NORTHEAST SEQUOIA
PRIVATE CLIENT GROUP

Thinking Out Loud

2025 Halftime Update

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Market Performance

Equities: As of mid-year 2025, all three major U.S. indices were in positive territory: the S&P 500 and NASDAQ were each up approximately 5.5%, while the Dow Jones had gained 3.6%. Compared to their April 8th lows—when markets had been rattled by trade tensions and macro uncertainty—the rebound was striking: the S&P rose 24%, the Dow gained 17%, and the NASDAQ advanced an impressive 33%. The rally was driven by easing geopolitical pressures, strong corporate earnings, optimism regarding budget reconciliation, and continued price momentum in tech and AI sectors. At the sector level, year-to-date leadership came from Industrials (+12%) and Communications (+12%), followed by Technology (+9%), Financials (+8%), and Utilities (+8%). Materials, Staples, and Real Estate returned 4%, 3%, and 2% respectively, while Energy and Healthcare lagged at –1% and –2%, respectively. From the April 8th lows, however, all sectors rallied significantly—Technology (led by semis) and Industrials soared 40% and 27%, respectively.

Looking ahead to 2H25, we remain cautious regarding equity valuations in the very near-term, and hence, caution investors in anticipating significant further upside. At this point our full-year target for the S&P 500 of 6,300 remains intact, although we would not be surprised to observe near-term weakness, associated with a slowing economy and potential trade/Reconciliation speedbumps.

Bonds: Fixed income markets posted modest gains year-to-date through June 30th, after recovering from their early-April lows. Baa-rated corporate bonds, represented by LQDB, were up about 4.3% YTD on a total return basis, having recovered ~4% from April lows as credit spreads tightened and rate volatility eased. Long-duration Treasuries, tracked by VGLT and TLT, had gained 3.2% and 2.9% YTD, respectively, rebounding between 4–5% from April lows amid renewed expectations for Fed rate cuts. Medium-duration Treasuries, like the 10-year note (IBTM proxy), were positive for the year, higher by 5.4%, after early spring weakness. Municipal bonds lagged: MUB was slightly negative (-0.6%) flat YTD following a modest 2–3% recovery post-April, while SCMB also remained slightly negative at 0.6% YTD. Overall, fixed income sectors stabilized, with corporates leading, Treasuries modestly higher, and munis showing a partial recovery after early-year softness.

Looking ahead to 2H25, we believe that bonds may encounter near-term headwinds associated with post-tariff, supply-push inflation given the perceived notion that tariffs are one-time in nature. Later into the year, we believe that broader inflation prospects may diminish, supporting bond valuations. Limited supply of municipal bonds and easing of the SLR (Supplementary Leverage Ratio) could help support liquidity for Treasuries, and thus lower rates. A relaxed SLR could also allow banks to repurchase outstanding preferred equities securities, thus limiting their market supply, and thus support valuations.

Rates & Commodities

Dollar Index (DXY): As of mid-2025, the U.S. dollar has weakened significantly, falling roughly 10% year-to-date against a basket of major G7 currencies. The euro has appreciated about 10%, with EUR/USD rising toward $1.16–1.17, its highest level since 2021. The British pound has similarly gained 9–10%, trading near $1.37–1.38, reaching a three-year high. The Japanese yen has strengthened by approximately 10% against the dollar, reversing several years of depreciation. The Canadian dollar has seen more moderate appreciation, gaining around 4–6% as it benefited from broader dollar weakness. Meanwhile, the Swiss franc is up about 10% year-to-date versus the dollar, continuing its role as a safe-haven currency amid global uncertainty. This across-the-board dollar decline reflects shifting rate expectations, political uncertainty surrounding U.S. fiscal and monetary policy, and improving sentiment in other developed markets, in our opinion.

Looking ahead to 2H25, the U.S. dollar may face further headwinds if the FOMC leans too dovishly in response to rate-cut pressures, if investor confidence in U.S. fiscal sustainability erodes due to rising debt burdens, or if economic momentum abroad becomes more compelling relative to the U.S.

Gold: As of June 30, 2025, gold is up approximately 15% year-to-date, making it one of the strongest-performing macro assets. After dipping to around $2,981/oz on April 8, it has rebounded nearly 10%, now trading near $3,274. The rally has been driven by safe-haven demand, a weakening U.S. dollar, rising geopolitical tensions, and steady ETF inflows. While off its April highs near $3,500, gold remains well-supported, with forecasts suggesting a potential move toward $4,000/oz if global risks escalate.

Looking ahead to 2H25, gold may retain its relative strength if domestic and global macro uncertainty remains, specifically if a stagflation environment were to ensue or geopolitical events escalate.

Crypto: As of late June 2025, Bitcoin is trading near $108,000, up roughly 40% year-to-date and 15–20% above its spring lows. The rally gained steam following the Senate's 68–30 passage of the GENIUS Act, the first federal framework for U.S. dollar-pegged stablecoins. The bill allows regulated banks, fintechs, and retailers to issue fully reserved, non-yielding stablecoins under Treasury oversight, with audit and AML requirements. It's a major win for the crypto industry and for President Trump, whose digital asset holdings exceed $1 billion. Treasury Secretary Scott Bessent, who granted broad authority under the law, estimates the U.S. stablecoin market could reach $2 trillion. While the Senate version centralizes oversight, the House's competing STABLE Act proposes shared regulatory authority. Critics warn the bill enables conflicts of interest, particularly as it exempts the President from restrictions on crypto profits. Still, with stablecoins processing $28 trillion in 2023 and adoption accelerating across firms like Shopify and Stripe, the GENIUS Act marks a significant shift in U.S. crypto policy—helping drive institutional flows and renewed investor confidence in Bitcoin.

Looking ahead to 2H25, we anticipate support for cryptocurrency may continue. However, we believe as crypto becomes more regulated, the "speculative" aspect of the asset may diminish, resulting in a headwind to more significant upward price movement.

WTI Crude: In the first half of 2025, WTI crude has experienced significant volatility. Year-to-date, it's down about 13%, trading around $65–66/barrel, with its April 8 trough near $59—a post-pandemic low. The mid-June flare-up in the Israel–Iran conflict pushed WTI up roughly 13%, peaking near $77/barrel, before a ceasefire triggered a rapid pullback of about 12%, settling back into the $64–66 range.

Looking ahead to 2H25, we anticipate oversupply to pose a headwind for oil, as market participants will re-focus on fundamentals. However, a key risk here is any further escalation between Iran (its proxies) and Israel/U.S.

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Macro & Policy Developments

Middle East: Markets remain in a wait-and-see mode amid heightened geopolitical tensions. In early June 2025, a sharp escalation in Israel–Iran tensions led to a brief regional conflict. Israel launched a 12-day air campaign targeting over 900 sites in Iran, prompting Iran to retaliate with a large-scale missile and drone strike. The U.S. then bombed key Iranian nuclear facilities, to which Iran responded by attacking a U.S. base in Qatar. A U.S.-brokered ceasefire followed on June 24 but quickly faltered amid mutual accusations and continued Israeli strikes, including one on Tehran's Evin Prison that killed 71. Intelligence reports indicated that while Iran's nuclear program was delayed, it remained viable. Markets responded cautiously—oil briefly spiked before settling lower, while gold and Bitcoin rose on renewed geopolitical risk.

Looking ahead to 2H25, we can only hope that the worst is behind us. The IAEA Director-General, Rafael Grossi, has stated that after recent U.S. and Israeli strikes, it remains unknown where much of Iran's enriched uranium stockpile is located—some may have been moved pre-strike, while other portions may still be buried under the rubble.

Tariffs: The Trump administration is actively reshaping trade relations: halting talks with Canada over digital taxes, securing a key rare-earth deal with China, and pushing for multiple tariff agreements by Labor Day. But imminent pauses ending on July 9 and growing unpredictability, especially around Canada and China, are stoking fresh volatility in markets. Specifically, with respect to China, as of June 2025, the U.S. and China are operating under a 90-day tariff truce set to expire on August 12. During this period, the U.S. has reduced tariffs on Chinese goods from 145% to 30%, while China lowered its tariffs on U.S. goods from 125% to 10%. The two countries also reached a framework agreement to accelerate rare-earth shipments and ease non-tariff barriers, providing relief to key industries. However, significant trade tensions remain, with "tariff stacking" pushing effective import costs above 55% and unresolved structural issues—such as export controls and legal disputes—still clouding the outlook.

Looking ahead to 2H25, we anticipate tariff headlines will subside, either with real and effective negotiations or bilateral agreements being finalized. House Republicans need an end to the tariffs soap-opera sooner rather than later, as mid-term elections are quickly approaching.

Fed Watch: Following the June 17–18 FOMC meeting, the Federal Reserve held interest rates steady at 4.25–4.50%, acknowledging ongoing economic strength while expressing caution over the inflationary effects of new tariffs. The Fed's updated dot plot still projects two 25-basis-point cuts by year-end, consistent with its March outlook. However, internal divisions have emerged. Some policymakers, like Governors Waller and Bowman, are signaling support for a rate cut as soon as July, viewing tariff-related inflation as transitory. Others, including Chair Powell and regional presidents like Daly and Barkin, advocate patience, warning that rising import costs could delay disinflation progress. Markets are now pricing in a high probability of the first cut occurring in September, with at least two cuts expected before year-end. This has pushed Treasury yields lower and fueled rallies in equities, gold, and tech stocks. Political pressure has also intensified—President Trump has called for deeper cuts toward 1% and continues to publicly criticize Chair Powell, raising speculation about a leadership change at the Fed.

Looking ahead to 2H25, we expect the FOMC to cut at least once, but no sooner than the September 16-17th meeting. Based on our research, we found that the FOMC dot-plot is rarely accurate. Hence, the risk is elevated, in our opinion, that the FOMC holds higher for longer, or is forced to cut more than 75bps through year-end. Further, we would not be surprised for President Trump to announce a Fed Chair replacement sometime in the third quarter of 2025. This could begin to send mixed message to market participants, and chip away at Fed credibility.

Senate GOP Reconciliation Struggles: the Senate narrowly passed the GOP's reconciliation package—dubbed the "One Big Beautiful Bill"—in a 51–50 vote, with Vice President J.D. Vance casting the tie-breaking vote. The bill includes major tax cuts, a temporary "no tax on tips" provision—structured as an above-the-line deduction capped at $25,000 ($50,000 for joint filers) and phased out for incomes over $150,000—and a new overtime pay deduction of up to $12,500. It also expands defense and border spending. The package now returns to the House for reconciliation. The Senate version was significantly revised after Byrd Rule rulings forced the removal of over $250 billion in Medicaid cuts, including restrictions on immigrant coverage, DSH payments, and block grant conversions. Provisions to deregulate firearm suppressors, weaken civil service union protections, and mandate foreign litigation finance disclosures were also struck. SALT deduction reforms survived in a narrowed form, offering phased relief for joint filers earning under $500,000 and addressing the so-called "marriage penalty," though falling short of the broader cap repeal sought by House Republicans. The bill has sparked sharp GOP infighting—hardliners condemned the Parliamentarian's rulings as overreach, while moderates and fiscal conservatives raised alarms over the policy tradeoffs and long-term fiscal damage. According to the Committee for a Responsible Federal Budget, the Senate version adds $4.3 trillion to the deficit over the next decade, potentially exceeding $5 trillion if temporary tax provisions are extended, pushing annual deficits to as high as 8% of GDP. With the July 4 deadline looming—timed to align with the expiration of reciprocal tariff relief—House Republicans must now negotiate a final version that preserves key provisions while satisfying procedural and political constraints.

Looking ahead to 2H25, we expect the passing of the 2025 reconciliation bill. At the time of this draft, it is uncertain if it will pass through the House by the self-imposed July 4th deadline, if deficit hardliners revolt. Further, given the fluid nature of the negotiation process, we would have growing concern if no bill was passed and signed by the July 9th, "Liberation Day" tariff deadline. In our opinion, this could unsettle equity capital markets, and lend to near-term weakness.

Summary

As we move into the second half of 2025, the investment landscape remains defined by sharp first-half recoveries in equities, modest but stabilizing gains across fixed income, and heightened volatility in currency and commodity markets. Tailwinds from easing geopolitical tensions, legislative progress on tax and trade, and resilient earnings have fueled strong returns—particularly in technology, industrials, and digital assets. However, macro risks remain firmly in focus. Persistent uncertainty around tariff policy, reconciliation bill negotiations, and the Fed's response to supply-side inflation continue to cloud the outlook. While we maintain a constructive long-term view, we caution that valuations appear full, monetary policy is in flux, and political headlines could drive short-term volatility. Investors should remain selective and prepared for episodic dislocations in both equity and bond markets, particularly as liquidity conditions and policy clarity evolve into year-end.

We’d love to hear your thoughts.

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