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Q2 2025 Newsletter

Economy & Market Valuation

The US stock market as measured by the S&P 500 has scaled a new all-time high in 2nd Quarter of 2025. This is after the market saw a correction earlier in Q2 of 2025. The market saw the correction because of risks that the Trump tariffs will slow down the economy or cause a recession. The uncertainty about tariffs is reducing now as the Trump administration's policy is becoming clearer. Tariffs are not going to zero and will stay at levels greater than zero but will not be at levels that will kill the economy. The minimum tariff that Trump wants is 10% for the countries that are adhering to US demands. The countries not adhering to US demands will pay tariffs of more than 10%. The tariffs on Chinese goods are now at 55%, much better than 145% earlier. The UK has signed a trade deal with the US, with more such deals likely to follow in July of this year.

The negativity that we talked about in the Q1 2025 letter is lifting. Reduction in tariffs and lower economic uncertainty have pushed the market to an all-time high. The market still has plenty of risks. The growth in the US economy is slowing down as high interest rates are slowing down sectors like housing and other interest rate sensitive sectors. Trump is pushing the Federal Reserve (Fed) to cut interest rates, but the Fed has not reduced rates so far. The Fed is reluctant to do so because they expect tariffs will increase inflation later this year. Increases in tariff rates can push interest rate cuts out in the future. We think the US economy needs lower interest rates. We may see one or two interest rate cuts later this year.

2025 investment strategy

We have deployed all the cash that we had in the portfolio in April after we saw that Trump has paused the tariff hikes. The pause took away the Armageddon scenario. The pause gave us confidence that tariff policy is not going to wreck the economy. The shift has helped us in achieving the outstanding returns achieved in Q2 2025. We do not see a reason to change our portfolio investments right now. We added HOOD and other positions in the portfolio. Most of you will know HOOD as Robinhood, a stockbroker that you can use to invest and trade. Robinhood is a very innovative company, launching new products for the consumer, and growing extremely fast. It also is a bet on volatility, rise in crypto trading, options, and volume in the market. We added to many other names in the AI and Semiconductor space. We are keeping an eye on the market and the economy and will do what is right for our clients.

We hope you are enjoying the summer and hope to see you at our summer event on Aug 9 at Café Chef Dinesh, Johns Creek, GA.