2025 Midyear Outlook:

What's Next for the Economy and Your Investments?

The first half of the year brought plenty of headlines—and plenty of questions. Tariff announcements, then tariff pauses, and trade negotiations dominated the conversation. However, there were also debates about the federal budget, including proposed tax and spending changes.

Concerns about the national deficit came into sharper focus after Moody's Ratings downgraded the U.S. government's credit rating, a headline that raised investor awareness about the country's financial position. At the same time, the Federal Reserve has held steady on interest rates, deciding not to lower them so far this year.

Stocks surged at the start of the year. Then markets dropped sharply, led by some of the biggest names that had driven gains in recent years. Just as worries peaked, stocks rebounded more than 20 percent. It's been a volatile stretch, but one that also reminds us how quickly market sentiment can shift. **So, where are we headed from here?**

The Economy: Still Growing, but Facing Challenges

What's supporting growth?

The strength of the economy will likely determine how markets perform in the coming months. The most important driver remains the job market. Employment growth has cooled somewhat (see Chart 1 below), but it's still in positive territory. That's important because about 70 percent of the U.S. economy depends on consumer spending. As long as people are working, they're more likely to keep spending, which helps keep the economy moving.

Growth Drivers

Job Market | **Budget Bill** | **Trade Policy**

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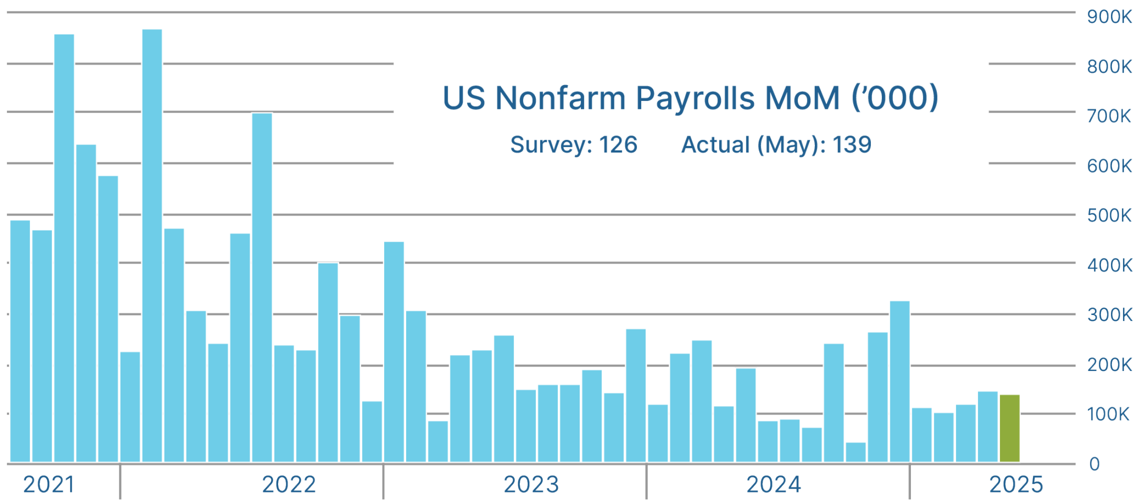


Source: The Daily Shot, June 9, 2025.

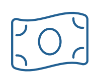
Another potential support could come from Washington. The proposed Budget Reconciliation Bill of 2025 includes tax relief and new spending plans that, if passed, could give the economy a short-term lift before future cuts begin. That stimulus could help offset some of the impact from tariffs.

Trade policy is also an important piece of the puzzle. While some new tariffs have been paused, many remain in place, at levels not seen in nearly a century. Permanent trade agreements would give consumers and business leaders more confidence in their spending decisions.

What could slow things down?

The risk is that the on-again, off-again tariff environment has already set in motion effects that haven't fully shown up in the data yet. Higher prices on imported goods and global supply chain disruptions could put pressure on both consumers and businesses.

We're also seeing signs that people and companies are becoming more cautious. Consumer confidence has weakened, which could lead to reduced spending and increased saving. Business leaders may delay big decisions about hiring or long-term investments without more clarity on future trade rules. If those pauses continue, they could weigh on economic growth in the second half of the year.



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At the same time, concerns about tariffs, the federal budget, and the government's rising deficit have weighed on investor sentiment, especially in the bond market. The Federal Reserve has held interest rates steady this year, but higher long-term borrowing costs can still impact consumer spending and business investment in the months ahead.

Market Performance: A Bumpy Ride

After falling sharply in the spring, U.S. stocks rallied as investors responded to hopes that pauses on tariffs would lead to easing trade tensions. In comparison, international stocks (as measured by the MSCI EAFE Index), meanwhile, have delivered an especially strong performance.

Bond markets have also seen dramatic shifts. However, even with the ups and downs in the news, the yield on the 10-year U.S. Treasury has remained close to where it began the year, around 4.5 percent.

4.5%

Yield on 10-year U.S. Treasury

Stock valuations are a common topic of concern. The S&P 500 as a whole doesn't appear cheap, but that's largely due to the strong performance of a small group of large companies. Once those are removed from the equation, the rest of the market looks more reasonably priced. Investors are starting to pay more attention to a broader range of companies across different sizes, industries, and geographies.

Earnings and Interest Rates: What They Mean for You

For stock prices to stay supported, investors need confidence that companies can continue to grow their earnings. Lately, that outlook has dimmed slightly. At the end of 2024, earnings for companies in the S&P 500 were expected to grow by about 15 percent in 2025. Today, that forecast has dropped to around 9 percent.

Current forecast

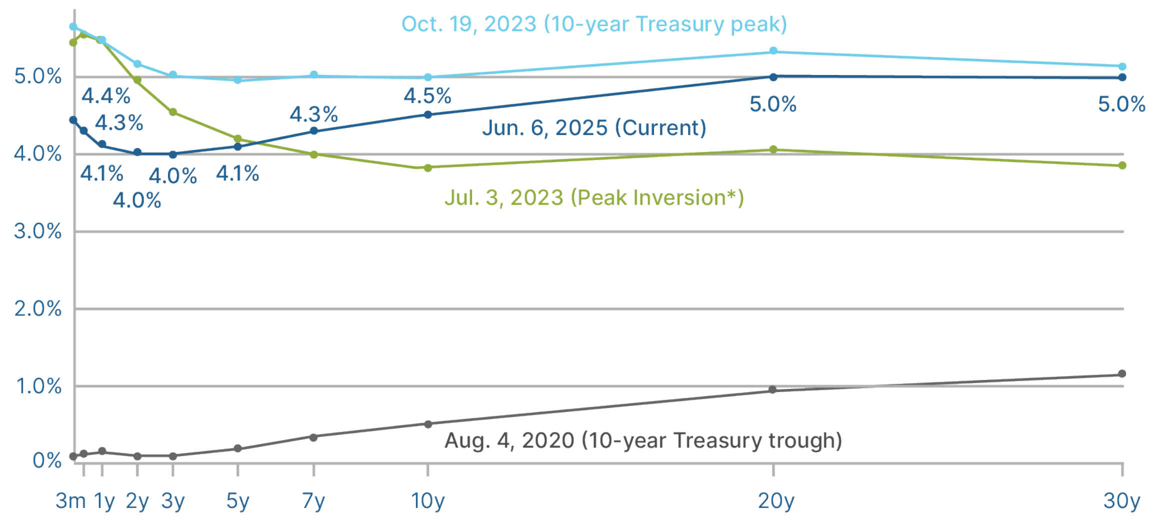
9%

S&P 500 earnings growth

Even so, considering the challenges—from trade uncertainty to slower economic growth—**that's still a strong number.** If companies can meet or exceed those expectations, it would give investors reason to stay optimistic, especially heading into 2026.

Meanwhile, the Federal Reserve has taken a wait-and-see approach, keeping interest rates steady for now. Bond investors, however, have responded more quickly to shifting headlines. Yields on U.S. bonds dropped earlier this year on fears of a global slowdown, then jumped again as concerns about government spending and inflation took center stage. That kind of back-and-forth reflects the market's uncertainty.

But it's important to keep perspective: despite all the movement, **interest rates are still within the same general range they've been in for the last two years** (see Chart 2).



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management. Analysis references data back to 2020. *Peak inversion is measured by the spread between the yield on a 10-year Treasury and 2-year Treasury.
Guide to the Markets – U.S. Data are as of June 6, 2025.

For income-focused investors, especially retirees and savers, today's rate levels could offer opportunities. And given concerns about the impact of tariffs on inflation and the increasing deficit, holding a mix of bonds with different time horizons (known as "durations") could help manage risk and take advantage of market shifts.

Looking Past the Headlines

Headlines have played a big role in moving markets this year, and that will likely continue. However, while day-to-day news can drive short-term swings, it's the economic data that will tell us the real story over time.

Slow growth is still growth.

Trade policy has tested the resilience of the U.S. economy, but so far, it has held up better than expected. While growth was slightly negative in the first quarter, the underlying economy continued to expand.

Unless there's a major unexpected disruption, we anticipate that the U.S. economy will continue to grow slowly in the second half of the year. This should support corporate earnings growth.

Market volatility is likely to continue, but it's worth noting that earlier this year, stock prices had already adjusted for a lot of the bad news around trade and economic uncertainty. As a result, we're starting the second half from a more balanced place relative to expectations.

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Through the ups and downs, diversification (spreading investments across different areas of the market) is key to weathering the storm for investors. We believe that approach continues to offer the best strategy for navigating uncertainty and staying on track toward long-term goals.

The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. All indices are unmanaged, and investors cannot invest directly into an index. Unlike investments, indices do not incur management fees, charges or expenses.

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