Mid Year 2025 Market Review

This comprehensive market analysis provides clients with an in-depth review of financial market performance through the first half of 2025. Despite significant headwinds including trade tensions, tariff concerns, and geopolitical conflicts, markets demonstrated remarkable resilience. The article examines market volatility, sector performance, the resurgence of international stocks, the stabilizing role of bonds, and economic indicators. It concludes with strategic recommendations for navigating the remainder of 2025 through diversification, discipline, and portfolio rebalancing.

Check-Up Time: A Mid-Year Market Review

Imagine that at the start of the year, you were told over the next six months you'd see higher U.S. import tariffs, rising global trade tensions, shrinking GDP in the first quarter and an escalating conflict in the Middle East.

With that context, you would probably assume the financial markets did very poorly. However, as of June 30th, stocks were up nearly 6%.

It may seem remarkable that the market has faced such uncertainty and still delivered relatively strong returns. Of course, this simple summary doesn't tell the whole story of the year's first half. Neither can a single chart, but it can get a lot closer.

For a more in-depth look back on the news and events of 2025, **Figure 1** presents many of the major headlines atop the cumulative return of the S&P 500.

Figure 1 preview: Major market events of 2025 first half

Source: Avantis Investors

A Roller-Coaster First Half

The chart above illustrates the S&P 500's dramatic journey through the first half of 2025. Despite significant volatility, the market demonstrated remarkable resilience, ultimately delivering positive returns despite multiple challenges. Major headlines and events are mapped against the index's performance, providing a comprehensive visual narrative of how news influenced market movements throughout this turbulent period.

This roller-coaster pattern reflects investor reactions to rapidly evolving economic conditions, policy changes, and geopolitical developments. The chart captures both sharp declines in response to negative news and subsequent recoveries as uncertainty resolved or positive developments emerged. This visualization reinforces how markets can frequently contradict intuitive expectations about how they "should" respond to challenging conditions.

Notably, this chart demonstrates that investors who maintained discipline through volatile periods were ultimately rewarded, while those who made decisions based on short-term fears may have missed significant recovery opportunities.

Data from 1/1/2025 – 6/30/2025. Source: Avantis Investors. Past performance is no guarantee of future results.

Markets Were Volatile but Resilient

In **Figure 2**, we present other interesting data points from the market that highlight what an incredible six months it has been. The magnitude of the highs and the lows, both over very short and longer periods, really stands out.

122

Trading Days

Total market trading days in the first half of 2025

9

All-Time Highs

The S&P 500 reached new record levels nine times despite volatility

52

VIX Closing High

Peak volatility index reading on April 8, 2025, indicating extreme market fear

Performance Metric	Value	Date/Period	Context
Largest Daily Gain	+9.5%	April 9, 2025	After tariff pause announcement
Largest Daily Loss	-6.0%	April 4, 2025	Following sweeping tariff announcements
Maximum Drawdown	-19%	Feb 19 - Apr 8	From all-time high to market bottom
Subsequent Recovery	+25%	Apr 8 - Jun 30	From market bottom to new all-time high

The VIX index, managed by the Chicago Board of Trade (CBOE), tracks the expected 30-day future volatility of the S&P 500 Index. It is a widely used measure of market risk and is often referred to as the "investor fear gauge." The elevated VIX reading of 52 on April 8th reflected exceptional market uncertainty during this period.

Data from 1/1/2025 – 6/30/2025. Source: Bloomberg and Avantis Investors. Past performance is no guarantee of future results.

A Tale of Two Quarters

1 **February 19, 2025**
S&P 500 reaches all-time high before beginning major decline

2 **April 4, 2025**
19th largest daily loss (-6.0%) following sweeping U.S. tariff announcements

3 **April 8, 2025**
Market bottoms after nearly 19% drawdown; VIX hits 52

4 **April 9, 2025**
Largest daily gain since 2008 (+9.5%) after 90-day tariff pause announced

5 **June 30, 2025**
Market recovers completely, reaching new all-time high after 25% rise from bottom

As highlighted earlier, it's been a roller-coaster market! This year, we've experienced some of the largest single-day market returns on record. The 9.5% rise for the S&P 500 on April 9, the day President Donald Trump issued a 90-day tariff pause, was the largest daily gain since 2008 and the third largest since the index launched in 1957. This followed the 6.0% decline on April 4, shortly after sweeping U.S. tariffs were announced, the 19th largest daily loss for the index.

Source: Avantis Investors

There have also been nine S&P 500 all-time highs this year, some of which bookended notable subperiods for the market in 2025. One occurred on February 19, just before the index faced its largest drawdown of the year at nearly -19%, ending on April 8. Thereafter, the index rose almost 25% to end June again at a new all-time high.

Key Investor Takeaways

- **Market sentiment often doesn't match actual market performance - negative news tends to be weighted more heavily in our perception**
- **Diversification proved its worth during these volatile times, challenging the notion that investors only need a few big stocks to succeed**
- **While short-term volatility creates intense emotional pressure to act, disciplined investors who maintained a long-term perspective** were rewarded

These numbers provide helpful context for the investor experience over the period. However, the most important takeaway is that emotional reactions to uncertainty and short-term pessimism often lead to poor portfolio outcomes. As demonstrated in the first half of 2025, investors who kept a long-term view and remained disciplined in the face of uncertainty were again rewarded.

Diversification Is Back and Showing Its Value

As shown on the next page, having International exposure in a portfolio has benefited investors greatly in 2025. While the benefits of diversification were not as pronounced in 2023 and 2024, it is important to keep a long-term view on why diversification is an important tool for investors.

And it's not just international stocks; by spreading your assets across a variety of investments, including different sectors, asset classes, and geographic regions, you reduce your exposure to any single source of risk. Market fluctuations are inevitable, but diversification helps smooth out the ups and downs, providing a more stable and resilient investment experience. It's a thoughtful strategy designed not just to capture growth opportunities, but also to safeguard your portfolio through changing economic conditions.

As your financial partner, we believe in building diversified portfolios tailored to your goals, helping you stay on course with confidence, no matter what the markets bring.

International Stocks Shine

Over the last 2 years investors largely ignored international stocks, but 2025 has seen international markets shine brightly. This performance reversal highlights the unpredictable nature of market leadership and reinforces the importance of maintaining global diversification.

- **Valuation Advantage**

  International markets entered 2025 trading at significant discounts to U.S. markets after years of underperformance, creating an attractive entry point for value-oriented investors.

- **Currency Tailwinds**

  A moderating U.S. dollar has provided additional returns for U.S.-based investors in foreign markets, enhancing overall performance.

- **Economic Recovery**

  Several international economies have shown stronger-than-expected growth in early 2025, particularly in Europe and parts of Asia, driving corporate earnings and investor interest.

- **Sector Exposure**

  International markets offer greater exposure to sectors that have performed well in 2025, including manufacturing, energy, and certain financial services less represented in U.S. indices.

This performance reversal demonstrates why maintaining consistent international exposure is crucial for long-term investors. Markets are cyclical, and leadership rotates unpredictably. Those who abandoned international investments after their underperformance in 2023-2024 missed the substantial gains of early 2025.

WHY DIVERSIFY?

1

Reduces Single-Point Risk

Diversification prevents any single market event or company failure from dramatically impacting your entire portfolio. This protection was particularly valuable during the April 2025 market turbulence.

2

Captures Global Opportunities

Different markets lead performance in unpredictable ways over different periods. In 2025, international markets outperformed after years of underperformance, rewarding globally diversified investors.

3

Smooths Performance

The combined effect of different asset classes moving independently creates more stable overall portfolio performance, reducing the emotional stress of market volatility.

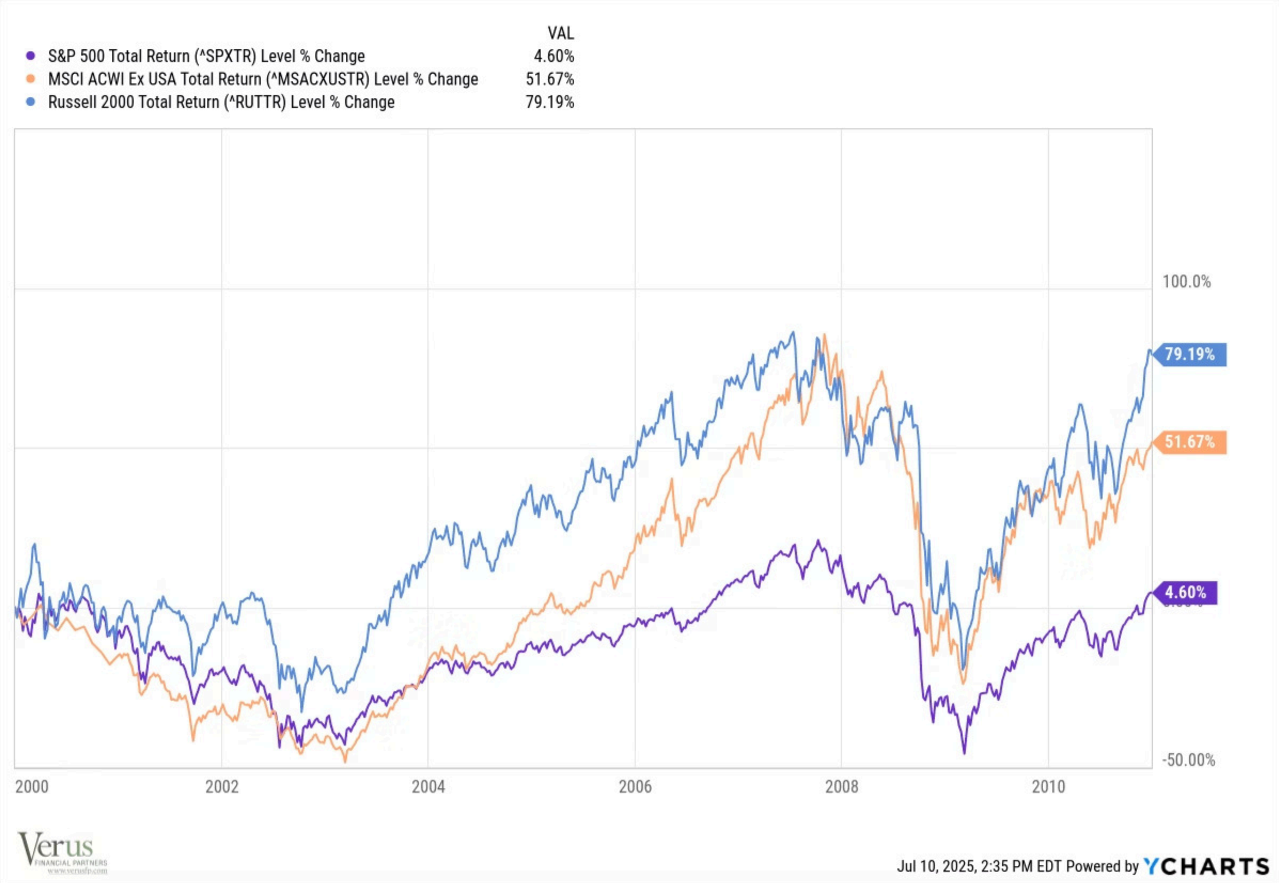
4

Historical Validation

As shown in the next chart, the years 2000-2010 demonstrate how diversification greatly benefited investors. U.S. Large Cap Index (S&P 500) investors earned significantly less than those with exposure to international and smaller companies.

Diversification In Action

The period from 2000-2010 provides a compelling historical case study for diversification. During this decade, which included both the dot-com crash and the global financial crisis, U.S. large cap stocks significantly underperformed both international stocks and U.S. small cap companies.



This historical example dramatically illustrates how a diversified approach would have significantly outperformed a U.S. large cap only strategy. An investor who maintained a diversified portfolio including international and small cap exposure would have experienced substantially better returns than one concentrated solely in the S&P 500 during this "lost decade" for large U.S. stocks.

The current market environment in 2025 is showing similar patterns, with international stocks outperforming after a period of U.S. dominance. This cyclical nature of market leadership reinforces the importance of maintaining diversification through all market conditions rather than chasing recent performance.

Bonds Provide Stability

To further highlight the purpose of diversification, we should also highlight bonds. Despite economic worries and concerns about U.S. Government debt, bonds have shown to be an area of stability compared to stocks for the first part of 2025. As you will see on page 10, bonds weathered the volatility that consumed stocks in April and May. As of June 30th, the U.S. Total Bond Market Index was up 4%, while stocks are up 6.2%. But when stocks were reeling from tariff uncertainty and down nearly 20%, bonds were up nearly 2%.

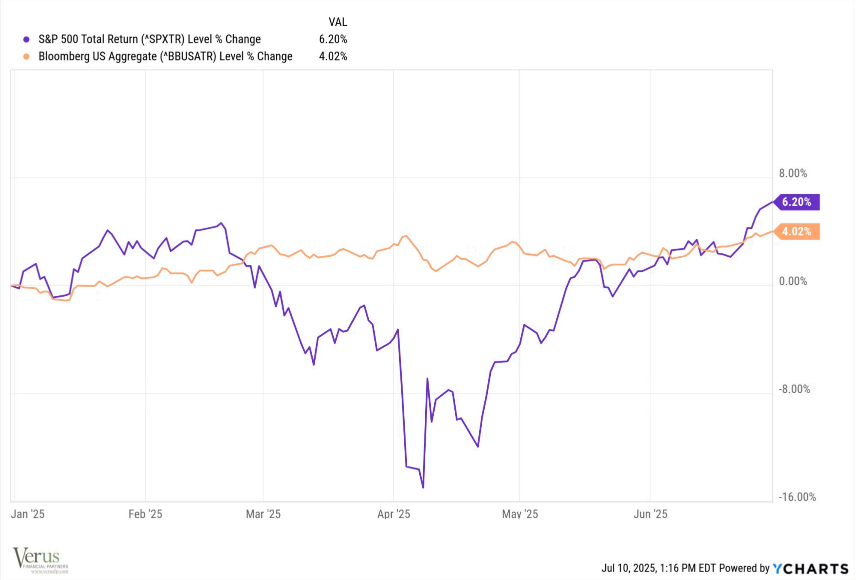
While stocks went on to recover their losses, bonds provided investors with some piece of mind during a difficult market. With interest rates still elevated, bonds will continue to provide competitive yields along with the possibility of appreciation. Even with the prospect of the Federal Reserve lowering interest rates this year, bond investors can lock in yields for many years.

By diversifying across sectors (such as government, corporate, and mortgage bonds), maturities, credit ratings, and geographic regions, investors can reduce their exposure to any single source of risk. This approach also allows for a more balanced portfolio that can better withstand volatility. Ultimately, a well-diversified bond strategy supports more stable returns and enhances resilience in uncertain or changing market conditions. Stocks will still be the primary growth engine for investors, but an allocation to bonds may help smooth out the ride.

Source: Avantis Investors

Bonds Provide Stability (part 2)

Bonds remained a source of stability when U.S. stocks dipped during March and April. This visual representation clearly demonstrates how bonds maintained positive performance during periods of equity market stress, highlighting their crucial role in portfolio diversification.



Performance During Market Stress

The chart clearly shows that when equity markets experienced significant declines in March and April 2025, bonds maintained positive performance. This negative correlation provided critical portfolio stability during volatile periods.

Year-to-Date Returns

As of June 30th, the U.S. Total Bond Market Index delivered a solid 4% return, slightly trailing the equity market's 6.2% return but with significantly less volatility. This risk-adjusted performance demonstrates bonds' value in a diversified portfolio.

Outlook For Bond Investors

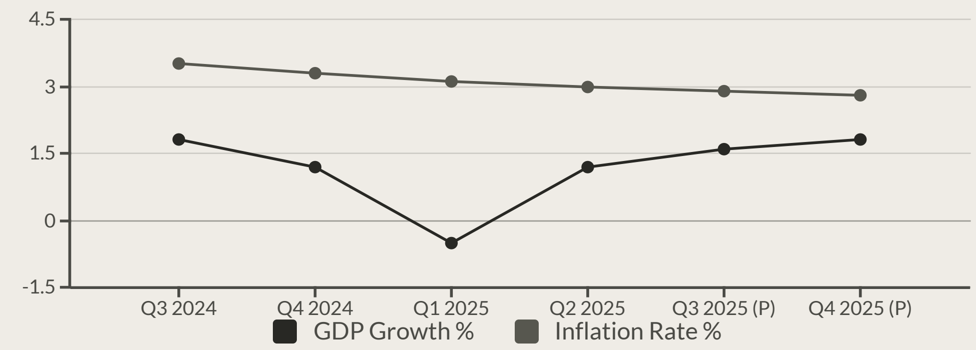
With the Federal Reserve potentially lowering rates later in 2025, bond investors have an opportunity for both stable income from current elevated yields and potential price appreciation as rates decline. This creates an attractive risk/reward profile for fixed income allocations.

While equities experienced dramatic swings during the first half of 2025, bonds demonstrated their value as portfolio stabilizers. This reinforces the importance of maintaining appropriate fixed income exposure aligned with your investment time horizon and risk tolerance, even after prolonged periods of stock market outperformance.

The Economy

The U.S. economic landscape has been a big focus during the first half of 2025. Concerns on trade policies, including tariffs, worried many about inflationary pressures and how consumer spending may be impacted. Despite the worry, the U.S. economy has shown resilience amid policy shifts and global uncertainties. After a 0.5% contraction in the first quarter, growth rebounded in Q2, with projections suggesting a modest 1.7% expansion for the year.

The worries of inflation or even "stagflation" haven't come to pass. Inflation expectations have moderated, with short-term projections at 3% and longer-term expectations holding steady. The Federal Reserve has maintained interest rates between 4.25% and 4.5%, balancing growth concerns with inflation risks. The job market, which has seen some stress, has still maintained a healthy level but will be a key factor in the Federal Reserve's decision on reducing interest rates later in 2025.



Interest Rates

Federal Reserve has maintained rates between 4.25% and 4.5%, balancing growth concerns with inflation risks. Potential cuts are anticipated in the second half of 2025.

Labor Market

Employment has remained resilient despite some stress signals. Job creation has slowed but unemployment remains low at 4.2%. The labor market will be a key factor in Fed policy decisions.

Housing Market

Housing costs remain elevated due to both high mortgage rates and insufficient new construction. This structural issue will take time to resolve even if rates decline.

Consumer Debt

Rising consumer debt levels bear watching as higher interest payments may constrain spending. Credit card delinquencies have increased moderately in early 2025.

Other key areas that will be in focus include housing costs, consumer debt levels, and new job postings. Housing in particular is a longer-term issue that won't change overnight. Part of it relates to mortgage interest rates, but new home construction is another major factor that takes time to improve.

Source: Avantis Investors

Looking Ahead

As we approach the 2nd half of 2025, it is natural to wonder what may lie ahead. Many of the same issues that were present in the 1st half of the year are still around: Tariffs, Inflation, Interest Rates, Overseas conflicts. However, regardless of what may pop up in the next 6 months, the tools that investors used to ride out the bumps are the same:

1

Diversification

Maintain a globally diversified portfolio! We know markets around the world move in different directions at different times. Keeping a global allocation will help capture opportunities that a domestic only investor may miss.

- Include international stocks and bonds
- Maintain exposure across market capitalizations
- Consider alternative asset classes where appropriate
- Revisit sector allocations periodically

2

Discipline

From the start of the year to now, the markets have experienced lows and highs. Trying to time those lows and highs is impossible. When markets are experiencing tough times, don't jump out! History has shown time and again that missing the recovery is the most damaging. At Verus, we want to guide you through the more difficult times because our experience shows that riding out the negativity has paid off for long term investors.

3

Monitoring and Rebalancing

Staying the course doesn't just mean holding steady during market volatility. It means maintaining the target allocation outlined in your financial plan—an essential part of achieving long-term success. Whether markets are rising or falling, Verus is here to help you stay aligned with your goals. Through strategic rebalancing, we ensure your accounts remain on track while optimizing for tax efficiency.

> **As always, the Verus team is by your side—guiding you through every market turn.**

Key Second-Half Strategy

While market uncertainties remain, including tariffs, inflation concerns, and geopolitical tensions, the proven investment principles of diversification, discipline, and regular rebalancing continue to be the most reliable approach for navigating volatile markets.

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