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Q2 2025 Report
Wow - the second quarter of 2025 was intense.

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Apologies for the length - but when markets throw this much drama at us a short summary just won't do it justice.

On April 2, President Donald Trump announced a new list of "reciprocal" trade tariffs. At first, the bond market reacted just as experts expected: since tariffs can slow down the economy, investors moved money into safer places like U.S. government bonds. As a result, the 10-year Treasury yield dropped below 4%.

But things quickly took a surprising turn.

On April 7, bond yields suddenly spiked - jumping more than 0.15bps in one day - and kept climbing. By the end of that week, the 10-year yield had hit 4.6%, marking the **biggest one-week increase in nearly 25 years.**

This shake-up scared investors for several reasons:

1. U.S. government bonds are normally considered safe and stable, especially when stocks are shaky.
2. The bond market is the foundation for many other financial markets - so when it moves sharply, it affects everything and everyone.
3. If long-term interest rates go above 5%, it could slow down the economy by making it harder for people and businesses to borrow and spend money. That could cancel out the positive effects of tax cuts and deregulation that had been boosting investor confidence.

This wild week in April showed just how risky the U.S. bond market has become. It was a bit like what happened in the U.K. under former Prime Minister Liz Truss, when her unfunded economic plans caused market chaos (Liz Truss moment – October 2022).

Why Did Bond Prices Drop So Quickly?

The main reason was a complex trading strategy called the "basis trade." Here's the simple version:

- Traders try to profit from tiny price differences between Treasury bonds and related financial contracts.
- To do this, they borrow a lot of money (use leverage) which makes their bets bigger.
- But when bond prices suddenly fall, the value of their trades drops fast - and they're forced to sell, which pushes prices down even more. This creates a snowball effect.

Just a few days after the chaos started, President Trump and his team had to walk back parts of the new tariff plan. The move calmed markets a bit, especially the bond market, because it looked like the administration was responding to the turmoil.

Interestingly, it wasn't just bonds that were hit. The U.S. dollar and the stock market also dropped - a rare triple sell-off usually only seen in developing countries, not in the U.S.

Things didn't calm down right away in April. In fact, the situation heated up even more when news broke that the Trump administration was exploring ways to fire Federal Reserve Chair Jerome Powell before his term ends in early 2026. This caused a lot of concern in the markets. Why? Because the independence of the central bank is a key part of what makes people trust a country's financial system. If that trust is shaken, investors can get spooked and that's exactly what happened. People started pulling out of the U.S. dollar adding even more pressure to an already stressed situation.

Chart: Major Stock Market Indices – performance in Q2 25

Markets Start to Breathe Again

Thankfully, by late-April, the panic began to ease. The U.S. government signalled that it might tone down the trade fight and the Federal Reserve reassured markets that it would continue supporting the economy. As a result, riskier assets like stocks started to recover (see chart above).

But some damage was already done. Many investors had already begun moving their money out of U.S. markets and into European stocks, a trend that only picked up speed. The biggest winners during this shift, however, were gold and Bitcoin, which often rise when people worry about traditional markets or currencies.

June: Still a Lot Going On

June brought more ups and downs. Central banks stayed in focus. The European Central Bank (ECB) cut interest rates by 0.25% to 2.0%, just as expected. Meanwhile, the U.S. Federal Reserve held rates steady at 4.5%, citing uncertainty in the economy. Investors now think the Fed might start cutting rates in the fall.

Geopolitics also made headlines again. The conflict between Israel and Iran escalated mid-month, with the U.S. launching airstrikes on Iranian nuclear sites. This drove oil prices up to five-month highs. But within days, a surprise ceasefire was announced, and oil prices quickly dropped again.

Toward the end of June, things began to settle down. Progress in U.S.-China trade talks and a pause on new tariffs helped lift market sentiment. Investors started feeling more confident and global stock markets climbed strongly.

Still Cloudy Ahead

Despite the rebound, uncertainty remains high. Political tensions and trade risks have eased somewhat, but the overall economic outlook is still unclear. People are watching central banks, global conflicts, and trade developments very closely.

Earnings Season Kicks Off

Looking ahead, U.S. companies are about to report their earnings. Right now, analysts expect S&P 500 companies to grow profits by just 2% compared to last year, a pretty low number. But that might be too gloomy. The U.S. economy is still holding up fairly well.

Higher tariffs and a weaker dollar are expected to cancel each other out in terms of how they affect company profits. For example:

- A weaker dollar helps U.S. exporters by making their goods cheaper overseas.
- About 40% of all earnings of companies in the S&P 500 are from overseas.
- The tech sector should benefit too, since many big tech companies earn a lot from international sales.

Finally, let's talk about the U.S. dollar.

The U.S. dollar had been getting stronger every year since 2008 - that's 17 years in a row. This was unusual, especially because the U.S. has been running both big budget and trade deficits. Investors kept believing in "U.S. exceptionalism," the idea that the U.S. economy is more resilient and reliable than others.

That belief kept money flowing into the U.S. for years – especially from countries which had a large trading surplus with the U.S. But in 2025 the tide turned. The dollar began a long-term decline what's known as a bear market.

And that shift is creating **new winners. Gold, Bitcoin, and commodity-related investments** (like oil and metals) are all gaining ground as investors look for alternatives to the dollar.

In short: Q2 was a rollercoaster. Markets were shaken by politics, war, and rising interest rates, but signs of calm are returning – at least for now.

Kind regards,

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