

INVESTMENT STRATEGY AND OUTLOOK

Often ascribed to Mark Twain, the meteorological axiom of “if you don’t like the weather, wait five minutes,” seems to have been adopted by the stock market of late. Amidst consternation over tariffs, geopolitical conflicts, and softening consumer confidence, US stocks had a rough start to 2025, and April did not prove to be a respite. However, as we saw in 2020 after the market fell to a pandemic-driven low in March, quick rebounds have become in vogue. That year, it took until August for stocks to return to previous highs. In 2025, the S&P 500 has increased almost 25% from its April lows; a paltry 89 trading days for the market to return to a closing high watermark – the quickest recovery from a decline of at least 15% ever, according to Dow Jones Market Data. That buoyancy has the S&P 500 back to achieving all-time highs through the first six months of this year; the same goes for the NASDAQ Composite. International stocks continued their torrid year, leading all major domestic stock markets on the back of a weaker dollar and transparency into European budget debates. Lastly, with rates little changed after the March rally, a small drop in the 5- to 10-year Treasury yield and slight spread tightening, the Bloomberg Barclay’s US Aggregate Bond Index appreciated modestly, but trailed the first quarter’s 2.8% return.

Despite that momentum, the market was not without its fits and starts in the second quarter. Regardless of whether the news flow was positive or negative, traders were acutely fixated on (and reacted to) anything regarding trade deals, the Federal Reserve bank lowering interest rates, or progression towards peace in any of the strife around the globe. The whiplash of headlines highlighted the perils of short-term thinking and rewarded those who filtered out that noise. Ultimately, solid first quarter earnings reports and investor optimism were enough to outweigh macro uncertainty and drive markets higher.

That said, clarity on some macroeconomic concerns is still outstanding and could be seen as an anchor weighing down consumers. Michigan’s Index of Consumer Sentiment plunged 29% in the first four months of this year and remained at one of its worst readings in its 79-year history. While there has been a bit of an uptick of late, Americans are still anticipating slowing economic growth and extended periods of elevated price levels. Given consumer spending accounts for approximately 70% of US GDP, their sentiment goes a long way in impacting short-run stock price action.

With stocks reaching all-time highs and trading at cycle-high price-to-earnings ratios, the road to further appreciation will likely require a combination of optimistic resolutions to a few outstanding questions: progress towards global peace, completed trade agreements between the US and its largest trading partners, firm domestic labor market dynamics, a Federal Reserve rate cut or two, and widening stock performance breadth beyond the “Magnificent 7.” On the last point, there have been some optimistic signs. As market participants are well-aware, for the past few years, major US stock indices’ gains have mostly been driven by those seven large cap tech names. However, at the end of the second quarter around 70% of stocks in the S&P 500 are above their 50-day moving average; compared to just under 20% at the start of the year, and below 10% in the first week of April. Market broadening is typically a sign of a healthier stock market and positively correlated with further forward movement. That potentially bodes well for investors who own a well-diversified portfolio of high-quality stocks. Additionally, that type of broadening would likely be a tailwind for investment-grade fixed income issues.