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Market Review and Outlook 2Q25

Highlights

Global equity and bond markets experienced volatile moves during the second quarter of 2025, after the prospect of a tariff-driven trade war rekindled inflation and recession risks. The subsequent easing/delay of most tariffs quickly restored stability to the financial markets.

After declining roughly 20% from its February high, the S&P 500 Index rallied 25% from the April low to post a second-quarter gain of 10.9% (+6.2% YTD).

With import duties almost certain to be less severe than originally outlined, the worst of the trade war worries is likely past. However, U.S. tariffs are poised to be significantly higher in 2025 (and beyond) than recent history, which could weight on economic/earnings growth.

Although equity valuations briefly corrected early in the quarter, the ensuing rally propelled the S&P 500 Index to an all-time high and pushed its forward P/E multiple (22.2x) back near the cyclical peak (23.7x).

Fixed income markets weathered an unusual/ counterintuitive spike in Treasury yields amid the early-April equity market selloff, with the Bloomberg U.S. Aggregate Bond Index posting a positive second-quarter total return of 1.2% (+4.0% YTD).

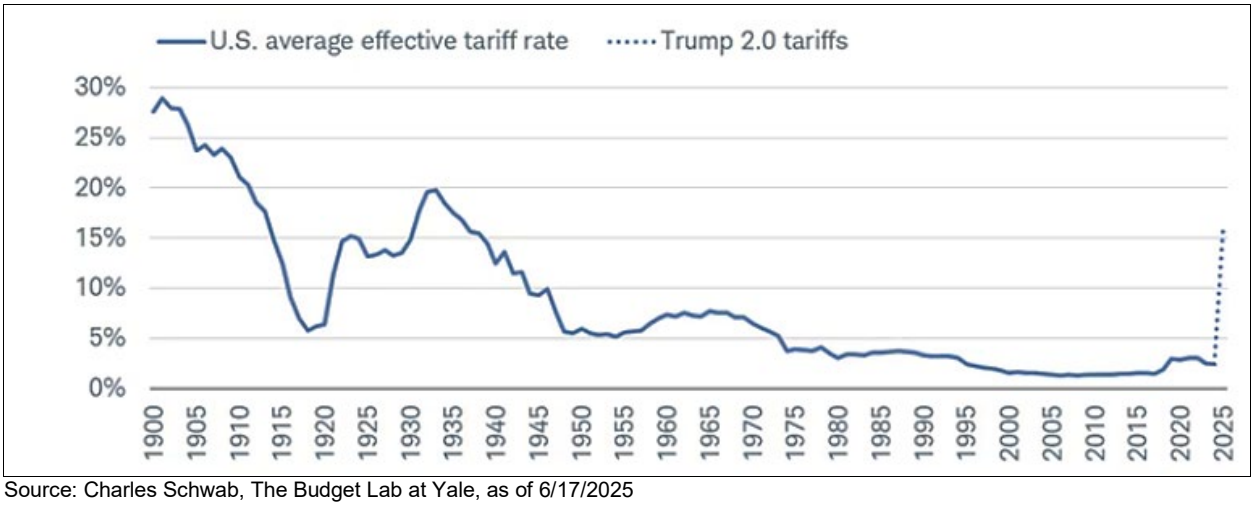
In the second half of the year, the yield curve appears poised to steepen, with the difference between long- and short-term yields expanding as investors demand more yield to hold "riskier" long-term Treasury bonds.

Market Review and Outlook

Global equities encountered a turbulent market during the second quarter, which was initiated by President Trump's April 2nd announcement of the steepest trade barriers in over a century. With the higher-than-expected tariffs reigniting inflation and recession fears, U.S. equities swiftly entered correction territory and briefly slipped into a bear market (down >20% from the February all-time high) during the second week of April. After the implementation of most new tariffs was delayed for 90 days and an initial round of negotiations led to agreements that lowered the initial tariff rates proposed, the S&P 500 Index rallied 25% from the April low through the end of June to post a second-quarter gain of 10.9% (+6.2% YTD)—closing the quarter at an all-time high. Though also temporarily impacted by the tariff-driven market swings, international equities proved less volatile and reported even stronger quarterly gains, with developed markets (EAFE) posting a second-quarter surge of 11.8% (+19.5% YTD) and emerging markets (EM) climbing 12.0% (+15.3% YTD).

With the S&P 500, NASDAQ, and EAFE indices each closing the second quarter at record levels, the market appears to be giving the "all clear" signal to investors. Positive trade developments, including a pause/rollback of the most draconian tariff rates (e.g., the administration's 145% tariff on Chinese imports), certainly justified a solid market rebound from the worst-case-scenario reflected in the post-Liberation Day lows. That said, the market backdrop remains much more precarious than it was before Liberation Day. Even with the recent pause/de-escalation of the trade war, U.S. tariffs are poised to be significantly higher in 2025 (and beyond) than recent history. In 2024, the U.S. effective tariff rate was 2.3%. Based on current data (after deals, exclusions and substitution effects are accounted for), the average effective tariff rate moving forward is projected to be around 15%.

U.S. Average Effective Tariff Rate
(1900-2025)



Source: Charles Schwab, The Budget Lab at Yale, as of 6/17/2025

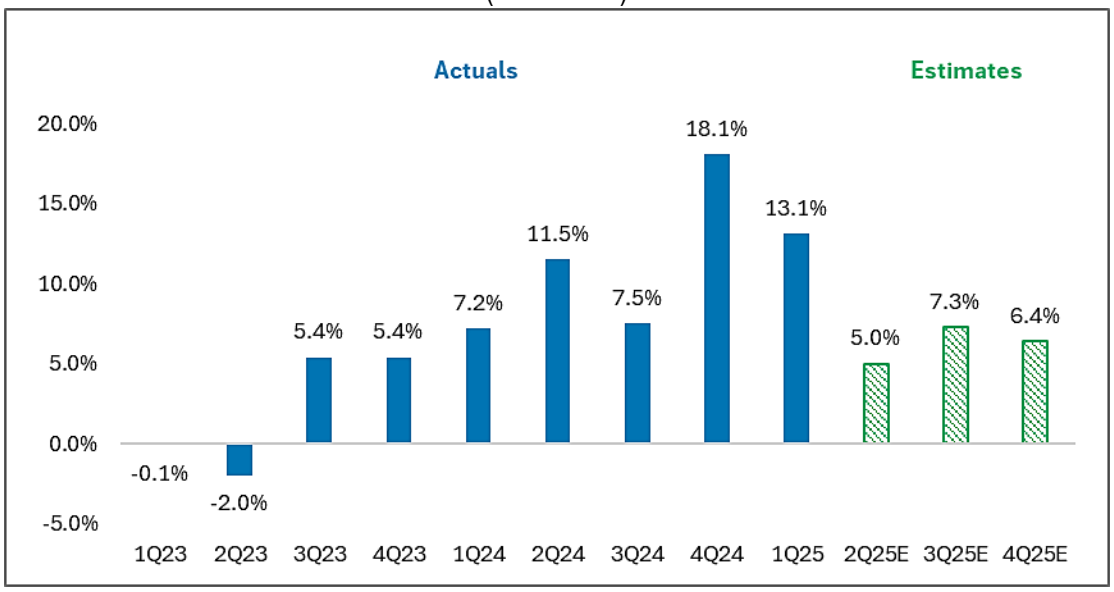
It seems naive to assume that raising levies on imported goods by nearly 13% in one year, to the highest tariff rate since 1938, will have no material impact on inflation and economic expansion. Upward pressure on prices, particularly in certain goods, leading to short-term inflationary impulses appears inevitable. This inflation is likely to be temporary and will eventually subside, but it may slow business spending in the interim as companies absorb some of this inflation. A portion of the higher prices is also likely to be passed onto customers, which could negatively impact consumer purchasing power. Thus, U.S. economic expansion is expected to soften this year from the 2.8% annual growth rate in 2024 (and the 2.8% average growth rate recorded since mid-2021).

Gross domestic product (GDP)— the sum of consumer spending, business spending, government spending, and net exports (i.e., exports minus imports)—decreased at an annual rate of -0.2% in the U.S. during 1Q25 (before Liberation Day in April), a sharp reversal from 4Q24's growth rate of 2.4%. A flood of imports (which rose over 50% during 1Q25 in anticipation of higher tariffs) depressed first-quarter GDP, but it's forecasted that second-quarter GPD growth rebounded to +1.5% as the import headwind reversed. Some softening economic activity in the back half of 2025 is likely following the aggressive demand pulled forward ahead of tariffs earlier in the year. Also, business spending could moderate as corporations adjust to a higher cost environment following full implementation of the new tariffs. Current consensus estimates suggest GDP growth for the second half of 2025 will hover slightly above 1.0% in aggregate, implying full-year GDP growth of roughly 1.5% (vs. 2.8% last year). However, there is a tail risk that tariffs remain elevated across key trading partners and average effective tariff rates rise above the projected 15% level outlined above. In this scenario, the odds of a recession starting later this year could escalate materially.

Despite a decelerating economic growth backdrop, corporate earnings estimates for 2025 have remained positive. During the first quarter of the year (which ended before the tariffs went into effect), S&P 500 earnings grew 13%—marking the second-straight quarter of double-digit growth. The pace of profit expansion in the coming quarters, however, is expected to slow as economic growth moderates and tariffs take effect.

Quarterly S&P 500 Earnings Per Share Growth (YoY)

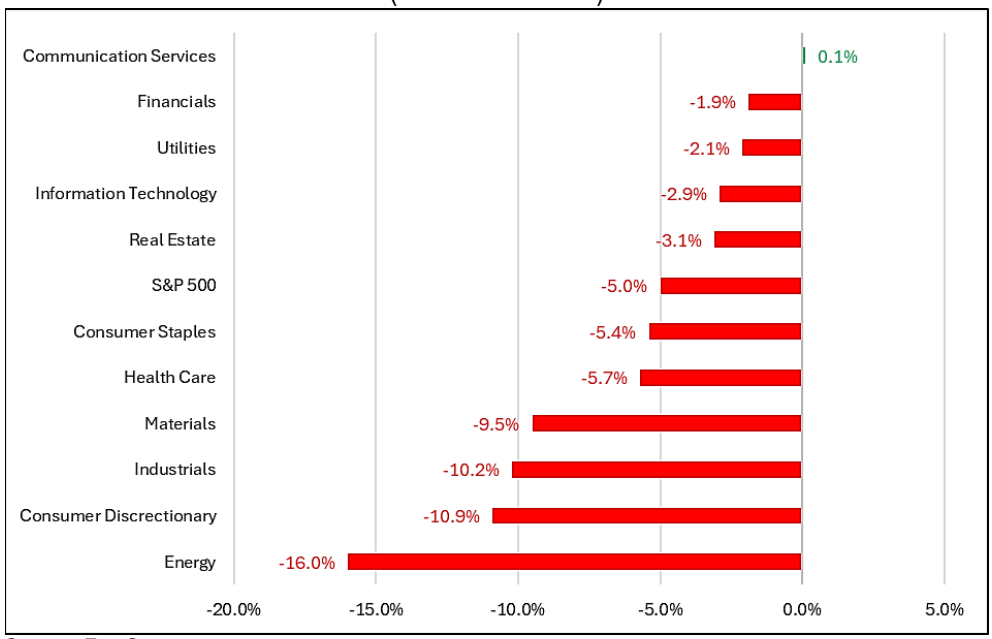
(2023-2025)



Source: FactSet

As a result, full-year 2025 earnings are now expected to grow 9%, down five percentage points from the 14% growth forecasted at the beginning of the year. Ten of the 11 sectors in the S&P 500 have observed some deterioration in their growth prospects since the beginning of the year. As illustrated in the chart below, the cyclical sectors (energy, consumer discretionary, industrials, and materials) have seen the biggest revisions to their growth estimates given that these sectors are viewed as the most exposed to the changing tariff backdrop and potential macroeconomic fallout.

Change in S&P 500 Sector-Level 2025 EPS Estimates from Start of the Year
(12/31/24-6/30/25)

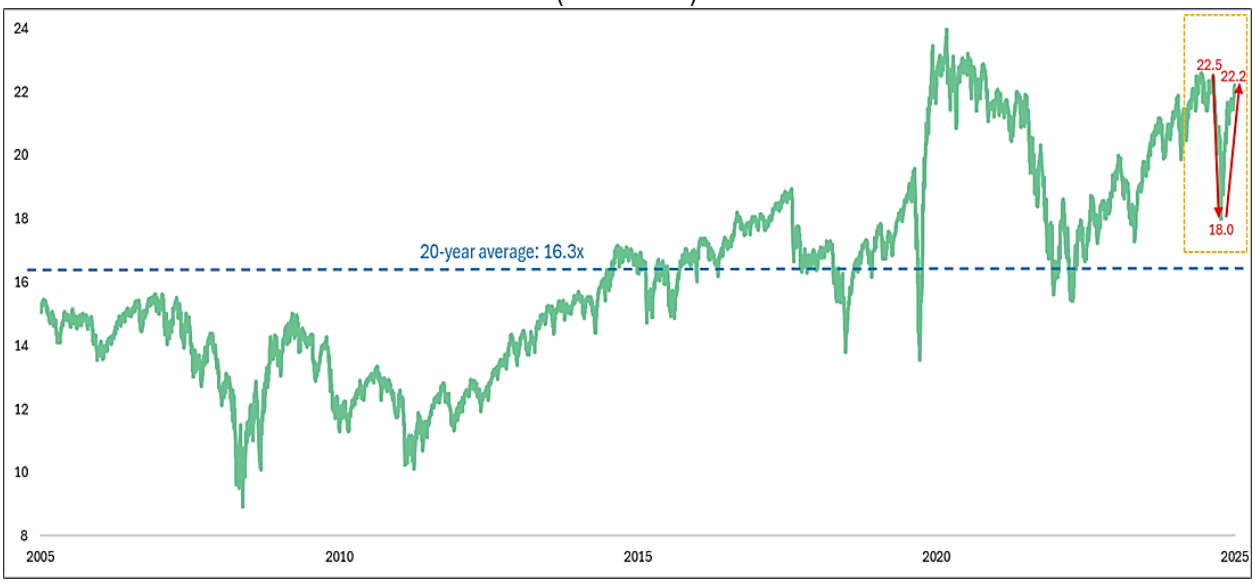


Source: FactSet

While a moderation of profit growth in the quarters ahead is expected as companies navigate a higher tariff environment, a deep or prolonged period of negative earnings appears unlikely. Current economic conditions remain supportive, as the U.S. labor market shows signs of sustained resilience and inflation pressures overall continue to recede. Moreover, earnings growth could re-accelerate during 2026, with Fed interest rate cuts expected in the back half of 2025, a new tax bill going into effect next year, and enhanced clarity on tariffs eventually spurring renewed corporate investment.

Equity valuations experienced a brief correction during the second quarter, with a 20% decline in the S&P 500 Index's P/E multiple—from 22.5x in February down to 18.0x in early April. However, the ensuing 25% market rally pushed valuation multiples back to 22.2x by quarter end.

S&P 500 Forward P/E Multiple
(2005-2025)



Source: FactSet

With the index's current P/E just shy of the 2020 cyclical high (23.7x), it's unlikely (and unsustainable) for valuation multiple expansion to drive equity gains from here. Today's elevated P/E multiple also leaves stocks susceptible to another pullback amid any cracks in investor sentiment. Thus, it's imperative that earnings meet or exceed the growth estimates outlined above for the recent market rally to be maintained, let alone extended.

As the dust settles from a volatile first six months of 2025, many questions remain about the path ahead for the economy and markets. The near-term economic and inflation outlook is still clouded by U.S. trade policy uncertainty and could remain so for some time. The worst of the tariff worries is likely past—with import duties almost certain to be less severe than originally outlined—but some dilutive economic impact should be expected over the near/medium term. Additionally, geopolitical threats from the enduring war in Ukraine and the Middle East wars could still have destabilizing effects on the global economy. While we aren't predicting material disruption from these events, the market's lofty valuation multiple suggests that investors may have become too complacent around these risks. Thus, a heightened level of caution following the recent "face-ripping" rally seems warranted as we move through the second half of the year.

Core Portfolio

During the second quarter, we did not initiate any new holdings nor sell any existing positions in the Core portfolio. This doesn't imply that we were inactive during the quarter, however, as we continued to alter allocations among our current portfolio positions based on fluctuating valuation metrics and changing growth expectations amid the shifting market backdrop.

Tactical Portfolio

Our tactical investments benefited from a couple of notable thematic storylines in the quarter. Gold prices rallied another 6% in the second quarter and are now up 25% YTD (already matching the full-year 25% gain in 2024). The precious metal has maintained its relentless march higher since November of 2022, with prices more than doubling over the period. The sustained upturn in gold prices has been driven by an influx in demand over the last few years, thanks to gold's perception of safe-haven status in a period of inflationary pressures and economic uncertainty. Escalating fears around the ballooning U.S. deficit and a potential de-dollarization wave among foreign central banks amid policy shifts since President Trump's election have further catalyzed investors' rush into gold. While the growth trajectory for gold prices is likely to moderate from its recent cadence, lingering concerns about tariffs, geopolitics, and stagflation could continue to push prices higher.

After swooning earlier this year due to tariff-related concerns, uranium prices experienced a second-quarter rally of 16% (+2% YTD). Several factors contributed to the price rebound. First, President Trump announced in early April (post Liberation Day) that uranium would be exempt from his sweeping tariffs. Then in May, the President issued four executive orders intended to spur increased demand for nuclear energy by overhauling the country's nuclear regulator, fast-tracking licenses for new projects, boosting domestic fuel supplies, and using federal lands for reactors. The stated goal of these executive orders is to quadruple U.S. nuclear capacity over the next 25 years. This added to the already favorable long-term prospects for nuclear demand, fueled by the buildout of energy-hungry AI data centers. China also contributed to a more bullish outlook for the uranium market with its April approval for the construction of 10 nuclear reactors—underpinning the country's stated intent to nearly double its nuclear power capacity over the next 15 years in a rapid expansion program. Globally, there are now 61 nuclear power plants under construction and over 300 proposed, signaling the potential for a sustained increase in uranium demand for decades to come.

Fixed Income

Bonds were not immune to the volatile market swings in the quarter. During the second week of April, the yield on the 10-year Treasury posted its biggest one-week increase (+0.5%) since November 2001 and the yield on the 30-year bond had its sharpest weekly climb since April 1987—putting downward pressure on bond prices. Yields ultimately retreated and Treasury prices recovered, boosting the benchmark Aggregate Bond Index's second-quarter return to 1.2% (+4.0% YTD).

The jump in Treasury rates (and decline in prices) during the early-April equity market correction was disconcerting. Demand for Treasuries would normally be expected to rise during an equity market selloff, given their perception as a safe-haven asset and the historical negative correlations between stock and bond prices. Thus, the counterintuitive move in Treasury yields during the turbulent market downturn spurred a growing concern that international investors—including global central banks and financial institutions—may have started pulling back on their purchases of U.S. Treasury securities due to geopolitical reasons (including tariff retaliation) and their increasing trepidation towards the swelling U.S. deficit.

In order to attract a broader group of investors moving forward, the yield on more debt-sensitive long-Treasury Bonds (e.g., 30-year Treasury rates) may have to move higher (resulting in elevated bouts of price volatility). Meanwhile, shorter duration Treasury yields (e.g., 2-year Treasury rates) are likely to move lower if the Fed executes on its own "dot plot" rate path expectations—which includes two rate cuts in 2025, along with ongoing rate cuts in 2026 and 2027. The net impact of these divergent trends could drive a steepening of the yield curve—with the difference between long- and short-term yields expanding as investors demand more yield to hold long-term bonds during volatile times. For this reason, we continue to favor short- to medium-duration bonds, which continue to offer attractive yields but may prove less sensitive to government debt concerns than long-term bonds.

Final Thoughts

The first half of 2025 proved to be an eventful, and temporarily unnerving, period for investors. We thank you for the continued trust you place in us to manage your assets—particularly during times of extreme market choppiness. Let's hope the second half of the year offers calmer waters ahead to navigate.

Have a great summer!

Parkside Investments, LLC

***One last thing**: As part of Parkside's ongoing objective to protect our clients' sensitive information, we wanted to call attention to a fraudulent email a client recently received from "Fidelity", claiming the client's account had been locked and urging them to click a link to restore access. While Fidelity and Parkside may occasionally contact you to confirm transactions you've initiated, **neither firm will ever send unsolicited texts or emails asking you to click on links or provide passwords or confidential information**. If you ever receive a communication from either firm that seems questionable, we strongly encourage you to contact us before taking any action.*

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