Beacon Trust
INNOVATING WEALTH STRATEGY

**Market Outlook 2Q 2025 Review** July 11, 2025

## Second Quarter Summary

The S&P 500 surged 10.9% in Q2, but this figure masks a nearly 20% top-to-bottom intra-quarter drop for the index, primarily driven by tariff uncertainty. Fortunately, the market recovered its losses and then some as government policies became clearer and stocks ended the quarter near an all-time high. Of course, past performance is no guarantee of future returns, but remaining patient and diversified during times of distress is usually a wise course of action for long-term investors.

Although Q2 performance was largely strong across the board in the investment universe, a few trends are worth noting. Growth stocks resumed their strong run, with the Russell 1000 Growth Index rising an impressive 17.8% in Q2. NVIDIA, the poster child for growth and artificial intelligence (AI) stocks, became the first stock ever to reach $4 trillion in market capitalization as of this writing. International stocks continued their strong year-to-date performance, with the MSCI World ex-US Index rising 12.1% in Q2 and 19.00% at the end of June. By comparison, the S&P 500 is up only 6.2% at the end of Q2, showing that diversification may not only reduce risk but potentially also increase return. Gold (IAU) continued its surge as the U.S. Dollar weakened, with the shiny metal increasing 17.6% in Q2 and 26.0% YTD.

Bond prices resumed their slow but steady upward pace. The Bloomberg Barclays Aggregate Bond Index increased 1.2% in Q2 and is up a quite respectable 4.0% YTD. Importantly, bonds served as ballast when equities declined sharply during Q2. The biggest news impacting the bond market came from the Oval Office. President Trump lashed out at Fed Chair Jerome Powell, suggesting that short-term rates should be dramatically lower, and he threatened to appoint a new Chair well before the end of Powell's term in May, 2026.

The "tariff tantrum" that resulted in the aforementioned sharp intra-quarter stock market drop was resolved to some extent with a series of tentative agreements between the U.S. and its trading partners. Points of contention still remain, but we believe a path to agreements will be reached with most of our trading partners, albeit in rocky fashion. Perhaps the most important economic event that took place over Q2 and was formally signed near the beginning of July was the passage of the One Big Beautiful Bill (BBB) Act. BBB has been the centerpiece of the Trump Administration's economic platform.

It is difficult to summarize a nearly 1,000 page document, but we can say that the Act will likely increase the federal budget deficit and provide tax cuts to a broad cross-section of Americans. For example, up to specific limits, many individuals will pay no income tax on tips, no tax on Social Security, and the State and Local Tax (SALT) deduction will increase from $10,000 to $40,000 per year. In addition to the increase in the federal budget deficit, the Act will be partially paid for by cuts to clean energy programs and Medicaid. A summary table of the Act produced by CNBC is listed below.

**Key individual tax changes from Trump's 'big beautiful' bill**

Current law vs. final legislation

| *Current law* | *Final legislation* |
|---|---|
| **Standard deduction** | |
| $15,000 single; $30,000 married filing jointly for 2025 | $15,750 single; $31,500 married filing jointly for 2025 |
| **'Bonus' deduction for older adults** | |
| $1,600 for age 65 and older for 2025; $2,000 unmarried / not surviving spouse for 2025 | $7,600 for age 65 and older; $8,000 for unmarried / not surviving spouse; both from 2025 through 2028 |
| **State and local tax deduction (SALT)** | |
| $10,000 limit through 2025 | $40,000 limit for 2025; increases by 1% through 2029; reverts to $10,000 in 2030 |
| **Child tax credit** | |
| Max credit of $2,000 per child through 2025; refundable portion $1,700 for 2025 | Max credit of $2,200 per child; refundable portion $1,700 for 2025 |
| **Estate and gift tax exemption** | |
| $13.99 million single; $27.98 million married filing jointly for 2025 | $15 million single; $30 million married filing jointly for 2026 |
| **Tax on tips** | |
| N/A | Deduct up to $25,000 per year from 2025 though 2028 |
| **Overtime pay** | |
| N/A | Deduct up to $12,500 per taxpayer from 2025 through 2028 |
| **Auto loan interest** | |
| N/A | Deduct up to $10,000 of annual interest on new loans from 2025 through 2028 |
| **Trump Accounts for child savings** | |
| N/A | One-time $1,000 credit to account per child born between 2025 through 2028 |
| **Charitable deduction for non-itemizers** | |
| N/A after 2021 | $1,000 single; $2,000 married filing jointly; permanent after 2025 |

Source: Reporting by Kate Dore / CNBC

Source: CNBC

## Market Outlook

We remain modestly optimistic about equities for the back half of the year due to a combination of factors. The BBB Act may provide a short-term economic stimulus, reducing the risk of a recession. Although Q1 GDP was slightly negative, Q2 GDP appears to show growth somewhere in the neighborhood of 2%. The “wealth effect” from rising stock, bond, and real estate prices tends to bolster consumer confidence and result in increased spending. The Trump Administration is embarking on a path of less government regulation, which may also aid certain industries, such as Financials and traditional Energy.

We expect the Federal Reserve to continue with its easing of short-term rates in the latter part of the year. Specifically, futures markets are pricing in the first cut of 25 basis points (bps) to occur in September, with a total of 50-75bps in cuts by year-end. The previously noted factors may act as tailwinds for equities, especially for areas that have lagged YTD, such as small-cap. We expect the benchmark 10-Year U.S. Treasury Note to remain in a trading range of 4.25%-5.00% as moderating inflation numbers are counterbalanced by a ballooning federal debt, the uncertain impact of the tariffs, and less enthusiasm for U.S. Treasuries by investors abroad. The prospect of the appointment of a new Federal Reserve Chair in Q3 may also increase bond market uncertainty. For example, Jerome Powell may be viewed as having a "lame duck" status and either resign or risk having his remarks fall on "deaf ears," since bond investors may be more attuned to the viewpoints of the new Fed Chair.

Our enthusiasm for equities is somewhat tempered by heightened valuations, with the Price / Earnings (P/E) ratio of the S&P 500 now exceeding 22, which is above its 30-year average of 17. We are not alarmed at the high P/E ratio since the biggest companies driving the index, such as NVIDIA, Microsoft, and Apple, have strong business models, attractive growth prospects, and enormous financial strength. However, it may place a limit on how quickly prices may grow in the future.

Political issues continue to impact the macroeconomic environment. The war between Russia and Ukraine appears to be accelerating in contrast to hopes earlier in the year for some type of resolution. Most European countries in NATO agreed to spend at least 5% of their Gross Domestic Product (GDP) on defense-related expenditures. The U.S. also agreed to send more defense weapons systems to Ukraine, after a pause in shipments earlier in the year. Israel launched a significant attack on Iran's military facilities in Q2, an operation that was later joined by the United States in an attempt to destroy Iran's nuclear capabilities.

The "bromance" between President Trump and Elon Musk came to a screeching halt in Q2, due in part to Elon's opposition to the deficit-increasing BBB Act. Elon, the richest person in the world, is launching a new political party, the America Party. The details on the America Party are unclear, but they may play a role in midterm elections next year. Since most legislation approved in recent years was passed largely across party lines, even a small number of third-party victors may impede future lawmaking. Risk and uncertainty are nothing new to those of us in the investment profession. At Beacon, we aim to manage these risks through intelligent diversification, prudent cash management, and dollar cost averaging. Surely, new risks will arise, but we take some comfort in closing this report by again noting that the financial markets are near all-time highs despite the dramatic events that have unfolded over the past two decades. We wish you and your entire family a wonderful rest of the summer.

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