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August was another good month for stocks. Large cap stocks in the S&P 500 Index reached new highs during the month and posted a gain of 2.03% in August which brought the broad index's year-to-date return to 10.79%. Small cap stocks in the Russell 2000 index jumped 7.14% for the month, bringing its year-to-date return positive at 7.06%. International developed market stocks were up 4.26% in August and sported a 22.79% year-to-date return. Emerging market stocks were up 1.28% in August and have gained 19.02% so far this year. The yield on the 10-year Treasury bond fell 13 basis points (0.13%) to 4.23%. The Barclays US Aggregate Bond Index had a return of 1.20% for the month and 4.99% so far in 2025.

Second quarter GDP growth was revised up from 3.0% to 3.3%. The first two quarters' growth has been muddied by tariffs and actions surrounding them. Brian Wesbury of First Trust notes that in the revision, core GDP was shown to be much stronger than initially thought reflecting stronger consumer spending. Strategas Research points out that tech capex spending is also supporting the economy but they would like to see economic growth become more broad based and include housing and manufacturing as well.

On the last day of the month, The US Court of Appeals ruled that President Trump could not use the International Emergency Economic Powers Act to impose tariffs. This ruling was largely expected. However, a dissenting opinion from a bipartisan mix of four judges suggests the issue will face further legal review with a final ruling expected in the first quarter of 2026. According to Dan Clifton, political analyst at Strategas, President Trump has a narrow pathway where his tariffs could be upheld or sent back to the lower court for more examination. If the ruling is upheld, he notes President Trump likely has a backup plan through the Balance of Payments and Section 301. Betting odds of existing tariffs being refunded are only 12% right now.

Second quarter corporate profits are up about 12.1% year-over-year and revenues are up 6.1%. Full year earnings growth estimates are for 8.9% as the next two quarters are expecting lower growth. Zacks shows next year's earnings growth is projected to be 12.1%. Corporate earnings growth may be supported by tax savings next year under the One Big Beautiful Bill.

Core PCE inflation, the Federal Reserve's preferred measure of price changes excluding volatile food and energy costs, is currently 2.9%. Strategas Research expects higher inflation is coming but that it won't be significant and the Fed will deem that inflation expectations are still anchored.

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. However, since then, we've seen continued low initial jobless claims indicating that there is not a broad contagion in the labor market.

The Fed has followed a data-driven approach since their last rate cut back in December 2024. Economists think that with inflation in check and a jobs market showing some cracks, the Fed will cut rates 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%.

While labor market data and tariff uncertainties have raised some concerns, the broader economic picture remains strong. 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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