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## Columbia Integrated US Dividend Income SMA Strategy

### Market overview

During the second quarter of 2025, U.S. equities staged a remarkable recovery after a turbulent first quarter, with the S&P 500 Index gaining 10.94%. Markets began the quarter with a sharp selloff, following President Trump's April 2 "Liberation Day" tariff announcement, which introduced a 10% universal tariff rate and higher reciprocal tariffs on approximately 60 countries. This triggered unprecedented market volatility, with the CBOE Volatility Index (VIX) briefly exceeding 60 — its highest level since the COVID-19 pandemic — and the S&P 500 Index plunging more than 10% in just two days.

The tide turned dramatically on April 9 when Trump announced a 90-day pause on higher tariffs for most countries except China, followed by a series of positive developments including trade agreements with the U.K. and progress in negotiations with Japan, India and South Korea. A subsequent agreement between the U.S. and China on de-escalating tariffs further boosted investor confidence. These developments, combined with Treasury Secretary Bessent's elevated role in trade talks, helped drive the market's impressive rebound.

Technology was the standout sector during the quarter, with the technology sector in the S&P 500 Index posting a robust quarterly gain. Semiconductor stocks led performance, as the PHLX Semiconductor Sector Index (SOX) surged 30.20%. The "Magnificent 7" stocks — Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, Tesla — largely outperformed, with NVIDIA leading on artificial intelligence (AI) demand strength, followed by Microsoft, with growth in its Azure cloud services business. Communication services, industrials and consumer discretionary sectors also delivered strong returns. Energy was the worst-performing sector, as oil prices fell despite Middle East tensions, while health care struggled amid policy uncertainty and margin pressures.

Corporate earnings significantly exceeded expectations, with S&P 500 earnings growing versus projections. The AI theme dominated earnings calls, with NVIDIA delivering above-consensus results despite restrictions on China sales. Market leadership narrowed compared to the first quarter, with growth stocks substantially outperforming value stocks. The Russell 1000 Growth Index gained 17.84% during the second quarter, while the Russell 1000 Value Index rose just 3.79%.

Economic data presented a mixed picture, with hard data generally outperforming soft data. The labor market showed mixed signals, as continuing unemployment claims reached levels not seen since 2021 — although nonfarm payrolls remained relatively resilient and initial claims declined. Consumer sentiment hit multi-year lows in April before stabilizing slightly in May and rising in June. First-quarter gross domestic product (GDP) contracted, due to declining government spending and surging imports, while the Consumer Price Index (CPI) came in slightly lower than expected throughout the quarter. At quarter-end, markets were focused on Trump's July 9 reciprocal tariff deadline, further trade negotiations and potential U.S. Federal Reserve policy shifts amid tariff-induced economic uncertainty.

## Outlook

In the first half of this year, U.S.-driven tariff policy has been the most impactful driver of the direction and volatility of capital markets. From February, when tariffs were originally proposed, through early April, just after they were formally announced, the S&P 500 Index dropped nearly 20%. The declaration on April 9 of a 90-day pause to negotiate trade deals catalyzed a remarkable recovery. Markets gained significant momentum throughout May and June, with the S&P 500 Index gaining 10.94% during the second quarter and eventually posting a new all-time high. This recovery was fueled not only by the tariff pause but also by concrete developments, including a trade agreement with the U.K. and an interim deal with China that eased bilateral tensions. However, unease remains just below the surface due to mixed signals regarding negotiations with key partners like the E.U., Japan and South Korea.

Despite worries about tariffs' impact on prices, inflation has continued to decelerate, with a string of cooler-than-expected core CPI prints during the second quarter. However, the Fed has maintained a cautious stance, preferring a wait-and-see approach amid trade-policy uncertainty. It continues to project two rate cuts during the remainder of this year.

Geopolitical tensions flared significantly in mid-June when Israel attacked Iran, briefly spiking oil prices by approximately \$10/barrel. While markets stabilized following a ceasefire agreement that drove oil prices down 15% from their peaks, the situation remains precarious and could reignite volatility in energy markets and global supply chains.

Corporate earnings have significantly exceeded expectations, The Magnificent 7 delivered particularly impressive results. This performance was supported by robust consumer spending, despite signs of moderation in the labor market, with continuing unemployment claims reaching levels not seen since 2021. While equity valuations are elevated, particularly in technology and AI-related sectors — with the SOX Index surging 30.20% during the second quarter — there remain opportunities among companies demonstrating operational discipline and adaptation to trade challenges.

AI continues to be a significant market driver, with companies like NVIDIA delivering strong results despite restrictions on China sales. Within the S&P 500 Index, technology led all sectors during the second quarter, followed by communication services. Companies are beginning to demonstrate tangible AI benefits in improving productivity and revenue growth; this was particularly evident in Microsoft's Azure cloud business. Although the pace of AI adoption may moderate from initial projections, companies making strategic investments with clear monetization paths are being rewarded by investors.

In this environment, market leadership has narrowed compared with the first quarter, with growth stocks significantly outperforming value stocks. Our multifactor approach focusing on quality, valuation and catalysts should continue to serve investors well, particularly by identifying companies with supply-chain flexibility, pricing power and operational efficiency that can navigate tariff uncertainties while maintaining strong margins and cash-flow generation.

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The **Standard & Poor's 500 Index** (S&P 500 Index) is an unmanaged list of common stocks which includes 500 large companies.

VIX is the ticker symbol for the **Chicago Board Options Exchange (CBOE) Volatility Index**, which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options.

The **PHLX Semiconductor Sector Index (SOX)** is a modified market capitalization-weighted index composed of companies primarily involved in the design, distribution, manufacture, and sale of semiconductors.

The **Russell 1000 Growth Index** is an unmanaged index that measures the performance of those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

The **Russell 1000 Value Index** measures the performance of those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The **Consumer Price Index (CPI)** is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.