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Summer 2025 Market Perspectives

This past quarter will go down in history as a prime example of why we cannot time the market or react to news events. On April 2nd of this year, the Trump Administration announced the new Tariffs the U.S. would be imposing on our trading partners. The extent of the tariffs was a surprise to most everyone and caused a significant decline in global equity markets. The administration quickly delayed enacting the new tariffs as long as a country was negotiating with the U.S., and equity markets reacted positively to the news.

Those of us that stayed invested, have been rewarded with a sharp recovery in all asset classes, as the world waits for trade negotiations. This action appears to be more about negotiating new trade terms with our trading partners, as opposed to just raising tariffs. It will take time to work through these negotiations due to the complexity of various trade barriers our trading partners have in place. I recently read an article on trade within the European Union, which highlighted that they do not practice ‘free’ trade within the EU. Various EU members have numerous trade restrictions and fees they impose on products moving between other member nations. We’ll have to see if this administration can work out better terms than the EU gives to its own members. One side benefit of this tariff battle has been the announcement of billions of dollars in investments in U.S. based manufacturing facilities by both U.S. and foreign based companies. We will have to see how this plays out, but this has the potential to make a major positive impact on long-term growth here in the U.S.

Coming into this year, one of the big concerns was the expiration of the 2016 tax bill that was set to expire at the end of 2025. There is currently a bill working its way through Congress, which I believe is one of the drivers behind the equity markets' recent rally. It’s difficult for businesses, as well as individuals, to plan not knowing what the tax implications of decisions Congress makes today will have on future earnings. Under our current tax code, the bottom half of income earners do not pay any Federal income tax, and its expiration will bring millions of families back into owing federal taxes. This would have a negative impact on consumer spending along with economic growth.

Inflation is approaching the Federal Reserve's target rate, and if you take out housing, inflation is below 2%. Housing makes up 30% of the inflation figure and is a real lagging indicator. After decades of housing prices going up, we are beginning to see prices coming down around most of the country. The Federal Reserve has maintained short-term interest rates up to this point, though some of the “Fed” Governors are calling for lower rates. This has the potential to be another stimulative action as it will make borrowing less expensive for consumers and businesses alike.

Despite the conflicts in the Middle East and Europe, as well as global trade tensions, consumer sentiment remains high, and spending continues. Employment remains strong with real wage increases. The U.S. economy, measured by GDP, was negative in the first quarter due to the increase in imports which are subtracted from U.S. economic growth. This was more than likely a one-time anomaly as companies increased inventories in anticipation of the increase in tariffs. Consumer spending was up almost 2% during the first quarter, and initial estimates for this past quarter show positive economic growth.

At Heritage, we use a time-tested strategy of rebalancing portfolios and taking advantage of equity price drawdowns to harvest losses whenever possible. The second quarter of this year provided opportunities to trim the most appreciated positions and add to those sectors that experienced significant price drops. It’s been encouraging to see international stocks outperform after lagging their U.S. counterparts for most of the last decade. The recovery in equity prices during the second quarter was particularly welcome as the rally broadened to include all equity components.

As we enter the second half of 2025, we must stay focused on our plans and not get swayed by the latest news stories. As I stated in an earlier blog, there will be no shortage of tweets this year and we must avoid reacting to all of them. As we approach Independence Day, grab a book, go outside and enjoy the rest of the summer.
Let us know if you have any comments you’d like to share.

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