Insights: July 2025

Market Overview and Performance

The equity market keeps going up. Bonds and Gold too. That is a simple observation, but it is wildly different from where the market view in aggregate resided in early Spring when US equites were down roughly -20% and market fears of a recession were pervasive. Sentiment oftentimes overrides fundamental facts, however, and as history demonstrates, this creates opportunity. While asset prices in the US equity market are suggested to be high at the index level, we believe that there are areas of the market that present significant opportunity going forward. To be fair, after experiencing returns of +26% in 2023 and +25% in 2024 for the S&P 500 Index, prudent asset allocators like ourselves are generally in a heightened state of wariness as the vagaries of trade narratives whipsaw fundamental business behavior. To simplify the current environment, the US tariff announcements in April were abrupt, ill-conceived, and generally not viable in a practical manner. If we fast forward to the end of July, aggregate effective tariffs levels of roughly 15% being implemented by the US against its major trade partners is now at best kindly viewed as a "least negative outcome". In the plainest of language, this is not a good outcome – it is a tax on US consumers who account for roughly 70% of US GDP which in turn serves as the engine of global economic growth. Thankfully, due to the mercurial nature of the trade negotiations on the part of the US, the price increases necessitated by the tariffs have yet to be felt by consumers, in large part due to the preparedness of corporate America. As strategist Callie Cox and others have pointed out, "Right now, the average S&P 500 company is sitting on about 90 days of inventory, meaning it'd take three months to run out or restock…Corporate America was ready for this moment…Remember COVID, Company executives suffered through that mess and said never again. Since then, businesses have focused intensely on supply chain resiliency and manufacturing redundancies." Thank you for taking time to read our market Insights.

	Quarter to Date June 30	***Year to Date June 30***
Equity	***Total Return % (USD$)***	***Total Return %***
S&P 500 Index	**10.94**	**6.20**
Russell 2000 Index	8.50	-1.79
MSCI EAFE Index	**11.78**	**19.45**
MSCI Emerging Markets Index	**11.99**	**15.27**
Fixed Income		
Barclay's U.S. Aggregate Bond Index	**1.21**	**4.02**
Barclay's U.S. Aggregate Credit Index	1.25	3.75
Barclay's U.S. Aggregate Corporate High Yield Index	3.53	4.57
Barclay's Municipal Bond Index	-0.12	-0.35
Macro Measures		
Gold	**5.76**	**25.95**
Crude Oil	**-8.91**	**-9.21**
CBOE Volatility Index	-24.91	-3.57
USD Dollar Index	**-7.03**	**-10.70**

Current Theme – Increased Clarity on Trade Outlook Promotes Risk-On Positioning

Despite Being an Impediment to Free Trade, Investors Take Solace in the Belief that Much of the Trade Ambiguity has been Alleviated

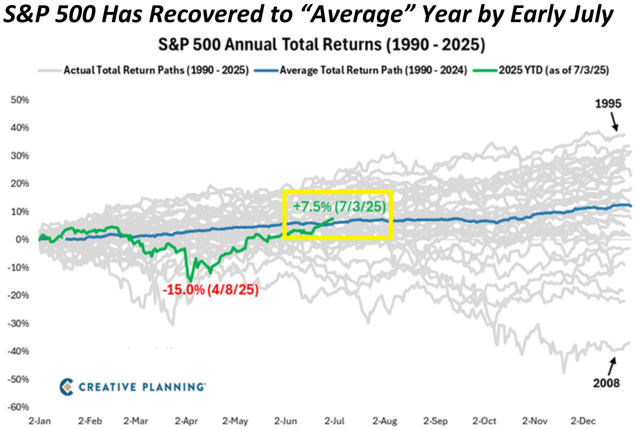
When the S&P 500 Index fell by almost -20% in April of this year, the thought of new all-time highs by July seemed unlikely. Its human nature to extrapolate the most recent trend, so sharp changes in market direction are often met with suspicion. Yet as seen below, not only did the equity market recover quickly this year, it has in fact done so on two other occasions within the last seven years.

V-Shaped Recoveries Not Uncommon in Recent Years

Source: Ricardo Sarraf; TradingView

And while market volatility of this magnitude generally leads to a feeling of discomfort for investors, as the chart below from Charlie Bilello highlights, the path forged in 2025 has proven to be well within what could rationally be expected based on the last 35 years.

S&P 500 Has Recovered to "Average" Year by Early July



Source: Charlie Bilello; YCharts

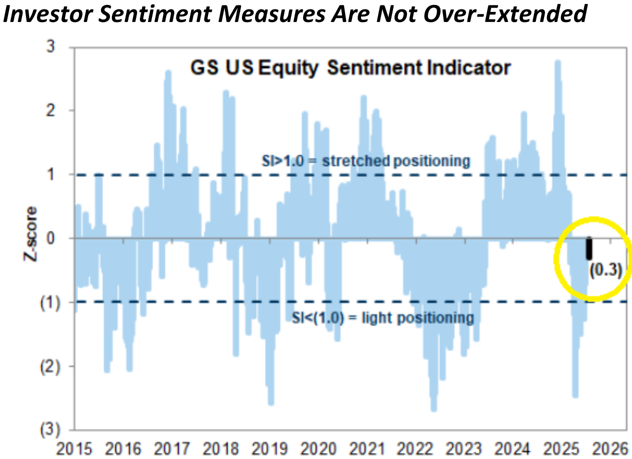
The blue line in the chart above shows the average yearly return of the S&P 500 throughout the calendar year based upon data going back to 1990. With a return of roughly +7% through June 30th, the S&P 500 is right on track to meet what Deutsche Bank estimates to be the average return of +13% in a non-recessionary year by December's end.

Good Market Breadth – Eq Weight Index at All-Time High

Source: Callum Thomas; 3Fourteen Research

It's important to understand the make-up of the rally as well. The Information Technology sector, which had led market performance over the past several years, declined the most in April, falling by approximately -30%. Not surprisingly, that sector also experienced the greatest degree of "snap-back" rising about +43%, driving the cap weighted Index to new all-time highs by the end of June. However, as seen above, the equal weighted index also traded at all-time highs by the end of July, a sign of broad market strength across sectors and industries.

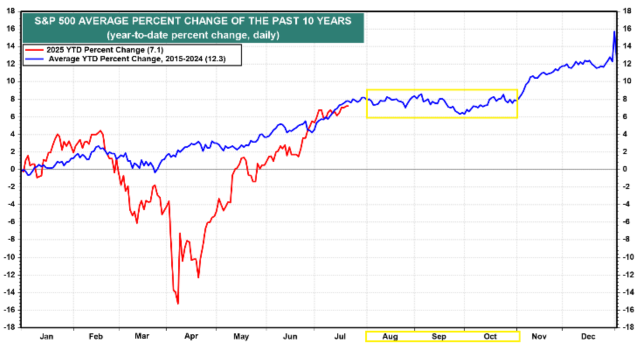
Investor Sentiment Measures Are Not Over-Extended



Source: Goldman Sachs Global Investment Research

While healthy market breadth is unquestionably a positive market dynamic, there has been much written in the media recently about what may perhaps be "over-exuberance" in investor behavior. Evidence points to the contrary as the previous chart from Goldman Sachs illustrates. Their measure of sentiment, derived from 9 different inputs of positioning across institutional, retail and foreign investors, is far from previous "stretched" levels.

Seasonality May Suggest Upcoming Consolidation



Source: Ed Yardeni; LSEG; Standard & Poor's

So rather than hypothesize about whether or not some people are chasing low quality returns, we believe it is more relevant to study the patterns provided to us over past market cycles. There are many time frames and conditions one could include, but that chart above from Ed Yardeni presents in a simple fashion that the current equity market has climbed to a typical level one might expect by the end of July. Generally speaking, a period of consolidation between August and October would very much be within historical norms.

Valuations Are Elevated But so is Profitability

Source: The Short Bear; Bloomberg

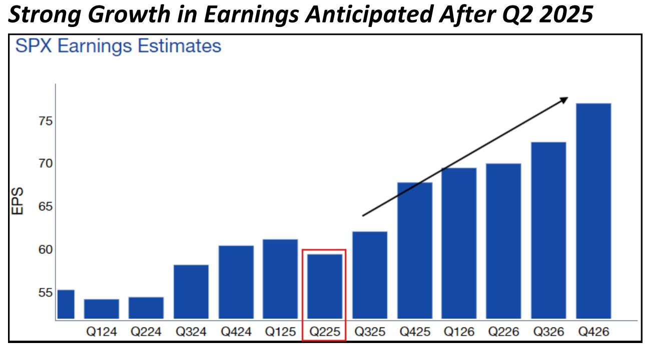
There are those who worry that consolidation may equate to a more pronounced pullback given data points such as the S&P 500 trading at 22 times earnings, well ahead of its 10-year average of about 18.5 times. However, as the previous chart demonstrates, a number in isolation does not tell you about the quality of earnings. Profit margins are also well ahead of their long-term average, achieving record high levels of close to 14%.

Earnings Revisions Have Recovered Dramatically

Source: Neil Sethi; Morgan Stanley; FactSet

Earning revisions have also improved dramatically. As seen above, after falling -25% from May 2024 to April 2025, revisions have now shot up to a positive +10%.

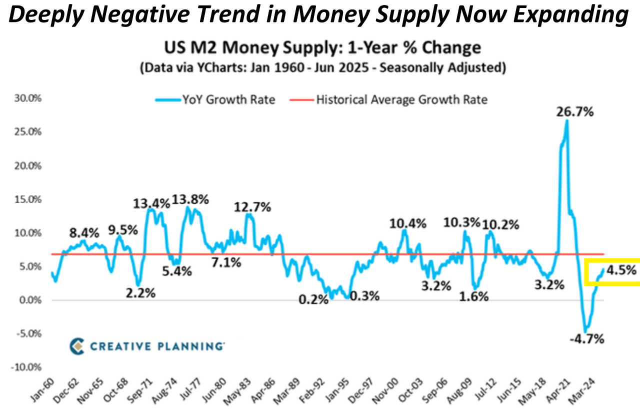
Strong Growth in Earnings Anticipated After Q2 2025



Source: Scott Rubner, Citadel; Haver; Bloomberg

Furthermore, the second quarter is believed to be a recent trough in earnings before an acceleration is projected throughout the balance of 2025 and 2026.

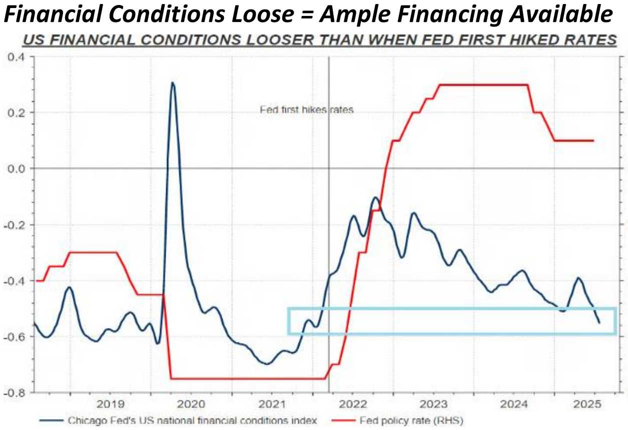
Deeply Negative Trend in Money Supply Now Expanding



Source: Charlie Bilello; YCharts; Federal Reserve

These positive trends are supported by the fact that liquid assets flowing within the financial system have now turned positive after an extended period of contraction. As seen in the previous chart, M2 Money Supply, the measure used by the Ferdal Reserve to estimate how much money is circulating across the economy, is now solidly expanding.

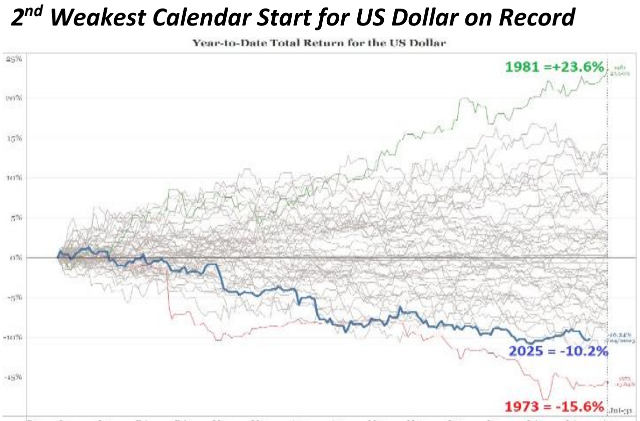
Financial Conditions Loose = Ample Financing Available



Source: Mike Dolan; Reuters; LSEG DataStream

This is very constructive for economic growth. In fact, as seen above, financial conditions in the US now are as “loose” (readily available money) as they were in early 2022 before the Fed began their tightening cycle of raising interest rates to keep growth in check. At face value, this might appear to be an ideal backdrop for increased growth, however, those potential gains come at a cost. In essence, more money chasing around the same amount of goods and services can drive up prices.

2nd Weakest Calendar Start for US Dollar on Record

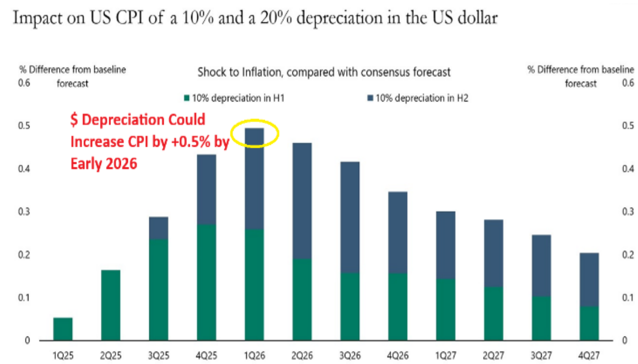


Source: Bianco Research; Bloomberg

Compounding this dynamic is the fact that the US dollar is now experiencing its worst start to a calendar year since 1973, weakening by over -10% year to date.

Generally speaking, a country’s currency would be expected to strength if it is experiencing economic expansion. However, in 2025, the US dollar has declined due to a combination of factors including potentially destructive tariff proposals, inflation worries and the specter of rising government debt.

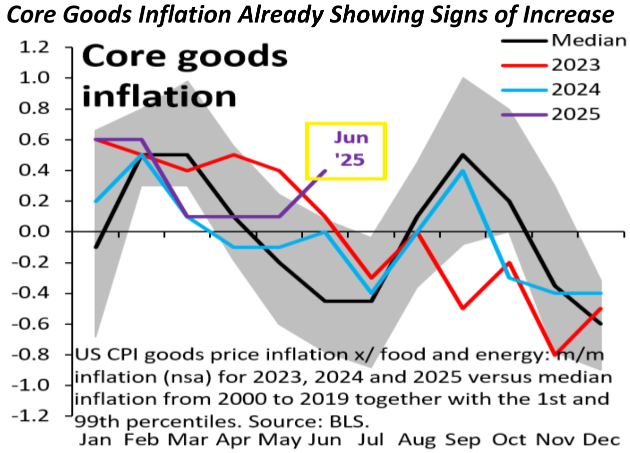
Dollar Depreciation Leads to Higher Prices for Consumers



Source: Apollo Global Management

As Apollo Global Management points out above, sustained weakness in the dollar will in fact serve to increase consumer prices since the buying power of the currency is diminished. By their estimates, a continuation of the current trend would result in a 0.5% increase in CPI by the early part of 2026.

Core Goods Inflation Already Showing Signs of Increase



Source: Robin Brooks; BLS

And in fact, we are seeing the beginnings of those impacts starting to take hold. As the chart above from the Brookings Institute highlights, the price of core goods utilized in the calculation of CPI is trending well above the seasonal patterns experienced historically. Core goods are typically defined as both durable and nondurable goods outside of the volatile food and energy categories – clothing, furniture, appliances, vehicles, etc. This naturally brings the discussion to the consequences of proposed US tariff policies. One of the main drivers behind the recovery in assets since April has been the reality that tariff assessments were delayed several times and have yet to be implemented. While much ambiguity remains, what is now clear is the fact that prices are increasing.

Prices Increases in Tariff Related Goods Now Emerging

Tariff-fueled price increases are here

Biggest increases in inflation by Consumer Price Index item

Item	Average annualized inflation		Change in inflation
	Mar-Jun 2025	All of 2024	Last three months vs. 2024
Coffee	23.4%	3.7%	19.7%
Personal computers and peripheral equipment	13.0%	-5.2%	18.2%
Toys	14.0%	-3.8%	17.8%
Household furnishings and operations	8.9%	0.7%	8.3%
Household energy	10.9%	2.8%	8.1%
Energy services	11.4%	3.3%	8.1%
Utility (piped) gas service	13.1%	5.0%	8.1%
Electricity	10.9%	2.8%	8.1%
Fuel oil and other fuels	1.0%	-6.0%	7.0%
Fuels and utilities	9.2%	3.4%	5.8%

Source: Callie Cox Media LLC, Bureau of Labor Statistics

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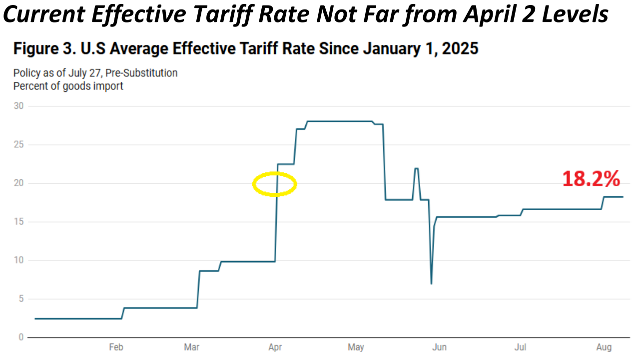
Consider the table above from strategist Callie Cox. The center column shows that inflation for selected items widely used by American households remained in the low single digit range in 2024. Unfortunately, the prices of those items are now moving substantially higher, by double digits in many cases. As the column on the far right illustrates, the cost of important items like computers (+18.2%), household furnishing and operations (+8.3%) and household energy (+8.1%) is moving significantly higher than it was in 2024.

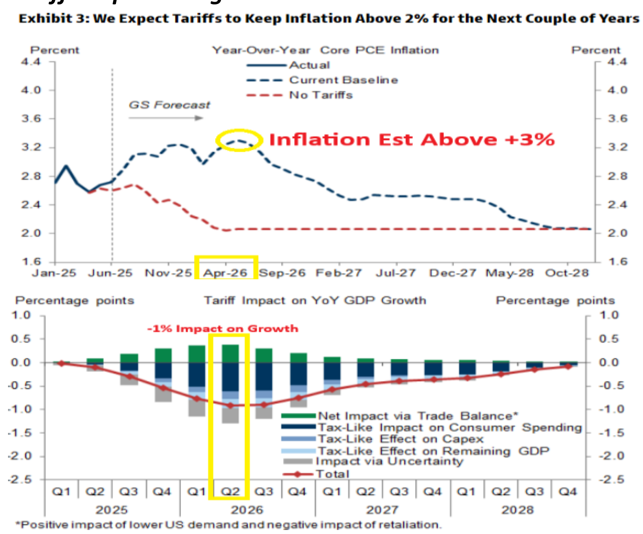
Current Effective Tariff Rate Not Far from April 2 Levels



Source: The Budget Lab

To be clear, the bulk of tariffs have yet to even come into play, so conditions could deteriorate notably. As of writing, the US had not reached any trade agreements with its three largest trade partners, China, Mexico and Canada, as the most recent dateline of August 1st rapidly approaches. As seen above, one of the most remarkable aspects of the market improvement since April has been that essentially things are right back where we started from a policy standpoint. If you had told investors that tariffs on important trade partners like the EU and Japan would be 15% and others were likely to face rates of 25%, few would have believed in the durability of a V-shaped recovery. Yet, as the previous chart from The Budget Lab shows, as of late July, the effective tariff rate looks to a be a very punitive +18%

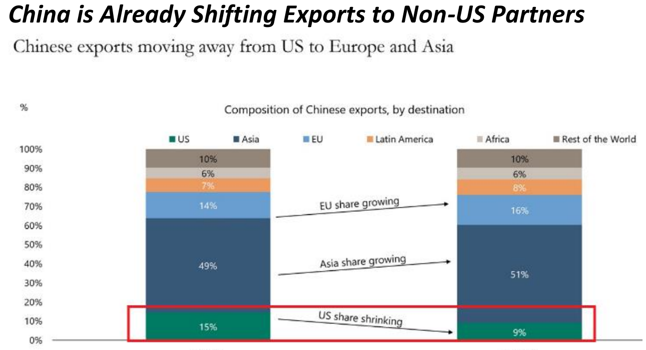
Tariffs Impact = Higher Prices and Lower Growth



Source: Goldman Sachs Global Investment Research

Without doubt, this will have negative consequences for the US economy. As seen in the charts above, work from Goldman Sachs suggests that tariffs as currently understood would drive inflation higher to +3.3% over the coming months while GDP growth would be hampered by a full percentage point. Worryingly, China will be a significant factor in the trajectory of these measures, and as of now, they are demonstrating an ability to stand firm.

China is Already Shifting Exports to Non-US Partners



Source: Apollo Global Management

Going Forward

As we have discussed many times in the past, any attempts to project future events is pure folly. Conversely, what we do take confidence in is our long-term experience over several market cycles which confirms our conviction in maintaining an asset allocation exposure that is specifically designed to deliver superior risk-adjusted returns despite market volatility. Clearly, 2025 has proven to be a remarkably volatile period yet our portfolios have displayed encouraging durability. Our investments are fundamentally driven, meaning that we place an immense amount of importance on both the absolute level and the sustainability of profitability for the exposures that we take. While risks remain elevated, we believe that there is an attractive return potential in underpriced areas of the market with significant profitability dynamics on a go-forward basis.

In our recent conversations with clients, the prevailing notion seems to be that a market consolidation appears to be much more likely than a sustained move upward following the remarkably short and sharp gains experienced since the April lows. Perhaps. To this, we would suggest that negative market sentiment is precisely the backdrop that enables further gains given a fundamentally constructive economic backdrop.

To be clear, as discussed, there are valid reasons for concern regarding the potential return profiles of both equity and fixed income investments within the US as tariff headwinds impart an incontrovertible tax on consumers with resulting inflation pressures likely to push yields higher and consumer spending lower. Yet, there is a compelling case that the mere existence of clarity regarding the "rules of the road" for aggregate trade terms removes some of the overhang of reticence for investors and gives permission for a portion of the $7.4 trillion sitting conservatively in money market funds to re-enter risk markets. Importantly, corporate earnings, which have remained robust thus far through the early part of Q2, will be a key determiner of risk asset momentum going forward.

Large cap technology names continue to deliver market leading growth with AI Capex showing few signs of abating. We maintain sizable exposure to this area. These companies are somewhat insulated from the tariff issues since they are "asset light" but are not immune to economic slowing. Given the marked underperformance of large cap technology in the early part of 2025, we feel that opportunities exist as valuations have been brought down to much more reasonable levels. Beyond the technology space, other areas of focus are financials, industrials and healthcare.

Small and mid-cap company valuations are at attractive levels when compared to their large-cap counterparts, however smaller companies are more vulnerable to trade disputes as their ability to locate input substitutes is limited. That said, a resolution to tariff uncertainties would likely provide a tailwind for this market cap segment later in 2025.

After a strong start to the year, returns for regions outside of the US have moderated and are now on par with the US. We have maintained a modest allocation which has served as a beneficial diversifier and as trade progress evolves, we may add to the exposure. US Dollar weakness may provide additional tailwinds.

Within fixed income, we have placed our emphasis on shorter duration exposures for quite some time. We have taken advantage of the increase in treasury yields to allocate a portion of our exposure into laddered short-term treasuries as a way to capture risk-free yield for fixed income portfolios. During the Spring, the bond market experienced a significant amount of volatility in the long end of the yield curve which solidified our commitment to keeping portfolio duration short. This volatility is generally viewed as one of the primary reasons why tariffs were paused shortly after the original announcement.

We believe that commodity exposure, primarily via gold, but also energy and materials, will continue to be additive in an uncertain macro-economic environment. Gold proved to be an outstanding diversifying asset in 2024, delivering equity-like returns, increasing almost +30%, while maintaining a very low correlation to equities. We have taken some profits but plan to monitor exposure with gold up +26% year to date.

Thank you for taking the time to read our thoughts on the markets and we look forward to speaking with you soon.