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Economic & Market Summary
July 2025

Stock prices have rebounded sharply since the tariff-driven downturn, with major indexes back to all-time highs. Decent economic data and receding tariff fears after the Trump administration's pause on retaliatory tariffs drove the rally. A cooling of trade tensions with China has also helped in our view. We're encouraged to see a pivot towards dealmaking but wouldn't be surprised to see further market swings as negotiations with major trading partners unfold.

On balance, recent "hard" economic data, which reflect actual economic activity, have been fine. After-tax income and personal consumption expenditures are still growing at a solid clip even after inflation. Annualized economic growth net of inflation is expected to be around 2% for the second quarter. One caveat is the mixed signals from the labor market. Several strong months of job creation were revised downward in subsequent employment releases implying job growth was not as good as originally thought. "Soft" data, such as the Consumer Confidence Index and surveys of purchasing managers, reflect sentiment and expectations for the future and have been weaker. The difference between the hard and soft data is most likely driven by significant uncertainty around tariffs. Weak soft data today could signal weak hard data tomorrow, so this will be an area we continue to monitor.

As expected, the Federal Reserve left interest rates unchanged at their June meeting. Individual forecasts from Fed policy makers suggest two quarter-point rate cuts this year. The Fed's messaging reflects caution given the potential for tariffs to impact inflation. It's early, but so far this hasn't happened. Inflation has continued to track down towards the Fed's 2% target. We think this trend will continue, though tariffs could slow the process. Unless the tariffs are more additive to inflation than anticipated or the labor market shows signs of distress, it seems reasonable that the Fed will cut rates twice before year-end.

While we think cementing the tax cuts from the Tax Cuts and Jobs Act is positive for the economy, the One Big, Beautiful Bill has drawn attention to the US government's deteriorating fiscal health. US federal debt as a percentage of the economy (GDP) has grown significantly since before the pandemic. Interest on our national debt is now a larger portion of government spending than defense, second only to Social Security and Medicare. While we don't believe our government faces an imminent debt crisis, these developments are troubling. The US economy enjoys many advantages that should not be taken for granted. The dollar remains the world's reserve currency and is generally stable against other currencies. US government bonds are still viewed as relatively safe assets. Due to its size and dynamism, the US economy is an attractive place to invest. These advantages rely on the assumption that the US government can still operate effectively and continue financing its spending. If borrowing increases significantly from here, to fight a war or combat a recession for example, these assumptions could be called into question.

Aggregate stock prices look a bit rich to us. The market rebound has pushed the value of the S&P 500 to around 22x forward earnings, which is well above the ten-year average of 18x. Many of our Working List companies trade at or above our estimate of fair market value. To us, stock prices reflect optimism that the worst of the tariff-driven market volatility is over as well as expectations that rate cuts are imminent. Trade negotiations can be contentious, so we could see more short-term pressure if a negative development surfaces, especially given the stock market's elevated valuation.

Mark J. Sprtel, CFA

If your financial situation has materially changed or you would like to discuss your accounts in detail, please contact your investment manager. To request our SEC Form ADV Part II, please contact Mark J. Sprtel, Chief Compliance Officer, at the address above.