

August 1, 2025

July Market Review

The US equity markets continued to march higher in July, fueled by a trifecta of earnings resilience, optimism around trade negotiations and the passage of President Donald Trump's "One Big Beautiful Bill." The S&P 500 has notched 15 record highs in 2025 – setting 10 new records in July alone – but tariff headwinds loom.

"Although the S&P 500 has climbed to new highs, we think investors may be too complacent about the risks given that tariffs are likely to be seven times higher than they were at the start of the year," Raymond James Chief Investment Officer Larry Adam said.

Strong earnings results, led by mega-sized companies, reflect a corporate America that is faring better than expected: So far, 82% of companies that have reported are beating their earnings estimates in the second quarter – the highest level since the second quarter of 2021.

The US economy continues to show signs of resilience, with only a modest cooling in the labor market, ongoing consumer strength and minimal pass-through of tariffs to the end consumer. Federal Reserve (Fed) officials have preached patience, opting to hold rates steady at the target range of 4.25%-4.5% at their July 29-30 Federal Open Market Committee (FOMC) meeting. While most members of the FOMC expect tariff-related price increases to emerge later this year, there is some debate on whether they represent a one-time price increase or a persistent threat.

Treasury yields climbed nearly 20 basis points across the curve as solid economic data and concerns about tariff-related price pressures drove the market to push back expectations for Fed rate cuts this year.

We'll dive into the details shortly, but first: a look at the numbers year-to-date.

	12/31/24 Close	7/31/25 Close*	Change Year to Date	% Gain/Loss Year to Date
DJIA	42,544.22	44,130.98	+1,586.76	+3.73%
NASDAQ	19,310.79	21,122.45	+1,811.66	+9.38%
S&P 500	5,881.63	6,339.39	+457.76	+7.78%
MSCI EAFE	2,259.60	2,639.96	+380.36	+16.83%
Russell 2000	2,230.16	2,211.65	-18.51	-0.83%
Bloomberg Aggregate Bond	2,189.03	2,270.23	+81.20	+3.71%

*Performance reflects index values as of market close on July 31, 2025.

S&P 500 continues to edge upward

With earnings season in full swing, results have been better than expected. The financial sector has been a standout, delivering strong earnings and positive growth estimates. Healthcare continues to lag, with lower-than-expected earnings and a weakening 2025 outlook.

Though the S&P 500 is showing resilience, a lack of big swings in the latter half of the month indicates a degree of investor uncertainty in the near-term.

While the market awaits results from mega-sized tech companies, recent trends show a shift in investors' conviction. A handful of tech stocks drove the strongest daily performance in 20 years last month, but shortly thereafter this set of stocks swung to its worst daily performance in two decades, with those same companies trading lower while the broader market moved higher. If it continues, it may offer important clues about the durability of the current rally.

US economy resilient despite signs of strain

Inflation increased on a year-over-year basis last month, but a slowdown in housing prices led to a lower-than-expected increase in the core Consumer Price Index. Though tariffs are putting upward pressure on prices, the overall weakening environment is making it difficult for service prices to continue to increase. This is keeping the total effect from tariffs relatively contained for now.

Both new and existing home sales were down in June, but existing home prices continue to push higher while builders are lowering prices on new construction.

The labor market continues to weaken but is holding together, as evidenced by stronger-than-expected job openings in June. Nonfarm payrolls were much higher than expected – up 147,000 – and employment growth during the previous two months was revised upward by a net 16,000 jobs.

Fed rate cut expectations pushed back further

Yields across most of the Treasury curve increased last month, with corporate bonds tracking a similar path. Long-term municipal bonds have underperformed while short-term bonds have overperformed, creating an even steeper municipal yield curve.

The market's expectation for the Fed's next interest rate cut has been continually pushed out – from June at the beginning of the year to September at the start of the month – and investors are now looking toward October for the only rate cut of the year. But with employment data remaining positive overall, consumer spending resilient and inflation still elevated from the target level, it's possible the Fed may not make a move at all.

Trade and tech policy movement in Washington

The passage of the “One Big Beautiful Bill” marked the major milestone in July, impacting US fiscal and energy policy. It permanently extended key provisions of the 2017 Tax Cuts and Jobs Act, including individual tax rates, 100% bonus depreciation, domestic R&D expensing and expanded interest deductions. However, several other tax breaks, such as the deduction for tips and overtime, are set to expire in 2028-2029.

A wave of tariff “letters” announced new, elevated rates ranging from 25% to 50% with the goal of pressuring foreign governments to finalize trade deals before the August 1 deadline. A new US-EU framework set a 15% baseline tariff and provided mutual zero tariffs on strategic sectors such as aircraft, semiconductor equipment and critical raw materials. The deal also promised substantial European investment into US energy and defense.

The US also finalized a major deal with Japan at a 15% tariff rate with \$550 billion in Japanese investment into the US and extended the tariff pause on China for another 90 days, providing momentum toward the fall's anticipated Trump-Xi summit.

The administration also released its AI Action Plan, signaling a reset of US tech policy. The plan's three pillars combine deregulation, expanded export financing, fast-tracked permitting for data and power projects and tighter advanced chip tracking. These strategies support US tech and semiconductor firms while seeking to set global standards and create new opportunities for US firms to benefit from the global AI buildout.

“Crypto Week” was another notable development last month, with Congress passing laws intended to bring clarity, structure and legitimacy to the US digital asset market.

Signs of weakness in EU, UK

European Central Bank leadership declared the euro zone as being in a good place, putting on hold its interest rate-cutting strategy. Meanwhile, investors have remained optimistic about Germany's looser fiscal brakes, with expected spending boosting stocks. However, the euro zone economy is showing some fundamental weaknesses, complicated further by US trade policy, suggesting muted growth in 2026.

Meanwhile, across the channel, the UK's strong first quarter growth has tapered off and business surveys suggest the third quarter will be flat, with a combination of soft employment, trade, fiscal policy and a small uptick in inflation creating headwinds.

The bottom line

While US equities continue to set new highs, supported by strong earnings and policy momentum, signs of market fatigue and elevated expectations suggest that caution may be warranted. Changing sector dynamics and tariff-related uncertainties highlight the importance of staying diversified and not overreacting to short-term market shifts.

I hope this update finds you well and if you have any questions, you will not hesitate to reach out at your earliest convenience.

Sincerely,

A stylized, handwritten signature in blue ink that reads "Jeff".

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