

# Maclura Investments

## 2Q25 Review - Trump Tariff Tantrum Subsidies



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The first half of the year was marked by significant market volatility, characterized by fluctuating market sentiment. While the first quarter's market return was the worst in nearly three years, Liberation Day (April 2<sup>nd</sup>) brought about an even more drastic drop in the market. By April 8<sup>th</sup>, this swift decline brought the S&P 500 precariously close to establishing a new bear market when it had dropped 18.75% from its February 19<sup>th</sup> peak. With the pace of the markets' daily negative returns, it was one day away from a 20% or greater correction from its peak, which defines the beginning of a bear market. This downturn was primarily attributed to the "Great Trump Tariff Tantrum of 2025" and abruptly reversed course on April 9<sup>th</sup> when tariffs were paused to facilitate trade negotiations.

### Exhibit 1. Investment-Style Returns

Morningstar Index Market Returns		2017	2018	2019	2020	2021	2022	2023	2024	2025		
										1st Qtr.	2nd Qtr.	YTD
Growth	U.S. Growth	29.52%	0.78%	35.90%	44.65%	24.79%	-36.70%	38.48%	23.42%	-9.24%	19.43%	8.40%
	Large Growth	31.15%	2.94%	33.81%	38.86%	21.47%	-40.36%	47.26%	27.75%	-7.53%	23.05%	13.78%
	Mid Growth	25.67%	-3.16%	36.01%	46.17%	14.97%	-32.37%	25.38%	20.33%	-6.27%	15.96%	8.69%
	Small Growth	23.77%	-5.67%	27.60%	43.52%	-1.00%	-33.13%	26.65%	12.89%	-8.43%	13.13%	3.58%
	US Market	21.47%	-5.05%	31.22%	20.99%	25.78%	-19.43%	26.44%	24.09%	-4.63%	11.14%	5.99%
Value	U.S. Value	14.23%	-7.51%	25.09%	-1.31%	23.98%	-0.72%	11.98%	13.77%	4.44%	1.33%	5.83%
	Large Value	15.09%	-5.90%	25.70%	-0.62%	21.49%	0.26%	11.82%	14.69%	5.95%	0.89%	6.89%
	Mid Value	13.02%	-10.63%	24.81%	-3.76%	29.02%	-2.39%	10.94%	12.28%	2.15%	2.04%	4.23%
	Small Value	8.40%	-16.61%	19.96%	1.01%	31.79%	-6.60%	14.58%	9.67%	-3.74%	4.01%	0.12%

Source: Morningstar

Despite this initial turbulence, the Morningstar US Market index returned 5.99% for the first six months of the year. This outperformance was largely driven by large-cap growth stocks, particularly the "Magnificent 7" technology companies. These same technology stocks had contributed significantly to the first quarter's negative performance but rebounded in the second quarter due to the persistent appeal of the Artificial Intelligence (AI) investment theme and better-than-expected first-quarter earnings. While growth stocks finished the six months marginally outperforming value, they had larger swings in the up and down markets.

There are many variables influencing the market so far this year, from regional unrest to interest rate movements, but trade issues and tariffs remain a focal point of market uncertainty. The pause on reciprocal tariffs is slated to expire on July 9th, but a potential reinstatement is not expected to trigger the same severe market reaction observed in early April. Nevertheless, it contributes to ongoing market volatility. As previously mentioned in my first quarter market review, there were three potential outcomes for the tariff situation: 1) initiation of negotiations for more favorable trade terms, particularly for the United States, 2) a trade war of nations trading tit-for-tat, rather than negotiating, and 3) incentive for new manufacturing capacity in the United States to capitalize on the new protective stance equalizing competitiveness with lower cost nations. It is evident that most countries are currently engaged in negotiating new trade terms, which is considered the most favorable scenario of the three.

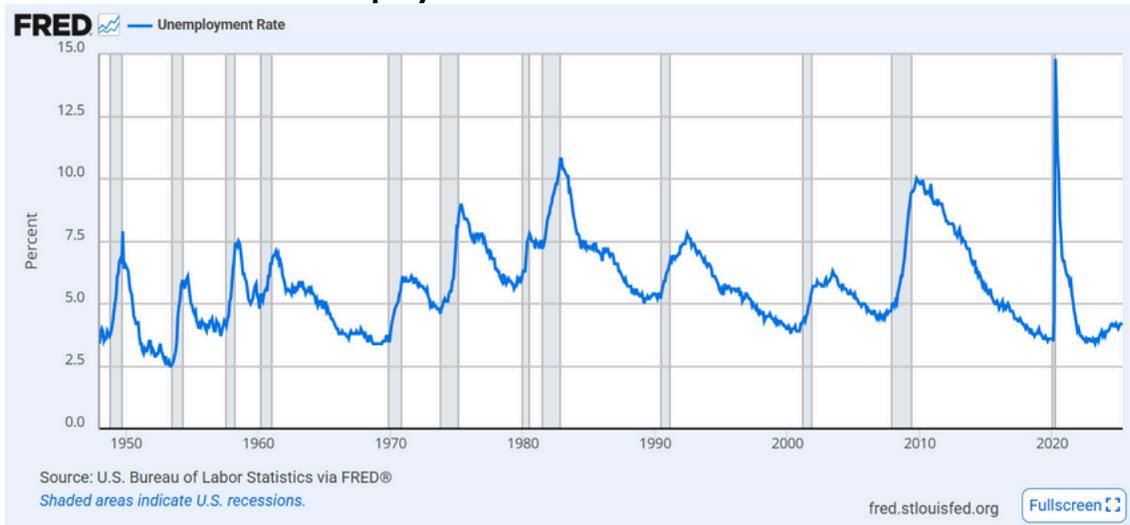
The economic impact of potential tariffs is projected to be less severe than some media "doomsday" scenarios suggest, given that the dollar value of U.S. imports in 2024—estimated at \$3.35 trillion—represents only 11% of the projected 2025 GDP. While supply chain disruptions similar to those caused by COVID-19 are deemed unlikely, strategic imports, such as semiconductors from Taiwan, could have ripple effects across the electronics supply chain. Mexico, China, and Canada are the top three importers into the U.S., with China having already concluded a trade agreement and Canada actively negotiating. There is a high probability that negotiations will prevail, thus averting a widespread trade war.

President Trump's diplomatic approach, though described as abrasive and abrupt, has proven effective in compelling nations to engage in negotiations that typically progress at a much slower pace. The inherent nationalistic tendencies of countries, prioritizing their citizens' needs, make true global free trade a challenging objective, ensuring that tariff discussions will continue to generate market volatility for the foreseeable future.

Despite global disruptions, the U.S. economy has demonstrated remarkable resilience. Inflation and employment metrics remain within a range that allows the Federal Reserve to maintain current short-term interest rates. Although the Trump administration has exerted considerable pressure for interest rate reductions, the underlying economic conditions have not necessitated such cuts.

A significant forward-looking concern is unemployment, which has fluctuated between 4.0% and 4.2% since May 2024. While the latest employment data shows a stronger than expected labor market, with the unemployment rate decreasing to 4.1%, the burgeoning influence of AI in the workplace poses an intriguing dynamic long-term. Its ultimate impact of augmenting productivity versus eliminating jobs is yet to be determined. As illustrated in the unemployment chart below, every recession (shaded column) is accompanied by a rise in the unemployment rate. This makes intuitive sense, as corporations tend to increase layoffs as the economy slows, and with consumer spending accounting for the majority of the Gross Domestic Product, an increase in unemployment should have a slowdown effect on the economy. As the economy starts to adopt AI, it will be hard to predict its impact. There could be a significant increase in productivity and higher unemployment as AI replaces labor, and the increase in the unemployment rate would influence the Federal Reserve's monetary policy. In such an instance, any change by the Federal Reserve to influence employment numbers would likely be ineffective, akin to "pushing on a string."

## Exhibit 2. Historical U.S. Unemployment Rate



But there is also the potential for significant deflation for services, such as legal and healthcare services, as emerging technology companies are attempting to capture high margin services via AI agents. Though the outcome is a couple of years away, the economy will likely go through a stair-step change that should provide many opportunities for investors.

Finally, the current bull market, which commenced in October 2022, is still considered relatively young. At 992 days, it falls significantly short of the pre-COVID average bull market duration of 2,913 calendar days (nearly eight years - see Exhibit 3). While past performance does not guarantee future results, several substantial factors are identified as potential drivers for sustained market growth:

- Substantial "cash on the sidelines": BlackRock reports approximately \$12 trillion in money market funds, a considerable sum that could be invested in various assets.
- Significant foreign investment into the United States: President Trump has announced securing nearly \$10 trillion in foreign investment over the next several years. While political claims warrant skepticism, even a fraction of this amount would represent a substantial capital inflow.

These factors collectively suggest a significant "fuel" source to propel the market's upward trend and sustain the ongoing bull market regardless of the short-term surprises impacting the market.

### Exhibit 3. Historical Bull Market Duration

Duration of Bull Markets since 1974					
Dates		Calendar	S&P 500 Price		
Start	Ending	Days	Start	Ending	Return
10/3/1974	11/28/1980	2,248	62.28	140.52	125.6%
8/12/1982	8/25/1987	1,839	102.42	336.77	228.8%
12/4/1987	9/1/2000	4,655	223.92	1520.77	579.2%
10/9/2002	10/9/2007	1,826	776.76	1565.15	101.5%
3/9/2009	2/19/2020	3,999	676.53	3386.15	400.5%
3/23/2020	1/3/2022	651	2237.4	4796.56	114.4%
10/12/2022	ongoing	992	3577.03	6204.95	73.5%

source: factset / Maclura Investments

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