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2025 Midyear Outlook: Opportunities amid uneven terrain

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The first half of 2025 has seen rapid and often unpredictable policy changes, which have left many investors feeling uncertain. We believe these uncertainties will be in play for the next few months, if not longer. Even if countries negotiate lower tariffs with the U.S., the tariffs that remain should still produce a spike in inflation and then an economic slowdown. But we think the U.S. economy will avoid a recession with a cushion from Federal Reserve interest-rate cuts, tax relief, and deregulation. In fact, we're looking for these positives to help fuel a mild economic recovery towards the end of 2025 and into 2026.

The prospect of a slowdown, followed by a recovery presents an opportunity for long-term investors to consider increasing positions in high-quality U.S. asset classes and sectors, specifically U.S. large- and mid-cap equities. We view companies – with historically strong balance sheets, good cash flow, low debt and long-term growth prospects – as well-equipped to confront the economic impacts of tariffs. Investors also may want to position long-term portfolios for future economic expansion potential. At the sector level, we believe investors should consider increasing exposure to the Information Technology, Communication Services, Financials, Energy, and Utilities sectors. We prefer building exposure incrementally if market drawdowns create buying opportunities as we expect.

Quality is also our theme in fixed income. We recommend investors be selective and focus on investment-grade corporate bonds and municipal bonds. We favor maturities of 3-7 years, an intermediate range, because we expect similar yields but much less price and yield volatility than from longer-dated maturities.

In real assets, we favor a broad allocation of commodities - that give exposure to precious metals during times of policy stress but also adds energy and industrial commodities to prepare for the economic recovery we expect.

Finally, for qualified investors, we believe adding alternative strategies to a portfolio of stocks and bonds may help build a more resilient portfolio better able to withstand periods of market volatility.

For more of our insights and guidance for the rest of the year and beyond, read our special report: 2025 Midyear Outlook: Opportunities amid uneven terrain.

Definitions

Investment Grade bonds - A rating that indicates that a municipal or corporate bond has a relatively low risk of default. Bond rating firms, such as Standard & Poor's, use different designations consisting of upper- and lower-case letters 'A' and 'B' to identify a bond's credit quality rating. 'AAA' and 'AA' (high credit quality) and 'A' and 'BBB' (medium credit quality) are considered investment grade. Credit ratings for bonds below these designations ('BB', 'B', 'CCC', etc.) are considered low credit quality, and are commonly referred to as "junk bonds".

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