

2025 First Half Review & Outlook

The story of the first half of 2025 can be summed up pretty easily with the chart to the right. The year started off on a strong note with a 4.6% gain through mid-February. However, in the back half of February into March, there was increasing concern over Trump's upcoming tariff policies which caused the market to sell off. Then, on April 2nd, aka "Liberation Day", Trump announced tariffs of 10 to 60%+ on trading partners. The market plunged 12.6% from April 2nd to April 7th, eventually hitting a 19.6% total decline at its April low. The sharp sell-off prompted Trump & Co to announce a 90-day pause on Liberation Day tariff rates and the market began to recover.

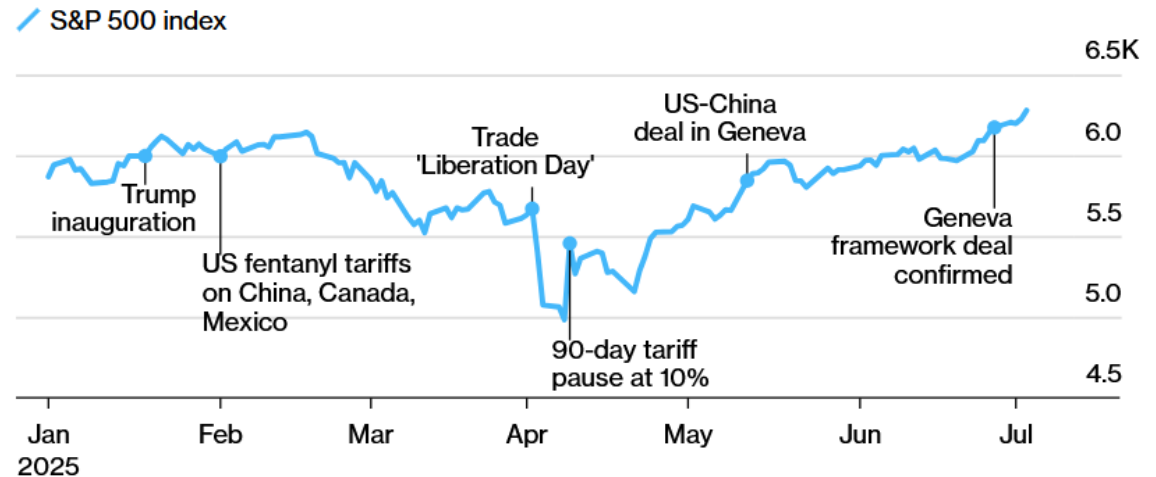
As the second quarter played out, the White House announced trade deals with Vietnam, the UK, Indonesia, and most importantly, the framework for a trade deal with China. From the April 7th low, the S&P 500 rallied more than 20%, eventually breaking out to a new all-time high. The deadline to either cut a new trade deal with the US or face Liberation Day tariff rates was moved to August 1st, so negativity on the trade front was pushed out further. Positively, inflation has not increased due to tariffs, and US economic growth remains strong with estimates for the second quarter GDP at +2.6%. Unemployment remains low around 4.1%, and the Artificial Intelligence build-out continues.

There are still some risks to watch out for. As we have seen, the President likes to change his mind, and when markets get close to all-time highs, he has some leeway with markets to ratchet up trade negotiations that can cause stock market volatility. If Liberation Day tariff rates go into effect (due to a failure to reach lower tariff rates through negotiation), inflation pressures may resurface causing the Fed to postpone interest rate cuts. Another concern is stretched stock market valuations. On a market-cap weighted basis, the S&P 500 price-earnings (P/E) ratio is above its longer-term average, albeit the equal weighted S&P 500 PE ratio is only mildly above its LT average.

Net-net: despite the uncertainty surrounding tariff rates, the weight of the evidence of our macro models and indicators remains bullish and we continue to expect a good year for investors ... **Stay the Course.**

US Stocks Rebounded During 90-Day Tariff Pause

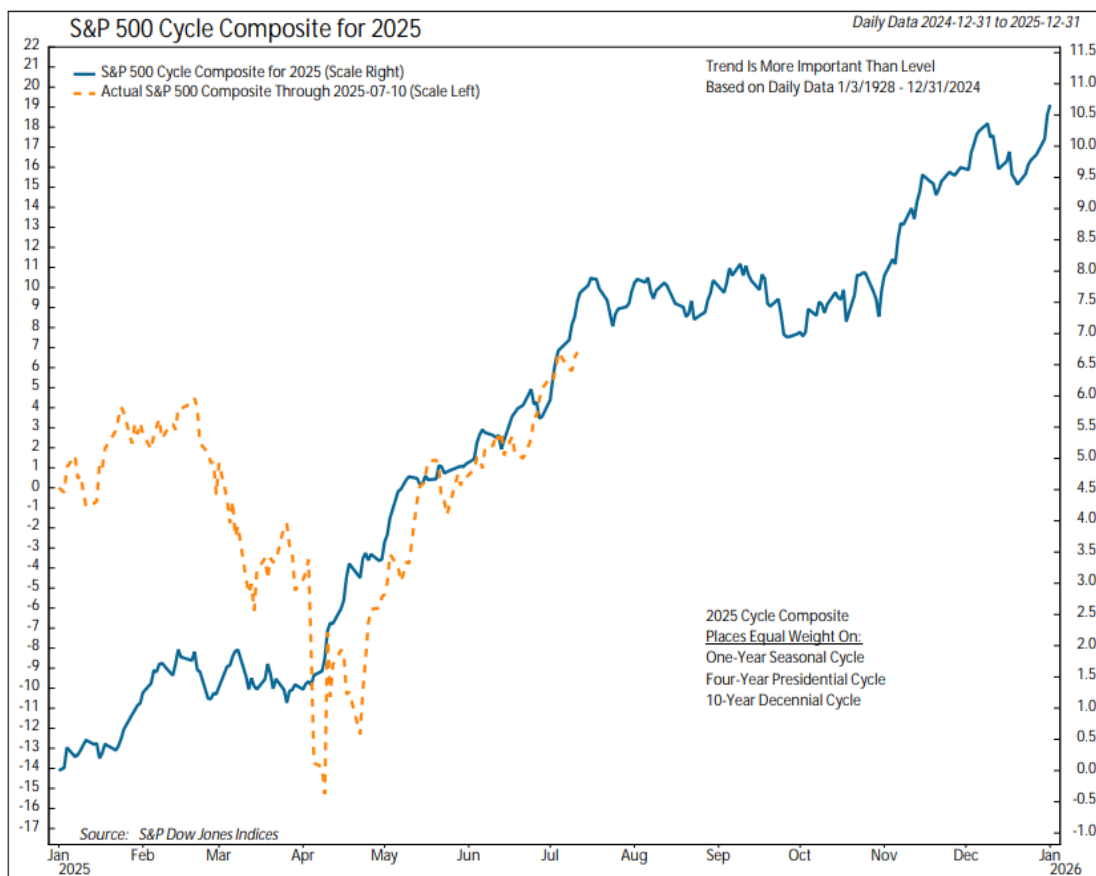
S&P 500 index surged back from Trump's April 2 reciprocal tariff plunge



Source: Bloomberg, White House

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During the second quarter of 2025 the S&P 500 declined 19.6% on a closing basis, very close to the 20% threshold that typically defines a bear market. But it also managed to fully recover those losses by quarter's end. As shown in the table on the right, when the S&P 500 has rallied 20%+ in 2 months or less, it has gone on to gain over 23% on average over the next year with every instance posting positive returns.



Source: Ned Davis Research

Of course, we will continue to follow the objective indicators in our macro models to guide our investment decision-making, but Cycle Composite is interesting to be aware of since it has tracked some years well and identified major intra-year turning points.

S&P 500 20%+ Rallies in 2 Months Or Less: 1945 - 2025

Date	Calendar Days Since 50-Day Low	Distance From 52-Wk High (%)	S&P 500 Performance (%)			
			One Month	Three Months	Six Months	One Year
11/5/74	33	-29.82	-11.96	5.11	19.93	18.69
2/5/75	61	-20.84	5.00	14.10	9.22	27.16
9/14/82	33	-2.57	9.32	11.61	22.53	34.33
3/5/91	55	0.00	-0.36	2.22	3.30	7.91
11/19/98	42	-2.88	3.07	7.51	16.62	23.37
8/22/02	30	-18.75	-12.19	-3.34	-11.90	3.15
11/21/02	43	-20.36	-4.07	-9.17	-1.11	10.87
12/8/08	18	-39.99	0.00	-24.88	3.24	20.03
3/23/09	14	-42.32	3.52	8.77	28.92	42.68
4/8/20	16	-18.79	6.54	15.27	25.34	48.99
6/6/25	59	-2.32				
Average		-18.06	-0.11	2.72	11.61	23.72
Median		-18.79	1.54	6.31	12.92	21.70
Percent of Time Positive			60	70	80	100

S&P 500 Within 5% of a 52-week high after rally.

Source: Bespoke Investment Group

On the left is the Ned Davis Research (NDR) Cycle Composite for 2025. The blue line is the Cycle Composite based on one-year seasonality, the four-year Presidential Cycle and the 10-year decennial cycle. The orange line is how the S&P 500 has traded thus far in 2025. While Q1'25 showed greater volatility than projected by the Cycle Composite, the S&P 500 has re-aligned with this year's predicted path. Should it continue to track the Cycle Composite, some bumps would be expected later this summer, but the year would finish on a strong note.

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Vineyard has also started using a new AI tool called Haystack for some interesting market perspectives. This tool takes the recent price action of an exchange traded fund (ETF) and then finds historic periods of price action that are very similar. It then creates a prediction of future price action given what transpired from the profile of historic periods that were very similar. The orange line shown below is the most similar period to the past six months of 2025 price action on the S&P 500 (as captured by the S&P 500 tracking ETF, ticker: SPY). This highly correlated period was 1998, when the S&P 500 plunged 20% and then recovered in less than 2 months, eventually hitting all-time highs and finishing that year on a strong note. Another interesting parallel to 1998 is that it was in the middle of the 1995-2000 “dotcom” run-up, where the S&P 500 gained +215%, which has been compared to the current Artificial Intelligence (AI) technology revolution. Haystack shows that from this point onwards, SPY gained +25% over the next 12 months. If the Haystack 1998 trend continues to track, the current rally has a ways to go.

SPY

S&P 500 ETF Trust (SPDR) **ETF** | **\$622.14**
Last updated 7/15/2025 | **+11.44%** 1 year change

SPY Dec 1998 59
+25.17% 1 year later | From 12/14/1998

Comparison Period Length

1 Mo 3 Mo 6 Mo 1 Yr

Forward Period Length

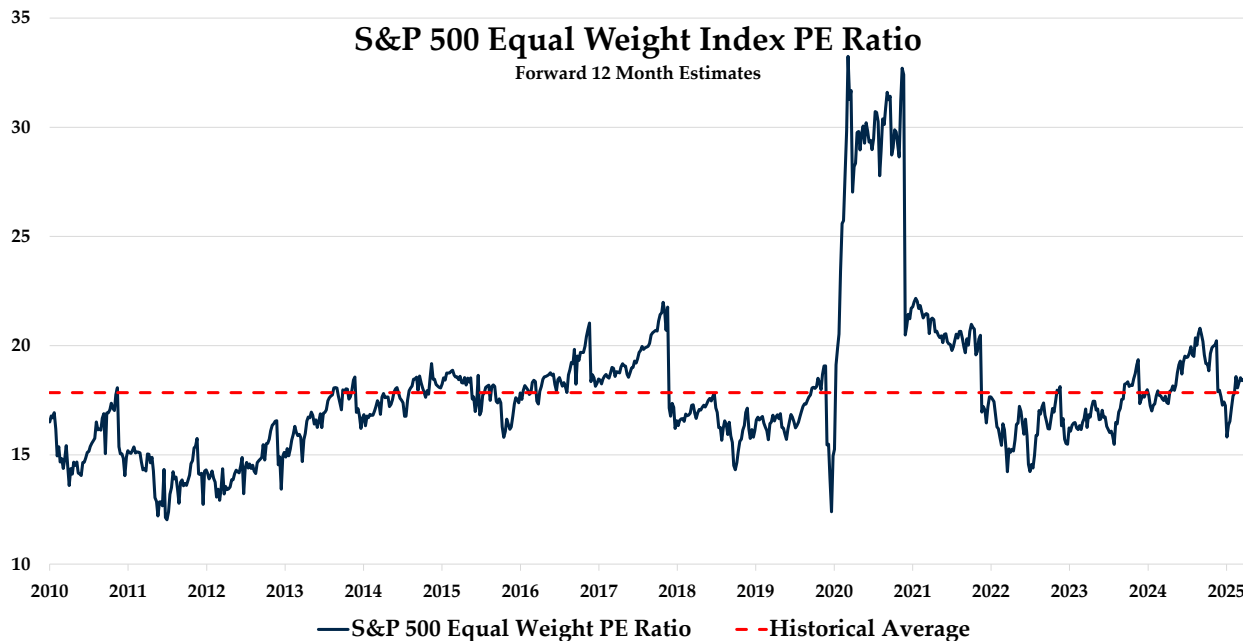
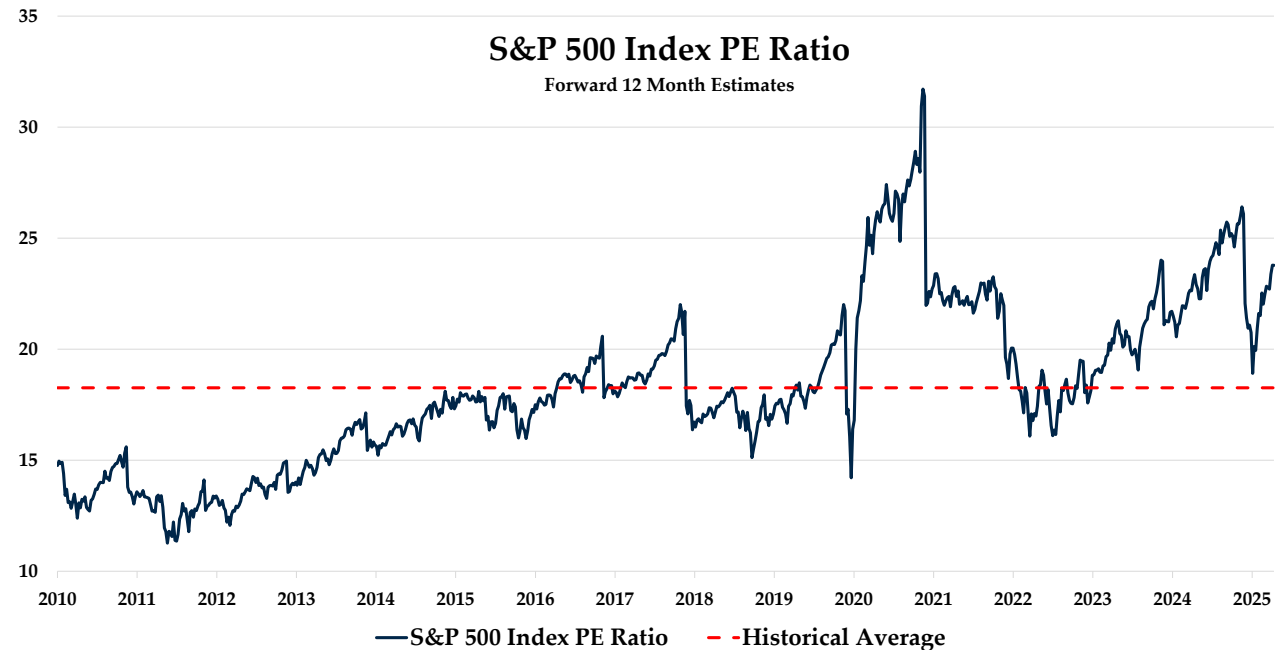
5 D 1 Mo 3 Mo 6 Mo 1 Yr



Source: HaystackAI

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We track stock valuations closely, especially in environments with higher interest rates. During 2023 and 2024 we saw the P/E ratio of the S&P 500 (market-cap weighted basis) increase towards 25x, which is high vs. its 15-year average of around 18x. The pullback in April after “Liberation Day” reduced the S&P 500 P/E back towards its long-term average, but now that the index is at new highs it appears stretched again. While valuations can get more expensive, its typically only a matter of time before they re-set lower.



However, if we shift our focus to the *equal weighted* S&P 500 index, rather than market cap weighted, valuations don't appear as stretched. Currently the equal weight index trades at a 19x forward 12-month PE ratio, compared to an average of 18x. That means the cap-weighted index is around 28% higher than average while the equal weighted index is only about 5% above average. If stock valuations re-set lower, the average stock only needs a mid-single digit pullback to return to historic fair value.

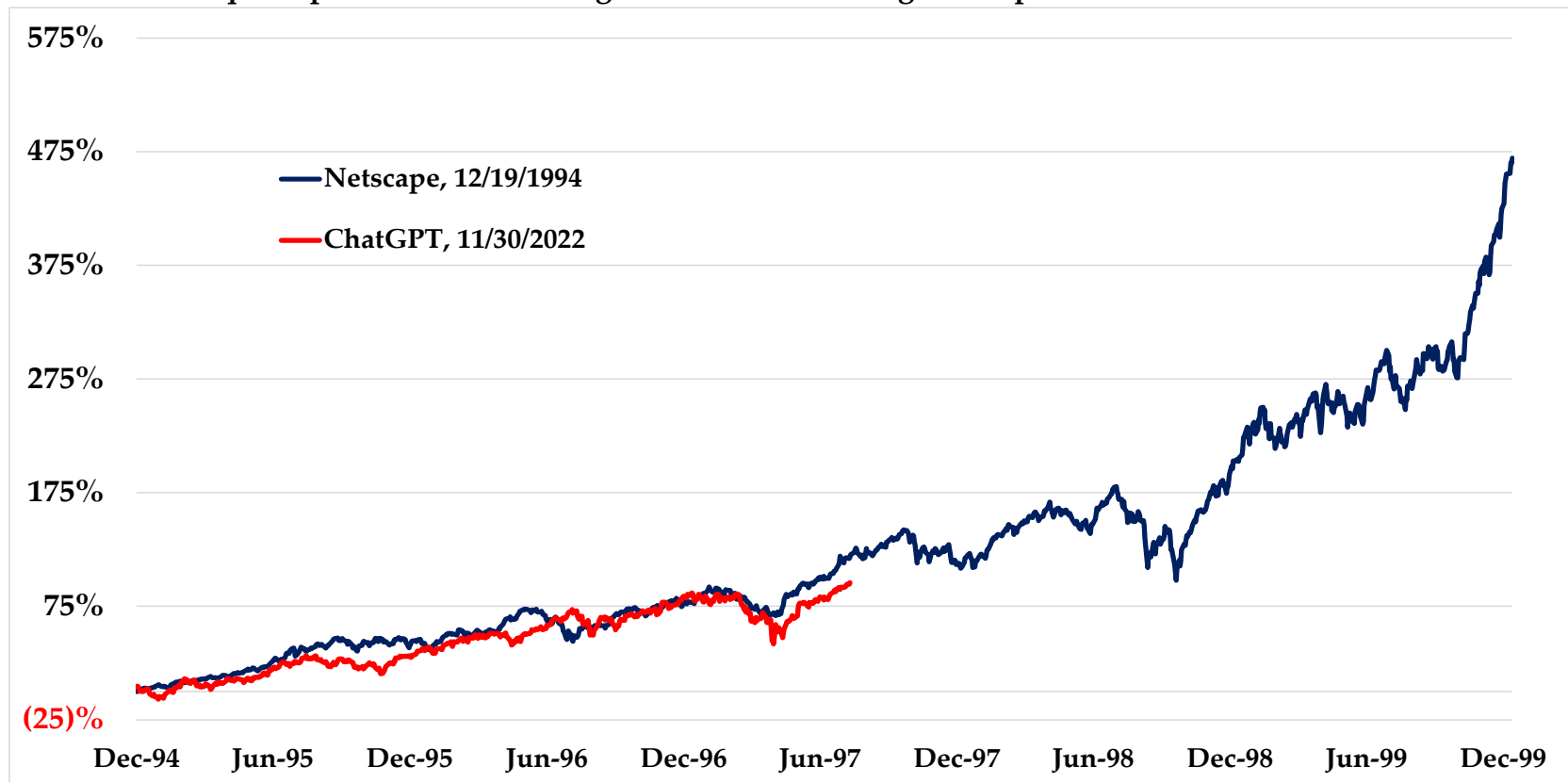
Source: VGA, data sourced through Bloomberg

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The Artificial Intelligence (AI) trade is still alive and well. There have been some new IPOs that have rocketed higher, and the hyper-scalers continue to build out new data centers. We wanted to check in on a comparison to the dotcom run up from 1994 – 2000. The dotcom run up really got going after the release of Netscape in December 1994, which allowed the general public to access the internet at home. Similarly in 2022 ChatGPT went live to the public. The most recent data in July shows that ChatGPT now has 800 million weekly active users, up from 200 million a year ago.

Shown below is the Nasdaq Composite Index total return for each period. It has been just over 960 days since ChatGPT was released and the index has gained +96%. After the same period in the second half of the 1990's, the index had risen +118%. In addition to the similar historic return patterns, it is interesting to note that if the pattern continues to track, there are smore gains to come.

Nasdaq Composite Index % Change in 5 Years Following Netscape Release vs. ChatGPT Release



Source: VGA, data sourced through Bloomberg

Final Thoughts:

Stay the Course: The solid US economic backdrop plus pro-growth, pro-business policies and AI tailwinds dovetails with positive technical signals to create a bullish backdrop for the stock market. We remain fully invested in our strategies, aside from raising some extra cash or implementing small tactical hedge positions (in hedged versions of our strategies) when short-term conditions become overbought. Our bias is for continued gains and a strong finish to 2025. Pullbacks should be limited to 5-10% in the second half of 2025.

Monitor Tariff Risk: A re-escalation of trade tensions remains the principal concern for renewed downside volatility; tactical hedges or elevated cash holdings may be warranted as trade deals are negotiated.

Valuation: While the market-cap weighted S&P 500 is expensive from a valuation perspective, the average S&P 500 stock is not. We continue to find reasonably valued companies to own and believe a valuation reset, should it occur, is more likely on the order of 5-10% vs. a deeper and longer decline.

AI Trend: We continue to like high-quality AI infrastructure providers and platform companies benefiting from the build-out of new AI technologies. If the trend continues like it did in the late-1990's, there is still further to go in this bull market.

As always, we are available for questions or comments at vineyardglobaladvisors.com.

Regards,

Vineyard Global Advisors Investment Team

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