July 14, 2025

Quarterly Insights – July 2025

Market volatility spiked in the second quarter as the S&P 500 dropped sharply in early April following the announcement of sweeping reciprocal tariffs. However, those initial losses were slow and steadily recovered over the remainder of the quarter as initial tariff rates were reduced while economic growth proved resilient. Inflation stayed low, allowing the S&P 500 to hit a new all-time high and finish the quarter with a substantial gain.

The second quarter began with a proverbial thud, as on April 2nd, President Trump announced sweeping and substantial tariffs on virtually all U.S. trading partners. The tariff amounts were significantly larger than markets expected, and their announcement sparked fears of a trade-war-driven economic slowdown, which hit stocks hard as the S&P 500 dropped more than 10% in the days following the tariff announcement. However, the low in the index on April 8th turned out to be the low for the quarter, as the rest of April saw the administration take numerous steps to mitigate the practical impact of the announced tariffs. A week after reciprocal tariffs were announced, the administration declared a 90-day delay, during which tariff rates on most trading partners would be reduced to 10%, significantly lower than the reciprocal tariff rates. That delay was then followed by more steps to reduce the tariff burden, including necessary exemptions for key imports such as smartphones, semiconductors, pharmaceuticals, and computers. The delay in reciprocal tariff rates and key category exemptions gave investors some confidence that the trade war would not automatically cause a recession. That optimism, combined with a solid first-quarter earnings season, helped the S&P 500 rally throughout the remainder of April and close with just a slight loss, down 0.68%.

The market rebound accelerated in May as Treasury Secretary Scott Bessent announced he would be meeting with Chinese trade officials in Geneva early in the month. That boosted investor expectations for more tariff relief, and those hopes were fulfilled as the meeting resulted in a dramatic reduction in tariffs on Chinese imports from 145% to approximately 30%. That tariff reduction, combined with still-solid economic growth, further eroded investor concerns that tariffs would cause a recession, and the S&P 500 extended its rebound. Earnings also contributed to the rally thanks to strong results from tech bellwether Nvidia (NVDA), which reminded investors of the growth potential of artificial intelligence (AI).

Finally, in late May, the Court of International Trade ruled the administration's tariffs were illegal under the law used to justify the duties. The case was appealed immediately, and a decision is expected in the third quarter. However, the initial ruling raised the prospect that tariffs could be eliminated almost entirely by the courts in the coming months. That decision further strengthened the belief that tariffs would not derail the strong economy, and the S&P 500 turned positive year-to-date, finishing May with very strong gains, up 6.29%.

The rally continued in June, although trade headlines, which had driven market moves for the first two months of the quarter, took a back seat to geopolitical concerns after Israel launched a massive attack on Iranian nuclear and military facilities. The hostilities between the two rivals caused oil prices to spike temporarily, halting the rally in mid-to-late June as investors again considered the prospect of rising oil prices hurting economic growth and boosting inflation. However, that volatility was limited, as following U.S. strikes on Iranian nuclear facilities, a ceasefire was agreed to between Iran and Israel, and oil prices dropped sharply, turning negative for the quarter. That decline, combined with rising expectations for rate cuts in the second half of the year, pushed the S&P 500 to new all-time highs in the final days of June.

In summary, the stock market experienced an impressive rebound from the steep declines of early April, as steps by the administration to ease the tariff burden helped boost investor confidence. Meanwhile, corporate earnings remained strong, and economic growth proved resilient, yet again, even in the face of geopolitical uncertainty and elevated policy volatility.

Third Quarter Market Outlook

The markets begin the third quarter following an impressive first half performance, as the S&P 500 hit a new all-time high despite much-larger-than-expected tariffs on U.S. imports, a dramatic increase in policy volatility and more hostilities in the Middle East.

While investors expected tariffs and a tougher stance on trade from the new administration, the moves taken in the first half of 2025 exceeded many expectations as tariffs were both higher and more far-reaching than most analysts expected. But moves by the Trump administration to ease the tariff burden, combined with the court decision invalidating reciprocal tariffs, boosted market confidence that neither the administration nor the courts would allow tariffs to derail economic growth. That belief helped stocks look past what is still a dramatic increase in tariffs.

Importantly, tariffs matter to the markets primarily because, if not correctly executed, they could cause an economic slowdown, or worse, stagflation, where growth slows but inflation rises. Fears of a tariff-induced slowdown or return of stagflation were contributing factors behind the April decline in stocks. Notably, economic data remained resilient throughout the second quarter, with no significant economic indicators suggesting a material slowdown in growth or a sudden rise in inflation. The resilient data, despite tariffs and geopolitical turmoil, contributed to the market rebound in the second quarter.

Finally, geopolitical risks undoubtedly rose with direct conflict between Israel and Iran (including U.S. involvement in the war) and no progress on a ceasefire on the now three-year-long war between Russia and Ukraine. However, the market views these conflicts as largely isolated and not at risk of spreading into a larger regional war that could disrupt oil production or the global economy. As a result, markets largely overlooked the increase in geopolitical tensions during the quarter.

However, while the market has been impressively resilient over the past three months, it would be a mistake for investors to become complacent in this environment, as there remain many risks facing the economy and markets.

First, while the market has assumed that tariffs won't rise substantially from current rates, there's no guarantee of that. To that point, the deadline for the reciprocal tariff delay is July 9th, and if that deadline is not extended, we could see tariff rates on major trading partners surge once again. Regardless, the reality is that global tariff rates are at multi-decade highs, and it's still uncertain how that will impact the economy in the months ahead (so risks of a tariff-induced slowdown or rise of stagflation can't be dismissed).

Turning to geopolitics, while the various conflicts have not hurt global markets, risks remain elevated. If Iran takes steps to disrupt international oil production or transit, that will boost oil prices and create a new headwind for markets. Similarly, if these isolated conflicts escalate into larger regional conflicts, it will also drive up oil prices and weigh on stocks and bonds.

Finally, investors still expect two interest rate cuts from the Federal Reserve between now and year-end; however, the unknown impact from tariffs on economic growth and inflation makes rate cuts in 2025 far from certain. If the Federal Reserve does not cut rates in the coming months, it will increase concerns about an eventual economic slowdown, which could weigh on markets.

Bottom line, markets have been impressively resilient so far this year, but as we start the second half of 2025, there remain numerous, potentially significant risks to the markets and the economy, and we will not let the market's resilience create a sense of complacency.

To that end, at Centurion, we are committed to helping you navigate this investment environment effectively. Successful investing is a marathon, not a sprint, and even intense volatility is unlikely to alter a diversified approach set up to meet your long-term investment goals.

Therefore, you must stay invested, remain patient, and stick to the plan, as we've worked with you to establish a unique, personal allocation target based on your financial position, risk tolerance, and investment timeline.

We remain focused on both opportunities and risks in the markets, and we thank you for your ongoing confidence and trust. Please rest assured that our entire team will remain dedicated to helping you successfully navigate this market environment.

Please do not hesitate to contact us with any questions, comments, or to schedule a portfolio review.

Sincerely,

Jack K. Heilbron
Chairman
Centurion Counsel, Inc.

Jack K. Heilbron

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