

State of the Markets

From the desk of Darrell L. Cronk



July 15, 2025



Darrell L. Cronk

President, Wells Fargo Investment Institute
Chief Investment Officer, Wealth & Investment Management

From the lifeguard chair

"Live in the sunshine, swim the sea, drink the wild air." — Ralph Waldo Emerson

Simply put, summertime is glorious. Just the thought evokes images of sunny skies, warm sand, and refreshing ocean waves on a hot day — when long days are best spent on vacations and time with family and friends.

Wall Street tends to enjoy the early days of summer as well. Historically, July has been one of the best months of the year for the S&P 500 Index, delivering median 2.7% returns from 2015 through 2024. Even in recent years, July has proven to be one of the calendar's most rewarding months. The S&P 500 Index increased 5.5% in July of 2020 as markets recovered from the pandemic fear that gripped the world when the economy shut down. Even in 2022, the S&P 500 Index shot up 9.1%, rebounding from inflation and interest-rate fears.¹

Interestingly, we also typically see lower trading volumes in the months of July and August. Makes sense when you think about it. Wall Street types are shuttling between the heat of the city to the Hamptons or the Jersey Shore, and Main Street investors who can are taking their vacations and forgetting about trading their portfolios for a moment. Lower summer volumes can lead to higher volatility, and they can make technical patterns harder to read.

But like lifeguards perched in their tall chairs, we strategists who serve you are always on the lookout for lurking dangers. Our job is to let you know when we see sharks circling offshore, to blow our whistles when someone swims too far from shore, to wave the boogie boarders away from the rocks, and to post caution flags when the undertow is strong.

Struggling against the tide and reaching the shore somewhat exhausted

Let's take a minute to acknowledge the extraordinary historical moment we have already witnessed in 2025. From the market's perspective, the second quarter was one for the record books with the S&P 500 up 10.6% and almost 30% from the April 7 low of 4,835. In 55 trading days, from the April 7 lows to a new all-time high on June 26, the index made the fastest roundtrip following a 15% or more decline in the history of the stock market.

Investment and Insurance Products: ➤ NOT FDIC Insured ➤ NO Bank Guarantee ➤ MAY Lose Value

1. Past performance is no guarantee of future results.

What would most investors have forecasted for markets had they been told they would see these five events in the span of three months (the second quarter)?

1. There would be fears of an all-out global trade war on the second day of the quarter (Liberation Day on April 2).
2. There would be endless wrangling over a budget bill that, if not passed, would result in an additional \$400 billion tab to the American taxpayer.
3. The final credit agency to have a AAA rating on U.S. paper would downgrade it on May 16.
4. A hot war between Israel and Iran would start on June 13.
5. The U.S. military would take out three of Iran's nuclear enrichment sites on June 21.

Who among us would have believed the S&P 500 and Nasdaq Composite Index would be setting new all-time highs? Looking back, it felt like a full market cycle in the space of a single quarter.

As we move deeper into the third quarter, the headline noise and surprise announcements are creating the conditions for rougher surf ahead. Congress passed one of the largest fiscal bills in history, and President Donald Trump signed it into law on July 4. The administration continues to publicly and vociferously object to Federal Reserve (Fed) Chair Jerome Powell's current monetary policy, extending the criticism in recent days to his leadership managing the Fed's building renovations. And right on cue, just as we expected, trade policy returned to the headlines, bringing risk that higher tariffs could be put in place for those countries without an agreement by August 1 — implying that the U.S. effective tariff rate will likely increase from current levels.

Confident or complacent?

The key question for investors is this: Is this a time for caution, a time to scurry out of the deep water and back to shore, or with the tax-cut extension locked in, deregulation likely to follow, and the potential for a soft landing for trade policy, is this a time to catch a ride on a runaway wave and hold on tight?

It remains difficult to look at the S&P 500 Index and conclude stocks are cheap at almost 24x price/earnings multiples. The good news is that earnings growth strength has resumed nicely in the early parts of this year; the first quarter saw 7% revenue growth and 15% earnings growth. We don't expect second-quarter earnings to be as strong, but we wouldn't be surprised to see 4-5% revenue growth and 7-9% earnings growth, or even higher for the S&P 500.

We believe corporate earnings are susceptible in coming quarters, however, to tariff-induced disruptions in global trade as countries scramble to protect their key industries and their comparative advantages for exports, while U.S. companies look to guard margins and pricing stability. Those tariffs will ultimately have to be paid by someone, and in our view are likely to be a shared cost among producers, suppliers, manufacturers, and consumers.

Most major equity indexes are currently at or close to all-time highs. Commodities have performed well with gold as one of the best-performing assets (based on the spot price) — not just this year, but in the decade of the 2020s, besting the S&P 500 aggregate return from January 2020 through July 14, 2025. Even with recent calls declaring the decline of U.S. exceptionalism globally, the U.S. economy remains the only major developed market economy whose gross domestic product has recovered back to its pre-pandemic trend.

When it comes to markets, we've found strength often begets strength. However, in moments when we sit at all-time highs, we believe it's important to rebalance portfolios and ensure that portfolio allocations don't become too extended above their strategic targets. From our chair, we see a market that appears relaxed about downside risks to growth, and we see equity and bond market volatility at their calmest levels since February. We also see a technology company that surpassed a \$4 trillion valuation last week and bitcoin making an all-time high above \$120,000 just yesterday. The former exceeds the valuation of the entire Euro Stoxx 50 Index, and the valuation of the bitcoin market exceeds Germany's entire DAX Index. Those are good reasons to keep our eyes peeled for storm clouds offshore. The all-important labor market is clearly decelerating, as private sector job creation slowed for a third consecutive quarter, and the June payroll report, with just 74,000 private jobs created, marked one of the weakest readings in this cycle.

Keep swimming, but be disciplined in your portfolio management

As T.S. Eliot reminds us, "At the beach - time you enjoyed wasting, is not wasted." So, as you relax and enjoy the summer season, don't forget your investment portfolio. While we do believe the economy and earnings growth resilience will persist through the remainder of 2025, we have come a long way in a short period of time. Ensuring that your allocations are where you intend them to be is important even during the lazy dog days of summer.

As I reminded regular readers earlier this year, investing is not simply about returns although many mistake it to be. It's about risk — understanding how much to take, how to calibrate it, how to manage it, and what is a good risk versus a bad risk to take. Returns are simply a byproduct of risks consumed. That is often difficult to remember when markets and portfolios continue to push to all-time highs, but markets, like the strength of the tide and the force of the wind, can change in an instant. We will continue to watch diligently from the lifeguard chair.

Risk considerations

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Technology** and internet-related stocks, especially of smaller, less-seasoned companies, tend to be more volatile than the overall market. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. The **commodities** markets are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value which may result in greater share price volatility. Investments in **gold** and gold-related investments tend to be more volatile than investments in traditional equity or debt securities. Such investments increase their vulnerability to international economic, monetary and political developments.

Definitions

DAX German Stock Index represents 30 of the largest and most liquid German companies traded on the Frankfurt Stock Exchange.

Euro Stoxx 50 Index is Europe's leading Blue-chip index for the Eurozone, provides a Blue-chip representation of supersector leaders in the Eurozone. The index covers 50 stocks from 12 Eurozone countries: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain.

NASDAQ Composite Index measures the market value of all domestic and foreign common stocks, representing a wide array of more than 5,000 companies, listed on the NASDAQ Stock Market.

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

An index is unmanaged and not available for direct investment.

General disclosures

Global Investment Strategy (GIS) is a division of Wells Fargo Investment Institute, Inc. (WFII). WFII is a registered investment adviser and wholly owned subsidiary of Wells Fargo Bank, N.A., a bank affiliate of Wells Fargo & Company.

The information in this report was prepared by Global Investment Strategy. Opinions represent GIS' opinion as of the date of this report and are for general information purposes only and are not intended to predict or guarantee the future performance of any individual security, market sector or the markets generally. GIS does not undertake to advise you of any change in its opinions or the information contained in this report. Wells Fargo & Company affiliates may issue reports or have opinions that are inconsistent with, and reach different conclusions from, this report.

The information contained herein constitutes general information and is not directed to, designed for, or individually tailored to, any particular investor or potential investor. This report is not intended to be a client-specific suitability or best interest analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities. Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon. The material contained herein has been prepared from sources and data we believe to be reliable but we make no guarantee to its accuracy or completeness.

Wells Fargo Advisors is registered with the U.S. Securities and Exchange Commission and the Financial Industry Regulatory Authority, but is not licensed or registered with any financial services regulatory authority outside of the U.S. Non-U.S. residents who maintain U.S.-based financial services account(s) with Wells Fargo Advisors may not be afforded certain protections conferred by legislation and regulations in their country of residence in respect of any investments, investment transactions or communications made with Wells Fargo Advisors.

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, separate registered broker-dealers and non-bank affiliates of Wells Fargo & Company. PM-01122027-8171113.1.1