



Setting the Stage: Navigating the New Normal

Volatility — “a tendency to change quickly and unpredictably” — perfectly captures the market environment so far in 2025. Much of this instability has stemmed from assumptions that President Trump’s second-term policies would mirror his first, only to find significant deviations that have added to the uncertainty.

As more data becomes available, it’s crucial to assess the true economic impact of these evolving policies and remain alert to the possibility of a pivot toward more pro-market stances ahead of the 2026 midterms. This wide range of potential outcomes makes it more important than ever for investors to be positioned thoughtfully and flexibly.

We believe portfolios should aim to balance risk management with readiness for new opportunities. That means staying diversified across asset classes and geographies, while including assets that behave differently from traditional stocks and bonds. Periods of volatility may bring opportunity — and we’re watching closely for those windows.

Economy

In the second half of the year, the delayed effects of trade policy will begin to take a more noticeable toll on the economy, resulting in slower growth, weakening labor demand, and a modest uptick in inflation. These emerging challenges will create a more complex landscape for the Federal Reserve, requiring them to maintain a cautious stance on monetary policy and further delay rate cuts. Tariff headlines will continue to drive market sentiment, adding complexity to both growth and inflation forecasts.

Stocks

The stock market’s performance will center around trade negotiations, AI, interest rate volatility, and the tax bill, among other things. Stock valuations reflect a lot of good news amid so much policy uncertainty. Given the limited room for multiple expansion, we expect only modest gains by year-end. Episodic periods of volatility are likely amid a challenging macroenvironment, but market pullbacks should be viewed as opportunities to selectively increase equity exposure.

Bonds

Treasury yields face multiple headwinds, including policy uncertainty, fiscal concerns, de-dollarization, and rest-of-the-world yield trends. Despite obstacles to a sustained rate rally, yields largely depend on growth and inflation expectations. If economic data — especially labor market figures — shows more material weakness, yields should come under pressure, but volatility in the bond market is expected to persist. High-quality bonds remain valuable for portfolio risk mitigation and potential gains in times of broader uncertainty and economic stress. We believe investors seeking income can find attractive opportunities in bonds with maturities of up to five years.

Alternative Investments

As economic and policy uncertainty is expected to persist, we continue to stress the importance of diversification and the integration of stability-enhancing strategies in portfolios. Our preferred approaches include equity market-neutral, nimble discretionary global macro, and a range of managed futures strategies. Additionally, select niche strategies — such as volatility arbitrage and cross-asset focused tail risk — can also offer value. In private markets, infrastructure, secondary private equity market investments, and private credit remain top choices, though with tempered total return expectations in the current environment.

Commodities

Longer-term growth drivers for the broader commodities complex remain intact. However, how trade policy unfolds in the second half will ultimately dictate the global growth outlook and how commodity markets perform. China’s economic recovery remains a wild card, and until a trade deal is inked, the probabilities for a broader commodities rebound remain subdued. Gold remains a bright spot, with an array of catalysts supporting the rally, leaving us positive on the precious metals group.

Currencies

Significant fiscal support has revitalized growth prospects abroad while U.S. trade policy remains fragile. The administration’s goal of reducing the U.S. trade deficit could have a meaningful impact on global trade and ultimately reduce demand for the dollar. Threats to U.S. leadership in technological innovation have further weighed on the American exceptionalism narrative. Sanctions on foreign assets after Russia’s invasion of Ukraine have also underpinned a shift away from dollar reserves among global central banks. Collectively, these factors have reduced the dollar’s valuation, but its status as the world’s reserve currency will remain unrivaled.

Looking Ahead: Focused, Flexible, and Forward-Looking

We kicked off 2025 with strong momentum, while also recognizing that no market environment is permanent. And indeed, change arrived — ushered in by evolving policies, uncertainty around trade, and increased market volatility. Much of what we’ve seen so far has been driven by shifting policy expectations. Trade-related headlines dominated the first half of the year and will likely continue to drive market sentiment through year-end.

We expect a more challenging economic backdrop in the months ahead: slower growth, a softening labor market, and a modest uptick in inflation as the lagging effects of trade policy play out. This puts the Federal Reserve in a tough position, likely keeping interest rates elevated for longer as it works to maintain both price stability and employment.

Let’s Talk

Markets may remain uncertain, but your financial plan doesn’t have to. If you’d like to talk through how your portfolio is positioned — or revisit your goals in light of current trends — let’s connect. Click below to schedule a meeting or give us a call, and we’ll find a time that works.

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All index data from FactSet or Bloomberg as of July 8, 2025.

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