

THE BIG PICTURE

July 2025

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OVERSHOOT?

- Equities continued to grind higher with the S&P 500 crossing the 6300 level for another new all-time high and the Nasdaq eclipsing 21,000 for the first time ever as well
- The S&P 500 has rallied more than 30% off its April low – and a three-month rally of greater than 20% has only occurred eight times in 30 years (source: Trend Investor Pro)
- The Nasdaq 100 has gone over 60 trading days without closing below its 20-day moving average, the 2nd longest streak in history (source: BTIG)
- Growing speculation in the most volatile segments of the equity market like meme stocks and unprofitable companies as well as concentration in US tech/AI mega cap could pose a risk to the market overshooting
- Margin debt is also growing at a rapid rate, and margin debt as a percentage of GDP sits at record levels (source: Deutsche Bank)
- Despite some signs of frothiness, it is very difficult to time pullbacks within strong uptrends and some of the over \$7 trillion sitting in U.S. money market funds could serve as an additional source of capital



- The U.S. economy has been more resilient than many expected as tariffs have proven non-recessionary to this point with a weaker dollar providing a benefit to multi-national U.S. exporters
- Corporations seem to be adapting well to the evolving tariff environment as over 80% of companies have, thus far, beaten Q2 earnings expectations (source: Bloomberg)
- Earnings will need to continue to deliver as the S&P 500's recent rally has left the index trading at 26 times forward earnings (vs the historical average of 18x)
- The White House has successfully shifted the psychology on tariffs with the new reality of a 15% floor bringing welcome certainty and a better than worst-case outcome
- While inflationary pressure have been slow to materialize, it is unclear how long American companies will continue to largely absorb tariffs and risk eroding profits rather than passing the costs on to consumers



GLOBAL

- Global participation was on full display in July with every major equity region in the world in a technical uptrend
- The EAFE (Europe, Australasia, and the Far East) Index, which tracks developed markets outside North America, rose to a new all-time high, eclipsing 2007 levels
- In late July, President Trump announced a trade deal with the European Union, the largest exporter to the United States and a key supplier of pharmaceutical products
- Many EU leaders complained that the deal will leave many European exporters facing higher tariff rates than the bloc levies on imports coming from the U.S.
- The Euro currency, which had rallied sharply against the dollar this year on European re-militarization and capital flows, weakened after the trade agreement was announced
- Although there is an August 12th deadline looming for a U.S.-China trade pact, investors have been heartened by the White House's negotiating flexibility and both sides' security dependence on each other for critical goods (China's rare earth materials and AI semiconductors coming from the U.S.)



WEAK DOLLAR

- After making a three-year low in June, the U.S dollar index enjoyed a brief two-week bounce before stalling out against the 50-day moving average, in keeping with recent tepid rallies
- A weak dollar has been a catalyst for the risk-on rally including strength in international stocks, industrial commodities, precious metals, and digital assets
- A weaker dollar generally contributes to a loosening of financial conditions by requiring less liquidity to service global debt and conduct international trade – thereby freeing more capital to flow into financial markets
- Financial conditions ultimately impact the real economy with a lag
- Speculative emerging markets are showing strength with countries like Singapore, Vietnam, and Greece breaking out of long-term technical bases
- Recent outperformance from Treasury Inflation Protected Securities has likely been driven by tariff impact concerns, potential liquidity from the newly-enacted tax bill, and President Trump's desire for large rate cuts



A close-up photograph of a person's hands using a smartphone to pay at a point-of-sale terminal. The person is wearing a gold-colored sweater and a ring. The terminal is black and white with a green stripe. The background is blurred, showing what appears to be a retail or food service environment.

OUTGROW OUR DEBT

- After briefly flirting with austerity, the Trump administration pivoted, opting to attempt to outgrow the national debt with procyclical fiscal, tax, and regulatory policies
- President Trump signed the One Big Beautiful Bill Act (OBBBA), extending prior tax cuts and boosting defense and immigration spending
- Like his predecessor, President Trump has chosen loose fiscal policy and large deficits despite peace-time and near full employment
- Industrial production of business equipment, an early indicator of capital spending and productivity, jumped during Q2 – reflecting the OBBBA’s favorable tax treatment of domestic business investment
- It appears the economy may be reaccelerating as strong household wealth (driven by stock and real estate gains), growing money supply, and easy financial conditions create a positive risk environment
- Employment and consumption remain healthy but an uneven recovery across income groups poses some risk to the long-term outlook



FED INDEPENDENCE

- The White House stepped-up its pressure on Fed Chair Jerome Powell to step down before his term expires next May because of his reluctance to cut interest rates
- Echoing President Trump, Treasury Secretary Scott Bessent called for a review of the Fed's costly renovation of its Washington, D.C. headquarters, implying mismanagement
- President Trump insisted that with inflation in check, the Fed should cut rates by 300 bps to reduce federal borrowing cost
- Although the market is currently pricing in rate cuts beginning in September (and 4-5 more over the next 18 months), only a recession has typically induced that level of response from the Federal Reserve
- The threat to Federal Reserve credibility comes at a time when bond investors around the world are increasingly pushing back against unsustainable sovereign debt levels
- Undermining central bank independence could result in a weaker U.S. dollar, higher long-term borrowing costs, and market instability

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EAFE

EAFE is an acronym for Europe, Australasia, and the Far East, the most developed areas of the world outside of North America.

Moving Average

A moving average (MA) is a widely used technical indicator that smooths out price trends by filtering out the noise from random short-term price fluctuations. Moving averages can be constructed in several different ways and employ different numbers of days for the averaging interval.

NASDAQ 100

The Nasdaq 100 Index is a basket of the 100 largest, most actively traded U.S. companies listed on the Nasdaq stock exchange. The index includes companies from various industries except for the financial industry. These non-financial sectors include retail, biotechnology, industrial, technology, health care, and others.

Risk-On Assets

When risks subside in the market, low-return assets and safe havens are dumped for high-yielding bonds, stocks, commodities, and other assets that carry elevated risk. As overall market risks stay low, investors are more willing to take on portfolio risk for the chance of higher returns.

S&P 500

An index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

Treasury Inflation-Protected Securities (TIPS)

A type of Treasury security issued by the U.S. government. TIPS are indexed to inflation to protect investors from a decline in the purchasing power of their money.

Weak Dollar

Refers to a downward price trend in the value of the U.S. dollar relative to other foreign currencies. The most commonly compared currency is the Euro, so if the Euro is rising in price compared to the dollar, the dollar is said to be weakening at that time.

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