While rapid recoveries have become more commonplace in financial markets over the last decade, it is hard to name a single quarter in which market psychology flipped so quickly from despair to elation than in the second quarter of 2025. Equity markets started the quarter on edge, and quickly fell off that edge, with the S&P 500 falling 10% in the 2 trading days following the Liberation Day tariff announcements, bringing the total stock market decline to over 21% from the February high. That steep decline has since been reversed and more, with the benchmark index up more than 22% since April 7th through quarter end. The rally has been significantly stronger in many pockets of the market, especially within growth and momentum. The S&P 500 High Beta index, which captures 100 large cap companies with the "highest sensitivity to market movements", is up 43% in that same period. Many of these "high beta" companies represent the most popular secular and cyclical growth themes of the past few years: artificial intelligence, power generation, cloud computing, and aerospace, showing how these winners have driven the resumption of the bull market. Further illustrating the reawakening of "animal spirits", the IPO market has begun to thaw, with artificial intelligence provider CoreWeave and cryptocurrency provider Circle coming to market with very successful offerings. The CNN Fear and Greed Index, a metric used to capture financial market psychology, has moved from "Extreme Fear" to "Extreme Greed." The "buy the dip" mentality that has worked so well for U.S. equity investors since the Great Financial Crisis continues to speed up recoveries. The 20% bear market decline of 2018 was recovered in about 4 months, the more severe COVID decline was recovered in about 6 months, and this year's bear market also needed about 4 months to get back to all-time highs. Data from large brokerage firms suggests that retail investors were aggressively buying equity declines in April while institutional investors were cautious, flipping the traditional "smart money" vs "dumb money" dichotomy on its head. In an environment where asset prices, including homes, have outpaced income growth, many young and retail investors feel that the only way to "get ahead" is to aggressively trade the stock and crypto markets, adding fuel to the "buy the dip" mentality, a change in market structure that must be recognized by all market participants.

How did markets recover so powerfully over the past 3 months? The first and most obvious explanation has been the ratcheting down of trade wars since the April lows. The draconian tariff threats of March and Liberation Day announcements of April have turned considerably softer since, with the Trump Administration, led by Treasury Secretary Scott Bessent, working the media circuit to emphasize progress on trade talks and, in some cases, postponing implementation. Wall Street has seemingly concluded that the high tariff rates from Liberation Day are very flexible, and the Administration is not willing to risk a self-induced recession. As part of the pivot away from trade during the latter half of the quarter, the Trump Administration shifted its focus to legislation, with the "One Big Beautiful Bill (OBBB)" recently passed by both chambers of Congress and signed into law. The OBBB contains many significant changes to the tax code, most importantly permanently extending the lower individual tax rates that were originally enacted during the first Trump Administration in the 2017 Tax Cuts and Jobs Act. Other features of the bill include increasing the State & Local Tax (SALT) deductibility cap, increasing estate and gift tax exemptions, and lowering taxes on tips, overtime income, and Seniors. While many aspects of the bill remain controversial, the equity market has breathed a sigh of

relief that tax rates will not be higher in the near future. Alongside cooling trade tensions and tax cut extensions, the economy has continued growing at a slow but steady pace. Deteriorating consumer and corporate confidence from the first quarter did not spill into "hard" data. Unemployment remains low, and inflation, which many feared would spike due to tariffs, has continued its slow and steady cooling from the highs seen in 2022. Highly anticipated corporate earnings and outlooks announced during the quarter were much more robust than feared given the tariff turmoil, displaying the innovation, resilience, and health of the corporate sector. Notably, corporate plans for the buildout of artificial intelligence infrastructure remain intact, a key driver of both the economy and the stock market. Put all together, the equity market has "repriced" that the economy continues to remain on sound footing and may even accelerate in the second half of the year.

With this shift towards optimism, it is important to remember that risks remain. Trade tensions may have cooled since early April but remain the biggest risk to the global economy over the coming year. The 90 day pause in tariffs announced on April 9th has now passed, with August 1st set as the new deadline that President Trump has warned will have "no extensions". The President has also become more aggressive in recent days, with announcements of 50% tariffs on copper, 50% tariffs on Brazil, and 35% tariffs on Canada. In the case of Brazil, the punitive tariffs appear to have unconvincing economic justification, given that the U.S. runs a trade surplus with the South American nation. Rather, it appears to be a punishment for the prosecution of Jair Bolsonaro, the former Brazilian President and Trump ally. In the wake of a torrid stock market rally and passage of his signature legislation, the President may be feeling emboldened to once again pursue tough tariff rates on countries he has perceived as treating the U.S. or his allies poorly. The chaotic style of trade negotiations may resume in the third quarter as the President continues to pursue his agenda. Markets have thus far reacted to these announcements with a yawn, suggesting that investors have learned not to take any one announcement as a permanent policy shift. However, history has shown us that escalation can often lead to further escalation, leading to a negative feedback loop that can become hard to escape from. We suspect that the market may start to take a more concerned posture to trade talks should escalation begin again with major trading partners Japan, Europe, or China.

We wrote in our last quarterly letter that "while we do not have a crystal ball to predict the future, we do know from history that selling when fear is at its most elevated is usually a mistake over the long term". For at least a quarter, that played out in spades. While we certainly did not predict such a sharp recovery, we did try to take advantage of panic selling during early April to add equity exposure at what we believed were attractive prices for our clients. The magnitude of the rally has us feeling a bit more cautious in the near term, but we remain bulls on the remarkable dynamism of the U.S. economy over the long run.

Please do not hesitate to reach out to any of us in the office if you would like to discuss investment strategy or your own financial circumstances. We hope that you enjoy a happy and healthy summer.