Midyear Market & Economic Update – 2025

Dear all,

The first half of 2025 has brought its share of surprises. From trade policy reversals to a widening gap between global markets, the investment environment has shifted in ways few would've expected just months ago. In this update, we'll walk through three key storylines shaping markets so far this year—and what they might signal going forward.

1. Tariffs Return: Take a Bite Out of Confidence

Back in April, the U.S. rolled out sweeping new tariffs—starting with a flat 10% on all imports, and even steeper rates for goods coming from China and the EU. Markets didn't take it lightly: the S&P 500 saw a sharp sell-off, falling more than 10% in just two days.

These new trade barriers have done more than just spook investors. According to analysis from Yale's Budget Lab, average U.S. tariff rates are now at their highest point since 1943, leading to an estimated annual increase of $1,600–$2,000 in household expenses for essentials like autos, electronics, and basic goods (Budget Lab at Yale, n.d.).budgetlab.yale.edu

But the bigger story might be the uncertainty. Companies that rely on global sourcing suddenly find themselves navigating unpredictable costs and unclear rules. That's a tough environment for long-term planning, especially when it comes to capital spending, hiring, or expansion.

Interestingly, after heavy criticism from business leaders and a sharp equity correction, the administration walked back its tone. No new tariffs have been added since May, and some insiders are now suggesting a pause—or at least a slower rollout—on future trade measures. Markets seemed to stabilize in response, regaining much of the ground lost earlier in the spring.

2. Europe Quietly Pulls Ahead

While the U.S. markets struggled to find their footing, Europe started to attract fresh attention. The Euro Stoxx 50 posted a gain of over 9% in the first half—beating out the S&P 500's more modest return (Reuters, 2025).

Part of the story is valuation: European stocks were simply cheaper to start the year. But there's more to it. European companies are often less tied to the U.S.-China trade dynamic, and many operate on more localized supply chains. That's been a relative strength in a year defined by trade friction.

Institutional sentiment seems to be shifting, too. JPMorgan's latest survey shows increased interest in international allocations, with European equities topping the list for several major asset managers heading into the second half of the year (J.P. Morgan, 2025).

3. A Divergence in Central Bank Policy

Another major development: central banks are no longer moving in lockstep. The Federal Reserve has kept rates on hold as it continues to wrestle with inflation. Meanwhile, the European Central Bank and others have begun to ease—citing soft growth and more subdued price pressures (Reuters, 2025).

The Fed's stance seems to reflect both confidence in the economy and concern about letting inflation flare back up. But high rates do have a cost. Borrowing has become more expensive for households and businesses alike, and that's putting the brakes on housing activity and some forms of corporate investment.

This split in policy has spilled into other areas. The dollar has softened a bit relative to other currencies, and global bond markets are pricing in very different expectations depending on geography. Investors are watching closely for any signs that the Fed may change course later this year.

Final Thoughts

If the first half of 2025 has shown us anything, it's that markets can pivot fast when policy, inflation, and sentiment collide. Trade friction, regional outperformance, and diverging central bank moves have all contributed to a new investment landscape—one that demands flexibility and a steady hand.

Forecasting in this kind of environment is never easy. But keeping an eye on these core developments can help bring clarity—and guide smarter decision-making. As always, we'll continue monitoring the road ahead and will keep you informed as conditions evolve.

Thank you, as always, for your continued trust.

Warm regards,

Matthew Richards, CFP®

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