MILLENNIUM FINANCIAL GROUP

2nd Quarter 2025 Client Letter

Roller Coaster Ride Redux

July 2025

We have talked for some time in our previous client letters about the speed of corrections and the volatility of the stock market being routine. With that in mind, the 2nd quarter was a master class in the way we now do business. After two great years of performance, the market pullback of the first quarter was normal and expected. What was not anticipated was the speed and scope with which the Trump administration would attempt to redefine U.S. trade policy, which opened the trap door. This period was marked by extreme volatility and a dramatic market recovery, ultimately resulting in strong gains for equities, both in the U.S. and internationally. (Dow Jones Industrial Average +5.46% QTD/+4.55% YTD; S&P 500 +10.94% QTD/+6.20% YTD; NASDAQ +17.96% QTD/+5.85% YTD)[1]

As was discussed in our first 2025 letter (written after Q2 began), the quarter began with a sharp decline, as President Trump's "Liberation Day" tariff announcement triggered a rapid drop of more than 19% in major U.S. indices, briefly pushing the S&P 500 into bear market territory.[2] The administration, perhaps rattled by the sell-off, paused the tariffs a week later. This helped restore investor confidence and sparked a powerful rally. By quarter-end, the S&P 500 and NASDAQ 100 had reached new all-time highs.[3]

Technology stocks led the rebound, with the sector gaining over 20% in Q2, and the "Magnificent Seven" mega-cap tech stocks outperforming the broader market as a group. Growth stocks overall returned nearly 19.5%, far outpacing value stocks.[4] Communications, Industrials & Financials also posted strong second quarter returns, while the Energy & Healthcare sectors, the leaders out the gate in Q1, underperformed in Q2.[5]

Despite the recovery, however, the undercurrents of uncertainty never fully dissipated. Bonds yields were volatile early on, spiking on deficit and inflation concerns. Yields would stabilize as the quarter progressed, as data from the Federal Reserve seemed to show inflation remained contained.[6] However, expectations are still for core inflation to rise 3.0-3.5% by year-end, driven in part by tariffs. This could limit the Federal Reserve's ability to cut rates, limiting consumer spending -- a major source of tension between President Trump and Fed Chair Jerome Powell.[7]

U.S. fiscal and trade policy also remains murky at this point. The delayed tariff deadline of July 9th is rapidly approaching without much concrete resolution. There is also no reason the administration can't arbitrarily set tariffs outside that negotiating window as well. In fact, they did during the writing of this letter, when President Trump announced 25% tariffs on Japan and South Korea as of August 1st – a version of "speak loudly and carry a big stick". A re-imposition or re-escalation of tariffs could pressure profits, add to inflation and dampen economic growth.[8]

The rally itself could also become problematic. Despite the move upwards in markets, overall economic signals remained mixed – while business investment remained robust, overall job growth showed signs of slowing, with expectations of continued weakening; GDP is projected only grow 1.7% for 2025.[9] Reported corporate earnings growth was solid, with S&P 500 earnings expected to rise about 5% year-over-year in Q2.[10] For the remainder of the year, however, analyst expectations are quite low, with projections of just 7% growth on large U.S. stocks for the year, and only 2% on mid- and small-cap U.S. equities.[11]

Because of these factors, many forecasts from Wall Street have the S&P 500 ending 2025 near or just above its current levels, with most consensus targets between 5,600 and 6.400.[12] However, the rapid climb back up of stock prices the last couple of months have caused valuations on many equities to once again be quite high, and the S&P 500's own P/E ratio is again above historical averages.[13] Which may mean we've ended up back in the spot we were at to begin the year – at very high altitude and sensitive to any negative crosswinds.

All this is to say, the market may experience some tough sledding through the remainder of the year. However, there are reasons to remain cautiously optimistic as well:

- **Artificial intelligence (A.I.)** remains a very compelling growth story. Though several A.I. companies have currently elevated valuations, most of their earnings through the last quarter came through quite strong and have a great deal of forward momentum behind them. Depending on when/how tariff negotiations are resolved, there could be more upside potential beyond this.[14]
- **Fixed income** remains very interesting to us, despite the recent volatility. Yields are still high relative to recent historic averages and offer an attractive option outside of stocks that hasn't been present for quite some time.
- **International equities**, after years of underperformance, have been outperforming the U.S. all year, and could continue to do so with continued U.S. fiscal and policy uncertainty. European, Canadian, and Japanese stocks have all been particularly strong performers thus far. The major exception has been Chinese stocks, which have continued to struggle.[15] While the turmoil in the Middle East remains a concern, it thus far has not had a major impact on markets.

If the Federal Reserve can manage to lower interest rates later this year, that should also be a boon to most stocks.

President Trump's "Big Beautiful Bill" was passed just before this letter was put to paper, and for the moment, the market's reaction is mixed. The tariff negotiations are a work in progress. How these changes will be played out as the year progresses remains to be seen. The is no reason to expect the level of volatility to decline. We live in a world where "tweets" and sound bites move markets. We don't control how other nations act and their actions affect us. We must be ready to react, but those reactions should be governed by our long-term plans and goals.

1. Adepar, Client Reporting Data as of Jun. 30, 2025

2, 3. Morningstar, "13 Charts on Q2's Major Market Rebound," Sarah Hansen, Jul. 1, 2025

4, 5, 6, 10, 13. NASDAQ, "U.S. Markets 2nd Quarter Review & Outlook," The Market Intelligence Desk, Jul 1. 2025

7, 8. Yahoo! Finance, "Fog in the Data, Soaring Market Nears Second Half with Lingering Uncertainty," Allie Canal, Jun. 30, 2025

9, 11. Investopedia, "What to Expect from the Stock Market in the Second Half of 2025," Colin Laidly, Jul. 2, 2025

12. AInvest.com, "Jay's Insight - Q2 2025 Market Recap: Risk-On Rally Climaxes with Record Highs," Jul. 1, 2025

14, 15. Forbes, "Bull vs. Bear – The S&P 500 and Outlook for the Rest of 2025," Garth Friesen, Jul. 2, 2025