Condor Capital Quarterly Newsletter

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Q2 2025 Market Recap: S&P 500 Surges Amid Tariff Pause, Reaches New Highs

The S&P 500 Index gained 10.94% in the second quarter of 2025, a strong rebound from the decline seen in the first quarter. The index's robust quarterly performance was driven by policy pivots after a poor start in April. The quarter began with the announcement of the new administration's protectionist trade policy on April 2nd. Risk markets met the news with extreme volatility, which partially contributed to a policy shift by the administration just a week later. The announcement of a 90-day pause on elevated tariff rates to allow time for trade negotiations sparked optimism among investors that the worst-case scenario was taken off the table, propelling a strong recovery in equities. The recent market drawdown proved to be short-lived, as the S&P 500 and Nasdaq 100 index reached new all-time highs in June.

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International equities also rose significantly in the quarter, and the dollar continued to weaken.

In fixed income, credit spreads tightened and high-yield corporate debt outperformed. Munis continue to struggle YTD.

Tariffs, the debate surrounding what was going to be included in the new spending and tax bill, and geopolitical tensions dominated second quarter headlines. The overall theme was a continued presence of uncertainty. The White House set an aggressive July 4th target for the passage of the spending and tax bill and, while the deadline was met, the threat of widening deficits brought on by increased spending impacted risk markets. The FOMC met two times in the quarter but continued to leave the federal funds rate range unchanged in a range of 4.25-4.50%, due to a concern that trade policy could lead to an inflation uptick in 2025.

International equities also generated significant returns in the second quarter of 2025. The MSCI EAFE Index gained 12.04% in the quarter, while the MSCI Emerging Markets Index returned 12.17%. Europe continued to see strong investor demand due to commitments to spend more on defense and increased uncertainty in U.S. markets surrounding trade policy. The U.S. dollar continued to weaken.

In fixed-income markets, some of the themes observed in the first quarter persisted throughout the second quarter. Rates across the yield curve were volatile, especially early in the quarter, but ultimately settled down and resumed the steepening trend that was seen in the first quarter. The 2-year treasury continued to grind lower, finishing the quarter at 3.72% vs. 3.88% to start the quarter. In contrast, the 10-year yield edged up from 4.21% to 4.23% over the course of the quarter. Similar to yields, credit spreads proved volatile amid the trade policy announcement, then subsequent policy pivot, with high yield spreads peaking at 4.76% in early April, but ending at the lowest level of the quarter at 3.18%. Investment grade spreads followed a similar path, peaking at 0.81% in early April, and ending the quarter at 0.51%, the lowest reading of the quarter. Like the first quarter, high-yield corporates outperformed investment grade in the second quarter. Municipal bonds have struggled year-to-date, posting negative returns for the second consecutive quarter.

Condor Capital's Outlook

Looking ahead, investors will be closely monitoring policy developments out of Washington D.C. and incoming economic data. The tax and spending bill was first up, becoming law on July 4th. The passage of the bill provides some more certainty on the fiscal policy front. While questions surrounding the impact on the deficit remain, the concerns from early in the new administration over less stimulative fiscal policy now look to be overblown with the spending and tax bill pointing to fiscal policy that will actually be accommodative for multiple sectors, specifically within the defense industry.

Tariffs remain a source of uncertainty. The 90-day tariff pause that was set to expire on July 9th was extended to August 1st, which will likely prompt another round of trade negotiations to start the third quarter. While inflation improved over the course of 2024, the uncertainty surrounding the trajectory of tariff policy moving forward could be a headwind to inflation and economic growth in the near term. Overall, the labor market has remained resilient, and consumers have continued to spend at a healthy rate.

These various moving pieces give the Federal Reserve a lot to think about, and the trajectory of Fed policy will be another focal point moving forward. The central bank is not primarily driven by fiscal policy and has indicated that the negative first quarter GDP print is not necessarily a cause for concern. The Fed has been adamant that the economy remains resilient, even if there are some pockets of weakness. We agree with this assessment and expect that overall economic activity and corporate earnings growth should continue to remain strong in the near term.

Making Sense of HSAs and FSAs

With family health insurance premiums rising 297 percent since 2000, averaging over $25,000 annually, some employees feel the squeeze. Deductibles, too, have jumped nearly 50 percent over the last decade, further increasing out-of-pocket expenses. In this environment, understanding and using Health Savings Accounts (HSAs) and Flexible Spending Accounts (FSAs) can help families take more control of their healthcare finances.[1]

What Are HSAs and FSAs?

HSAs and FSAs are special accounts designed to help manage medical expenses.

If you have an HSA, you must also be enrolled in a high-deductible health plan (HDHP). You contribute to the account, and your employer can also choose to contribute. Funds roll over from year to year.

FSAs are usually employer-sponsored accounts. You contribute pretax dollars through payroll deductions. However, the funds must typically be used within the plan year unless your employer offers a grace period or limited rollover.

Both accounts allow you to use pretax dollars to pay for qualified medical expenses, such as copays, prescriptions, or over-the-counter medications. The one that may be best for you can depend on many factors.

Contribution Limits

For 2025, the IRS allows individuals to contribute up to $4,300 and families up to $8,550 to an HSA. People over 55 can contribute an extra $1,000 annually. The FSA has a contribution limit of $3,300 ($6,600 for households).[2,3]

Why These Accounts Matter More Than Ever

Rising premiums and deductibles mean Americans are shouldering more health care costs than ever. Since 2000, workers' out-of-pocket costs for health insurance have nearly quadrupled. Today, it takes over five weeks of full-time work to pay the employee share of premiums, and this is before a single doctor's visit. Moreover, deductibles for families can exceed $3,700.[1]

Employers are also increasingly shifting healthcare costs to workers through narrower provider networks, more prior authorizations, and tiered drug pricing systems. That's where HSAs and FSAs come in. By allowing workers to set aside pretax money, these accounts help manage healthcare costs and create a strategy for expected and unexpected expenses.

Remember that if you spend your HSA funds for non-qualified expenses before age 65, you may be required to pay ordinary income tax and a 20 percent penalty. After age 65, non-qualified expenses are taxed as ordinary income taxes on HSA funds, and no penalty applies. HSA contributions are exempt from federal income tax but not from state taxes in certain states.

Real-Life Scenarios Where HSAs and FSAs Help

- **Having a Baby:** New parents can face an increase in health-related costs, ranging from prenatal care and delivery to postnatal checkups and baby essentials. An FSA can help cover many of these expenses with pretax funds, whereas an HSA can carry over unused funds for future pediatric visits.
- **Job Change:** Moving to a high-deductible plan may make you eligible for and your HSA funds remain yours even if you switch employers or retire, making it a flexible long-term tool.

1. MoneyGeek, April 29, 2025.
2. Kaiser Permanente, June 2, 2025.
3. IRS, May 29, 2025.

Key Differences Between HSAs and FSAs

Feature	HSA	FSA
Who owns the account?	You	Your employer
Contributions	You and your employer	You (via paycheck deductions)
Funds roll over?	Yes	Sometimes (depends on employer rules)
Investment options	Yes	No
Portability (can you take it with you?)	Yes	No

- **Chronic Illness Diagnosis:** Copays, prescriptions, and specialist visits add up quickly. An HSA or FSA can manage the blow, and an HSA with investment options that are available with some plans.
- **Caring for Aging Parents:** From prescriptions to home health aides, caregiving costs can be significant. FSAs can help cover some expenses, and for those with HDHPs, an HSA provides a long-term strategy for health-related caregiving costs.

Real-Life Scenarios Where HSAs and FSAs Help

- Use online calculators to see what might work for you.
- Prepare for known medical expenses to use funds strategically.
- Monitor your balances online and review your list of eligible expenses.
- If you have an HSA, see if there is an investment option associated with the account.

Remember: during any qualifying life event, like marriage, a new child, or a job change, review your options because these events may allow you to enroll in or adjust your benefits outside Open Enrollment.

Final Thoughts

Understanding how HSAs and FSAs work and using them effectively can make a meaningful difference during life's most important transitions.

If you haven't explored these options, now may be the time to start.

Family Fun for Less: Tips to Help Cut Costs on Your Next Vacation

Rising prices can make planning a budget-friendly family vacation challenging. In fact, the average cost for a week-long vacation for a family of four to a theme park can easily run upwards of $6,000.[1] Consider these saving strategies when planning your next family getaway.

Set a budget. Your first step should be to set a realistic budget for your vacation. Start out by determining the amount of money you are able to spend on your trip. Next, identify your vacation expenses. These include travel to and from your destination, accommodations, food, and activities. Don't forget to include a little extra for any unexpected costs that may arise.

A good way to make sure that you stay on budget is to set expectations for vacation expenses ahead of time. Start with a family meeting to discuss the overall budget and how much you are willing to spend on each component of the trip, such as food, activities, and even souvenirs. It may also help to create a daily vacation budget for your family to help manage expenses and prevent overspending.

Plan ahead. Book flights, accommodations, and tickets to attractions well in advance to secure the best rates. Sign up for price alerts and use online comparison tools to find deals and track price fluctuations.

Be flexible. You might save big on your vacation if you're flexible with your travel dates and destination. Be open to traveling during the off-season or at off-peak times, and consider traveling to lesser-known destinations in order to maximize your savings.

Look for additional ways to trim expenses. If you find that your vacation might run over budget, consider these ways to further reduce expenses:

- Explore alternative options for accommodations by searching online websites for vacation home rentals or think about staying with family/friends.
- Try to save money on food by shopping at a local grocery store and dining in and/or looking online for restaurants that offer dining specials and discounts.
- Look for affordable or no-cost activities, including discounted or free entry to local museums/festivals, or enjoy outdoor recreation (e.g., beaches and hiking) in the area.
- Reduce transportation expenses by comparing the cost and feasibility of flying versus driving to your vacation destination. Consider utilizing public transportation or ride-share apps instead of renting a car once you arrive.

1) NerdWallet, 2025