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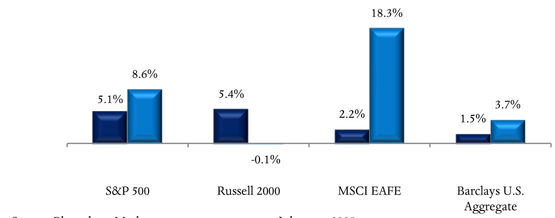
Markets

Announcements by the Trump administration of several trade agreements, plus the passage of the One Big Beautiful Bill Act, increased clarity and supported financial market risk sentiment. July continued the record-breaking run for stocks seeing the S&P 500 index up for the third month in a row (+2.2% in July; +8.6% ytd). Large technology stocks were the stars of the show, leading the Nasdaq composite higher by +3.7% last month (+9.8% ytd), making the post "Liberation Day" selloff seem like a distant memory. In addition to the aforementioned factors, a strong start to the earnings season, featuring positive developments in the AI sector, increased merger and acquisition activity, and a resilient macroeconomic backdrop were positives.

International equities as measured by the MSCI EAFE index (-1.4% in July; +18.3% ytd) lagged, in large part due to the strengthening of the US-dollar. China has led major markets across recent periods with a +4.8% monthly return (+20.7% ytd), followed by Europe (+1.0% in July; +18.4% ytd). Japan's Nikkei 225 ended the month +1.4% higher (+4.0% ytd) despite political uncertainties and persistent inflation.

Expectations of continued US fiscal largesse were a headwind for bond markets. The 10-year US Treasury Note yield rose 13 bps, and the curve flattened, as markets priced in fewer Fed rate cuts for the rest of this year. As such, the Barclays US Aggregate index declined -0.3% last month (+3.7% ytd). Credit markets outperformed government bonds as spreads narrowed, supported by strong corporate earnings, driving the high yield index upward by +0.4% in July (+5.0% ytd).

Commodities were mixed in July. WTI crude oil rose +6.4% during the month due to positive economic data from China and easing trade tensions, but remained -3.4% below the start of the year. Gold and silver prices



Source: Bloomberg Markets

were generally flat after a very strong first half. Copper prices exhibited volatility, initially rising circa +10% on the Trump administration's announcement of a 50% import tariff on the commodity, only to end the month down -4.3% after the taxes were levied only on semi-finished and copper-intensive products. The US-dollar strengthened in July with the index rising +3.2%, ending six consecutive months of losses.

Geopolitics

The US reached several high-level trade agreements before the August 1st deadline (subsequently extended). These deals followed a consistent pattern: exports to the US will face tariffs of 15-20%, while US products will not face additional taxes when entering these markets. Further, these trade partners have pledged to purchase American-made goods, energy or agricultural products, as well as invest billions of dollars in the US. Specifically with regard to the EU, the US's largest trading partner where transactions have doubled over the past decade, surpassing €1.6 trillion in 2024, imports will be subject to a 15% baseline tariff. However, levies of 50% will remain in place for European steel, aluminum and copper. The bloc has also agreed to buy an additional $750 billion of US energy products over the next three years and make investments worth $600 billion in various sectors by 2029. EU tariffs on imports from the US will remain constant. Meanwhile, Canada, India, and Brazil remained at odds with US negotiators and talks continue with other major trading partners such as Mexico and China (with US Treasury Secretary Bessent expressing optimism about the negotiations). Concurrently, the

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Federal appeals court heard arguments regarding the legality of these levies. The newly imposed US tariff rates (currently averaging 15.5%) are significantly higher than the 2.4% before Trump's presidency, representing a substantial burden on importers and consumers. Financial markets believe the overall deals to be positive for the US economy.

US

US economic data continued to be mixed. July payrolls fell short of expectations and the prior two months of job growth was revised downward meaningfully, leading the unemployment rate back up to 4.2%. Inflation data came in cooler than expected, but still elevated, with headline and core CPI climbing 2.7% and 2.9%, respectively. Moreover, early signs of tariff effects are beginning to emerge. The housing market witnessed its slowest spring selling season in more than a decade, and sales of previously owned homes fell to a nine-month low in June amid elevated mortgage rates which are reducing affordability. To the upside consumers are feeling increased confidence, and GDP growth rose above expectations (+3.0% QoQ vs +2.6% consensus). The Fed's July meeting featured hawkish takeaways, with no hints of an interest rate cut in September. Still, Fed Funds futures markets are forecasting two quarter point cuts by year-end.

In mid-July's "Crypto Week," Congress passed, and President Trump quickly signed, the "GENIUS Act," the first US law that tells companies exactly how they can issue dollar-pegged "stablecoins." The rules are simple: if a company has less than $10 billion worth of coins in circulation, it can keep a state license; once it grows past that mark, it needs a federal license from the top bank regulator, the Office of the Comptroller of the Currency. Every stablecoin must be backed 1-for-1 with real dollars or short-term US Treasury bills, and issuers must publish monthly reports proving those reserves. They also have to follow the same anti-money-laundering and customer-ID checks that banks use. The goal is to protect investors' cash, prevent fraud, and give stablecoins the same legal certainty as other payment tools. For everyday investors, the takeaway is clearer rules, lower risk of blow-ups, and a smoother path for mainstream use of digital dollars.

July 2025 Economic Statistics

	Jul-25	Dec-24	Dec-23
Federal Funds Target Rate	*4.25 - 4.50%*	*4.25 - 4.50%*	*5.25 - 5.50%*
Consumer Confidence Index	*97.2*	*104.7*	*110.7*
Manufacturing PMI Index	*48.0%*	*49.3%*	*47.4%*
Unemployment Rate	*4.2%*	*4.2%*	*3.7%*
JPY/USD	*150.74*	*157.18*	*141.06*
USD/EUR	*1.1415*	*1.0353*	*1.1036*
Gold/oz.	*$3,290.02*	*$2,623.81*	*$2,062.59*
Oil (WTI)/bbl	*$69.26*	*$71.72*	*$71.65*

Sources: see disclosure *

Europe

European economic datapoints remain positive. Second quarter economic growth in the bloc expanded by 1.4%, year-over-year, ahead of expectations of 1.2%. Further, the eurozone composite PMI index rose to an 11-month high, driven by both services and manufacturing. Regional inflation was reported at 2% in June, in-line with the European Central Bank's (ECB) target. Interest rates were held steady but the ECB expressed concerns about potential downside risks to growth due to global trade tensions and geopolitical uncertainties. The recent EU-US trade deal has helped ease some recession fears.

In the UK, headline inflation unexpectedly increased from 3.4% to 3.6% year-over-year, while core inflation picked-up from 3.5% to 3.7%, predominantly driven by an acceleration in transport, clothing and recreation costs. In an unprecedentedly tight vote, the Bank of England cut interest rates by a quarter point to 4%, illustrating the difficulty global central banks currently face deciding on appropriate monetary policies.

Asia

The Chinese economy remained resilient as consumer sentiment improved and the liquidity situation continued to recover, supported by a rise in monetary aggregates and a credit impulse. A number of recent activity indicators in China came in better than expected: the first-half GDP growth rate of +5.3% year-over-year was above the 5.0% target, and industrial production came in better than expectations, rising 6.8% in June. Economic growth was driven by strong exports which rose 5.8% year-over-year despite US trade tensions. The Caixin manufacturing output purchasing managers' index (PMI) moved above the 50-point threshold denoting expanding activity. However, fixed asset investment and retail sales showed sharper-than-expected slowdowns. Property prices also continued to fall. The China Politburo took note of the improved first half performance, despite lingering challenges, and called for a "more optimized implementation" of fiscal and monetary policies.

In Japan, core inflation, which climbed to 3.4% from 3.3%, remained significantly above the Bank of Japan's (BoJ's) 2% target, driven by rising food prices, particularly rice (+100.2% year-over-year). The political landscape in Japan became unstable following the ruling coalition's loss of its upper house majority. This uncertainty led opposition parties to calls for fiscal expansion and tax cuts. The BoJ's Governor Ueda reinforced that the central bank is not in a hurry to raise rates, citing the ongoing need to monitor tariff effects and pointing out that underlying inflation was poised to enter a sluggish period.

Outlook

Risk appetite has swung from fear to greed, with markets gaining more clarity regarding future US trade terms and fiscal policy. Investors are predicting a positive scenario where economic growth accelerates, driven by fiscal stimulus and an AI-induced productivity boom, while inflation remains at moderate levels. The Magnificent Seven technology companies continue to report stronger earnings growth than the rest of the S&P 500 index (17% vs. 4%), further separating them from the broad market. In fact, the bottom 490 stocks in the S&P 500 are just now surpassing the earnings they produced in 2022. This phenomenon has, in-turn, elevated valuations of global equity indices to 20x earnings, compared to the long-term average of 16x. Another dynamic worthy of attention is that US retail investor participation is nearing all-time highs (responsible for circa 36% of incremental fund flows) and meme stocks are flying-high once again, indicating speculative fervor. Further, we are entering a seasonally soft period for the stock market, so some vigilance is warranted, and a longer-term time horizon is imperative.

As for the Federal Reserve's much-anticipated next interest rate cut, the timeline for clarity on the effects of tariff and immigration policy, on labor and the economy, has been pushed back to the autumn. Meanwhile, the Fed is facing unjust political pressure by the Trump administration, which is contending with elevated financing costs on account of a heavy Federal debt load and deficit spending.

Fixed income markets also appear to be content with the aforementioned "Goldilocks" economic outlook (not too much inflation, not too little employment, and a modest state of growth). This should bode well for credit markets, where we recommend a diversified portfolio of short duration bonds. The risk is that a recession derails corporate profitability, for which we are vigilantly on the lookout. With regard to sovereign bonds, we are displeased to see US federal debt levels continuously rise on account of accelerating deficit spending. Tariff revenue, estimated to reach $400 billion per year, is a mitigating factor.

Our favored hedge funds and non-market correlated investments excelled during the first half's the two-way volatility, thanks to solid risk management and security selection. Precious metal mining equities have yielded exceptional returns since our initial recommendation, yet valuations remain reasonable given the strength of associated metals, combined with operating leverage, an indication that additional returns are possible. For capital appreciation oriented investors, select software equities, with an activist element, offer interesting opportunities after pulling-back. We have also identified unique private equity and credit funds focused on the cybersecurity, healthcare, education and natural resource sectors. Lasty, our proprietary efforts to source direct investments are gaining traction, with several compelling small and middle market prospects on offer.

*Sources: Reuters, Bloomberg, Bureau of Labor Statistics, Conference Board, Federal Reserve, Institute for Supply Management, MSCI, Russell, Standard & Poor's, Financial Times and the Wall Street Journal.