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# Market Commentary Q2 2025

The second quarter of 2025 was marked by heightened volatility, driven largely by the aggressive shifts in U.S. trade policy and ongoing geopolitical tensions. Early in the quarter, the markets reacted harshly to President Trump's "Liberation Day" tariff announcement. This announcement consisted of a 10% universal tariff and introduced reciprocal tariff rates, all of which exceeded expectations. This move triggered a series of retaliatory measures and sparked a sharp market selloff, with the S&P 500 briefly entering bear market territory falling nearly 20% from its all-time high.[1] Despite the initial shock, optimism about resilient consumer spending and strong earnings helped the market recover, finished the quarter up around 11%.[1]

| Leading US Indices (Total Return) | 4Q'23 | 1Q'24 | 2Q'24 | 3Q'24 | 4Q'24 | 1Q'25 | 2Q'25 (sorted) | TTM |
|---|---|---|---|---|---|---|---|---|
| S&P/Citigroup Value | 13.6% | 8.1% | -2.1% | 9.1% | -2.7% | 0.3% | 3.0% | 9.6% |
| S&P 600 Small-Cap | 15.1% | 2.5% | -3.1% | 10.1% | -0.6% | -8.9% | 4.9% | 4.6% |
| S&P 400 Mid-Cap | 11.7% | 10.0% | -3.4% | 6.9% | 0.3% | -6.1% | 6.7% | 7.5% |
| Russell 2000 | 14.0% | 5.2% | -3.3% | 9.3% | 0.3% | -9.5% | 8.5% | 7.7% |
| **S&P 500 Total Return** | **11.7%** | **10.6%** | **4.3%** | **5.9%** | **2.4%** | **-4.3%** | **10.9%** | **15.2%** |
| S&P 100 Mega-Cap | 11.7% | 11.2% | 7.1% | 5.1% | 4.6% | -6.0% | 12.8% | 16.6% |
| Nasdaq | 13.8% | 9.3% | 8.5% | 2.8% | 6.3% | -10.3% | 18.0% | 15.7% |
| S&P/Citigroup Growth | 10.1% | 12.8% | 9.6% | 3.7% | 6.2% | -8.5% | 18.9% | 19.9% |

*Strategas Securities, LLC – 07/02/2025*

Part of the continued rally came from strong earnings. During the quarter 78% of S&P 500 companies reported earnings that were above Wall Street forecasts.[1] Traders had been bracing for a more negative earnings season, especially worried that companies would forecast weaker profits in the back half of the year. So far this has not happened in a meaningful way.

The varied performance above highlights the market's defensive shift during the quarter. While the large mega-cap stocks led the rebound (e.g. technology, communication services, and industrials), small and mid-cap indices lagged. This shows investor caution towards macroeconomic uncertainty. The S&P 500's recovery was driven by a narrow group of outperformers, highlighting the uneven nature of the market rally. In the quarter, we witnessed a massive shift and outperformance of growth versus value securities. Growth stocks returned approximately 19% compared to value stocks which returned approximately 1%.[1] This was the widest margin in 30 years.[1] As we mentioned, technology, communication services, and industrials drove this trend over the quarter. The chart below shows the sectors that make up the S&P 500, and their performance throughout the quarter.

| S&P 500 Sectors (Total Return) | 4Q'23 | 1Q'24 | 2Q'24 | 3Q'24 | 4Q'24 | 1Q'25 | 2Q'25 (sorted) | TTM |
|---|---|---|---|---|---|---|---|---|
| Energy | -6.9% | 13.7% | -2.4% | -2.3% | -2.4% | 10.2% | -8.6% | -4.0% |
| Health Care | 6.4% | 8.8% | -1.0% | 6.1% | -10.3% | 6.5% | -7.2% | -5.9% |
| Real Estate | 18.8% | -0.5% | -1.9% | 17.2% | -7.9% | 3.6% | -0.1% | 11.7% |
| Staples | 5.5% | 7.5% | 1.4% | 9.0% | -3.3% | 5.2% | 1.1% | 12.2% |
| Materials | 9.7% | 8.9% | -4.5% | 9.7% | -12.4% | 2.8% | 3.1% | 1.9% |
| Utilities | 8.6% | 4.6% | 4.7% | 19.4% | -5.5% | 4.9% | 4.3% | 23.4% |
| Financials | 14.0% | 12.5% | -2.0% | 10.7% | 7.1% | 3.5% | 5.5% | 29.4% |
| **S&P 500 Total Return** | **11.7%** | **10.6%** | **4.3%** | **5.9%** | **2.4%** | **-4.3%** | **10.9%** | **15.2%** |
| Discretionary | 12.4% | 5.0% | 0.6% | 7.8% | 14.3% | -13.8% | 11.5% | 18.4% |
| Industrials | 13.1% | 11.0% | -2.9% | 11.5% | -2.3% | -0.2% | 12.9% | 22.9% |
| Communication Services | 11.0% | 15.8% | 9.4% | 1.7% | 8.9% | -6.2% | 18.5% | 23.0% |
| Technology | 17.2% | 12.7% | 13.8% | 1.6% | 4.8% | -12.7% | 23.7% | 15.1% |

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U.S. economic data in the second quarter of 2025 continues to reflect a complex environment. Real GDP growth slowed further, with the Federal Reserve ("Fed") projecting just 1.4% annualized growth for the year, down from the first quarter.[1] The labor market showed signs of softening, with the unemployment rate holding at 4.5%.[1] Consumer sentiment has weakened, but wage growth continued to outpace inflation, and household savings remained elevated.[1]

Another positive that helped boost stocks this quarter was a lack of inflation. The May Core PCE inflation figure came in at +0.18%, suggesting that tariffs haven't had a meaningful impact on overall prices just yet.[1] In fact inflation over the last three months has been at just a 1.77% pace, below the Fed's 2% target.[1]

The good news is that this may make it easier for the Fed to cut rates later this year. It seems likely that the Fed would already be considering cutting rates right now if not for concerns about tariffs causing future inflation. At the very least, these tame inflation reports tell us that there likely isn't excess inflation pressure outside of tariffs. If the economy slows down later this year, having the Fed able to cut rates more aggressively could help forestall a recession. The Fed will only be able to do so if inflation remains benign.

The U.S. fixed income market remained resilient in the quarter, supported by falling treasury yields and increased demand for high-quality assets amid persistent uncertainty. Treasury bonds rallied as investors sought safety in the face of sticky inflation and slow growth.

The bond market was highly volatile though, reacting to international flows, anticipation of Fed policy, and uncertainty around the U.S. budget. Despite all this, the Bloomberg U.S. Aggregate Bond index managed to post a small gain, rising 1.2%.[1]

The Fed has maintained its policy stance, keeping rates steady at 4.25%-4.50% in its June meeting while signaling a cautious outlook on tariff-driven price pressures and a softening labor market. However, the market is now pricing in the possibility of two rate cuts before year end, depending on further disinflation and labor market softening. The next Federal Open Market Committee interest rate decision is scheduled for July 20th, following the June meeting where the Fed held rates steady for the 6th consecutive meeting. Bond market traders now expect the first rate cut to come in September.

| US Yields | 1Q'24 | 2Q'24 | 3Q'24 | 4Q'24 | 1Q'25 | 2Q'25 | Q/Q Chg (bps) | Y/Y Chg (bps) |
|---|---|---|---|---|---|---|---|---|
| Fed Funds Target Rate | 5.5 | 5.5 | 5.0 | 4.5 | 4.5 | 4.5 | 0 | -100 |
| 3-Month T-Bill | 5.5 | 5.5 | 4.7 | 4.4 | 4.2 | 4.4 | 16 | -107 |
| 2-Year Note | 4.6 | 4.7 | 3.6 | 4.2 | 3.9 | 3.7 | -18 | -99 |
| 5-Year Note | 4.2 | 4.3 | 3.6 | 4.4 | 4.0 | 3.8 | -16 | -55 |
| 10-Year Bond | 4.2 | 4.4 | 3.8 | 4.6 | 4.2 | 4.2 | 2 | -14 |
| 30-Year Bond | 4.3 | 4.5 | 4.1 | 4.8 | 4.6 | 4.8 | 20 | 25 |

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Municipal bonds underperformed treasuries but continued to offer compelling value for high income investors. Tax-equivalent yields on long-duration, high quality municipal bonds remained attractive, especially when viewed in light of current federal tax rates. Some strategists favor defensive positioning, emphasizing shorter to intermediate maturities with higher credit quality. Despite volatility, the fixed income environment provided durable income and a buffer against equity market swings, reinforcing its role as a stabilizing force in diversified portfolios.

International stocks, which had underperformed for 15 years, continued their first-quarter trend of outperforming the U.S. market. The weakness of the dollar helped boost non-U.S. returns this quarter. However, it's notable that this quarter, the outperformance is entirely due to currency movements. On a local currency basis, the U.S. outperformed other major world markets. That being said, if there is a U.S.-centric recession, that would likely slow our profit growth compared to foreign markets and could lead to lower interest rates. Both of those factors would likely contribute to continued dollar weakness.

European equities extended gains, supported by Germany's ongoing infrastructure investments and easing fiscal constraints. UK markets remained resilient through strong performance in the financial and energy sectors, similarly to the U.S. markets.

| International Indices (Price Chg) | 4Q'23 | 1Q'24 | 2Q'24 | 3Q'24 | 4Q'24 | 1Q'25 | 2Q'25 (sorted) | TTM |
|---|---|---|---|---|---|---|---|---|
| Swiss Market Index | 1.6% | 5.3% | 2.2% | 1.5% | -4.7% | 8.6% | -5.4% | -0.6% |
| CAC 40 (France) | 5.7% | 8.8% | -8.9% | 2.1% | -3.3% | 5.6% | -1.6% | 2.5% |
| OMX Stockholm 30 (Sweden) | 11.2% | 5.1% | 2.0% | 2.2% | -5.5% | 0.4% | 0.0% | -3.0% |
| FTSE 100 (UK) | 1.6% | 2.8% | 2.7% | 0.9% | -0.8% | 5.0% | 2.1% | 7.3% |
| Shenzhen SE A Shares (China) | -3.8% | -4.9% | -7.4% | 19.1% | 1.6% | 2.4% | 3.5% | 28.3% |
| MSCI EAFE | 4.6% | 9.1% | 0.0% | 0.3% | -0.9% | 2.2% | 3.7% | 5.3% |
| Hang Seng (Hong Kong) | -4.3% | -3.0% | 7.1% | 19.3% | -5.1% | 15.3% | 4.1% | 35.9% |
| DAX (Germany) | 8.9% | 10.0% | -3.9% | 6.0% | 3.0% | 11.0% | 5.5% | 27.9% |
| IBEX 35 (Spain) | 7.1% | 9.6% | -1.2% | 8.5% | -2.4% | 13.3% | 6.5% | 27.9% |
| Bovespa (Brazil) | 15.1% | -4.5% | -3.3% | 6.4% | -8.7% | 8.3% | 6.6% | 12.1% |
| S&P/TSX (Canada) | 7.3% | 5.8% | -1.3% | 9.7% | 3.0% | 0.8% | 7.8% | 22.8% |
| Sensex (India) | 9.7% | 2.0% | 7.3% | 6.7% | -7.3% | -0.9% | 8.0% | 5.8% |
| MSCI AC World | 9.0% | 9.0% | 2.9% | 4.5% | 1.0% | -2.5% | 8.8% | 12.0% |
| All Ordinaries (Australia) | 8.0% | 4.1% | -1.7% | 6.5% | -1.4% | -4.4% | 8.9% | 9.5% |
| Bolsa (Mexico) | 12.8% | 0.0% | -8.6% | 0.1% | -5.6% | 6.0% | 9.5% | 9.6% |
| Nikkei 225 (Japan) | 5.0% | 20.6% | -1.9% | -4.2% | 5.2% | -10.7% | 13.7% | 2.3% |
| Kospi (South Korea) | 7.7% | 3.4% | 1.9% | -7.3% | -7.5% | 3.4% | 23.8% | 9.8% |

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Emerging markets faced a more challenging environment in the second quarter of 2025, as global tensions escalated and capital flows became more tepid. Despite these headwinds, emerging market equities held up relatively well, supported by resilient domestic demand in key economies and continued investor interest in undervalued sectors. Many countries benefited from the tariff escalations as companies look to diversify trade relationships. Mexico and Canada saw increased U.S. demand for nearshored manufacturing and energy, and Japan and South Korea are experiencing government stimulus measures aimed at boosting industrial output.

China's economy continued to show resilience in the quarter, with GDP growth projected at 5.3% year over year, and is supported by proactive fiscal and monetary policies.[1] While the industrial production and retail sales softened slightly in April due to the tariff tensions, a temporary easing in U.S. – China trade negotiations in May helped stabilize sentiment. Overall, China remains as a key driver of emerging market performance, though risks around policy execution and global demand remain elevated.

On the commodity front, gold prices rose 5.0%, slower than the first quarter's record highs and outsized gains of 17.5%.[1] The yellow metal continues to be a good diversifier in this ever-choppy market we are in.

We continuously evaluate client portfolios to help ensure the appropriate balance of risk and reward – always with the goal of helping our clients achieve their financial objectives. As we look at the current risks and opportunities in markets, we feel confident about how we are positioned.

Markets go up more than they go down, but it's a bumpy and uncertain ride. Three out of four years they go up, but one out of four years they go down. Often the downturns are sharp and severe yet fleeting (think COVID or this last quarter), but sometimes they're prolonged and painful (think the dot-com bubble burst, which went on for three years). On any given day it's a coinflip (although enough in your favor that would still make the largest casino in Vegas blush with envy), while for any given year it's right at 75%.[1]

Focus on what you can control — and tune out the noise. That's easier said than done when headlines scream about tariffs, trade wars, and targeted military strikes. But those events are entirely out of your control and can be detrimental to sound investment decision-making. What *is* in your control? A lot more than you think. Strategic decisions like how much you save, how you allocate between Roth and traditional 401K contributions, how you manage concentrated stock positions, and how you optimize taxes under current corporate and estate planning rules. Focus your energy on the levers that can move needle.

While unpleasant in real time, periods of market volatility like the one we just experienced offer a fantastic reminder to focus on what we can control instead of what we can't. By sticking to these principles that are as old as markets themselves, one can truly enjoy the dog days of summer no matter what kind of howling commences.

**To discuss this commentary further, please contact us at 914-825-8630.**

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[1] Y-Charts – 07/02/2025
[2] Strategas Securities, LLC – 07/02/2025