



August 1, 2025

Recap

Equity markets extended their gains in July, reaching record highs in the S&P 500 and Nasdaq Composite amid easing trade tensions. A new US-EU tariff-cut deal and revived US-China talks boosted investor sentiment, even as uncertainty lingered around President Trump's broader trade threats. The Federal Reserve, meanwhile, kept interest rates unchanged at its late-July meeting. Fed Chair Jerome Powell emphasized a patient, data-dependent approach, noting that inflation remains above the 2% target. While investors are betting on possible rate cuts later in the year, policymakers signaled no rush to ease policy given still solid economic growth and hiring. Market sentiment has also been supported by second-quarter corporate earnings. Although the earnings reports have been mixed, with 40% of the S&P 500 companies having already reported, the blended earnings growth rate is slightly higher than expected. Financials helped set a positive tone early, and cyclical sectors broadly surprised to the upside, especially in areas tied to industrial activity and technology. Management teams in several industries raised full-year guidance, pointing to resilient demand and improving supply chains. That said, some sectors offered more cautious outlooks, particularly where cost pressures or regulatory uncertainties remain elevated. Overall, the market rewarded firms that delivered stable margins and visible growth drivers, while companies with disappointing forecasts or thin operating leverage saw little investor patience. In this environment, growth-sensitive sectors outpaced defensive names, underscoring how sentiment has shifted now that some macro risks have eased, but with July's nonfarm payrolls missing expectations, economic uncertainties remain.

Key Thought

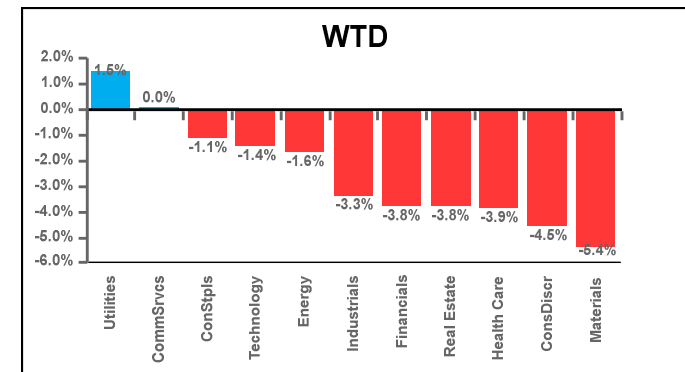
July marked another month of gains for US equities as the S&P 500 extended its strong rebound and posted multiple all-time closing highs; however, momentum deteriorated in the final week primarily due to mixed economic releases. On the growth front, headline Q2 GDP's 3.0% annualized gain masks certain underlying weaknesses. A 30% plunge in imports – as firms worked down pre-tariff inventories – turned net trade from a 4.6% drag in Q1 into a 5.0% tailwind last quarter. Stripping out this volatile component, private domestic sales, an important indicator of underlying economic strength, grew just 1.2%. This was the slowest pace since late 2022 and slower than the 1.9% increase in the first quarter. With that said, personal consumption growth accelerated to 1.4% – modest by recent standards but encouraging given the deluge of tariff uncertainty. On the labor front, July's employment report delivered a downside surprise indicating that hiring has stalled. Nonfarm payrolls rose by 73,000 during the month, while May and June's figures were each revised down by more than 100,000 jobs each. This pulled the three-month average employment gain down to a mere 35,000. Furthermore, the unemployment rate ticked up to 4.2%; although this was in line with expectations. Taken together, these data underscore two themes: economic growth is slowing and labor market momentum is waning. This would appear to make a strong case for the Fed to cut interest rates; however, many economists are expecting the tariffs to push core inflation to 3% or greater in the second half of the year. This puts the Fed in a difficult spot as weakening labor market conditions collide with resurging inflationary pressures, forcing a delicate balancing act between its dual mandate. Two more employment and inflation prints arrive before September's FOMC meeting – if they mirror the themes highlighted earlier and inflation data does not surprise meaningfully to the upside, we will likely see the Fed deliver a quarter-point interest rate cut. As of this writing, markets are pricing in an 81% chance the fed funds rate is lowered to a range of 4.00 – 4.25% at that meeting.

Stocks	Wk		Wk	Div	YTD	12 Mos
	Close	Net Change	% Change		% Change	% Change
DJII-USA	43,588.58	-1313.34	-2.92	1.89	2.45	8.03
S&P 500	6,238.01	-150.63	-2.36	1.53	6.06	14.53
NASDAQ	20,650.13	-458.18	-2.17	0.98	6.94	20.10
S&P MidCap 400	3,104.60	-113.71	-3.53	2.38	-0.52	2.36
EAFE	87.29	-3.46	-3.81	3.25	15.45	11.58
Emerging Markets	59.90	-1.60	-2.60	3.03	14.71	12.85

12/31/24			FOREX	Price	Wk % Change
Treasuries	Current Yield	Yield			
1 - Year	3.87	4.15	EUR/USD	1.16	-1.25
2 - Year	3.68	4.24	USD/JPY	148.10	-0.19
5 - Year	3.75	4.38	GBP/USD	1.33	-1.14
10 - Year	4.21	4.57	USD/CAD	1.38	0.55
30 - Year	4.81	4.78			

Sector - Large Cap		Wk		WTD	MTD	QTD	YTD
	Close	Net Change					
Defensive							
Staples	879.17	-10.12	(1.1%)	0.5%	(2.0%)	3.0%	
Health Care	1,527.29	-61.39	(3.9%)	0.6%	(2.9%)	(4.8%)	
CommServices	380.26	0.06	0.0%	(1.7%)	0.6%	11.3%	
Eco Sensitive							
Consumer Disc	1,735.16	-82.60	(4.5%)	(3.6%)	(1.1%)	(5.2%)	
Energy	655.08	-10.91	(1.6%)	(1.8%)	1.0%	0.0%	
Industrials	1,267.14	-43.90	(3.3%)	(1.5%)	1.4%	13.6%	
Info Tech	5,112.52	-72.91	(1.4%)	(2.1%)	3.0%	10.9%	
Materials	549.12	-31.32	(5.4%)	(0.8%)	(1.3%)	3.7%	
Interest Rate Sensitive							
Financials	855.28	-33.33	(3.8%)	(1.8%)	(1.9%)	6.3%	
Utilities	435.58	6.51	1.5%	0.1%	5.0%	13.2%	
REIT	254.04	-10.05	(3.8%)	0.0%	(1.3%)	(0.1%)	

COMING UP NEXT WEEK			Consensus	Prior
08/04	Factory Orders SA M/M	(Jun)	-5.0%	8.2%
08/05	Trade Balance SA	(Jun)	-\$72.5B	-71.5B
08/05	ISM Services PMI SA	(Jul)	51.5	50.8
08/07	Unit Labor Costs SAAR Q/Q (Preliminary)	(Q2)	1.1%	6.6%
08/07	Productivity SAAR Q/Q (Preliminary)	(Q2)	0.90%	-1.5%
08/07	Consumer Credit SA	(Jun)	\$10.5B	\$5.1B



Russell Style Return

WTD	Value	Blend	Growth	YTD	Value	Blend	Growth
Large	-3.17%	-2.45%	-1.81%	Large	5.03%	6.58%	7.77%
Medium	-3.30%	-3.07%	-2.21%	Medium	3.46%	5.14%	10.00%
Small	-5.14%	-4.22%	-3.25%	Small	-3.57%	-2.25%	-0.91%

Source: FactSet