BULLS&BEARS

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Trade War

Amid ongoing threats and trade tensions, President Trump has extended the tariff deadline to August 1, aiming to pressure trading partners into swift concessions. Canada will face a 35% tariff on select goods. Japan and South Korea have been warned of a 25% duty unless they boost imports and manufacturing within the U.S. Other nations could see tariffs as high as 40%.

Additional sectors are also being targeted: copper imports will face a 50% tariff, pharmaceuticals 200%, and imports from BRICS-aligned countries an extra 10%.

Trade negotiations have yielded limited progress, with only two deals struck in the past three months. A modest agreement with the U.K. left a 10% tariff on British exports intact. Vietnamese exports will reportedly face a 20% tariff, while transshipments rerouting Chinese goods will be taxed at 40%.

The 14 countries currently under tariff threat accounted for about 10% of total U.S. imports in 2024. Raising tariffs to the 25–40% range would push the average effective U.S. tariff rate to 17%, the highest in nearly a century.

These interim deals are unlikely to end the trade war. Future agreements may be narrow and leave key issues unresolved. Hopes for a quick resolution appear slim. The trade war is set to continue, with large impacts on global growth.

V-Shaped Recovery

The second quarter of 2025 was remarkable. Despite a turbulent start, triggered by the surprise Liberation Day tariff announcements on April 2, markets rebounded swiftly after President Trump's 90-day tariff pause on April 9. Investors looked past a barrage of risks: ongoing trade war uncertainty, rising deficit concerns, escalating Israel-Iran tensions, U.S. airstrikes on Iran, and a >30% surge in oil prices.

Defying the turmoil, equities staged their fastest-ever recovery from a 15% drop, ending the quarter up 10.6%, the strongest performance since Q4 2023. Growth stocks led the rally, the U.S. dollar weakened, and international equities posted standout gains. Still, the S&P 500 has lagged global peers year-to-date, up just 6.2%.

The rebound extended to corporate credit markets, where renewed risk appetite pushed spreads on investment-grade (-11 bps) and high-yield (-57 bps) bonds toward historic lows. Credit sectors built on year-to-date gains, with investment-grade and high-yield returns of 4.2% and 4.6%, respectively.

Dollar Weakness

The U.S. dollar just recorded its weakest first-half performance since 1973, weighed down by trade policy uncertainty, softer U.S. growth expectations, and renewed confidence in the euro. Still, we don't see this as a paradigm shift, the dollar's role as the world's reserve currency remains firmly intact.

The most common investor question we've received is: *Should we be concerned?*

To answer that, it's important to look beyond the past six months. Over the last 50 years, the dollar has experienced several sharp declines, including three major bear markets with drops exceeding 25%. This recent weakness is not a sign of the dollar losing its reserve currency status. Despite alarmist headlines, the dollar continues to dominate global finances, especially in short-term funding, trade invoicing, and foreign exchange markets. While alternatives are being explored, they remain far from reaching the scale needed to pose a serious challenge.

Please contact us at 1-855-829-7192 if we may be of assistance.

Market Indicators

6/30/25	Year-to-Date Change
S&P 500	6.20%
NASDAQ	5.85%
Russell 2000	-1.79%

Interest Rates	12/31/24	6/30/25
10-Year Treasury Note	4.57%	4.24%
3-Month Treasury Bill	4.32%	4.34%

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