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# MARKET MUSINGS

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## FIRST HALF OF 2025 MARKET REVIEW: A ROLLER COASTER RIDE TO RECORD HIGHS

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## SUMMARY

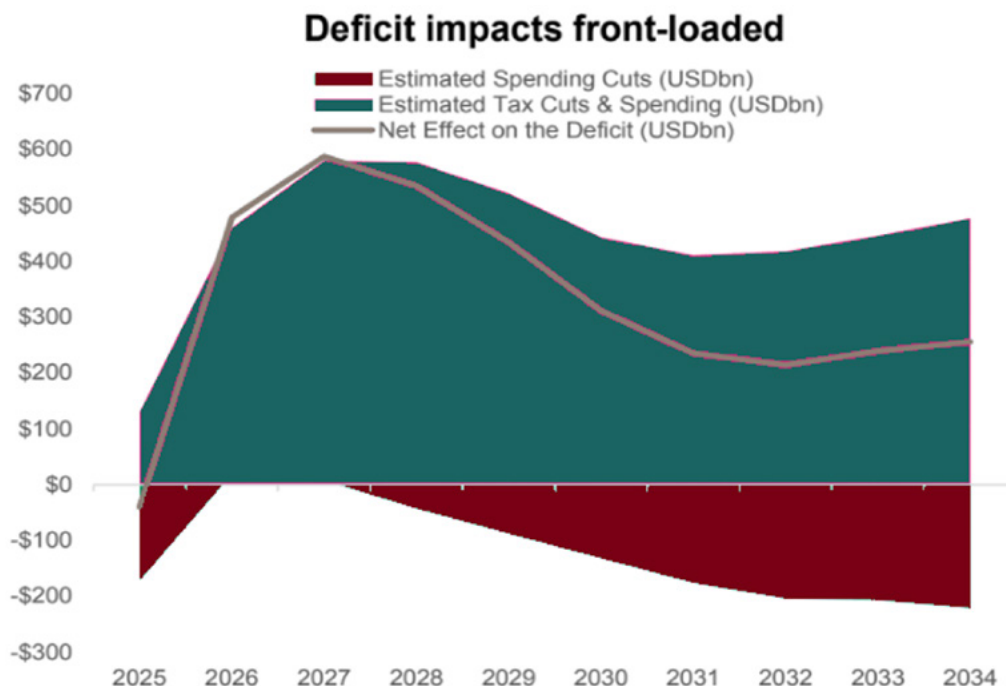
- The newly signed tax bill passed by Congress and the President the first week of July delivers front-loaded stimulus aimed at boosting near-term growth while cushioning tariff impacts. Despite longer-term deficit concerns, it's a net positive for the economy in the short run.
- U.S. large-cap stocks ended the quarter with gains of over 10%—but that headline number doesn't capture the full story. The quarter kicked off with a sharp drop, as the S&P 500 plunged 12% in just four trading days. Yet, by June 30, the market had not only erased those losses but gone on to set new all-time highs.
- A powerful two-month rally and record-high earnings estimates signal further market momentum. Historically, stocks have delivered stronger returns when earnings are rising, and sharp rebounds from bear markets have often led to sustainable gains in the following year.
- MX strategies moved to an aggressive allocation in early July, following the expiration of our "rate of change" sell signal. **microcast™** was also upgraded to an aggressive stance at the end of June. This marks the first time since November 2024 that both models are aligned in recommending an aggressive allocation, suggesting a more constructive environment for risk assets.

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*See content within for additional information on the summary items discussed above*

## QUICK THOUGHTS ON THE RECENT **TAX BILL**

On July 4th, President Trump signed into law the long-awaited tax-and-spending bill—formerly known as the “One Big, Beautiful Bill”—that Congress had been crafting for months. While the policy details are extensive, our focus here is on its near-term impact on the federal deficit and economic stimulus. The chart below outlines the bill’s spending and saving components over the next decade (from Credit Agricole):



The key takeaway: most of the stimulus is front-loaded, while the spending cuts are pushed to later years. This timing matters. By injecting money into the economy now, the bill could help lower the risk of recession and soften the blow from tariff-related costs.

While there are valid concerns about the long-term impact of a growing federal deficit, the bill is now law. On balance, it’s a short-term positive for the economy.

## FIRST HALF OF 2025 **ASSET CLASS REVIEW**

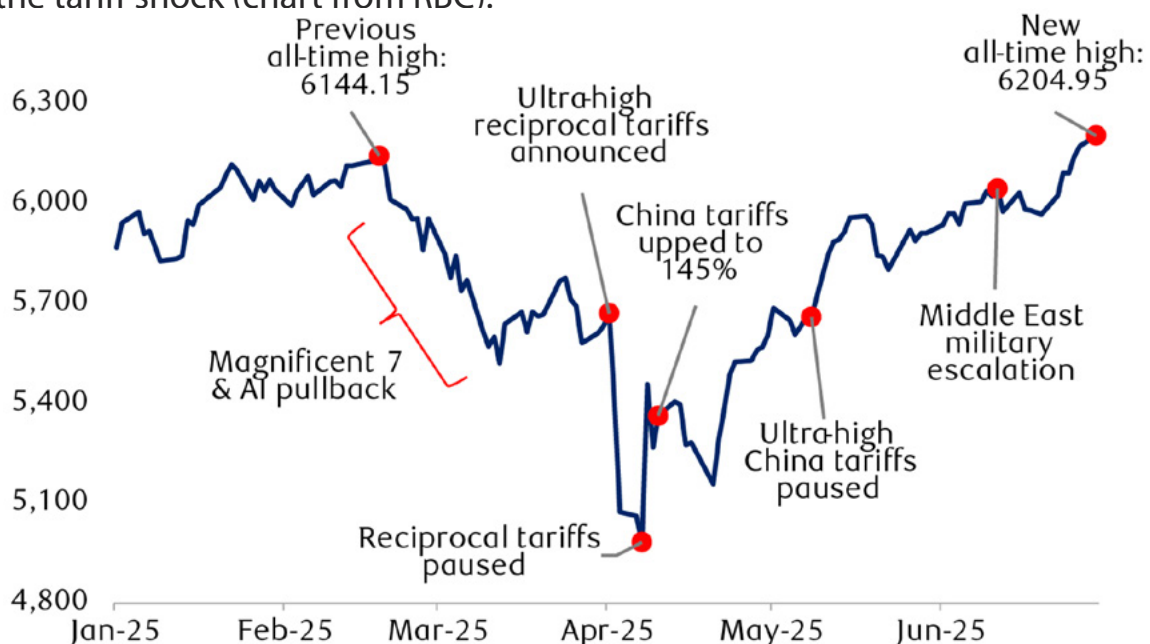
By the numbers, the first half of 2025 appears uneventful. With the exception of strong international stock performance, returns across most asset classes were fairly average. But those ending numbers masked a roller coaster ride. Markets once again proved that while “buy and hold” is easy to say, it’s hard to live through. The second quarter began with shock and uncertainty but quickly flipped into one of the sharpest V-shaped rebounds on record.

The following table highlights major asset class returns during the second quarter and the first half of the year (data from Morningstar Direct):

Asset Class	Benchmark	Q2 2025 Return	YTD 2025
U.S. Large-Cap Stocks	S&P 500® Index	↑ 10.90%	↑ 6.20%
U.S. Small-Cap Stocks	Russell 2000® Index	↑ 8.50%	↓ -1.79%
International Developed Stocks	MSCI EAFE Index	↑ 12.00%	↑ 19.90%
Emerging Market Stocks	MSCI EM Index	↑ 12.20%	↑ 15.57%
U.S. Bonds	Bberg US Agg Bond Index	↑ 1.20%	↑ 4.02%
High Yield Bonds	Bberg US Corp HY Index	↑ 3.50%	↑ 4.57%
Commodities	S&P GSCI Index	↓ -2.80%	↑ 1.94%
Gold	LBMA Gold Index	↑ 5.53%	↑ 26.00%
Oil	West Texas Intermediate (WTI)	↓ -8.91%	↓ -9.41%
Dollar	US Dollar Index	↓ -7.04%	↓ -10.70%

Some additional insights from the above table:

- 1. A round trip: from all-time highs to a tariff-driven bear market to new record highs.** Despite the noise, markets ended the first half of 2025 close to where they started. The S&P 500 hit a new high in February, then plunged nearly 20% by early April. Yet, by quarter's end, it had not only recovered but set fresh all-time highs—a rebound that would've seemed unthinkable in the immediate aftermath of the tariff shock (chart from RBC):

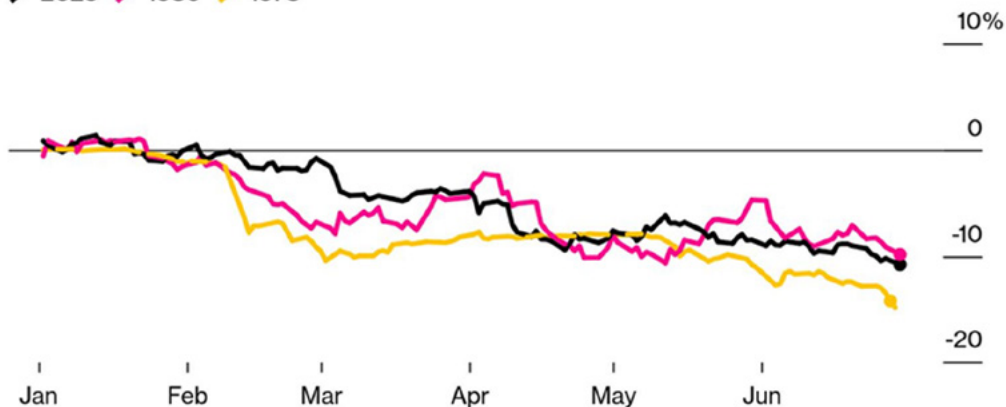


- 2. The dollar just posted its worst first-half performance since 1973.** Amid unprecedented levels of economic uncertainty, the U.S. Dollar Index fell 11%—a level of decline not seen since 1986, and the steepest drop in over 50 years (chart from Bloomberg):

**US Dollar Index Suffers Biggest First-Half Loss Since 1973**

The dollar gauge is down nearly 11% so far in 2025

2025 1986 1973



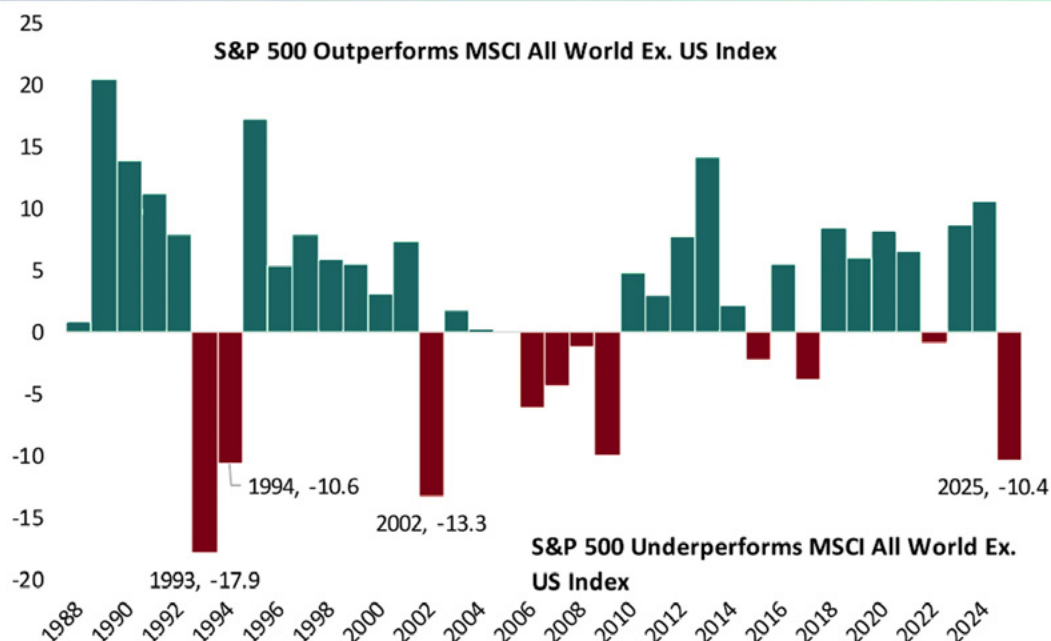
Source: Bloomberg

Note: Normalized data through end of first half calculated via Bloomberg's SEAG function.

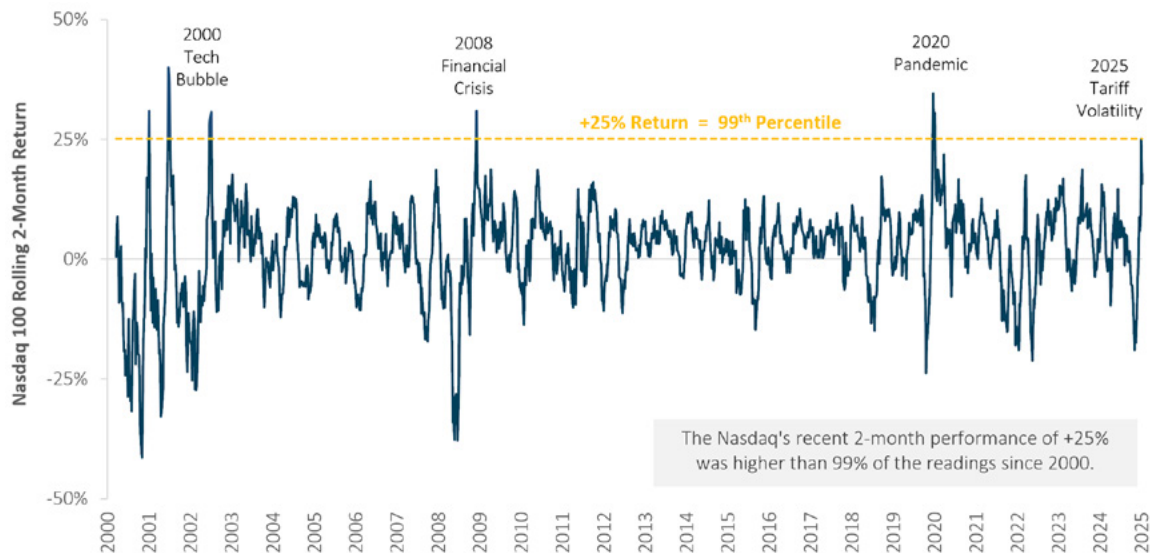
Bloomberg

- 3. Dollar weakness gave international stocks a major boost, fueling their strongest relative performance since 2009.** The dollar's loss became global equities' gain. The last time international stocks outperformed U.S. equities to this degree was in early 2009, during the post-Global Financial Crisis rebound (Chart from Bespoke):

**Performance Spread of S&P 500 vs. All World Ex. US Through First Half**



- 4. The Nasdaq's rebound was historic, echoing the aftermath of past crises.** The tech-heavy Nasdaq 100 index surged more than 25% in just two months, a feat seen only during major turning points like the dot-com bubble, the end of the Global Financial Crisis, and the COVID recovery (chart from MarketDesk):



Disclosures: Nasdaq. The performance of this index is provided for informational purposes only and does not represent an actual investment. Index performance is for illustrative purposes only and does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results. Latest available data as of 6/30/2025.

## A POWERFUL MARKET REBOUND TENDS TO PRECEDE FURTHER UPSIDE

The sharp rebound in stocks, combined with a solid outlook for corporate earnings, suggests this rally may still have room to run. The S&P 500 has climbed more than 20% in just two months—a rare move seen only five times since 1950. In every one of those cases, the market was higher a year later, with an average gain of 30% (table from Carson):

### Yet Another Sign This Is A Bull Market

S&P 500 After Two Month Gains Of 20% Or More (1950 - Current)

Date	Two Month Return	S&P 500 Forward Returns			
		1 Month	3 Months	6 Months	12 Months
2/6/1975	20.8%	8.1%	14.0%	9.9%	27.8%
10/6/1982	21.5%	12.6%	12.7%	19.9%	32.0%
12/7/1998	22.4%	6.9%	8.3%	11.0%	18.6%
4/30/2009	24.5%	8.0%	13.1%	19.5%	36.0%
5/18/2020	23.2%	5.4%	14.5%	21.4%	39.7%
6/9/2025	20.5%	?	?	?	?
Average		8.2%	12.5%	16.3%	30.8%
Median		8.0%	13.1%	19.5%	32.0%
% Positive		100.0%	100.0%	100.0%	100.0%

All Years Since 1950

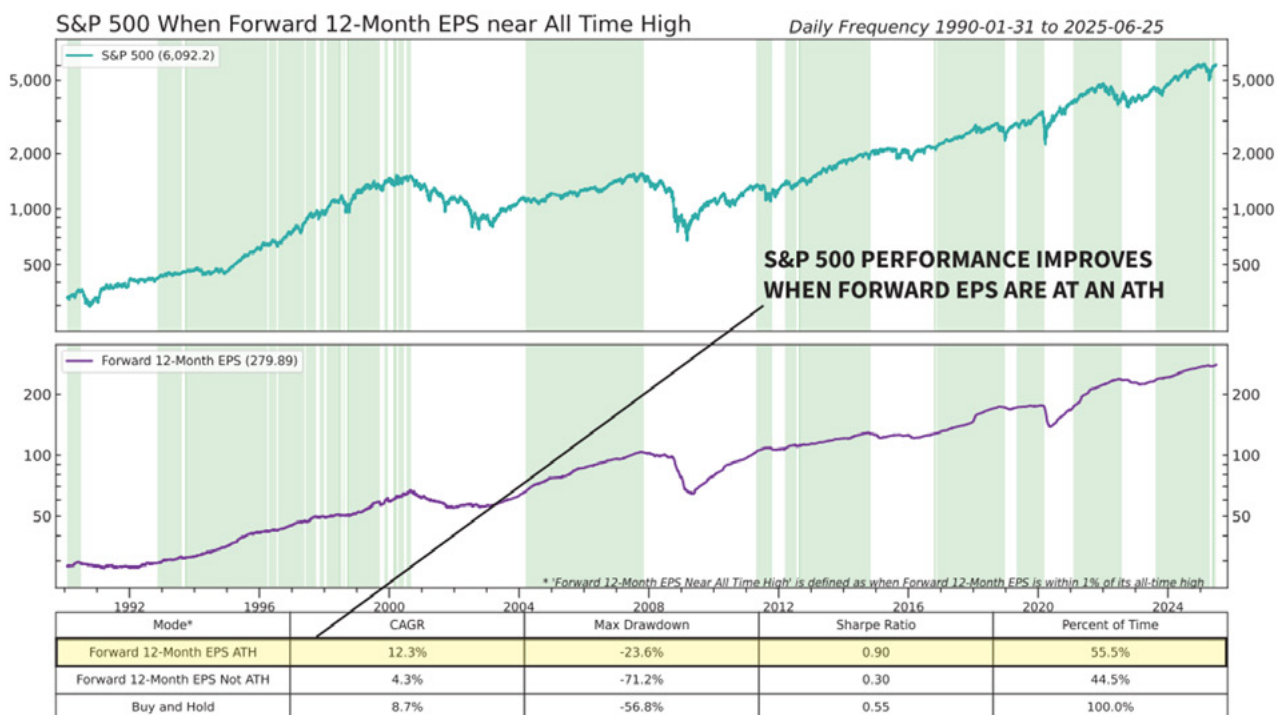
Average	0.7%	2.2%	4.5%	9.2%
Median	1.0%	2.6%	4.9%	10.4%
% Positive	60.7%	66.0%	70.1%	73.8%

Source: Carson Investment Research, FactSet 06/09/2025  
 @ryandetrick

In addition, the rally from early April to late June ranks among the 20 strongest since 1989. Historically, markets have always been higher 12 and 24 months after rallies of this magnitude (from Charlie Bilello):

Biggest 12-Week S&P 500 % Gains and Forward S&P 500 Total Returns (1989 - 2025)										
Biggest 12-Week S&P 500 Total Return Gains					Forward S&P 500 Total Returns					
Start Date	End Date	Start S&P TR	End S&P TR	% Change	6-Month	1-Year	2-Year	3-Year	4-Year	5-Year
3/6/2009	5/29/2009	1106	1496	35.3%	20.0%	21.0%	50.8%	52.5%	95.3%	129.8%
3/20/2020	6/12/2020	4697	6227	32.6%	21.4%	41.8%	32.1%	48.2%	87.1%	112.8%
10/9/1998	1/1/1999	1333	1670	25.3%	13.9%	21.0%	10.0%	-2.0%	-24.9%	-4.3%
3/13/2009	6/5/2009	1225	1531	24.9%	18.9%	15.6%	44.0%	44.7%	88.8%	127.3%
4/11/1997	7/4/1997	975	1217	24.8%	7.2%	27.0%	56.3%	65.4%	40.9%	15.5%
3/20/2009	6/12/2009	1245	1542	23.8%	18.2%	17.7%	39.8%	49.0%	89.0%	128.9%
9/4/1998	11/27/1998	1317	1618	22.9%	9.9%	20.3%	15.3%	0.1%	-17.7%	-6.8%
10/2/1998	12/25/1998	1357	1665	22.7%	8.0%	20.5%	9.1%	-3.1%	-22.9%	-4.6%
3/27/2020	6/19/2020	5180	6345	22.5%	20.7%	36.6%	22.3%	49.2%	86.6%	108.1%
4/4/2025	6/27/2025	11178	13641	22.0%						
4/3/2020	6/26/2020	5075	6164	21.4%	24.1%	44.5%	34.0%	51.5%	93.3%	113.9%
1/9/1998	4/3/1998	1242	1508	21.4%	-10.0%	16.9%	37.1%	7.4%	7.6%	-17.6%
2/27/2009	5/22/2009	1189	1443	21.4%	24.4%	25.1%	56.5%	55.4%	104.6%	135.3%
10/16/1998	1/8/1999	1431	1733	21.1%	10.8%	14.5%	4.3%	-4.6%	-24.8%	-6.6%
4/18/1997	7/11/1997	1013	1217	20.2%	2.0%	29.0%	57.7%	68.2%	37.0%	15.4%
4/25/1997	7/18/1997	1012	1216	20.2%	5.9%	31.7%	59.7%	72.0%	40.1%	7.7%
1/11/1991	4/5/1991	351	422	20.0%	3.2%	10.3%	24.9%	29.7%	49.9%	98.0%
3/14/2003	6/6/2003	1200	1427	19.0%	8.4%	15.6%	25.4%	37.6%	67.2%	55.4%
3/13/2020	6/5/2020	5523	6537	18.4%	16.8%	34.6%	32.6%	40.6%	75.9%	99.6%
11/23/1990	2/15/1991	349	413	18.1%	6.2%	15.3%	28.0%	39.2%	46.6%	104.9%
Average (20 Biggest 12-Week % Gains)					12.1%	24.2%	33.7%	36.9%	48.4%	63.8%
Average All Other Periods					5.7%	11.8%	25.1%	39.3%	56.0%	74.2%
Differential					6.4%	12.4%	8.5%	-2.4%	-7.6%	-10.4%
CREATIVE PLANNING®					Data Source: YCharts			@CharlieBilello		

Lastly, earnings estimates for the S&P 500 just hit a new all-time high. This is bull market behavior. According to a study by 3Fourteen Research, the market tends to perform better and experience smaller drawdowns when analysts are raising estimates, with a compound annual growth rate (CAGR) of over 12%. While stocks can still post gains when estimates aren't at record highs, those returns tend to be lower and far more volatile (chart from 3Fourteen):



In summary, the first half of 2025 delivered a market narrative that few could have predicted: a swift tariff-induced downturn followed by one of the fastest rebounds in history. With the new tax bill injecting near-term stimulus, corporate earnings forecasts reaching new highs, and price momentum pointing upward, the market's foundation looks robust. Historical patterns back this optimism—rallies of this magnitude have been rare and have consistently led to strong forward returns, with rising earnings estimates cushioning volatility. While long-term concerns like the federal deficit and geopolitical risk remain, the evidence favors staying invested and balanced as the second half of 2025 unfolds.

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