



Q2 2025 — STRATEGY & MARKET UPDATE

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EXECUTIVE SUMMARY

- **Market Milestone**
Despite widespread pessimism, Q2 saw markets break to new all-time highs—defying fears of delayed AI monetization and shrugging off tariff headlines. The brief volatility surrounding April’s tariff announcement and first-wave implementation proved yet another head-fake in this enduring bullish regime.
- **Key Lessons YTD: Strategy over Noise**
 - **The ‘UN-broken Chain Fallacy’**—the flawed belief that Politics → Economics → Markets → Portfolios—continues to mislead. As we noted in Q1, these domains operate in fundamentally different planes—and conflating them leads investors astray.
 - **Volatility Misread**—April’s VIX spike was a buy signal, not a trigger to de-risk. Our adaptive, regime-tracking approach helped clients avoid whipsaws, tax drag, and missed upside.
 - **The Tariff Tangle**—Wall Street’s axiom (“tariffs are a tax on consumers—period”) failed again. Our innovative [model](#)—anticipating a 90% structural edge for importing nations—was validated in real-time by market behavior.
- **Looking Ahead to Q3 and Beyond**
Headline noise persists, but the data tells a different story: recession risks remain minimal, volatility is contained, inflation is cooling, and earnings are encouraging. Our bullish regime framework remains intact. ‘Uncertainty’ should not be feared—it’s an asset for adaptive, disciplined investors.
- **Ongoing Communication**
We track trends—we don’t forecast and don’t time the markets. As always, if conditions warrant a strategic pivot, we’ll share updates in future Quarterly Reports and on LinkedIn.

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Q2 IN REVIEW

- **Most Significant Market Milestone: A Tariff-Resistant New All Time Market High**

Against Wall Street’s consensus gloom in the previous quarter, the market stamped its approval on Q1’s strong earnings and forward guidance, brushing off fears of slower AI monetization. Once the tariff inputs were digested, indices powered through the noise to new all-time highs (S&P 500 6025). The crash-like moment of hesitation following early-April’s tariff announcement proved yet another head-fake in this remarkably enduring bullish regime.

- **YTD’s Concerns, Challenges, and Lessons: Market Noise vs. Strategy Signals**

- **Faulty narratives and the ‘UN-broken Chain’ Fallacy**

In our Q1 Update, we warned investors that prevailing pessimism was unfounded, even misleading—there were no signs of recession or inflation resurgence (evident to all but the stumbling Federal Reserve—see our protest [here](#)).

In particular in our [Q1 Update](#) we highlighted the “UN-broken Chain Fallacy”: the flawed belief that Politics drive Economics, Economics shape Markets, and Markets determine Portfolio success. We argued instead:

Politics and Economics occupy separate galaxies. Economics and Markets exist in parallel universes. Markets and Portfolios are non-deterministically linked.

This framework remains vital for gauging the real impact of future geopolitical and geoeconomic events on the market regime. Investors are encouraged to revisit the full argument in our Q1 Update.

- **Volatility misread—and opportunity missed**

Wall Street’s reaction to early April’s volatility was predictably fear-driven. As we have detailed [before](#), volatility is a derivative risk metric; its meaning shifts with the market regime. In bullish regimes, it should be embraced. In bearish ones, avoided.

Conventional portfolios overlook this differentiation and were whipsawed by April’s historic spike in VIX (the so-called ‘fear index’). Investors who de-risked or cashed out locked in losses, triggered unnecessary taxes, and missed the strong rebound that followed. By contrast, our adaptive, risk-aware, tax-efficient approach helped clients capture the recovery. For a vivid comparison of perspectives, see our recent piece on [Uncertainty](#) here.

- **The tariff tangle and Wall Street’s wrong turn**

Perhaps the clearest lesson from Q2 came as the market shrugged off the tariff scare. Wall Street’s dominant aphorism—“tariffs are a tax on the consumer--period!”—echoed across headlines. But the market wasn’t buying it. Soon after the initial shock, indices rallied through both tariff fears and implementation.

Why the disconnect?

As we’ve long [argued](#), economics is a discipline still in the early phase of its evolution, very much like pre-Newtonian physics—embryonic, fragmented, and often misleading. Consummate investors, like Warren Buffett, have likened it more to alchemy or astrology than chemistry or meteorology, and we find that assessment soberingly accurate, especially in the face of repeated failed consensus calls (see our [note](#)). In anticipation of the tariff tangle, we developed an innovative [model simulation](#) designed to capture the full matrix of behavioral payoffs governing the interaction between Consumers/Importing Nations and Producers/Exporting Nations. Our findings were striking:

The Consumer/Importer side holds a 90% structural advantage in tariff conflicts—a lopsided edge that, while vulnerable to executional blunders, is theirs to lose.

This framework explained the outcomes of prior modern tariff episodes—and was subject to real-time verification in April, May, and beyond. The results? Our model’s predictions held up, detailed [here](#), [here](#), and [here](#).

This kind of rigorous hypothesis testing is rare in finance. But it reflects our core conviction: leave no stone unturned, question the consensus, and build tools that expose or dispose of the risks that appear to lurk beneath the surface.

- **Positioning for Q3 and Rest of Year**

Despite lingering headline noise, our strategies indicate that recession risk remains marginal, volatility is subdued, inflation has moderated, and earnings with forward guidance remain constructive. Politics and geopolitics continue to operate in parallel universe. These are all signals that the bullish market regime remains intact, the path of least resistance still points upward, and ‘uncertainty—far from a threat—should be embraced as a generator of opportunity for adaptive strategies.

- **Ongoing Updates**

Our disciplined, adaptive approach enables investors to navigate changing markets with confidence—by tracking unfolding trend developments, not by forecasting or market-timing. Should our assessment shift, we will share updates in future Quarterly Reports or interim LinkedIn posts (follow us [here](#)).

LAST WORD

We invite you to spread the word about your investment experience within your circles of influence. The last six years have been challenging for most investors. They have been battered by the historic bond market fall, and whipsawed in the steep downdraft of 2018, the crash of 2020, and 2022’s rolling turmoil. And throughout the last fifteen years, they have been torn between the Scylla of speculation and greed and the Charybdis of worry and indecision. As our veteran clients have discovered, our strategies’ adaptability and risk controls have been an excellent antidote to haphazard performance and a booster of investor confidence. Please assist us in spreading the word.

We remain grateful for your trust, loyalty, support, and friendship!

On behalf of GNH Capital Group’s entire team with Henrik, Richard, Chad, and Isabel,

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Data Source: YCharts, FactSet, S&P Global.

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