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2025 Second Quarter Stock Market Update

Sweeping Fear Under the Rug

July 2025

What a difference a couple months makes! Markets managed a remarkable comeback in the second quarter. While the S&P 500® Index's 10.9% return for the quarter is very impressive, even more notable is its stunning 24% rally since the closing low on April 8th. The S&P is now up 6.2% year-to-date, which is probably hard for some to believe given widespread investor angst just a few months ago. Remember, it wasn't long ago we penned an update in response to "Liberation Day" (April 2nd) and the threat of massive tariffs being imposed on trading partners. The market had declined 12% in just four days and was down roughly 18% from its highs at one point. What's more, the CNN Fear & Greed Index stood at 5 out of 100, suggesting "extreme fear" among market participants. Now, the S&P is sitting at new all-time highs.

Many feared tariffs would cause significant inflation and send us spiraling into recession. President Trump quickly became sensitive to the market's worries and policy was delayed and/or softened (depending on the country). While tariffs would presumably have lagged effect, there has been scant evidence of rising prices so far and the threat has quickly faded into the background. Indeed, investors are almost acting like nothing ever happened. Remember the Department of Government Efficiency (DOGE)? The same seems to have happened here. After posing a perceived economic threat and eliciting spirited debate, DOGE quickly became yesterday's news and is hardly mentioned in the headlines.

Most recently, all eyes have been on the Middle East. Following a skirmish between Israel and Iran, the United States decided to intervene by bombing Iran's primary nuclear installations. This attack quickly gave way to anticipation of retaliation and escalation. There were also fears of a crippling spike in oil prices should Iran choose to impede the Strait of Hormuz, the primary channel for oil exports from the Middle East. But, a preliminary ceasefire between Israel and Iran was announced shortly thereafter. Since the bombing, the S&P 500 is up 4% and oil prices are actually down about 12.2%. Once again, fears were quickly swept under the rug.

What is the market telling us? Why are investors thumbing their noses at these risks?

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Perhaps the mind-numbing speed of the Trump news cycle lulls investors into a sense of complacency or impairs their long-term memories. Or maybe these risks simply haven't had time to fully manifest themselves. Most likely, in our view, is that the worst-case scenarios

