



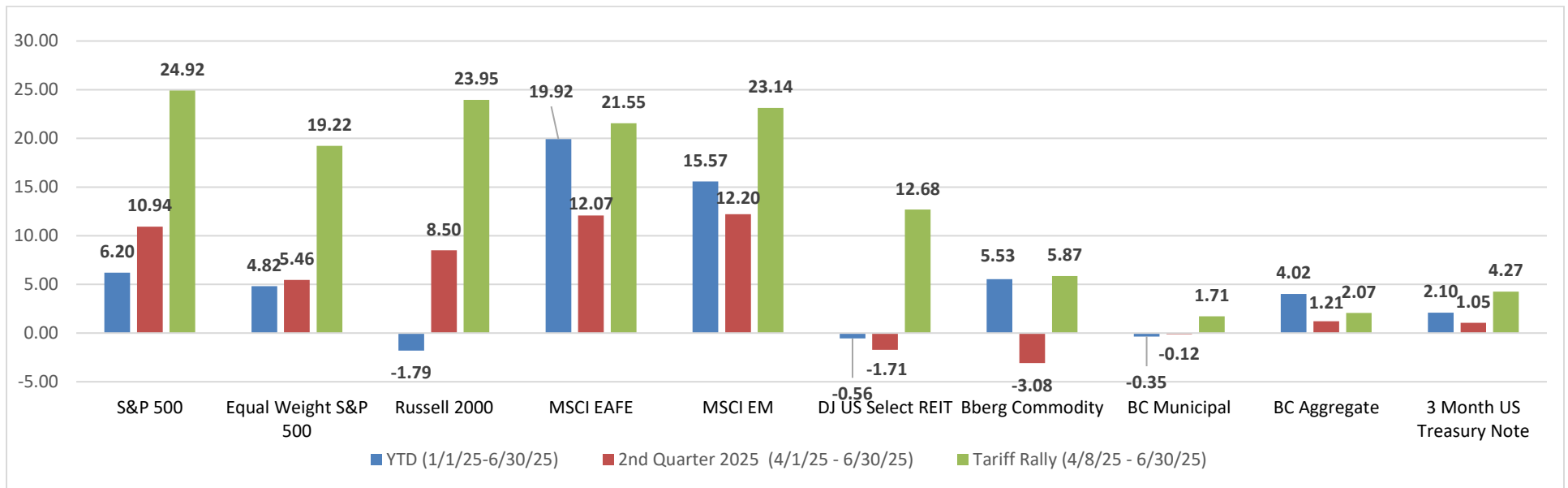
SCHNEIDER DOWNS

Wealth Management



# Q2 2025 Market Commentary

Anxiety and Exhilarating: How the Volatility in Early April Led to Gray Hairs for the Author and Green Shoots for Client Portfolios



The second quarter of 2025 will go down as one of the all-time great surprises, both in terms of the volatility that was experienced and the spectacular ending (to the quarter) that very few foresaw in the midst of one of the wildest stock drawdowns of the last 50 years. President Trump’s tariff rollout shocked markets: not even the most hardcore supporter of economic isolationism foresaw the Trump administration’s rollout. The surprising policy announcement created a three day decline in stock markets that was sharp, fast, and unrelenting. The “risk-off” atmosphere in stock and bond markets was reminiscent of a period in September 2008 where Lehman Brothers filed for bankruptcy, the United States government put Fannie Mae and Freddie Mac into economic conservatorship and then stepped into insurance giant (and seller of credit default swaps) AIG to keep it solvent. There were a few more gray hairs on this writer’s head as a result of those first ten days in April, but the stunning rally that took place in May and June has made each and every one of those gray hairs worth it!

As we set out to discuss the market performance for the quarter, it is worth revisiting the concluding paragraph in last quarter’s commentary:

“Whether the market is acting rationally or irrationally the last few days, we won’t know without the benefit of hindsight. What we do know is that the market declined quickly with most domestic stock markets down over 10% in two trading days. Historically, investors have been rewarded for doing one of two things when markets decline: 1) stay the course or 2) stay the course and add some money into the market along the way (be greedy when others are fearful as Warren Buffet often says). Neither of those two options feel particularly comfortable in the moment, with the former offering slightly more comfort than the latter. It is precisely the discomfort that is, over time, rewarded by the market. Trading in and out of the market has proven incredibly difficult, as the best days in the market tend to cluster around the worst (the largest “face ripper” rallies tend to occur when least expected, often without any sign prior to the swift upward move) – in short, day trading amid market volatility is no plan at all. Instead,

when the market gives you a punch in the face as an investor, you flip the switch and revert back to the fundamentals. The fundamentals of an integrated investment, financial, and estate plan will help navigate the ship through tempestuous seas and back to the calmer waters at port.”

I vividly remember writing those words and then watched the SDWMA team bring them to life over the following days, weeks, and months that encompassed the second quarter. As we have reviewed and monitored portfolio performance, it further cemented my belief that when markets get tough, a relentless focus on the fundamentals is the best way to weather the storm.

From a stock market perspective, international stocks continued their outperformance over the domestic U.S. market. The MSCI ACWI ex-US, which accounts for almost all publicly traded stocks outside of the U.S., was +18.3% for the year, far outpacing the S&P 500 (+6.2%) and U.S. small and mid-cap markets are flat to modestly negative through the first half of the year. The outperformance is a result of a few items, most of which we have written about over the past 24-36 months. As the U.S. market continued to go higher and higher, on the back of a handful of exceptional technology-related companies, international markets became historically cheap. Reverting to the paragraph above, we took our own advice on reverting to the fundamentals, and not only kept our international exposure, but increased it at the end of 2024. Our belief was three-pronged: fiscal and monetary policy was aligning, valuations were a historic low relative to the U.S., and “de-globalization” was going to create an opportunity for earnings growth for international companies at the expense of U.S. companies. For the most part, this three-pronged approach has come to fruition; however, the strongest driver of returns has been the decline in the value of the U.S. dollar. As the dollar has declined, a basket of international currencies has strengthened; the currency strength within international markets has been the long-awaited catalyst for those investors, SDWMA among them, who have championed diversification and exposure to non-U.S. stocks. The tailwinds for international stocks are strong and the team at SDWMA believes that the outperformance of international stocks versus U.S. stocks is likely to continue into year-end as a result.

As the chart at the beginning of this letter details, the rally from the market lows has been one of the strongest on record. It would be reasonable to expect that the summer may bring a lull in the market and possibly a decline from current levels. There are always opportunities in every market and similar to the opportunities in international markets over the last 24-36 months, an opportunity is presenting itself within U.S. small caps for investors. If the U.S. can avoid a recession, with inflation continuing to cool and a relief from higher interest rates expected in the second half of the year, U.S. small caps could have a great setup after a four-year period where returns were flat (compared to the S&P 500 which delivered double digit annualized growth over that time period). Real assets continue to be an integral part of client portfolios, as investments in critical infrastructure (e.g. power, energy, data centers) that will power the AI revolution offer attractive returns without having to judge whether Nvidia can go from a \$4 trillion (yes with a T) market cap company to an \$8 trillion market cap company). Fixed income has provided attractive yields, but has not been immune from volatility, as investors are struggling to gauge how to price in the actions of the Trump Administration on trade, tariffs, and foreign policy.

One can throw out every superlative that comes to mind to explain the second quarter in capital markets – and they would all be true. It was equal parts anxiety-inducing and exhilarating, and as previously mentioned, gray hair-producing for this author. There remains significant uncertainty in markets, with the looming decision on when (if?) the U.S. Federal Reserve cuts interest rates, the August 1<sup>st</sup> tariff implementation deadline, ongoing conflicts in the Middle East and Ukraine, and the prospect of further chill in the China/Taiwan relationship. The market, at the current moment, seems to be discounting these uncertainties, but at SDWMA, we are watching them intently. We have weathered the storm of early April and client portfolios show attractive gains and returns. However, as markets have shown time and time again, something unprecedented and unforeseen will occur that will rattle markets. When the unprecedented and unforeseen occurs, trust that we will do what we always do, revert back to the fundamentals.

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