# Second Quarter 2025 Analysis


2025 commenced with ebullient enthusiasm among investors, expecting the second Trump Administration would enact policies good for the economy and financial markets. Investors expected the combination of tax cuts, deregulation and economic growth would propel the economy and equity markets higher. Tariffs would be deferred and primarily used as a negotiating tactic. But Trump put immediate focus on tariffs instead. This has produced confusion and controversy, and equity prices have retreated from recent highs.

In retrospect, markets were too optimistic, anticipating too much of the perceived 2025 gains. A great deal of good news was priced into the market at the beginning of the year, and it was reasonable for expectations not to be met in the short term.

Whether one agrees or disagrees with what Trump is doing, he is attempting to overturn the existing political, economic, and international order. Our country has experienced several previous assaults on the existing status quo, but none in recent years so public awareness is incomplete.

Andrew Jackson, the nation’s seventh president, assaulted the existing social and political order of his time. Jackson dramatically increased the power of the Executive Branch. He challenged the traditional balance of power between the branches of government. His strong personality led his many critics to accuse him of acting like a “king.” Jackson’s veto of the Second Bank of the United States was a direct attack on the established financial elite. He saw the bank as a tool for the wealthy and powerful, and his dismantling of it resonated with the common people. His actions empowered regional banking to finance the westward expansion. He was our country’s first populist president.

Similarly, FDR represented a significant departure from the prevailing political and economic norms of

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the times. FDR recognized that the country required an economic and social shift, and he drastically expanded the role of the federal government. This was a direct challenge to the traditional laissez-faire approach where government interference in the economy was minimal. He recognized what his opposition did not; that the country was broken and something had to be done. FDR embraced Keynesian economics, which advocated government spending to stimulate demand during economic downturns. This was a radical departure from the established belief in balanced budgets and limited government influence in the economy. FDR also greatly expanded the power of the presidency and faced great opposition. In many ways, FDR saved the country and financed a global war. He made no concessions.

More recently, Ronald Reagan also marked a significant shift in politics and economics, challenging much of the orthodoxy of his time. Reagan's supply side economics involved significant tax cuts, challenging the predominant Keynesian support for government intervention. George Bush famously described this as "voodoo economics." Deregulation was another key element of Reaganomics, aimed at reducing the government's role in the economy. This was a departure from the increased regulatory environment that had developed for decades. Reagan sought to reduce the scope of government, increase individual responsibility, and create incentives to increase investment capital. Reagan's assertive foreign policy, including the military buildup, represented a departure from the détente policies of the 1970s. Reagan capitalized on broad disenchantment with Washington and the economy.
Today, it is difficult to imagine the turmoil, anger, and fear that each of the above examples engendered at the time. Many significant and powerful constituencies were adversely affected during each transition period.

Additionally, Trump believes that most, if not all the well-established trade agreements of recent decades have hollowed out our domestic manufacturing base, resulting in dramatic losses for our middle class. He wants to see a return of manufacturing from companies who have transported jobs to countries such as China, Mexico and Europe, back to the continental United States through tariffs and incentives. Additionally, he maintains that orthodox American foreign policy is rooted in a world that no longer exists, and that America can no longer afford the role and responsibility of defending the world's democracies. As no one could foresee at the time of Jackson's, FDR's or Reagan's challenge to the status quo how their visions for the future would evolve, the future of Trump's challenge is yet to be determined. In the short term, he has generated great confusion and turbulence in upsetting the status quo that so many people have become comfortable with and prospered from.

As we look forward, the optimist will argue that even though these changes are creating a great deal of uncertainty and volatility in the short term, it should make the U.S. economy larger and U.S. businesses more valuable. The optimist's view is that reducing the size of the government will enable growth in the private sector. The onshoring of manufacturing jobs will contribute to a stronger middle class while increasing the tax base resulting in higher revenue.

Today, the markets are certainly suffering from skepticism and uneasiness from the unpredictability regarding tariffs, tax legislation, geopolitics, among other issues. But I believe we most likely are witnessing a correction in the ongoing bull market. No bull market advances in a straight line and the historic bull market of the late 1990s saw many large corrections along the way. The equity market has been dominated by mega-cap technology stocks for quite a while and now I believe we are observing a natural and healthy rotation into other sectors of the market. During any correction there are those who suggest this is the end of the bull market and investors should greatly reduce equity exposure. Studies have largely shown this to be a mistake. Recently, the investment firm, Fundstrat, published research demonstrating that over any given year, most of the S&P 500's annual gains can be attributed to just 10 trading days. Indeed, Fundstrat argues that since 1928, the annual gains have been around 8% per year. But excluding the “10 Best Days” the annual return would have been a negative (13%). Since 2015 the annual S&P 500 gain was around 12% but without being in the market on the “10 Best Days”, the annual return would have turned into a loss of (10%). Lastly, the firm argues that the “10 Best Days” in 2024 drove 21% of the S&P’s 24% entire gains. The challenge, of course, is that no one knows when the “10 Best Days” will occur.

Many indicators that historically have preceded recessions are not apparent in my judgement. We do not have an overheating economy. The Federal Reserve is not raising interest rates. Credit spreads remain quiescent. Inflation is not accelerating sharply to the upside and corporate profits are not collapsing. The recent correction has provided unique opportunities to buy some of the highest quality companies at sharply lower levels.

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Second Quarter 2025 Analysis Disclosures