



BCWM
PROVIDING PEACE OF MIND

Tariffs, Tomahawks, and Total Indifference

Last week, President Trump authorized military strikes on Iran's nuclear infrastructure. Targets included well-known sites in Fordow, Natanz, and Isfahan, which were hit with a mix of stealth bombers and Tomahawk missiles. The full extent of the damage remains unclear (and may stay that way), but what was surprising was that financial markets barely blinked.

In the days following the strikes, the U.S. stock market was essentially flat. Treasury yields drifted slightly lower, and the bond market went about its business, as if military action in the Middle East were just another headline.

Given Iran's role as a major oil exporter, one might have expected the energy markets to react dramatically. And they did . . . sort of. Oil prices spiked 10% but, notably, that move came after *Israel's* initial strike on Iran, not the U.S. attack. Following the U.S. intervention, oil prices actually *fell* and have since settled around \$65 per barrel. For context, that's nearly half the price we saw just a few years ago, when oil neared \$120.

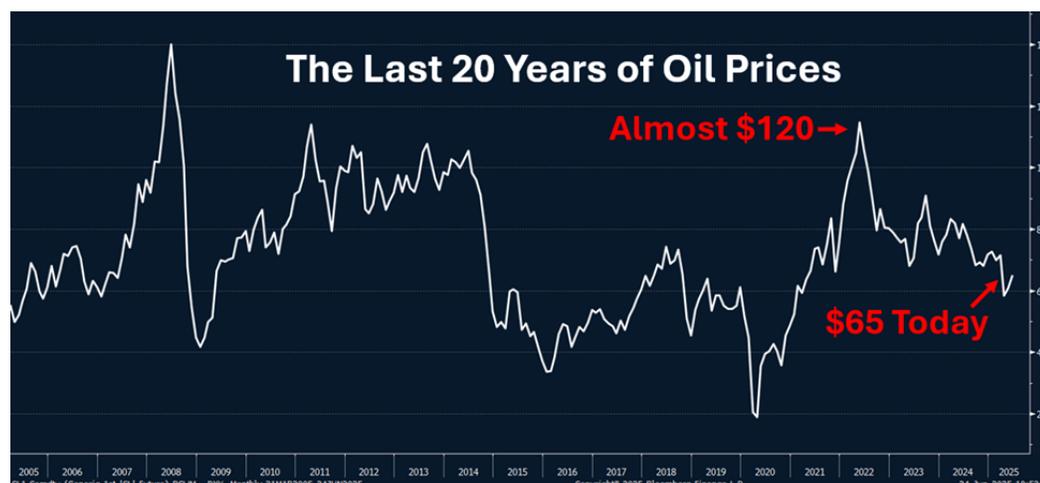


Portfolio Management

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The subdued oil-market response reflects a broader shift in global energy dynamics. While geopolitical tensions once triggered outsized moves in oil prices, this latest conflict underscored how the Middle East's grip on energy markets has waned. With OPEC's share of global production declining, and major producers like the U.S., Brazil, and Canada stepping up, energy markets are now more resilient. And with satellite surveillance, diverse export routes, and well-stocked reserves, the result is an energy market that's less prone to panic.

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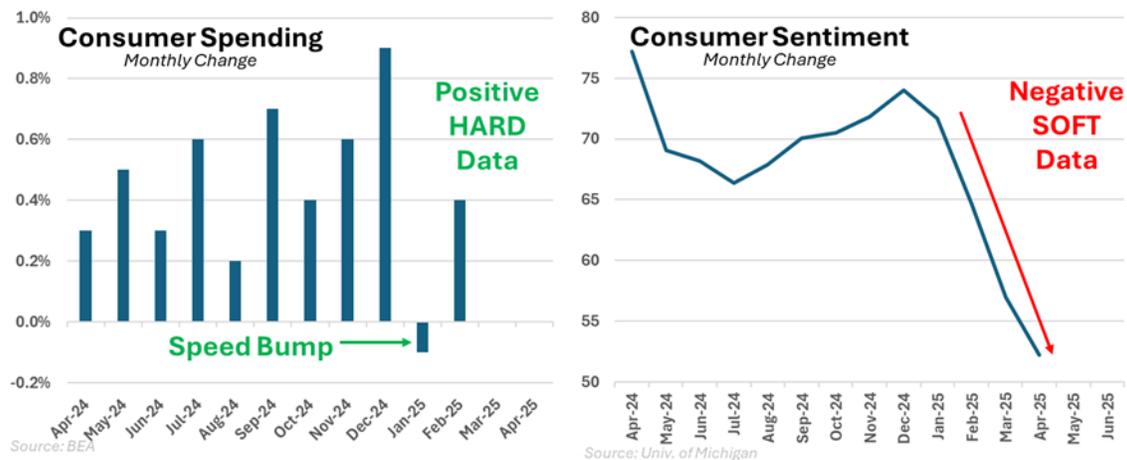
So, despite two military powers launching parallel attacks on Iranian territory, the market reaction was rather muted. A ceasefire has since been announced, and investors have shifted their attention back to other worries . . . such as inflation, interest rates, and tariffs. Because apparently bombing Iran just isn't market-moving material like it might have been back in the day.

Through the first half of 2025, the stock market has returned almost 6%. And if you knew only that, you'd probably think it was a pretty boring couple of quarters, but that's hardly the case.

The S&P 500 peaked on February 19th, and shortly after, signs of consumer weakness began to surface. Consumer spending surprisingly dropped for the first time in two years.

Around that time, President Trump's tariff talk started to heat up. The threat of new tariffs created uncertainty within the business community and consumers began to worry. This showed up in consumer sentiment surveys, which try to measure how consumers *feel* about the economy. We call this "soft" economic data, because it can give you a sense what *might* happen. But "hard" economic data tells you what actually *did* happen.

By the end of March, it seemed that the surprise drop in consumer spending was really just a speed bump. Hard data showed that Americans got back to what we do best . . . spending money. However, consumer sentiment, the soft data, kept getting worse. Americans seemed to be worried, but they didn't change their behavior (they didn't stop spending).

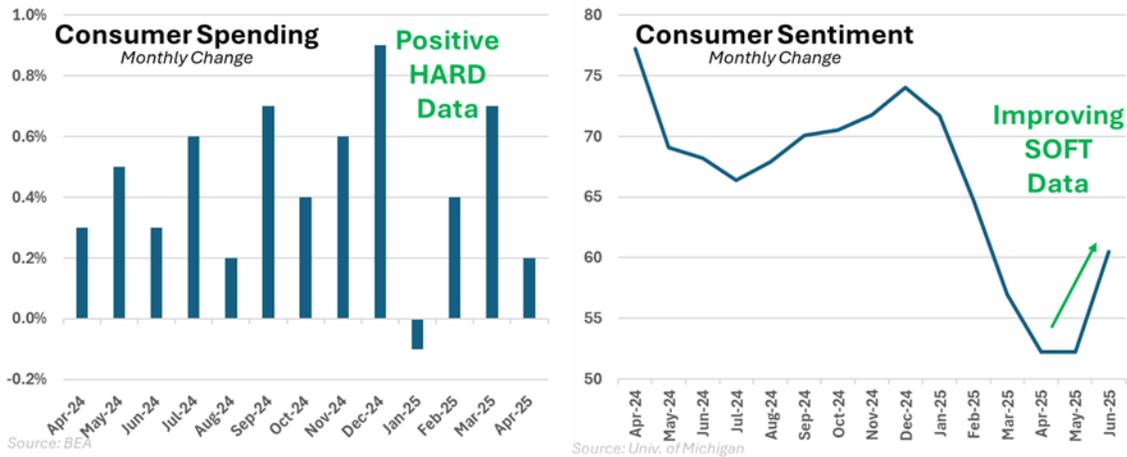


Then in April came "Liberation Day," where Trump announced HUGE tariffs on pretty much everyone and everything. The stock market, which had seemingly been calling Trump's tariff bluff since election day, reacted violently. Less than a week later, the market dropped 19%, just 1% away from official "bear market" territory (down 20%).

Throughout this volatility, we began to see value in the stock market. We took advantage of the situation and purchased stocks while they were cheap, becoming more aggressive with our portfolios for the first time in a while. And it didn't take long for that to pay off. The stock market recovered after the tariffs were put on a 90-day pause.



In the weeks that followed, the economic data was mixed. Consumers kept spending, but it wasn't until June that consumer sentiment improved. Now, the soft data and the hard data are sending the same signal . . . things are just fine.



In the meantime, the stock market has nearly recovered and, as of this writing, we are close to its all-time high.

As we look toward the second half of 2025, there are a handful of topics worth mentioning:

- First, the ongoing conflict between Israel and Iran seems to be winding down. Not that we expected it to escalate into a major war, but a ceasefire appears to be in place. The potential for war is always a threat to financial markets, but sometimes conflicts must get really nasty before markets react. We continue to be bullish on defense stocks and are holding an allocation of safe-haven assets. After all, this conflict has been going on for 2000 years.
- The massive tariffs that Trump levied, and then paused, are set to resume in early July. The most likely scenario moving forward seems to be further talks or delays in implementing the tariffs. Trump's "Art of the Deal" style begins with bold, outsized demands that he then scales back through negotiation. Even the *legality* of a U.S. president levying tariffs is still unclear. This story isn't over, but the most extreme tariff-related stock-market volatility seems to be behind us.
- Trump's focus (and that of the financial media) appears to have turned back to Jerome Powell and the Federal Reserve. On the one hand, inflation has moderated and there is a strong argument that the Fed should be lowering interest rates. On the other hand, there is an equally strong argument that tariffs could stir up inflation and cause disruption in the economy, so it may be more prudent to keep interest rates where they are.

If there is some tariff-induced inflation, we don't expect it to be all that meaningful—mostly because we don't expect the president to revert to his initial extraordinarily high tariff rates. However, the Fed will probably not move until it is abundantly clear that tariffs are no cause for concern. We expect interest rate cuts to come in the fall.



- Trump is hoping for a July 4th passage of the “Big Beautiful Bill,” which combines tax cuts with big-ticket spending on defense, border security, and a \$5 trillion debt-ceiling hike. If it passes in full, it could add \$3 trillion to the deficit and push long-term rates higher, but we expect a trimmed-down version, with minimal market impact.
- One story that won’t die is the U.S. dollar’s status as the global reserve currency. Yes, the dollar has weakened this year, but we repeat, quit worrying about the dollar.



At BCWM, our portfolios have recently shifted from aggressive to more neutral. Politics and ever-changing government policies continue to drive headlines, and to the extent they create opportunities in the market we have slightly higher cash levels than normal.

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