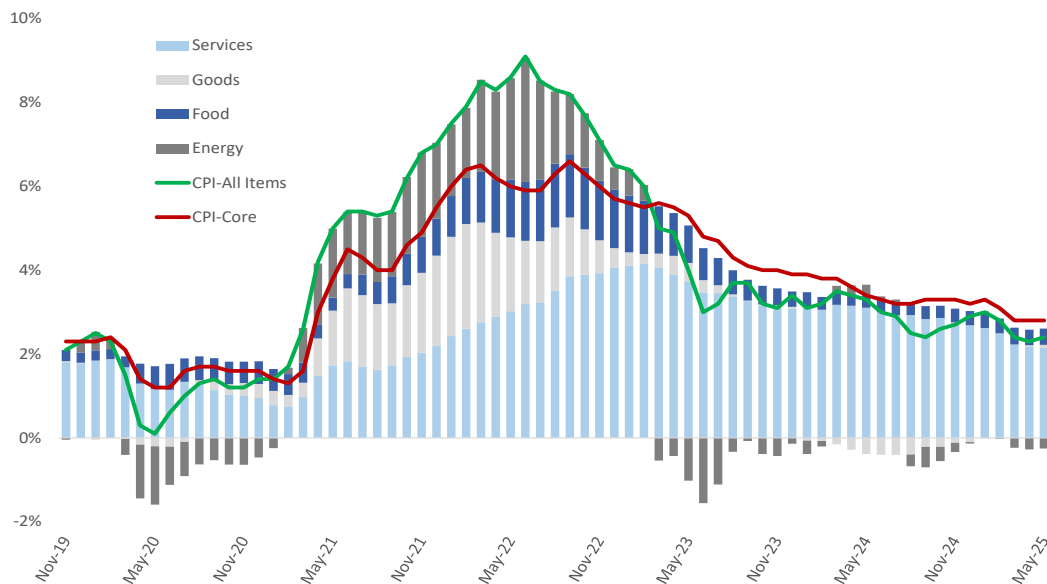
It's hard to draw reasonable conclusions when the headline is so noisy. A more accurate measure of economic growth—*real final sales to private domestic purchasers*—which excludes trade and inventories—rose at a +1.9% annual pace in Q1, down from +2.9% in Q4 2024. However, personal consumption, the largest component of GDP, slowed dramatically from +4.0% to just +0.5%, marking *the weakest quarter for consumer spending* (excluding the 2020 pandemic lockdown) in nearly 14 years.

Second-quarter GDP is expected to rebound as the trade deficit narrows, but consumer spending remains sluggish. While Q1 weakness may have been overstated and Q2 growth may appear deceptively solid, the underlying trend points to a clear deceleration in demand since the start of the year.

This softening of demand has, *so far*, kept a lid on price pressure. Both the Consumer Price Index (CPI) and Producer Price Index (PPI) indicated extremely low inflation measures for May, with overall and core readings rising just +0.1%. For CPI, this marked the fourth consecutive month of results below the median forecast. On a year-over-year basis, overall CPI edged up from +2.3% in April to +2.4% in May, while the core rate held steady at +2.8% for the third straight month, *matching a four-year low*. When annualized over the three-month period from February to May, overall CPI rose at a more modest +1.7% pace, largely due to declining energy prices driven by weakening global and domestic demand.

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Consumer Price Index (Year-over-Year Percent Change)



Source: Bureau of Labor Statistics

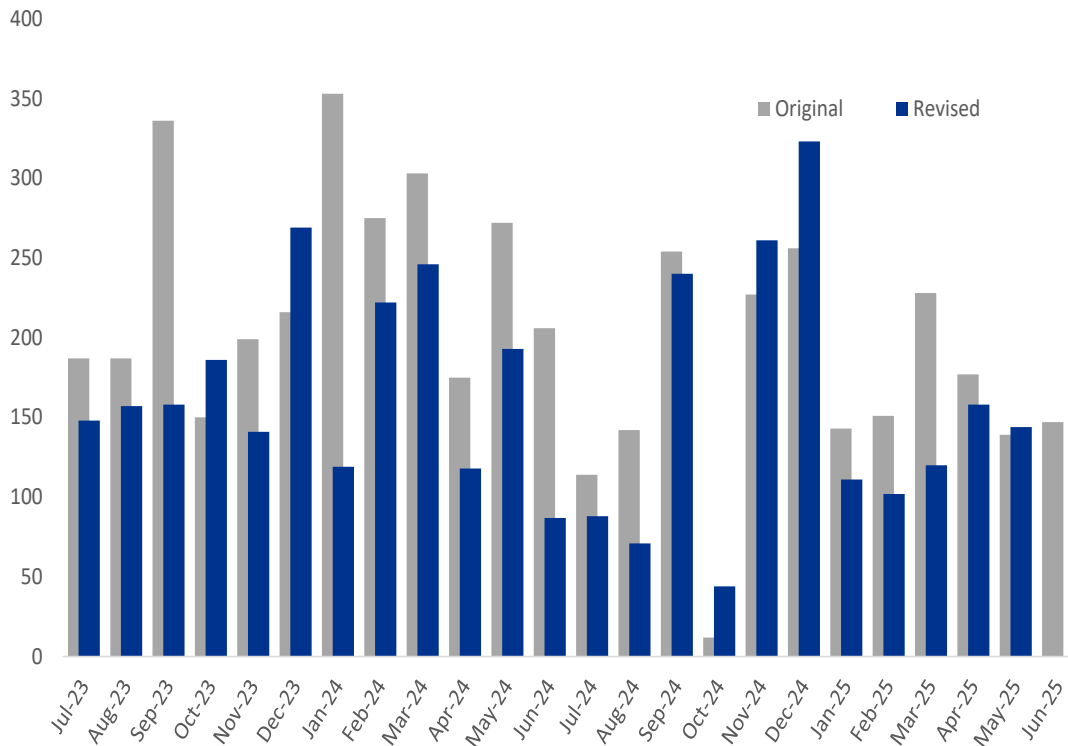
Some of this ongoing moderation in consumer inflation can be attributed to shelter costs as significant increases in available supply paired with depressed demand continue to ease housing costs.

Typically, decreased demand would coincide with labor market deterioration, but employment conditions have held up surprisingly well. After holding steady at 4.2% for three months, the unemployment rate was expected to rise to 4.3% in June. Following the first negative ADP payroll report in two years, some analysts, including *Bloomberg Economics*, warned of a potential increase to 4.4%. Instead, the unemployment rate unexpectedly declined to 4.1%.

While part of the decline in unemployment was due to a shrinking labor force, it's hard to make an argument for weakness with the jobless rate within half a percentage point of a six-decade low. The June employment report also showed +147k jobs were added to nonfarm payrolls, topping forecasts for the fourth consecutive month. After revisions, average monthly payroll growth for the quarter was more than adequate at +150k. The labor market might eventually tank, but it *hasn't yet*. And it might not.

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Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

While the labor force participation rate remains historically low at 62.4%, the rate for prime-age workers (ages 25–54) reached 84.3% in June—near a record high. This suggests a tight labor market, and demographic trends point to even fewer available workers in the years ahead. The number of Americans aged 65 and older has increased from 40 million to nearly 53 million over the past decade. By 2035, this group is projected to reach 77 million, surpassing the number of children under 18 for the first time in U.S. history.

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Retiring baby boomers already outnumber new entrants to the labor force by a wide margin. While advances in artificial intelligence may help offset some of the labor shortfall, *the more pressing challenge is likely to be a shortage of qualified workers*. This emphasizes the need for expanded job training programs and a sensible immigration policy.

For now, most hard data on employment and inflation remain within acceptable bounds. However, soft data—particularly the business sentiment surveys—suggest potential weakness ahead.

The Conference Board's Measure of CEO Confidence fell by 26 points in the second quarter, marking the largest quarterly decline in the survey's 50-year history. Among the 133 CEOs surveyed, 82% reported that economic conditions had worsened over the past six months (up from 11% in the prior quarter), while only 2% believed conditions had improved. Looking ahead, 64% expect further deterioration, and 83% anticipate a recession within the next 12 to 18 months.

Similarly, the National Association of Manufacturers' second-quarter survey showed that over half of respondents reported a more pessimistic growth outlook, nearly 80% had experienced increased costs due to tariffs and 36% indicated they were delaying or canceling business investments. More than one-third had either halted hiring or expected to reduce headcount in the coming months, and only 55% expressed a positive business outlook—the lowest level since the early stages of the pandemic in summer 2020. The top concerns were trade uncertainty (77%) and rising material costs (66%).

In a concrete sign that tariffs are already weighing on business activity, FedEx warned in late June that its second-quarter profits would fall short of expectations due to "sharply deteriorated" shipments between the U.S. and China. For the first time in 13 years, FedEx declined to provide forward guidance, citing "uncertain global demand."

The Federal Open Market Committee (FOMC) met in June and voted to maintain the overnight funds target at 4.25% to 4.50% for the fourth consecutive meeting. While soft data and forward-looking indicators might have justified a rate cut, the Fed officials opted for caution given the economy's relative strength and the unpredictable trade environment.

President Trump expressed growing frustration with the Fed's patience, questioning Chairman Powell's competence and threatening to nominate a more accommodative replacement well before Powell's term ends in May 2026. On the morning of the FOMC meeting, Bill Pulte, head of the Federal Housing Finance Agency and a Trump appointee, publicly demanded that Powell either cut rates immediately or resign. Following the meeting, Trump called for an aggressive 200 to 300 basis point reduction. *Powell has yet to waver.*

When the Fed cuts rates, it lowers the *overnight* lending rate. Historically, *longer-term* interest rates have been driven by inflation expectations. More recently, however, factors such as large federal budget deficits, rising national debt, and trade-related uncertainty

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have exerted upward pressure on long-term yields. As the debt burden grows, investors may demand higher returns to compensate for the increasing—albeit still remote—risk of default. In this context, cutting short-term rates prematurely could push long-term rates higher and damage the Fed’s credibility.

Until recently, the Fed’s credibility under Chairman Powell was viewed very positively, particularly in terms of how financial markets responded to his messaging. Despite ongoing economic uncertainty, the passage of an unpopular funding bill, multiple escalating military conflicts, and a downgrade of the U.S. sovereign debt rating by Moody’s, equity markets managed to recover all losses tied to President Trump’s “Liberation Day” tariff announcement. At least part of this market resilience should be attributed to Powell’s steady leadership, which had appeared to guide the economy toward a soft landing—until the trade war intervened.

Global investor sentiment told a different story. In the first half of 2025, the U.S. dollar index fell nearly 11%, its worst first-half performance since 1973 as baffling trade policy, persistent inflation expectations, and ballooning government debt unnerved foreign investors. Meanwhile, gold posted its strongest first-half gain in 46 years, as investors sought safety amid uncertainty and central banks diversified away from dollar-denominated assets.

U.S. corporate profits declined from a record \$205 billion in Q4 2024 to \$118 billion in Q1 2025. Yet equity markets shrugged off the earnings slump. The Dow rose nearly +5% for the quarter, rebounding +17% from April lows. The S&P 500 gained +10.6%, up almost +25% from its April trough, while the NASDAQ surged +17.8% for the quarter, a stunning +33.4% rebound from early April. Much of this rally was likely driven by expectations that the business-friendly, debt-heavy “Big Beautiful Bill” would pass—which it ultimately did.

Although the Fed held the overnight rate steady, Treasury yields declined across most maturities during another volatile quarter for bonds. The exception was the long end of the curve, where yields on 10- to 30-year maturities moved higher, reflecting investor concerns over the growing national debt. This segment of the yield curve will increasingly serve as a barometer of the nation’s fiscal credibility. At present, the long-term outlook remains troubling.

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Q2 Interest Rates

		Fed Funds	3 mo. T-bill	12 mo. T-bill	2 yr. T-note	5 yr. T-note	10 yr. T-note
Last	3/31/2025	4.25-4.50%	4.29%	4.03%	3.88%	3.95%	4.20%
High			4.38%	4.15%	4.05%	4.17%	4.60%
Low			4.23%	3.83%	3.60%	3.71%	3.99%
End	6/30/2025	4.25-4.50%	4.29%	3.97%	3.71%	3.80%	4.23%

Source: Federal Reserve, U.S. Department of the Treasury

Economic and Interest Rate Outlook

Worries that the U.S. economy would collapse by summer as prices spiked were clearly overblown, but it's far too early to breathe easy. With just two countries reaching trade agreements within the 90-day negotiation period, the Administration has promised a series of letters detailing what each trade partner will be required to "pay" to do business with the United States. According to the President, no further negotiations will occur after August 1. . . . unless he changes his mind.

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How these tariff costs are passed along will determine whether it's corporate profits that get dinged or consumer pocketbooks. Regardless, the outcome is unlikely to match the dire forecasts made three months ago. A more pressing concern is the erosion of trust, which may lead to the formation of global trade partnerships that exclude the United States. Early signs of this shift are evident: Chinese exports to the U.S. fell -35% in May, even as China's overall exports rose +5%. Over time, other nations are likely to prioritize more stable and cost-effective trade relationships.

This transition could have serious long-term consequences, including upward pressure on domestic inflation and challenges in financing U.S. Treasury debt. With an estimated \$25 trillion in new Treasury issuance expected over the next decade, the U.S. may be inadvertently undermining its funding capacity.

From the Fed's perspective, some inflation is inevitable. The extent of the price increases are unknowable.

In the short term, lower interest rates would help reduce debt servicing costs, though caution from the Federal Reserve is warranted. The recently passed funding bill is expected to stimulate growth, potentially increasing inflationary pressures—especially when combined with reciprocal tariffs likely to take effect on August 1.

From the Fed's perspective, some inflation is inevitable. The extent of the price increases are unknowable. *There's no manual for what's unfolding.*

The June dot plot indicates two quarter-point rate cuts in 2025, followed by single cuts in 2026 and 2027. This conservative outlook suggests Fed officials are concerned that tariff-driven inflation could become embedded but expect the economy to avoid recession. Bond futures currently align with this forecast, pricing in two rate cuts in the second half of the year.

The past five years have made it painfully clear that financial forecasts are comforting in the moment, but ultimately worthless. The rules of Trump's tariff plan are continually shifting, which keeps extreme uncertainty intact.

Still, these projections are subject to change. The past five years have made it painfully clear that financial forecasts are comforting in the moment, but ultimately worthless. The rules of Trump's tariff plan are continually shifting, which keeps extreme uncertainty intact. While the third quarter begins on a more optimistic note, underlying risks persist. Volatility should be expected.

The paper/commentary was prepared by Hilltop Securities Asset Management (HSAM). It is intended for informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this paper was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. The statements within constitute the views of HTS and/or HSAM as of the date of the document and may differ from the views of other divisions/departments of affiliates Hilltop Securities Inc. In addition, the views are subject to change without notice. This paper represents historical information only and is not an indication of future performance. Sources available upon request.

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