QUARTERLY
Market
REPORT

2ND QUARTER - 2025

Markets navigated tariff uncertainties and policy shifts in Q2, eventually stabilizing despite initial volatility. Economic data remains mixed, while increased volatility could lie ahead in the second half of the year.

The second quarter of 2025 proved to be a defining period for markets as investors worked through the realities of policy implementation and economic adjustment. After a tumultuous first quarter, the second quarter brought both significant challenges and eventual stabilization as the new administration's agenda took shape and markets adapted to shifting regulatory dynamics.

A SETTLING-IN PERIOD

The second quarter followed what can best be described as a settling-in period, during which markets worked through the change in administration and all the shifts that came with it. As concerns about tariffs and potential spending cuts grew throughout the first quarter, they began to weigh on market and consumer sentiment.

The market stall that started in the first quarter accelerated dramatically in April after President Donald Trump announced "liberation day" tariffs, triggering a sell-off that lasted approximately one week. However, the administration quickly pivoted, with Trump announcing a 90-day suspension of most of the proposed tariffs.[1] While 10% tariffs remained across the board, this strategic pause provided sufficient to calm nervous markets. By the end of the quarter, the administration announced it had reached trade deals with multiple countries, including China.[2,3]

Whether driven by pressure from bond markets, a shift to a less aggressive policy stance or strategic negotiating tactics, markets quickly bounced back and recovered most of their 2025 losses. The feared scenario of tariffs sparking additional inflation and driving the economy into recession failed to materialize, despite ongoing media speculation and concerns.

Equity Performance as of June 30, 2025[4]

Equity Index	Q2	YTD	1 YR	3 YRS	5 YRS
S&P 500:	10.57%	5.50%	13.63%	17.91%	14.89%
NASDAQ:	17.75%	5.48%	14.87%	22.69%	15.16%
DJIA:	4.98%	3.64%	12.72%	12.74%	11.30%

Source: Morningstar. Index Performance: Return (%). https://www.morningstar.com/markets?CustId&CLogin&CType&CName&_LPAGE=%2FFORBIDDEN%2FCONTENTARCHIVED.HTML&_BPA=N. Accessed July 1, 2025.

ECONOMIC DATA SHOWS MIXED SIGNALS

Economic fundamentals have presented a complex picture so far this year. First-quarter gross domestic product (GDP) showed the economy contracted by 0.5% though this figure was influenced by unusual factors.[5] Imports were running significantly higher in advance of tariff announcements, creating a misleading picture that likely doesn't reflect underlying economic strength.[6]

Looking ahead, second-quarter GDP is not expected to also show negative growth, though we won't know the final numbers until close to the end of July. More importantly, recession risks for the second half of 2025 appear limited based on current economic indicators.

Inflation continues to inch its way downward. The consumer price index (CPI) reached 2.4% in May, despite dire warnings about rising inflation due to tariff implementation.[7] Inflation is trending in the right direction, reinforcing that, while higher prices from recent years aren't reversing, the rate of price increases is moderating.

FED STAYS PUT

The Fed played a largely spectator role throughout the quarter, maintaining their "wait-and-see" position as they pushed off the decision to cut rates. Current expectations are for two or three rate cuts by year-end, contingent on continued inflation progress and economic stability.[8]

The jobs picture added another layer of complexity. Employment has softened somewhat but remains fundamentally solid, keeping the economy moving while also making it harder for the Fed to commit to aggressive rate cuts. With inflation declining, tariff concerns not exacerbating price pressures, solid employment levels and companies performing well (based on recent earnings), the Fed has little motivation to lower rates aggressively.

LEGISLATIVE DEVELOPMENTS AND POLITICAL DYNAMICS

Two additional market drivers emerged during the second quarter. The reconciliation bill, dubbed the "Big, Beautiful Bill," managed to pass the House by the narrowest of margins but faced changes in the Senate.[9] The legislation carries enormous implications for U.S. citizens: If the 2017 tax cuts aren't made permanent or at least extended, virtually all taxpayers will face higher tax bills as rates revert to pre-2017 levels. Allowing these tax cuts to expire would represent a massive political miscalculation with several consequences for our legislators.

This quarter also saw the high-profile departure of Elon Musk from the Department of Government Efficiency (DOGE), following a very public dispute with President Trump.[10] DOGE's performance fell short of initial expectations, identifying $200 billion in potential budget savings rather than the promised $1-2 trillion.[11] While $200 billion represents meaningful progress, it also highlights the enormous challenge of achieving substantial government reform.

Despite falling short of ambitious targets, DOGE succeeded in illuminating waste in Washington. Maintaining this scrutiny remains crucial for addressing the nation's debt challenges and understanding why massive government spending has produced limited tangible results. Moving forward, economic growth combined with spending restraint will be essential for restoring national fiscal health.

LOOKING AHEAD

Market conditions suggest increased volatility likely lies ahead in the second half of 2025. Second-quarter events reinforced an important lesson: while markets maintain an upward trajectory over time, investors who succumb to fear and emotion-driven decision-making navigate downturns less successfully than those who stick to their plan.

The summer months will be crucial for determining how policy uncertainties resolve, whether economic momentum can be maintained, and how various legislative initiatives progress. Investors who have been letting portfolios drift would be well-served to take immediate action to rebalance as needed and ensure proper asset allocation.

This is an ideal time to have an honest discussion with your financial advisor about your risk tolerance and investment approach. If you're uncomfortable with your portfolio's current positioning, now is the time to make necessary adjustments before volatility intensifies once again.

Above all, remember that staying disciplined and maintaining a long-term perspective continues to be rewarded, while reactive decision-making typically leads to poor outcomes. The second half of 2025 may once again test investor resolve, but communicate with your advisor to continue pursuit of your retirement goals.

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