AE WEALTH MANAGEMENT®

MID-YEAR INVESTMENT OUTLOOK

2025

Despite significant volatility, markets have demonstrated remarkable resilience over the first half of 2025. Will this resilience continue through the rest of the year? Read on to find out our outlook on the next six months and what you may need to know about investing for potential growth.

KEY TAKEAWAYS

- Markets have demonstrated resilience in 2025, despite significant volatility. Benchmark indexes dropped significantly following tariff announcements and geopolitical tensions but recovered to near-record levels by the end of the second quarter.

- Economic fundamentals remain solid with no recession in sight. Corporate earnings remain strong, inflation continues to decline and the job market has stayed stable, suggesting the economy can weather current headwinds.

Focus on what you can control in a volatile environment. With continued uncertainty expected in the second half of 2025, investors should maintain discipline by sticking to their long-term plans, rebalancing portfolios as needed and avoiding emotional reactions to daily market movements.

A TALE OF TWO QUARTERS

The first half of 2025 was truly a tale of two quarters. We started the year with much anticipation and optimism, and markets initially responded by moving higher and setting new records. However, that momentum shifted dramatically as we progressed through the first quarter and into the second.

One of the big market movers, particularly in the second quarter, was the conflict between Israel and Iran, which culminated in the U.S. striking Iran and a subsequent ceasefire. The other major themes were tariffs, the Department of Government Efficiency (DOGE) and the legislative reconciliation package known as the "Big, Beautiful Bill."

January delivered strong performance, but as the first quarter progressed, some of the administration's policies — particularly regarding tariffs and spending cuts — began to weigh heavily on investor sentiment. Markets started to stall and slide as we closed the first quarter, and the selling accelerated after President Donald Trump announced "Liberation Day" tariffs in early April.[1] The tariff announcement led to a significant market drop as investors grappled with the implications of sweeping trade policy changes.

The tide turned when the president announced a 90-day suspension of most tariffs, and the pause seemed to calm markets considerably.[2] But volatility returned as we ended the second quarter with Israeli air strikes on Iran, leading to higher oil prices and talk of a wider regional conflict. After the U.S. struck three of Iran's major nuclear sites on June 22, Iran and Israel quickly reached a ceasefire agreement. The ceasefire returned calm and sent oil prices back down, causing markets to surge back up to near-record highs by the end of the second quarter.[3]

THE STATE OF THE ECONOMY

Despite the market volatility, underlying economic fundamentals have remained relatively solid. First-quarter gross domestic product (GDP) came in at negative 0.5%, although this number may have been somewhat muddied by higher imports in advance of tariffs.[4] We don't expect GDP to contract again in the second quarter, especially since tariffs were still suspended well into the summer months.

The Federal Reserve has largely been a spectator so far this year, electing not to make rate cuts in the first half of 2025. Current expectations are for two rate cuts by year-end.[5]

Inflation continues to decline, despite dire warnings about rising inflation due to tariffs.[6] The jobs picture has softened but remains solid, keeping the economy moving and making it harder for the Fed to commit to rate cuts.[7]

Corporate earnings delivered strong results in the first quarter, despite all the headwinds and headlines, and we anticipate similar results for the second quarter.[8] We simply don't see a recession in the near term unless there's substantial deterioration in economic conditions, such as higher unemployment and lower consumer spending — and there are no signs of that happening so far.

Looking ahead to the second half of 2025, we maintain an optimistic but cautious perspective. There appears to be more that can potentially go right than can go wrong.

OUR OUTLOOK FOR THE SECOND HALF OF 2025

Several catalysts could move markets in a positive direction over the coming months:

POLICY RESOLUTION

The passage of major fiscal legislation (including the extension of tax cuts) and resolution of trade talks could remove uncertainty that has weighed on investor sentiment.

FED ACTION

If the Fed resumes rate cuts, it could provide welcome support for both markets and the broader economy.

GEOPOLITICAL EVENTS

An ongoing ceasefire in the Middle East could result in reduced oil prices and potentially lower energy costs, which may spur economic growth.

CORPORATE FUNDAMENTALS

Strong earnings momentum appears likely to continue, providing fundamental support for equity valuations.

Despite this positive outlook, volatility will likely continue to characterize markets in the second half of 2025, just like it did in the first half.

The key is focusing on what you can actually control — your emotions, your investment plan and how that plan will help keep you on track to pursue your long-term goals. If your portfolio has drifted out of balance during the last six months, now may be an appropriate time to rebalance to your target allocation.

Alertness remains the name of the game, but this doesn't mean losing focus or getting caught up chasing daily news headlines. Instead, it means thinking big picture and pushing out the external daily events that lead to making emotionally based financial decisions. The discipline to maintain perspective during uncertain times has always been — and will continue to be — a hallmark of long-term investing.

We remain optimistic about a strong second half of 2025, but we're not entering this period with blinders on. The policy environment remains fluid, and markets will continue to react to developments as they unfold.

As always, we recommend maintaining discipline, sticking to your long-term plan and working with your financial advisor to help ensure your portfolio remains aligned with your goals and risk tolerance. While challenges remain, the underlying strength of the economy and corporate sector provides a solid foundation for continued progress.

Remember, market timing is difficult, but time in the market — with proper diversification and a disciplined approach — remains the most reliable path to long-term investment confidence.

Sources

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