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Mid-Year Market Outlook Edition

Harbor

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Executive Summary

In this Mid-Year Market Outlook edition of The Current, Harbor's Multi-Asset Solutions Team broke down the forces driving markets in the first half of 2025—and what they expect to shape the second.

Markets staged a strong recovery after a volatile Q1, with the S&P 500 and NASDAQ reaching new highs. But underneath the surface, major dislocations remain: the U.S. dollar has weakened considerably, international equities outperformed U.S. stocks for the first time in years, and gold surged over 25%.

The team examined macro and policy developments—including tariffs, fiscal stimulus, and labor supply shifts—and their potential impact on inflation, Fed policy, and asset allocation. Sector rotations and international opportunities also featured in the discussion.

Speakers

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Key Takeaways for Advisors

1. Markets Are at All-Time Highs—But Leadership Is Shifting: Despite record highs in major U.S. indices, leadership has rotated beneath the surface. International equities, emerging markets, and commodities like gold have been outperforming. Now may be the time to reassess allocations based on what's actually driving returns.

> ***"Tariffs should continue to be the overarching risk to markets. What we've seen in recent months since the initial shock is that equity markets have become a little more immune, or less surprised, by what is coming out of tariff announcements."***
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> ***—Jake Schurmeier, Head of Fixed Income, Currencies & Commodities***

2. Tariffs Are Back—and Markets Are Watching: With new tariff rates expected August 1, the U.S. trade environment remains in flux. Markets have become more resilient to tariff headlines, but advisors should still watch for margin pressure, sector-specific impacts, and renewed volatility.

3. Fiscal Stimulus Offers a Short-Term Boost—But Long-Term Growth Remains Limited: The "Big Beautiful Bill" delivers a meaningful stimulus bump in 2026, but it's not a game-changer, in our view. We expect clear winners (R&D-heavy companies) and losers (hospitals and healthcare), but no structural shift in the U.S. growth trajectory.

4. The Fed May Stay on Hold Through 2025: While the market is pricing in two rate cuts this year, the team expects the Fed to hold rates steady. Inflation effects from tariffs haven't fully surfaced, and labor data suggests a slowing—but not broken—economy.

5. The Weak Dollar has been Reshaping Asset Allocation: A sharply weaker dollar is one of 2025's most important trends. It has been fueling international equity strength, driving gold demand, and causing global investors to rethink U.S. exposure. Diversification beyond U.S. assets appears to be back in focus.

6. Gold has been Emerging as a Top Diversifier: Gold is up over 25% year-to-date and was the panel's top pick for the second half. Central bank demand, a weaker dollar, and rising fiscal uncertainty have all supported the rally. Consider gold's role in hedging macro risks.

7. The Weak Dollar has been Reshaping Asset Allocation: Tech, communication services, and industrial sectors led Q2, while healthcare and energy lagged. Growth surged after the tariff pause, and non-U.S. assets continued to strongly outperform for the year-to-date period. We believe advisors should monitor valuation stretch and risk-on sentiment.

8. Our View: International Equities Deserve Renewed Attention: The dollar's decline, better relative valuations, and strong trade balances in select economies are all tailwinds for non-U.S. markets. International equities may continue to lead in the second half, in our view.

Take the Next Step

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