Weekly Market Flash

Summer Breeze, and Markets Feel Fine

June 27, 2025

If you had to put a human face to the performance of financial markets so far in 2025, to whom would that face bear a likeness? Ten weeks ago, a likely answer might have been Donald Trump, whose authorship of the most radical tariff ideas for the US since the Depression-era Smoot-Hawley Act was sending the stock and bond markets into alternating paroxysms of fear and relief. Six weeks ago the answer might have been Scott Bessent, the Treasury Secretary, whose measured comments and apparent ability to navigate a steady course through the crazy tweets and policy reversals provided a balm to soothe Wall Street's frayed nerves.

What, Me Worry?

Our choice for the Face of 2025, though, is neither Bessent nor Trump, nor Jay Powell nor anyone else in the business of financial policymaking. It is Alfred E. Neuman, the iconic avatar of Mad Magazine, a media publication so old that it evokes fond childhood memories even for those of us now in our sixties. The self-satisfied, gap-toothed grin of Mr. Neuman, beaming out from the cover as we eagerly tore into a new issue replete with the Spy versus Spy feature and inane parodies of whatever the hit movie of the day was, bore the message "What, me worry?"

And that seems to be the Zeitgeist of markets in 2025. Everything matters in the world, from old wars (Ukraine) to new wars (Iran), from gutting scientific research grants to flirting with ever-higher debt and deficits, all while pushing the pedal to the metal in our haste to reach the holy grail of artificial general intelligence (AGI) without having any idea what awaits us when (if) we reach that particular Shangri-la. But here in the land of the Dow Jones Industrial Average and the Barclays US Aggregate Bond Index, it's summertime and the living is easy. Stocks have now recovered substantially all they lost in the wake of the tariff announcements – the S&P 500 is trading right around its last record high, set on February 19, as we write this, while the yield on the 10-year Treasury note is ambling along around 0.25 percent below where it was when the year began.

Too Big to Fail?

Are we surprised at the extent to which calm has returned to markets, given the extreme tempests of April? A bit, yes, but remember that one of our top-level theses in the annual outlook we published back in January was our expectation that markets would act as a guardrail of sorts against the most outlandish ideas of the new administration finding their way into law. Once investors figured out that this dynamic hadn't changed from what they remembered of the first Trump administration, it was all well and back to the brandy. The assumption baked into this assessment is that markets are too big to fail and no administration – especially one that considers ultra-wealthy finance types as a core constituent of its political base – is going to let them fail.

And not just with regard to stocks and bonds. Just this morning we had something of a guardrail-imposed walk-back in reaction to events in the currency market. The US dollar dropped like a stone after a media report made the rounds suggesting that the administration might formally nominate a new Fed chair before the end of this summer, which conjured up the notion of a "shadow Fed" skulking behind Jay Powell for months before his term ends in May next year, casting aspersions on policy decisions not in line with the administration's preference for steep and immediate interest rate cuts, and tarnishing the Fed's credibility. The White House promptly put out a statement that no such decision was "imminent," which was enough to claw back some of the losses the greenback had suffered against the euro and other key currencies.

So the first half of the year will end with not much more than a whimper. Will our luck hold in the second half? Maybe – but while the summer breezes might be gentle now, we are heading into that time of the year when the "low-vol, high-vol" dynamic can be at play. In other words, low trading volume with the resulting potential for high volatility. As we noted in our commentary last week, the coming weeks could bring some unwelcome macro surprises in the form of higher inflation, as the tariff effect finally shows up further down the production value chain, and lower growth as dampened consumer sentiment turns into lower spending. Events in the real world are not going to stop pushing and shoving at markets, and there is always a non-zero probability that one thing or another will penetrate that preternatural calm we have been seeing of late.

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