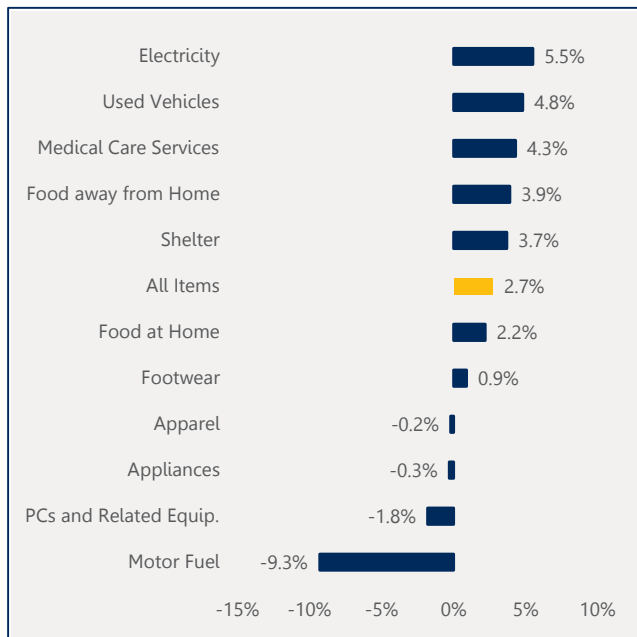


August 2025

# Market Review



### Price Pressures Concentrated In Non-Tariff Areas Selected CPI Categories Year-over-year July 2025



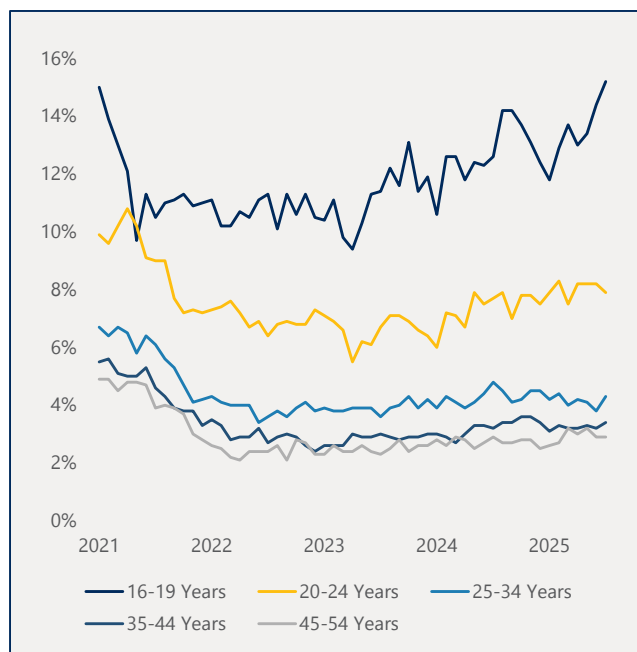
Source: Bloomberg. Data as of 7/31/25. Past Performance does not guarantee future results.

The July 2025 CPI report highlights that U.S. inflation pressures remain concentrated in categories largely insulated from tariff effects. Year-over-year gains in electricity, medical care services, food away from home, and shelter stand out as key drivers of core inflation, reflecting persistent domestic cost pressures such as labor, housing supply constraints, and service-sector demand.

In contrast, categories heavily exposed to imports—and thus more sensitive to tariffs—do not appear to be currently fueling inflation. Apparel, appliances, and electrical equipment, which rely disproportionately on overseas production, are experiencing year-over-year price declines, suggesting that competitive pressures, supply-chain normalization, and softer demand are offsetting tariff impacts so far.

One potential tariff-related signal appears in the used vehicle market, where prices are up nearly 5% from a year ago. This increase could reflect anticipatory demand for pre-owned cars and trucks if buyers expect higher prices for new vehicles under elevated import duties. Overall, the data show price pressures concentrated in domestically driven sectors, rather than in the most import-dependent categories.

### Youth Joblessness has risen sharply since 2023 U.S. Unemployment Rate by Age Cohort



Source: Bloomberg. Data as of 7/31/25. Past Performance does not guarantee future results.

Over the past several years, unemployment among U.S. workers aged 16–24 has risen sharply, with rates for teens climbing from 9.4% in April 2023 to 15.2% in July. The unemployment rate in the college graduate cohort (ages 20–24) has wavered around a 4-year high of 8% in recent months.

A key driver is slowing entry-level hiring, as employers scale back roles for inexperienced candidates. Job postings for early-career positions have dropped significantly since before the pandemic, making it harder for both teens and recent graduates to find work. Technological disruption, particularly from artificial intelligence, could be compounding the problem. AI has replaced some entry-level white-collar role in technology and finance.

Many graduates also lack the skills needed in growing fields like healthcare and education. This “skills mismatch” leaves some young job-seekers caught between disappearing positions in shrinking sectors and high barriers to entry in expanding ones. Seasonal and part-time roles for teens have also declined, and public-sector program cuts have further reduced opportunities, deepening the youth unemployment challenge.

### Stock Valuations Highest Since Pandemic Rebound S&P 500 12 Month Forward P/E Ratio

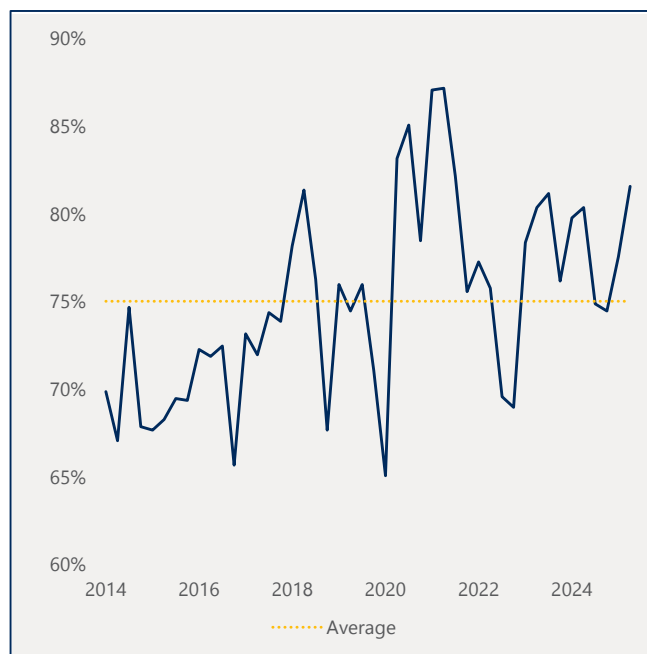


Source: Bloomberg. Past Performance does not guarantee future results.

The S&P 500 extended its winning streak for a third month in July, climbing 2.24% and lifting its year-to-date gain to 8.59%. The rally's continuation was fueled by upbeat second quarter earnings, resilient economic data, and easing trade tensions. Investor sentiment improved after the U.S. reached trade agreements with Japan and the European Union, while talks with China showed encouraging signs. Sentiment was further supported by passage of the Trump administration's "Big Beautiful Bill." The S&P 500 did not record a daily move of 1% or more in either direction in the month, the first occurrence since July 2023, reflecting a notable decline in market volatility.

July's gains extended the strong rally from the April 8 tariff-driven low, during which the S&P 500 surged 27.72% and the Magnificent Seven cohort soared 46.34% to a new collective record for the first time since December. Notably, the Mag 7 stocks and Broadcom (AVGO) accounted for 55% of the market's advance during that period. This sharp climb has pushed the S&P 500's 12-month forward price-to-earnings ratio to 22.22, close to the 22.93 high seen during the pandemic rebound.

### S&P 500 Earnings Beat Rate Strongest in 4 Years % of S&P 500 companies with EPS above estimates



Source: Bloomberg. Past Performance does not guarantee future results.

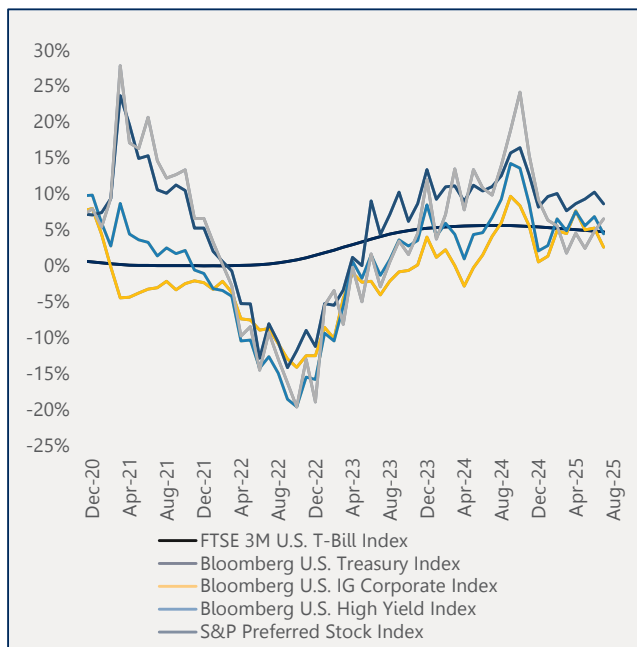
With second quarter results reported from 84% of the S&P 500's market cap, earnings have far surpassed expectations. This suggests that recent trade policy turbulence has had only a limited impact so far. Earnings are on track for 10.5% year over year growth, nearly four times the 2.8% analyst forecast. Excluding the Mag 7's strong results, earnings growth of 6.6% easily outpaced the 0.1% decline forecast. Around 82% of companies beat earnings projections, above the post-COVID average of 78.2% and the long-term average of 65.5% since 1992. The high number of earnings beats is partly due to analysts trimming estimates in response to trade policy and economic uncertainty.

The technology sector stood out not only for its strong 21.3% earnings growth but also for renewed AI investment enthusiasm following concerns about overspending earlier in the year. Analysts raised their 2025 capital spending forecasts for major AI data center providers, now projecting \$349 billion compared with \$280 billion at the start of the year. The upward revisions reflect growing demand for AI applications.

The S&P 500's operating margin increased to 15.7% from 15.0% a year ago, but narrowly missed analysts 15.8% forecast. Margins will be closely scrutinized in upcoming quarters for signs of tariff pressure.

## More Stable Bond Returns

Selected U.S. Bond Segments: Rolling 12M Returns



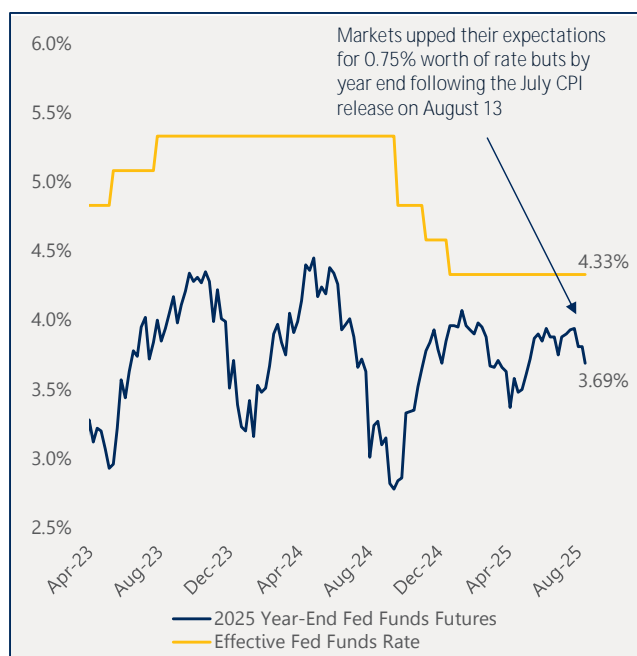
Source: Bloomberg. Data as of 7/31/25. Past Performance does not guarantee future results.

In 2025, fixed income markets have shifted into a period of relative calm after a volatile five-year cycle. High yield bonds and preferred stocks, still riding the momentum from the 2023–2024 rally, have delivered 6%-9% returns over the last 12 months amid favorable credit conditions.

Trailing 12-month returns of investment-grade corporates and intermediate-term Treasuries remain modestly positive, while T-bills continue their run of stable 4%-5% returns. With the exception of early April, the muted volatility so far this year in bond markets contrasts sharply with the dramatic swings of earlier years.

Looking back, 2021's post-pandemic surge in returns gave way to 2022's sharp losses amid aggressive Fed tightening. The cycle highlights the importance of balancing credit-sensitive opportunities with the relative stability of intermediate U.S. Treasury exposure. For 2025, we expect portfolios to benefit from maintaining diversified fixed income allocations, blending yield-seeking sectors with high-quality instruments to navigate an environment of slower growth and evolving monetary policy.

## Increasing Odds of 75 bps of Fed Rate Cuts by Year End Effective Fed Policy Rate and 2025 Year-End Expectations



Source: Bloomberg. Data as of 8/13/25. Past Performance does not guarantee future results.

Softer payroll growth and a cooling trend in inflation over recent months have strengthened market expectations that the Federal Reserve will begin cutting interest rates at its September 18 Federal Open Market Committee (FOMC) meeting. Investors are increasingly pricing in a series of rate reductions totaling 75 basis points by the end of 2025, reflecting confidence that the Fed is pivoting toward easing.

Support for cuts is also emerging within the central bank. At the late-July meeting, Fed Governors Christopher Waller and Michelle Bowman dissented from the majority decision to hold the policy rate steady at 4.25%–4.50%, signaling a growing appetite for policy loosening.

The dynamic on the Fed's Board of Governors could shift further with Governor Adriana Kugler's retirement and the temporary appointment of Stephen Miran, current Chair of the White House Council of Economic Advisers. His presence, alongside mounting economic evidence, could intensify pressure on Chair Jerome Powell to endorse an earlier and more aggressive easing cycle.

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