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ECONOMIC UPDATE AUGUST 2025

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US stocks and emerging market stocks continued their climb in July while bonds and international developed market stocks stalled. Large cap stocks in the S&P 500 Index reached new highs during the month and posted a gain of 2.24% in July which brought the broad index's year-to-date return to 8.59%. Small cap stocks in the Russell 2000 index also saw gains with a return of 1.73% for the month, bringing its year-to-date loss to just -0.08%. International developed market stocks were -1.40% lower in July but still have a 17.77% year-to-date return. Emerging market stocks were up 1.95% in July and have gained 17.51% so far this year. The yield on the 10-year Treasury bond rose 13 basis points to 4.36%. The Barclays US Aggregate Bond Index had a return of -0.26% for the month and 3.75% so far in 2025.

After GDP growth was negative -0.5% in the first quarter, second quarter growth was 3.0%. In the first quarter, soaring imports ahead of tariffs were blamed for skewing growth negative. In second quarter, declining imports are credited for the bulk of the improvement. Strategas Research currently has recession odds at 35% for 2025. They are currently forecasting third quarter and fourth quarter GDP growth at 0.0% and 1.7%, respectively.

Companies have started to report earnings for the second quarter and of the S&P 500 companies that have reported so far, 83% have beaten their earnings estimates and 80% have beaten their revenue estimates. Earnings are up 7% year-over year on 5.5% revenue growth.

Inflation has held steady so far with Core PCE inflation at 2.8%. Higher prices are expected in the future as a result of companies passing some of the costs of tariffs through to consumers.

The unemployment rate has fluctuated in a range between 4.0% and 4.2% since May of 2024. It is currently 4.2% and the Federal Reserve has been projecting a 4.4% unemployment rate for year-end. On August 1, the jobs report for July was released showing the US added fewer jobs than expected and saw significant downward revisions to job gains in May and June.

This jobs report came out after the Fed left interest rates unchanged at its July meeting. The Fed Chairman has emphasized a data-driven approach since their last rate cut back in December 2024. Wells Fargo senior economist Sarah House noted "the 'solid' state of the labor market described by the FOMC earlier this week, looks more questionable after the July employment report". The Fed has been projecting two rate cuts in 2025 and it now seems likely the Fed will cut in September. Money markets currently yield 4%, but this would likely decrease with rate cuts. Long-term yields have been trading in a range in 2025 mostly between 4.2% and 4.6%.

The tax bill passed extending the tax cuts originally enacted in 2017 and also making permanent the increased estate and gift tax exemptions. New tax cuts included those on tips, social security, and overtime pay. For corporations, the expensing of domestic research and development and bonus depreciation for business investment were made permanent. Most of the BBB is extending current policy past the end of the year so may not be stimulative to new growth, but had the tax rates reverted, it likely would have been detrimental to economic growth.

We continue to encourage investors not to try and time the market by trading in and out of the market and instead, invest according to risk tolerance. If you have questions about the strategy for your account, please contact your advisor.

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