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Markets Climb Amid Trade Clarity

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MARKET REVIEW
JULY 2025

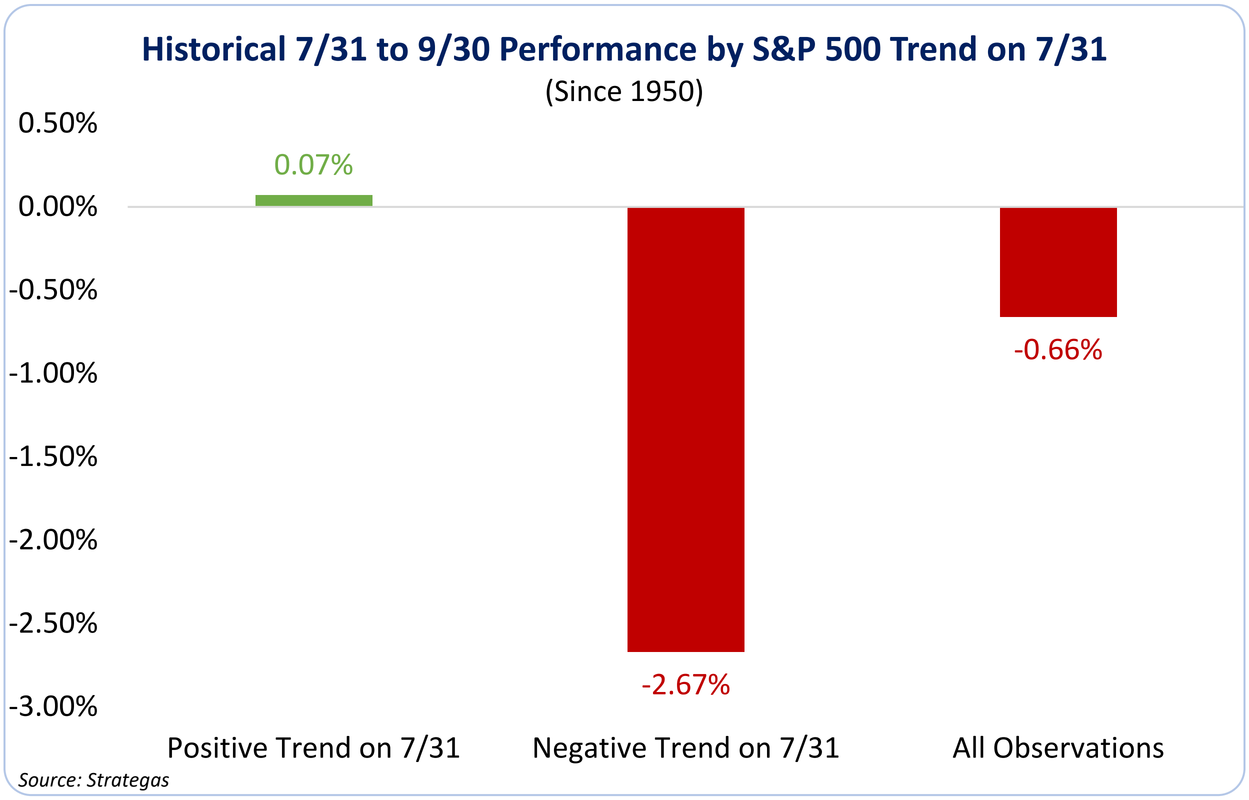
Markets Climb Amid Trade Clarity

Investor sentiment improved in July as political tensions eased, and U.S. trade and fiscal policy became clearer. Global equities rose, with developed markets hitting record highs and emerging markets outperforming. U.S. equities were supported by strong second-quarter earnings, especially among mega-cap tech stocks, while small caps and cyclical sectors saw early-month strength. In fixed income, bond markets declined as expectations of continued fiscal stimulus and stronger growth pushed yields higher. Inflation data showed only limited impact from tariffs so far, due in part to supply chain adjustments. Credit markets outperformed government bonds, helped by narrowing spreads and solid earnings.

Tariff Update: In July, President Trump raised tariffs by $100 billion, but recession fears have nonetheless declined, largely due to the stimulative effects of the recently passed One Big Beautiful Bill (OBBB). Prior to the bill, recession odds closely tracked tariff increases, but that correlation broke after the late-May passage. Tariffs are tax increases, but OBBB has effectively offset the economic drag, particularly through front-loaded business incentives like full expensing for capital equipment, R&D, and factory investment, which have helped lift S&P 500 earnings. While consumer relief is included — around $120 billion expected in early 2026 — it is seen as too delayed and narrowly targeted, contributing to weak public support for the bill. The current view is the effective tariff rate will settle around 15% over the next year.

Equities: Global developed market equities rose in July, reaching a new all-time high, with small caps initially benefiting from a stronger growth outlook following the US Senate's passage of a more expansionary OBBB bill. However, in the final week, large caps regained leadership as the Federal Reserve held rates steady and US mega-cap earnings impressed. Growth stocks outpaced value, aided by strong US technology performance. Emerging markets outperformed developed markets, bolstered by improving economic signals from China and Korea, as well as the ongoing AI investment surge in Taiwan. Commodity price gains in iron ore and steel further supported emerging markets.

History would tell us we are in for a volatile period as August and September are traditionally weaker periods of the calendar year. Interestingly, S&P trend can greatly influence outcomes. Chris Verrone and the team at Strategas have highlighted this in recent commentary. Ending July with a positive S&P trend, as was the case at the end of July, has historically implied flat performance over the next two months. Conversely, ending July with a negative S&P trend has historically led to weaker Aug/Sep performance. The recent momentum bodes well for the market to hold up to start the second half of the year despite seasonal headwinds.



Fixed Income: U.S. Treasury yields rose in July as investors weighed the inflationary impact of tariffs and political pressure on the Federal Reserve, with President Trump urging a rate cut despite the Fed leaving rates unchanged. The 2-year, 10-year, and 30-year yields increased, while futures markets priced in a modest rate cut by year-end. Corporate credit spreads tightened further, led by utilities, financials, and industrials. Non-Agency CMBS outperformed Treasuries amid steady demand and limited supply growth, while ABS also saw strong demand. Agency RMBS tracked Treasuries, though spreads widened slightly, with higher coupons outperforming lower ones. The Federal Reserve is expected to begin cutting interest rates in September, aligning with actions taken by other global central banks this year, and is projected to gradually reduce the fed funds rate toward 3% by 2026.

U.S. Treasury Yield Changes

	YTM	Change from Previous Month
3 Month	4.34%	0.05%
1 Year	4.09%	0.13%
2 Year	3.96%	0.24%
3 Year	3.90%	0.21%
5 Year	3.97%	0.18%
10 Year	4.37%	0.15%
30 Year	4.90%	0.13%

Source: Bloomberg

Real Assets: Commodities were slightly negative in July (-0.5%) as gold's rally stalled and copper prices declined following President Trump's 50% tariff announcement, though refined metals were later exempted. Commercial real estate remained under pressure, with the Green Street Property Price Index, a measure of unlevered U.S. commercial property values, down 0.1% for the month and up 3.2% year-over-year, constrained by high interest rates and economic uncertainty. REITs declined 1.1% after early-month gains, driven by rising inflation data and ongoing trade tensions, which created uncertainty around future Fed rate cuts. Year-to-date, healthcare leads REIT sector performance with a 16.1% return, followed by telecommunications (15.6%) and diversified (12.3%).

Diversifying Strategies: Hedge funds built on their strong first-half momentum in July, led by Event Driven and Equity Hedge strategies amid improved prospects for M&A, trade negotiations, and the broader economy. The HFRI Event-Driven (Total) Index rose an estimated 1.5% for the month, extending a three-month gain to 6.6%, with Activist and Multi-Strategy sub-strategies performing best. Equity Hedge strategies gained 1.2%, supported by strength in Healthcare, Fundamental Growth, Market Neutral, and Technology, and now lead year-to-date performance across strategies. Fixed income–oriented Relative Value strategies advanced, helped by Convertible Arbitrage and Corporate Credit, despite higher bond yields and unchanged Fed policy. Macro strategies were mixed, with the overall index slipping 0.1% as Systematic Diversified gained while Multi-Strategy fell.

In the first half of 2025, global IPO activity remained relatively steady compared to the same period in 2024, with 539 deals raising $61.4 billion, according to EY's Global IPO Trends Q2 report. The U.S. led with 109 IPOs—the most since 2021—marking a 35% increase in volume but a 9% drop in proceeds to $17.1 billion. India and Greater China also saw over 100 IPOs each, with Greater China contributing a third of global proceeds, a rise from 12% the year before. In contrast, Europe's share of IPO proceeds dropped sharply to 10%, down from 27% in H1 2024, as most European markets stalled in Q1 before a gradual pickup in Q2. Notable recent IPOs include Figma, NIQ Global Intelligence, Accelerant Holdings, and McGraw Hill, all backed by prominent private equity or venture capital firms.

Exhibit 1: Asset Class Returns (2016 – YTD 2025)

2016	2017	2018	2019	2020	2021	2022	2023	2024	YTD
High Yield 17.1%	Intl Equity 27.2%	IG Bonds 0.0%	US Equity 31.5%	US Equity 18.4%	US Equity 28.7%	Cmdty 16.1%	US Equity 26.3%	US Equity 25.0%	Intl Equity 17.6%
US Equity 12.0%	US Equity 21.8%	High Yield -2.1%	REITs 23.1%	60/40 14.0%	REITs 27.2%	Diversifying -1.7%	60/40 18.0%	60/40 15.5%	US Equity 8.6%
Cmdty 11.8%	60/40 14.5%	60/40 -2.6%	60/40 22.4%	Intl Equity 10.7%	Cmdty 27.1%	High Yield -11.2%	Intl Equity 15.6%	Diversifying 9.8%	60/40 6.7%
60/40 8.3%	REITs 11.4%	US Equity -4.4%	Intl Equity 21.5%	Diversifying 8.4%	60/40 16.6%	IG Bonds -13.0%	High Yield 13.5%	High Yield 8.2%	REITs 5.5%
REITs 5.0%	Diversifying 7.5%	Diversifying -4.7%	High Yield 14.3%	IG Bonds 7.5%	Diversifying 9.8%	Intl Equity -16.0%	REITs 10.9%	Intl Equity 5.5%	Cmdty 5.1%
Diversifying 4.8%	High Yield 7.5%	REITs -4.7%%	Diversifying 8.9%	High Yield 7.1%	Intl Equity 7.8%	60/40 -16.1%	Diversifying 7.4%	Cmdty 5.4%	High Yield 5.0%
Intl Equity 4.5%	IG Bonds 3.5%	Cmdty -11.3%	IG Bonds 8.7%	Cmdty -3.1%	High Yield 5.3%	US Equity -18.1%	IG Bonds 5.5%	REITs 2.0%	Diversifying 4.0%
IG Bonds 2.7%	Cmdty 1.7%	Intl Equity -14.2%	Cmdty 7.7%	REITs -8.2%	IG Bonds -1.5%	REITs -24.4%	Cmdty -7.9%	IG Bonds 1.3%	IG Bonds 3.8%

Source: IG Bonds = Bloomberg US Aggregate; US Equity = S&P500; Intl Equity = MSCI ACWI xUS; High Yield = Bloomberg US Corporate High Yield; REITs = FTSE EPRA/NAREIT Developed; Cmdty = Bloomberg Commodity; Diversifying = HFN Hedge Fund Aggregate; 60/40 = 60%S&P500/40%Bloomberg US Aggregate

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