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2nd Quarter 2025 Moreno Dye Cervantes
Wealth Management Group of Wells Fargo Advisors Quarterly Newsletter

During the 2nd quarter we experienced a significant uptick in volatility, yet the financial markets ended in positive territory after rebounding from a sharp April correction. Despite ongoing uncertainty around trade policy, geopolitics and fiscal developments, investor sentiment has grown more optimistic about the future economic outlook. Below is a recap of both 2nd quarter and year-to-date performance numbers of the major market indexes:

	2nd Quarter	2025 Performance
Dow Jones Industrial Average	5.5%	4.5%
S&P 500 Index	10.9%	6.2%
S&P 500 Equal Weighted Index	5.5%	4.8%
NASDAQ Composite Index	18.0%	5.9%
Russell Mid Cap Index	8.5%	4.8%
Russell 2000 Index (Small Cap)	8.5%	-1.8%
MSCI EAFE – International Index	12.1%	19.9%
Bloomberg Barclays US AGG Bond	1.2%	4.0%

*Wells Fargo Investment Institute Capital Market Summary

Throughout the 2nd quarter, we continued to deal with a relentless flow of news out of the Trump administration. The biggest headlines were focused on global trade, geo-political friction and Congressional negotiations for a new tax & spending bill to extend the 2017 tax cuts.

Even with the added near-term uncertainty, we believe that the U.S. economy remains in good position structurally with a robust technology sector and much lower reliance on exports than most nations. This does not mean that the potential for increased tariffs might not become a challenge. The abrupt stock market correction in April, combined with a sharp increase in long-term bond yields signaled that the tariff rates considered by the Trump administration could be harmful to the global economy if they were implemented as is and not a precursor for new negotiated trade deals. The suggested new tariffs could represent the highest rates since the early 1900s. One reason the financial markets rebounded significantly throughout May and June was the administration confirmed that the goal of the potential tariffs is to encourage our foreign trading partners to reduce or eliminate current tariffs and trade barriers against U.S. exports.

Our base case assumption was that the Trump administration's threat of tariff increases would lead to the negotiation of new trade deals, but not without a significant increase in uncertainty. Negotiating new trade deals is extremely complicated because each nation has their own unique set of circumstances regarding specific industries that they want to protect. Unfortunately, many countries level tariffs and maintain trade barriers against the United States. The Trump administration is rightly justified in many ways to negotiate newer and fairer reciprocal trade, but their style and methodology is much different than what the financial markets are used to experiencing.

Recently, we have seen a couple of countries reach new trade agreements with the United States and we notice that there appears to be a minimum 10% tariff rate that applies to imports into the U.S. This gives us some pause and reinforces the need for diversification within your investment strategies. There are a number of possible economic outcomes that could result from even a small increase in tariff rates. We could see price increases and additional inflation, which the Federal Reserve Chairman claims is the reason we have not seen a reduction in interest rates yet. We could also see a slowdown in economic activity as increased uncertainty reduces consumption and GDP rates. The worst-case scenario would be that we get both increased inflation and economic slowing known as stagflation. Or neither of these occur and all of these concerns were for not. So, to reiterate, diversification is very important right now.

On the opposite side of the financial spectrum, fiscal policy has also been dominating recent headlines. Congress has been negotiating a new tax and spending bill with a goal of making the 2017 tax cuts permanent. We feel that this is another reason the financial markets performed so well the last few months as it had become more widely anticipated that Congress would be able pass additional tax cuts and deregulation. As we write this update, the new bill was successfully passed and signed into law on July 4th, removing some financial market uncertainty. While the extension of existing tax cuts won't add or change consumer buying power very much, it does give consumers confidence that tax rates will not be going up in the near future. The most important parts of the new legislation will probably come in the form of deregulation, which could lead to reshoring of manufacturing to the United States and improved economic productivity.

If tariffs and taxes weren't enough, there were additional geopolitical concerns in the Middle East that had significant potential to impact the global economy. The conflict between Iran and Israel boiled over, ultimately leading to the U.S. getting involved in an effort to eliminate or at a minimum severely degrade Iran's nuclear ambitions. Any uncertainty surrounding the length of U.S. involvement or disruptions in the global oil supply were short-lived, but now there is another geopolitical issue to monitor in addition to Russia-Ukraine and Israel-Gaza. It goes without saying that financial markets like stability, so hopefully we see signs of resolution to these conflicts as the year progresses.

From a corporate earnings perspective, the first half of the year has thus far been better than anticipated. First quarter S&P 500 earnings grew at 7.6% vs. an expected 4% growth rate with approximately 25% of companies raising their future guidance. These results seemed to reinforce the belief that larger corporations have been able to weather the rise in uncertainty. Smaller companies on the other hand are typically more impacted by economic uncertainty and as a result small cap indexes are still slightly down for the year. It will be interesting to see what projections for the second half of the year look like when we start seeing corporate earnings reports later this month.

International markets on the other hand have had their best first half performance since 2003, driven by a weaker U.S. dollar, political stability abroad and attractive valuations. Lower interest rates from foreign central banks have also supported international performance. Even though we are expecting the Federal Reserve to lower interest rates in the back half of 2025, we think that they will do so slowly as a result of continued uncertainty around tariffs. This very well could allow international investments to continue to outperform in the near-term.

Speaking of the Federal Reserve, interest rates have been stable even as year-over-year inflation has continued to decline. Again, we expect that the FED will begin gradual rate cuts later this year with strong employment giving the FED room to focus on price stability, which we believe should be their primary focus at this time.

As we move into the second half of 2025, we anticipate continued economic uncertainty and market volatility. Portfolio diversification remains your best defense to navigate these conditions. We will continue to monitor developments and reach out to discuss your portfolio. In the meantime, please don't hesitate to contact us with any questions or concerns. Additionally, stay tuned for upcoming virtual seminars on cyber security, Social Security, Medicare and the financial markets in the months ahead. We hope that you are enjoying a relaxing and rewarding summer season. Whether you are traveling or taking time to unwind, we are here to support you every step of the way and look forward to speaking with you all again soon.

Sincerely,



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The Dow Jones Industrial Average is a price-weighted index of 30 “blue-chip” industrial U.S. stocks.
The S&P 500/Barra Growth Index is an unmanaged capitalization-weighted index stocks in the Standard & Poor’s 500 index having the highest price to book ratios. The Index consists of approximately half of the S&P 500 on a market capitalization basis.
The S&P 500/Barra Value Index is an unmanaged, market-capitalization-weighted index of the stocks in the Standard & Poor’s 500 Index having the lowest price to book ratios. The index consists of approximately half of the S&P 500 on a market capitalization basis.
The NASDAQ Composite Index measures the market value of all domestic and foreign common stocks, representing a wide array of more than 5,000 companies, listed on the NASDAQ Stock Market.
The S&P Midcap 400 Index is a capitalization-weighted index measuring the performance of the mid-range sector of the U.S. stock market and represents approximately 7% of the total market value of U.S. equities. Companies in the Index fall between the S&P 500 Index and the S&P Small Cap 600 Index in size: between $1-4 billion.
The S&P Small Cap 600 Index consists of 600 domestic stocks chosen for market size, liquidity (bid-asked spread, ownership, share turnover and number of no trade days) and industry group representation. It is a market value-weighted index (stock price times the number of shares outstanding), with each stock’s weight in the index proportionate to its market value.
The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia, and the Far East, excluding the U.S. and Canada.
Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market.