



July 15, 2025

Quarter Ending June 30, 2025

<u>Quarterly Performance</u>	<u>Q2 Index</u>	<u>YTD</u>	<u>Close</u>
Dow Jones Industrial Average	4.98%	5.29%	44,095
NASDAQ Composite Price	17.8%	8.24%	20,370
Standard & Poor's Averages	10.94%	5.5%	6,204

The second quarter of 2025 will be remembered as one of the most dramatic market turnarounds in recent history. After a rocky start, which saw the S&P 500 tumble to 4,877 on April 7 following President Trump's unexpected "Liberation Day" tariff announcements, equities staged a remarkable and relentless rebound. By the end of the quarter, both the S&P 500 and the Nasdaq Composite were at new all-time highs, signaling the return of investor optimism. This rally was fueled by a confluence of factors: a softening in tariff rhetoric, strong corporate earnings, resilient consumer demand, and the ongoing surge in AI momentum.

Markets entered Q2 under considerable strain. At the outset, investors were rattled by a combination of geopolitical tensions, rising trade uncertainty, and fears surrounding the intensification of the U.S.-China trade war. President Trump's surprise announcement of harsh tariffs on April 2 sent shockwaves through global financial markets. Within a week, the S&P 500 fell 12%, briefly entering bear market territory, while bond yields surged in response to heightened risk. The market was clearly unsettled, but it wasn't long before a shift in sentiment began to take shape.

By April 8, just days after the tariff announcement, the Trump administration signaled a pivot by postponing reciprocal tariffs for 90 days and dialing back its combative stance on trade. This move, along with a stable backdrop of economic data, fueled a swift and impressive market recovery. Investors chose to look beyond the noise of tariff threats and geopolitical conflicts, helping to spark a broad V-shaped rally. By the end of June, the S&P 500 had closed above 6,200 for the first time, culminating in an 10.94% quarterly gain, while the Nasdaq 100 soared 17.8%.

While the second-quarter recovery has been impressive, it's important to note that the rally has been highly concentrated. The gains have been disproportionately driven by a small group of mega-cap tech stocks. The so-called "Magnificent 7" companies like Apple, Microsoft, Nvidia, and Alphabet—accounted for a significant chunk of the overall market's return, with these stocks up by an average of 18.6% during the quarter. This narrow leadership has raised concerns about the sustainability of the rally, particularly as mid- and small-cap stocks have underperformed.



The S&P 500 is now trading at a price-to-earnings ratio of 22.8x for 2025, near record highs. While these valuations reflect strong corporate earnings and investor confidence, they also suggest that the market may be reaching overbought territory. The Relative Strength Index (RSI) readings for key ETFs like SPY and QQQ have surged above 70, indicating that stocks may be due for a pause or correction. The market's narrow leadership profile also suggests that the rally could be fragile, as the bulk of the gains have been driven by a handful of large-cap growth stocks.

While the market showed resilience and growth, several risks remain on the horizon, particularly in terms of narrow market leadership, elevated valuations, and geopolitical uncertainties. Investors will need to remain cautious, balancing optimism with the recognition of these potential risks as they navigate the second half of the year.

Although sectors of the market continue to be expensive, we are finding investment opportunities in more value-oriented names. Our investment approach continues to show signs of recovery and has contributed to a very positive start to 2025.

Ultimately, while the outlook for the market remains positive in the near term, the future will depend heavily on how these risks evolve and how the broader economy responds to ongoing challenges.

As always, please let us know if you have any thoughts or questions.

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