



Historic Market Rebound Driven by Tariff Negotiations & Economic Resiliency

“The quarter is OVER! Stocks closed at new all-time highs! The chaos that was created on Liberation Day (April 3rd) that caused some investors, most traders and all of the algo’s to panic and send stocks plunging was nothing but a whirlwind of chaos fueled by anxiety and unfounded fear that new trade agreements would spiral out of control causing inflation to surge and the US to become the laughing stock of the world – BUT that didn’t happen – AT ALL...

In fact, you could argue that the complete opposite happened... Countries came to the table to renegotiate old trade agreements; inflation has fallen and is at the lowest point since the Biden highs and the US is in a stronger position today than we were then. The Israel/Iran problem is no longer the problem it was and nations around the world – and especially those in the middle east - are all breathing a bit easier and the US is once again a beacon of hope.”

– Kenny Polcari, SlateStone Wealth’s Chief Market Strategist in Morning Thoughts, 7/1/2025

Second Quarter Review

We open with the above quote which summarizes the quarter end quite well, but it was not a smooth path getting there.

Market volatility spiked in the second quarter as the S&P 500 dropped sharply in early April following the announcement of sweeping reciprocal tariffs. Although sudden, the losses were slowly and steadily recouped over the remainder of the quarter as initial tariff rates were reduced. Economic growth proved resilient, and inflation stayed low, allowing the S&P 500 to hit a new all-time high and finish the quarter with strong gains.

US Equity Indexes	Q2 2025	YTD - 6/30/25
S&P 500	10.94%	6.20%
S&P 500 Equal Weighted	5.46%	4.82%
DJ Industrial Average	5.46%	4.55%
NASDAQ Composite	17.97%	5.86%
S&P 500 Dividend Aristocrats	-0.75%	2.42%
Russell 2000 (Small Cap)	8.49%	-1.79%
MSCI EAFE (International Developed)	12.04%	19.94%
MSCI Emerging Markets	12.17%	15.52%

Source: Bloomberg Professional (6/30/2025)

The second quarter started with a proverbial thud on April 3rd as President Trump announced sweeping and substantial tariffs on virtually all U.S. trading partners. The proposed tariff amounts were significantly larger than the market expected and this sparked fears of a trade-war-driven economic slowdown. Stocks were hit hard as the S&P 500 dropped more than 10% in the days following the tariff announcement. However, the April 8th index-low held as the rest of April saw the administration take numerous steps to reduce the practical impact of announced tariffs. The April 8th trough represented an 18.9% decline in the S&P 500 index from its prior high on February 19th, narrowly avoiding a technical bear market.

The market rebound subsequently accelerated when, in May, Treasury Secretary Scott Bessent announced he would meet 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%. Earnings also contributed to the rally thanks to strong results from AI tech bellwether Nvidia. Finally, in late May, the Court of International Trade ruled that the administration's tariffs were illegal under the law used to justify the increased duties. The case was immediately appealed, and a decision is expected to come in the third quarter. This ruling raised the prospect that tariffs could be eliminated almost entirely by the courts in the coming months, further strengthening the belief that tariffs would not derail the US economy.

In June, the trade headlines 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 temporarily spike. The market rallied paused as investors had to consider the prospects of rising oil prices, hurting economic growth and boosting inflation. However, that volatility was limited as the U.S. also launched strikes on Iranian nuclear facilities; eventually a ceasefire was agreed to between Iran and Israel. The ceasefire, combined with rising expectations for multiple Fed rate cuts in the second half of the year, pushed the S&P 500, yet again, to new all-time highs in the final days of June.

On a sector level, eight of the eleven S&P 500 sectors finished the quarter with positive returns. The best performing sectors in the second quarter were the AI-linked technology and communications services sectors, as well as the industrials sector. All three of these sectors benefited from tariff reductions / exemptions as many companies in these sectors have robust international businesses. As for the laggards, energy and healthcare posted solidly negative returns for the quarter, as both were pressured by negative industry-specific news. Within energy, oil price volatility (and a lack of a sustainable rally despite the Israel-Iran conflict) weighed on energy producers, as did general fears of an economic slowdown. For healthcare, uncertainty over pharmaceutical tariffs as well as a legislative focus on reducing prescription drug costs weighed on medical equipment and healthcare stocks alike.

Internationally, foreign markets outperformed the S&P 500 index for most of the quarter. Emerging markets slightly outperformed foreign developed markets due to substantial de-escalation in the U.S./China trade war as well as some encouraging Chinese economic data. Foreign-developed markets

also posted strong returns for the quarter thanks to declining interest rates and generally resilient global economic growth.

As described above, the U.S. stock market completed nothing short of a historic rebound from the steep declines of early April. In fact, it only took 55 trading days for the S&P 500 index to recover the losses and retake its prior high. This was the quickest recovery after a minimum 15%+ decline in the index since 1950, eclipsing the old record of 59 trading days from the autumn of 1998. Additionally, the S&P 500 is now up over 25% from the April 8th low, tracking as the fourth strongest rebound after three months or 65 trading days (see table below).

+65-Day Performance Following S&P 500 Lows	
<u>Date of Low</u>	<u>+65-Day Perf.</u>
3/9/2009	38.8%
3/23/2020	36.3%
8/12/1982	36.2%
4/8/2025	25.0%
8/31/1998	22.4%
12/24/2018	20.6%
12/4/1987	20.2%
10/9/2002	19.2%
5/26/1970	17.2%
10/3/2011	16.5%
10/7/1966	14.6%
10/3/1974	14.0%
7/2/2010	13.5%
10/12/2022	11.6%
10/22/1957	6.7%
6/26/1962	6.6%
10/11/1990	6.2%
Average:	18.8%
Median:	16.9%

The S&P is currently up +25% from the April 8th low —tracking as the 4th strongest historically 65-days off a major low (but with 7 trading days still to go before the calendar threshold is crossed.)

Source: Strategas Research Partners

Switching to the fixed income markets, the leading benchmark for bonds (Bloomberg U.S. Aggregate Bond index) realized a modest positive return for the second quarter, as stable inflation readings and some cooling of U.S. economic growth late in the quarter boosted demand for bonds.

Looking deeper, longer-duration bonds outperformed shorter-duration bonds year-to-date due to the aforementioned stable inflation readings and slightly underwhelming “soft” economic survey data. Shorter-term bonds lagged as the Fed remained in a “wait-and-see” approach to rate cuts. The central bank wants to further “study” the potential impacts from tariffs on both growth and inflation.

Turning to the corporate bond market, both investment grade and lower quality, “high yield” bonds posted solidly positive returns. High-yield bonds outperformed investment grade debt as stock markets rallied. Also, resilient economic growth and looming tax cuts give investors’ confidence to reach for higher yield and take on more credit risk.

US Bond Indexes	Q2 2025	YTD – 6/30/25
Bloomberg US Aggregate Bond	1.21%	4.02%
Bloomberg US T-Bill 1-3 Month	1.07%	2.13%
ICE US T-Bond 10-20 Year	-1.02%	3.79%
ICE BofA US High Yield	3.57%	4.55%

Source: Bloomberg Professional (6/30/2025)

Second Half 2025 Market Outlook

While the financial markets were impressively resilient over the past three months, despite numerous headwinds that caused volatility within the quarter, it would be a mistake for investors to become complacent in this environment. The S&P 500 continues to hit all-time highs despite unsettled tariffs agreements on U.S. imports, political debate on the long-term effects of President Trump’s Big Beautiful Bill, and the potential for growing hostilities in the Middle East.

First, tariffs matter to the broad market because, if not properly executed, they could cause an economic slowdown, or worse, stagflation - growth slows but inflation rises. Fears of a tariff-induced slowdown or return of stagflation were contributing factors behind the initial April decline in stocks. On the positive side, economic data remained mostly robust throughout the second quarter and there were no major economic indicators pointing to a **material** slowing of growth or a sudden rise in inflation. This resilient data in the face of tariffs and geopolitical turmoil where the primary contributors to the market rebound in the second quarter.

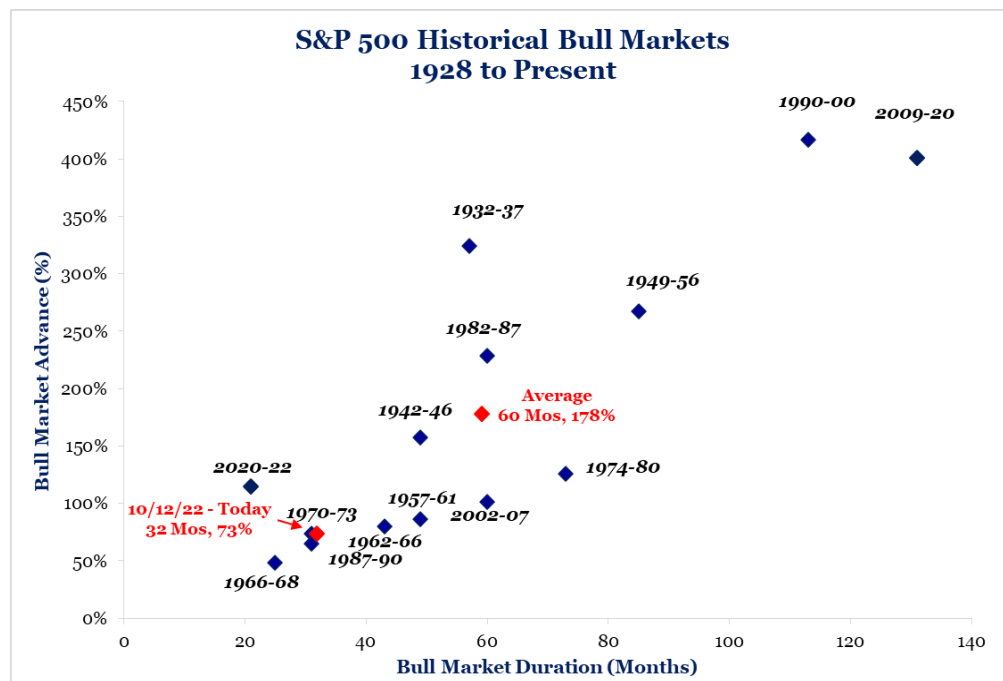
While the financial markets have assumed that tariffs will not rise substantially from current rates, there is no guarantee that this will be the case. To that point, the deadline for the reciprocal tariff delay is now August 1st and if that deadline is not extended yet again, we could see tariff rates on major trading partners rise to the original levels disclosed on “Liberation Day.” The reality is that global tariff rates are at multi-decade highs and it is still uncertain how that will impact the economy in the months ahead - so risks of a tariff-induced slowdown or rise of stagflation cannot be dismissed.

Geopolitical risks undoubtedly rose with direct conflict between Israel and Iran (including U.S. involvement) and no progress on a potential ceasefire to the now three-year-long war between Russia and Ukraine. However, the market is currently viewing 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. While the various conflicts have not negatively impacted global markets, risks remain elevated. If Iran takes steps to disrupt global oil production or transit (not likely at present), that will boost oil prices and create a new headwind on markets. Similarly, if these isolated battles begin to spread into larger regional conflicts (also not likely in our opinion) that would also lift oil prices and weigh on stocks and bonds.

Finally, Mr. Market still anticipates two interest rate cuts from the Federal Reserve between now and year-end; however, the unknown impact from tariffs on economic growth and inflation make rate cuts

in 2025 far from certain. If the Federal Reserve does not cut rates in the coming months, that will increase concerns about an eventual economic slowdown and an “out of touch” Fed which could weigh on markets.

From a positive standpoint, we discussed last quarter the critical importance of investment quality, predictable earnings growth for both the broad market and individual companies. As expected, anticipated earnings growth for FY 2025 has come down a bit due to the above-mentioned concerns, currently clocking in at 7.4% year-over-year growth for the S&P 500 index. The expected growth rate for FY 2026 is currently 12.2%, nearly unchanged from end of the first quarter forecasts. We are diligent in monitoring these expected growth rates and any changes in guidance from corporate management, as this is a critical factor in intermediate and longer-term share price and market performance. Historically, as long as the expected forward growth rate(s) stay firmly positive, the broad equity markets do not experience too much trouble in the form of significant, sustained drawdowns. Also important to consider, is as it stands at present, this current bull market is relatively young as measured on both time and magnitude (**see below graphic**), and we do not anticipate its imminent demise. While a near-term slowdown is certainly possible, the number one killer of bull markets is moderate to severe economic recession. Based on the data at hand, the probability of those conditions developing are low – but we remain watchful.



Source: Strategas Research Partners

At Slatestone Wealth, we are committed to helping you effectively navigate this investment environment. We remain focused on both opportunities and risks in the financial 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 challenging landscape.

We remind you to catch our daily blog on our website should you desire a day-by-day take on market moves. Please do not hesitate to contact us with any questions, comments, or to schedule a portfolio review.

Sincerely,

SlateStone Wealth Investment Committee

Disclosures:

July 2025. The views and opinions expressed in this commentary are our judgment based on current market conditions and may be subject to change without notice. This communication is not intended for the giving of investment advice to any single investor or group of investors and no investor should rely upon or make any investment decisions based solely upon the contents of this communication.

Readers are hereby informed that the commentary does not pertain to individual investment portfolios and should not be interpreted as a recommendation for making specific investment decisions. Each client's financial situation is unique, and investment strategies should be tailored to individual goals, risk tolerance, and financial circumstances. We strongly encourage investors to review their own portfolio's performance and consult with their designated financial advisor to assess the suitability of any investment strategies discussed herein.

While we have conducted reasonable due diligence on the accuracy of information from third-party sources, we cannot guarantee its completeness or correctness. The information contained herein should not be relied upon in isolation for the purpose of making an investment decision. The content provided should not be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.

SlateStone prioritizes its clients' best interests and is committed to providing them with personalized financial advice. For specific information related to your individual accounts or to obtain investment, tax, or legal advice, we encourage you to consult with your designated financial advisor or seek guidance from qualified professionals.

SlateStone Wealth, LLC is an SEC registered investment advisory and wealth planning firm headquartered in Jupiter, FL with offices in Davie, FL and Madison, WI. The firm's investment advisor representatives are in compliance with the current registrant requirements imposed upon registered investment advisors by those states in which it maintains clients. SlateStone Wealth, LLC only transacts business in states where it's properly registered or in compliance with applicable state regulations. The rendering of personal investment advice for compensation will not be made absent compliance with the applicable regulations and requirements of an investment adviser.

For more information on our firm please visit <https://adviserinfo.sec.gov/firm/summary/286669> and our website <https://slatestone.com/>