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Investment Management

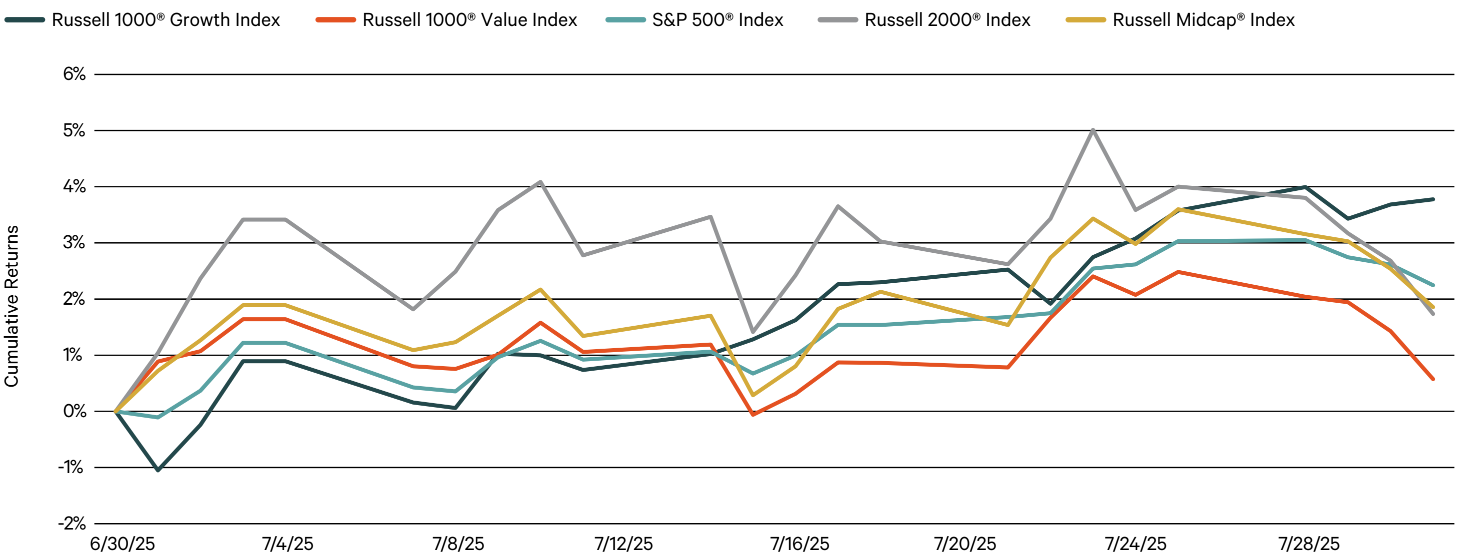
Market Review Commentary

JUL 2025

Throughout the month of July, U.S. equity investors appeared to change their minds about which part of the market offered the best opportunities (see Figure 1). Early in the month, the 90-day moratorium on "reciprocal" tariffs, which the Trump Administration had announced in April, and would have expired on July 9th, was extended for 30-days. Investors appeared to conclude that bilateral trade agreements would result in tariffs that would not be nearly as high as originally threatened and that the impact on inflation and corporate earnings would not be so bad.

In the latter half of July, the tariffs President Trump revealed for many countries turned out to be larger than expected (such as a 50% tariff on goods from Brazil, with whom the U.S. has a trade *surplus*, and which provides roughly 30% of the coffee we drink). Still, market volatility declined considerably in July compared to the second quarter of 2025, even though much of the uncertainty U.S. businesses have confronted since April persists.

FIGURE 1: KEY MARKET INDEX RETURNS

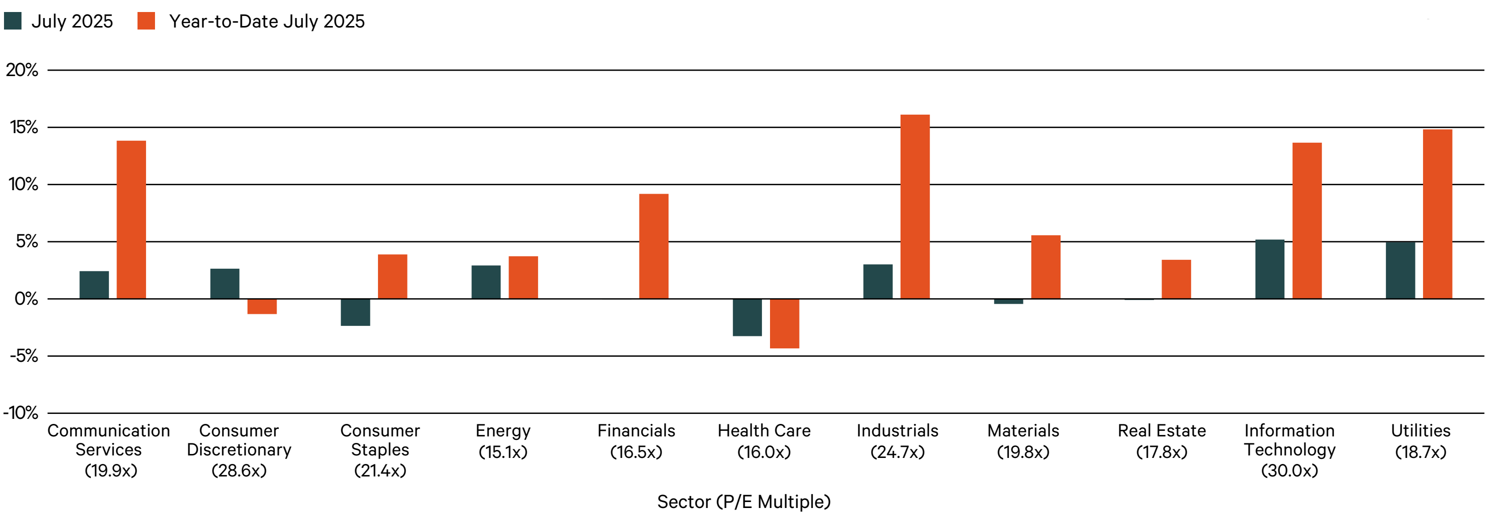


Data presented is as of July 31, 2025, is obtained from FactSet and is assumed to be reliable. The indexes are not actively managed and do not reflect the deduction of any investment management or other fees and expenses. It is not possible to invest directly in an index. Please see the end of this commentary for important information regarding the indexes. ***Past performance is no guarantee of future results.***

Here's what markets delivered to investors over the month of July:

- Looking at how returns across market segments evolved in July, it appears that relatively upbeat expectations about tariffs initially benefited small cap stocks (measured by the Russell 2000® Index). The outperformance of small caps continued until the last week of the month. Value stocks, which had been outperforming growth, lagged from mid-month, and mid caps held up well relative to large caps until the very end of the month.
- Large cap growth stocks lagged through the first half of the month, perhaps due to investor jitters about whether or not second quarter earnings would support the high valuation multiples attached to those stocks. That shifted in the middle of the month when large cap growth surged, ultimately overtaking small caps in the last few days of July (both Microsoft and Meta reported strong earnings on July 30th).
- Most, but not all sectors delivered positive returns in July. Health care and consumer staples stocks lagged as investors favored more cyclical and growth companies. While technology gets all of the attention, year-to-date industrials and utilities are leading, with the former trading at a P/E multiple around 30x.

FIGURE 2: S&P 500® INDEX SECTOR RETURNS



Data presented is as of July 31, 2025, is obtained from Factset and is assumed to be reliable. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and it is not available for direct investment. The P/E multiple is for the next twelve months ending July 31, 2025. Please see the end of this commentary for additional information regarding the index. ***Past performance is no guarantee of future results.***

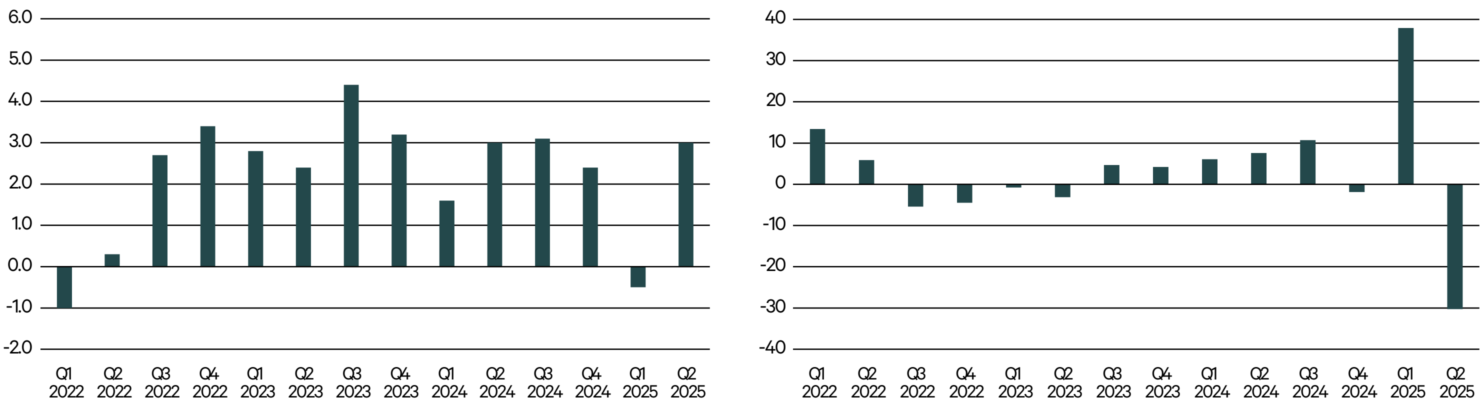
1. A slew of key economic indicators were released toward the end of July

GDP rebounded to 3.0% in the second quarter, but large changes in imports and exports made that growth look artificially high. Recall that imports surged earlier in the year, driven by a push to build up inventories before tariffs hit. Imports are subtracted from GDP, and first quarter growth was -0.50% in Q1. In Q2, imports plunged relative to the big increase in the first quarter. This decline in imports boosted GDP growth for Q2.

Taking the average of GDP growth in the first two quarters of 2025, we get 1.25% growth per quarter ([-0.50% + 3.0%]/2), which most would describe as "below potential" and is roughly half of what we saw in the first half of 2024.

FIGURE 3: KEY ECONOMIC INDICATORS
Seasonally-Adjusted Annual Rate, Quarter-Over-Quarter

GROSS DOMESTIC PRODUCT | **IMPORTS**



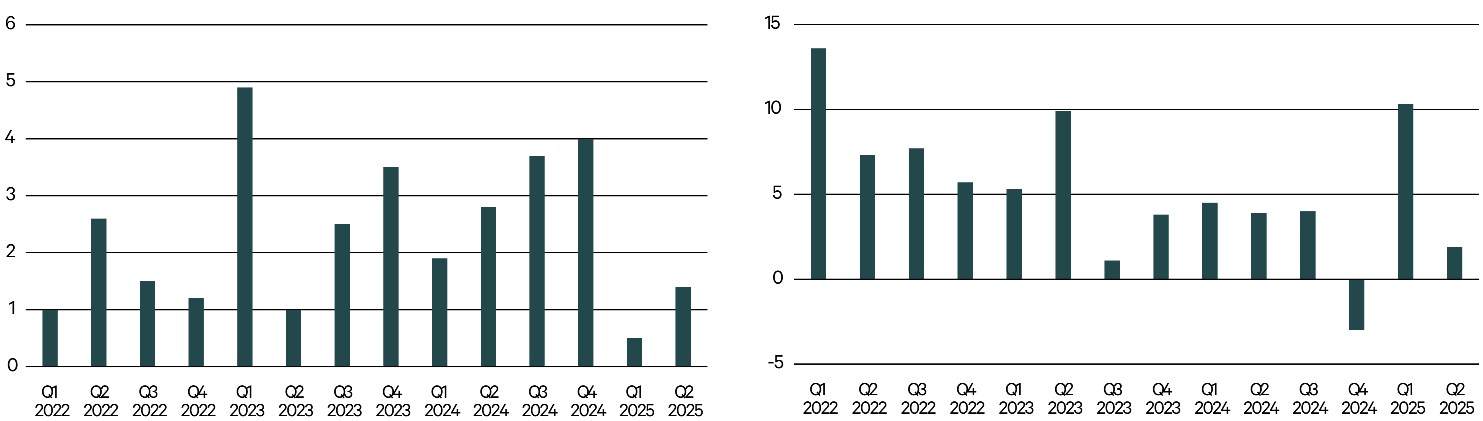
Data presented is as of June 30, 2025, is obtained from Factset and the Bureau of Economic Analysis and is assumed to be reliable.

As these big swings in trade have distorted GDP this year, many economists are focusing on another measure of economic growth, final sales to private domestic purchasers—consumers and businesses. This narrower gauge of demand rose by just 1.2% in the second quarter, the slowest since the end of 2022 and just below half the average for the past 12 quarters.[1]

Growth in personal spending, which is responsible for roughly two-thirds of U.S. economic activity, improved in the second quarter but was still weak compared to this time last year. Mortgage applications fell, as economic uncertainty and high mortgage rates continue to deter homebuyers. This is true even in areas such as Texas and Florida where what had been a shortage of homes for sale has turned into a surplus.

FIGURE 4: KEY ECONOMIC INDICATORS
Seasonally-Adjusted Annual Rate, Quarter-Over-Quarter

PERSONAL SPENDING | **BUSINESS INVESTMENT**

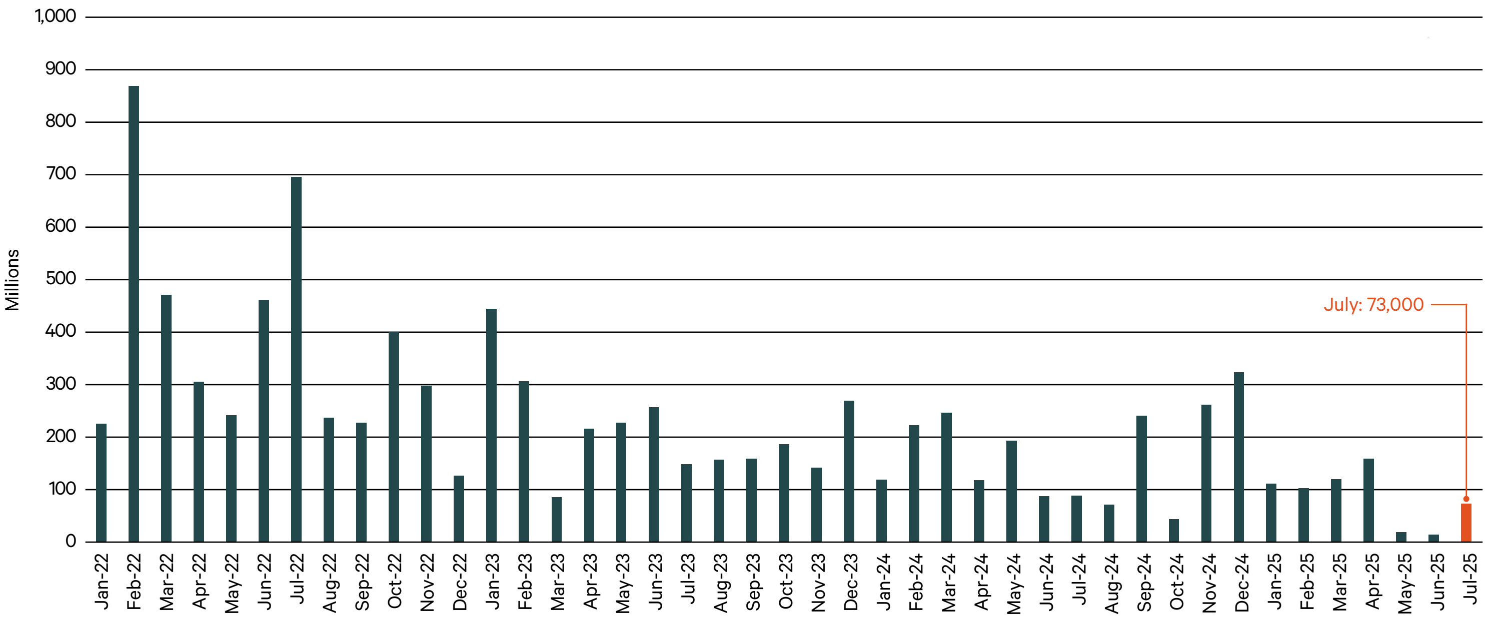


Data presented is as of June 30, 2025, is obtained from Factset and the Bureau of Economic Analysis and is assumed to be reliable.

[1] https://fred.stlouisfed.org/series/PB0000031Q225SBEA

Business investment has been weak, further evidence that companies are hesitant to move forward with projects in the face of high economic policy uncertainty. Confirming this, job growth deteriorated, with just 73,000 jobs added in July, far below the 100,000 expected. Even worse, job gains for May and June were revised down by 258,000, all but wiping out job gains for those two months.

FIGURE 5: NONFARM PAYROLLS
Change from One Month Earlier



Data presented is as of July 31, 2025, is obtained from Factset and the Bureau of Labor Statistics and is assumed to be reliable.

2. Tariffs are starting to hit consumer prices

U.S. inflation, measured by the core CPI which excludes food and energy prices, rose less than expected in June, increasing 0.2% from May and 2.9% year-over-year. However, the overall number masks a wide range of price moves across key categories. A decline in car prices helped to dampen the overall increase, but prices for items that are highly exposed to tariffs, including toys, appliances, household furnishings, and sports equipment, rose at the fastest pace in years.

Inflation Insights notes that excluding cars, core goods prices climbed 0.55% in June—the biggest monthly advance since November 2021.[2] Clearly, some companies are starting to pass tariff-related costs on to consumers. And largely overshadowed by the emphasis on goods inflation, which has affected the Trump Administration's tariffs, core services inflation ticked up in June 2025.[3]

Of course, actual inflation numbers are backward-looking. In contrast, consumer confidence is forward-looking. The latter improved in July, suggesting that delays in tariffs have led many to believe the eventual impact will be tolerable.

[2] https://www.bloomberg.com/news/newsletters/2025-07-15/inflation-data-comes-in-cool-but-signals-tariff-bite-evening-briefing-americas
[3] https://tradingeconomics.com/united-states/services-inflation

Still, a number of CEOs have recently commented that consumers are feeling pinched; for example, Walmart CEO Doug McMillon said consumers are showing signs of stress due to high food prices, buying smaller pack sizes at the end of the month.[4] Procter & Gamble CFO Andre Schulten also noted that consumers are becoming more cautious, as P&G recently announced price hikes on about a quarter of its products in response to tariff pressures.[5] In other words, concerns about inflation persist. The second half of the year, in particular the fourth quarter, could provide important facts on the inflation front.

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[4] https://finance.yahoo.com/news/walmart-ceo-says-customers-feel-095000862.html
[5] https://www.kiplinger.com/personal-finance/shopping/p-and-g-tariff-price-hikes-impact

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