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2025 Second Quarter Review Which Song to Sing?

As we close the books on the first half of 2025, we can marvel at the wild ride the markets have given investors so far this year. First came the inauguration of a new presidential administration, and markets rallied to new highs. Then “Liberation Day” and the imposition of sweeping tariffs triggered a massive sell-off that was reminiscent of the decline during the pandemic of 2020. This was followed by one of the sharpest rallies in stock market history to bring the major market indexes back into positive territory after declines of as much as 20% just a few months earlier. By the end of the second quarter, the S&P 500 stood with a 5.5% gain, the Dow was up 4.5%, and the Nasdaq Composite rose 5.9%, while the “small company” Russell 2000 declined 1.8%. Long-term bonds gyrated in value but ended not far from where they started, with a 0.8% increase in price for the iShares 20+ Year Treasury Bond ETF. The yield on 20-year US Treasury bonds stood at 4.79%, the 10-year yield eased to 4.23%, while money market funds continued to pay approximately 4.15%.

Technology, financial, communication services, and industrial stocks led gains, while consumer staples, healthcare, and energy stocks underperformed. Gold reached new all-time highs, as did bitcoin. Utility stocks advanced due to a combination of increased power demand and anticipation of interest rate cuts.

Tariff and trade policy uncertainty appear to have been discounted by the stock market, but the dollar has fallen in value more during the first half of this year than it has since the 1970s. Add a cheap dollar to the effects of additional import tariffs, and you begin to see why there remains a concern about a resurgence of inflation.

“Reasons to be Cheerful, Part 3”

In 1981, a punk rock group called Ian Dury and the Blockheads released their hit single “Reasons to be Cheerful, Part 3.” Ian Dury (presumably not himself a blockhead) lists among the reasons “the juice of a carrot, the smile of a parrot, a little drop of claret” and “anything that rocks.” Investors appear to be, like Ian Dury, interpreting most things with a positive spin. Trade negotiations have started with some progress being made. Inflation has not risen as much as expected, tariffs have not damaged the economy, and corporate profits have not contracted as much as expected. At least, not yet. Also, the US bombed Iran, and the Middle East didn’t explode as feared. With all this in mind, the Federal Reserve is likely to resume cutting short term interest rates this fall.

“It Takes a Worried Man”

The Carter Family weighed in on the opposite side of the ledger over 50 years before Ian Dury with a 1930 recording of “Worried Man Blues” with the chorus, “It takes a worried man to sing a worried song.” Some of our current worries now include the fact that stocks are at historically high valuations with high multiples to earnings and low dividend yields. The housing market shows signs of deterioration, starting in Florida and California. (It always starts in Florida and California!) Commercial real estate defaults are starting to affect debt markets. (Remember 2008?) Tariffs impacts may yet kick in and hurt profitability and stock prices. The “Big Beautiful Bill” is likely to add many trillions of dollars to our national debt, increase interest expense on that debt to record levels, and enlarge our deficit spending (thereby debasing the dollar).

The recent onslaught of policy changes, market volatility, technological innovation, and geopolitical conflict has proven to be a lot for investors to absorb. However, there are several important and perhaps watershed developments that make this a particularly exciting time to be an investor. Artificial intelligence and blockchain technology (including cryptocurrencies) have the potential to disrupt the economy in unanticipated ways, with promise for some and peril for others. IBM just announced layoffs of 8,000 employees, primarily from its Human Resources department, to be replaced by IBM’s own AskHR AI program. Moves like these may improve productivity in many companies and may benefit their stocks, while replacing many workers whose income may be seriously impaired. Blockchain technology has the potential to transform the structure of our financial institutions, and cryptocurrencies may provide an alternative to a US dollar that may be increasingly debased by inflation. All of these innovations require massive computing power, hence the popularity of many technology stocks. However, valuation matters, as anyone who lived through the dot.com bubble knows. Cisco was the poster child of paying too much for a good stock with a bright future. If you had purchased Cisco near its high in 2000, you would have owned stock in a great and growing company that proved to be a losing investment for the next 20 years. While appreciating the excitement and the possibility of these opportunities, we try to remain mindful of valuations and avoid committing capital when prices (and popularity) seem excessive. We see the reasons to be cheerful, but we are also mindful of the worries. It is that potential reward balanced with the risk incurred that keeps us working to both preserve your capital and help it to grow with the opportunities the market presents.

Please review the enclosed second quarter reports and statements at your leisure. As always, it is a privilege to work with you on your investment portfolios. We encourage you to give us a call to discuss your portfolio in light of the current market landscape as well as your financial needs and goals.

Best regards,



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