

First Half 2025 Market Recap: Resilient Gains Amid Rising Risks

The first half of 2025 offered investors a textbook case in market resilience. Despite sharp volatility and headline-driven uncertainty, U.S. equity markets posted strong returns across all major indices, powered by robust earnings, AI momentum, and measured reactions to headline current events.

As many investors will likely recall, Q2 opened with a jolt. On April 8, markets tumbled following “Liberation Day” trade policy announcements from the Trump administration. The [S&P 500 dropped nearly 12% over two weeks](#), reflecting investor anxiety over renewed tariff battles. However, revised policies and delayed implementation helped calm markets and sparked a sharp rebound that defined the quarter’s tone.

By the end of the quarter, the S&P 500 was up 10.6%, the Nasdaq surged over 17%, and the Dow rose nearly 5%. Positive earnings surprises and easing inflation supported the recovery, with S&P 500 companies reporting 12.7% year-over-year earnings growth, well ahead of expectations.

June saw further volatility as geopolitical tensions flared between Israel and Iran. But once again, market anxiety faded when Iran’s response proved more mild than initially expected. This pattern – initial volatility followed by a rebound - became a recurring theme during the quarter.

Investor sentiment was also buoyed by renewed AI enthusiasm and a dovish tilt from the Fed. While the central bank has cut interest rates by 100 basis points since late 2024, it chose to hold steady in its January and May meetings, signaling a wait-and-see approach. Markets now expect one to two cuts by year-end, contingent on inflation and labor data.

In a further sign of market resilience, the S&P 500 triggered a ‘golden cross’ in early July, where the 50-day moving average crossed above the 200-day moving average, which is a widely watched technical indicator of bullish momentum that has historically preceded continued gains.

However, headwinds remain despite these recent gains. The pace of hiring has cooled, with [job gains averaging just 135,000 per month](#), raising questions about the strength of the labor market. The dollar’s sharp decline reflects underlying caution and uncertainty among investors. In addition, unresolved trade policy issues could influence global market dynamics and drive sector-level volatility, as new measures are anticipated later this summer.

Looking Ahead: Navigating the Second Half

With the first half now in the books, attention turns to a trifecta of catalysts for the months ahead:

1. **Federal Reserve Path** – Monthly inflation prints, employment data, and GDP revisions will shape rate-cut expectations. But, an overly hawkish Fed risks stalling momentum.
2. **Corporate Earnings** – Continued Q2 results, especially from mega-cap tech and cyclical sectors, will determine whether equity valuations, which are currently elevated, are sustainable.
3. **Geopolitical & Trade Events** – Renewed tensions in the Middle East or shifts in trade policy involving the U.S., China, Europe, or the U.K. could disrupt market momentum.

In short, the first half of 2025 proved that markets can endure and even thrive in a challenging environment. For investors, maintaining discipline, focusing on fundamentals, and staying diversified will be key as we enter a period that will likely be marked by both opportunity and a bit of remaining uncertainty.

Disclosures:

S&P 500 Index is a capitalization-weighted index calculated on a total return basis with dividends reinvested. The index includes 500 widely held U.S. market industrial, utility, transportation and financial companies.

The Nasdaq 100 Index is an unmanaged group of the 100 biggest companies listed on the NASDAQ composite index. The list is updated quarterly and companies on this index are typically representative of technology-related industries, such as computer hardware and software products, telecommunications, biotechnology and retail/wholesale trade.

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