

Monthly Download

July 2025

Summary

US Equity Markets were buoyed by strong 2nd quarter earnings reports in July, which helped push markets higher in the face of increasing tariff rhetoric and mixed economic data. Corporate earnings, especially within the Technology, Communications, and Financials sectors, have far exceeded reduced expectations for earnings growth. The July jobs report and significant revisions to May and June for US job creation refocused investors on the likelihood of Fed rate cuts as soon as September.

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Market Overview

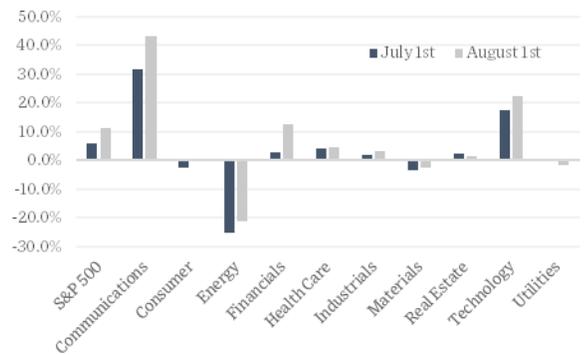
- ◆ **Equity markets** continued higher in July, albeit at a milder pace since the rally from Trump's delay of Liberation Day tariff policies. The Trump administration continued to promote trade agreements in July despite higher tariff rhetoric as the August 1st trade deadline approached. S&P 500 earnings exceeded expectations, especially from Banks, Technology and Communications. The S&P 500 index ended July up over 27% since the April 8th closing value at the height of tariff concerns. The MSCI All Country World Index (ACWI) returned 1.4% for the month as foreign developed markets lagged the US rally. The ACWI Index is now up 11.5% for 2025.
 - US Large Cap stocks (S&P 500) rose 2.2% in July as 2nd quarter earnings reports gave investors confidence that tariff impact is not showing up in company results for the sectors that are driving market returns. Year-to-date, the S&P 500 now is up 8.6%.
 - US Small Cap stocks (Russell 2000) trailed Large Cap stocks slightly, adding 1.7% for the month. Small cap stocks saw leadership from Biotech and Homebuilders as rate cuts were deemed more likely. Small cap stocks remain well behind larger companies for 2025, now down 0.1% year to date.
 - Non-US stocks (MSCI EAFE Net) declined 1.4% for the month of July as the US dollar decline subsided after the US-EU trade framework was socialized with markets. Investors deemed the deal more favorable to the US with their initial reaction, causing Euro weakness. Year to date gains fell to 17.8% but remain well ahead of US markets for the year.
 - Emerging Markets (MSCI Emerging Markets Net) added 1.9% in July driven by China and other Asian markets. Improved outlook for semiconductor stocks drove markets in Korea and Taiwan. Emerging Markets are now up 17.5% year to date.
- ◆ **Interest rates** rose slightly in July as investors read into language in the Federal Reserve's comments while they held the Fed Funds rate steady at their meeting in late July. The wording of the Federal Open Market Committee (FOMC) statement reintroduced uncertainty from tariff impact despite two Fed voting members officially dissenting and voting to reduce the Fed Funds rate by a quarter-point. Despite higher rates as of July 31st, the tone of bond markets changed markedly on August 1st with the release of the July jobs report and substantial negative revision to 2025 job growth.
 - High Grade Taxable bonds (Bloomberg US Aggregate) fell 0.2%, reducing 2025 performance to 3.9%. The increase in Treasury rates was enough to create a modest negative month for taxable bonds.

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- Municipal bonds (Bloomberg 1-10 Year Muni Bond) added 0.5%, substantially outperforming taxable bonds. Municipal market leadership remained very targeted in 4-6 year maturities with the broadest measure of high quality municipal performance negative for the month. Municipal bonds are now up 2.3% in 2025.
 - Investment Grade (Bloomberg US Corporate Investment Grade) and High Yield (Bloomberg US Corporate High Yield) bonds delivered muted performance with Investment Grade up just 0.1% and High Yield adding 0.5% given equity market strength. Year to date gains now stand at 4.2% and 5.0% respectively.
- ◆ **Commodities** (Bloomberg Commodity Index) declined slightly in July, falling 0.5% despite Oil rising over 6% on OPEC production comments. Gold was flat for July with dollar strength and Fed policy interpretation. Copper was the most volatile commodity given the Trump administration's tariff announcement on the metal. Prices for the metal dropped almost 14% in July, but the entirety of the price decline happened on July 31st. Commodities are now up 5.0% in 2025.

Economic Commentary

2nd Quarter S&P 500 Earnings have exceeded expectations entering reporting season with strong numbers from Financials, Technology, and Communications. With 350 of the S&P 500 companies reporting through the end of July, the expected 2nd quarter year-over-year earnings growth rate for the S&P 500 index had almost doubled from 5.8% entering July to 11.2%. While the largest gains were concentrated in the sectors mentioned above and many of the largest US companies, 9 of 11 S&P 500 sectors improved over the month of July with modest declines only taking place in Real Estate and Utilities. Earnings expectations for 2025 had been declining since mid-2024 as stubbornly high interest rates and then concerns over tariff uncertainty impacted the corporate earnings outlook. Year 2025 earnings estimates tracked by FactSet had dropped from almost \$280 to \$262, but recently began recovering with the latest data showing analysts expect 2025 earnings to be \$267 for the S&P 500 companies. Earnings resilience has allowed for stock prices to recover from tariff uncertainty and continue to all-time highs, but \$267 of earnings will have a hard time supporting the current S&P 500 index level (currently just below 6,400 or 24x 2025 earnings). As we enter the back half of 2025, investors will be more focused on 2026 earnings and outlook, which is currently closer to \$300 in expected earnings. Analysts see more reasons to be excited about Year 2026 earnings relative to 2025. S&P 500 companies are beginning to quantify the benefits of the One Big Beautiful Bill Act and its tax adjustments to expensing and research and development. Expectations for Fed rate cuts are increasing, and interest rates may look more favorable in comparison to 2025 providing opportunities to reduce interest expense. And finally, tariff uncertainty may still be with markets next year, but the comparison would be to similar tariff uncertainty in 2025, and companies may have found more ways to navigate the challenges tariff policy can present with more time. Earnings growth, and to a lesser extent market performance, remains narrow. Stronger earnings outlooks from sectors like Consumer, Health Care, and Industrials will be important for the bull market to continue.

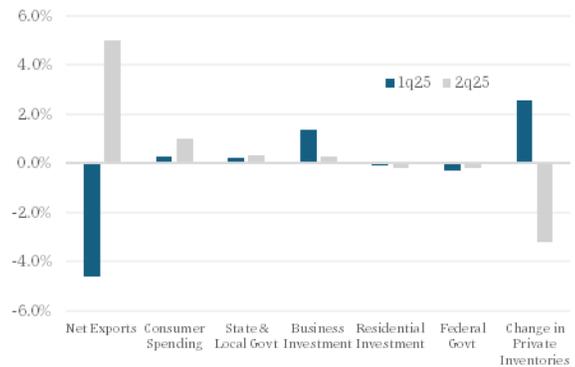


S&P 500 Year/Year Earnings Growth: 2nd Quarter 2025
Source: Strategas, Refinitiv

The US reported 2nd quarter GDP growth of 3.0%, reversing a modest decline in GDP growth for the 1st quarter of 2025 as net imports inverted their impact on the GDP calculation. GDP is a calculation of the monetary value of goods and services that are completed within a particular country. Therefore, the value of goods imported outside that

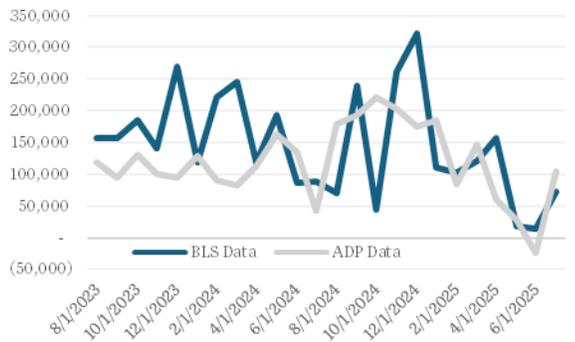
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country is effectively a negative in the calculation. Businesses increased imports aggressively in the 1st quarter to front-run the Trump administration's trade policies and build out inventory as much as possible prior to tariff implementation. Net exports had a massive negative contribution to 1st quarter GDP of 4.6% offsetting positive contributions from business investment and consumer spending. Relative to the influx of imports in the 1st quarter, imports plummeted in the 2nd quarter as tariffs were implemented on numerous goods and businesses used existing inventories from the buildup prior to tariff implementation. Net exports therefore contributed 5.0% to 2nd quarter GDP, offsetting weakness in areas like business investment, residential, and Federal government spending. The Wall Street Journal dubbed the 2nd quarter report possibly the weirdest ever in their Opinion pages (we would say the 1st quarter was pretty weird too). Of more concern or focus is the non-export data. Business investment fell from a 1.4% contribution to just 0.3%. The Trump administration's policies are designed to encourage business investment in the US and in fairness the One Big Beautiful Bill Act was not in place during the 2nd quarter, but the administration's style and uncertainty is clearly impacting business investment to date. Consumer data was mild but more encouraging, as consumers continue to chug along given solid employment. Federal and state and local government spending, which was a major contributor to GDP post-Covid had effectively no contribution to GDP. Economic growth as a result is being driven by the consumer and a very narrow segment of businesses putting unprecedented capital expenditures into the buildout of artificial intelligence. Without increases in government spending, economic growth may need lower interest rates to unleash housing, manufacturing, and business investment outside of technology.



Net Percent Contribution to US Gross Domestic Production (GDP)
Source: Commerce Department, Wall Street Journal

July's US Jobs Report reported on August 1st convinced markets that the Federal Reserve will be able to reduce interest rates at their next meeting in September. Job creation in July was positive, with nonfarm payrolls adding 73k jobs. Given slower or even negative population growth in 2025 due to the change in US immigration policy, the US may need fewer jobs to support employment. July's unemployment rate did increase from 4.1% to 4.2%. The headline on the jobs report was not about July, but prior months showing a significant revision of 258k less jobs created in May and June. That revision shows a very different picture for 2025 job growth that suggests the economy may be in "stall speed" and support from the Fed proactively stepping in to support labor markets is warranted. Some market participants even suggested had the jobs report preceded the FOMC meeting on July 30th, the Fed may have come to a different conclusion than holding rates steady. The revisions also became political, as President Trump announced the firing of the Statistics Commissioner at the Bureau of Labor Statistics (BLS) after the report's release. The size of the May and June revisions were atypical, marking the largest 2-month negative revision outside of a recession ever according to Goldman Sachs. The new numbers also bring down 2025's average job monthly creation to just 35k, well below recent periods. It can be true that the BLS statistics commissioner was both a Democratic appointee and it is not apparent how reporting higher numbers under a Republican President and then revising them down in subsequent months helps Democrats. It is also true (chart to the right) that the BLS data while more optimistic and volatile, generally mirrors private payroll data compiled by ADP. The more relevant question is why revisions do seem to be



Monthly Nonfarm Payroll vs. ADP Private Employment Job Growth
Source: Ycharts!, Bureau of Labor Statistics, ADP

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increasing and whether the negative revisions are a sign of something more ominous in US labor markets. Economists have blamed the revision increase on lower response rates from small businesses in a post-Covid environment. BLS data relies on surveys of 631k job sites and updates data over a 3-month period. The response rate for July was down to 58%, reasonably below first month responses rates a couple of years ago. The delta between the first month response and final month response increasing would line up with larger revisions given a higher proportion of data coming in later. But this does not address why the data seems to have a negative skew. There is some theory that employers who are not hiring are less enthusiastic about reporting their data. But it is less clear why this would be more the case in 2025 than prior years as the average revision has declined 52k jobs in 2025, versus a decline of 20k in 2024, while the average revision going back to the data's inception in 1979 has been modestly positive. While the job growth numbers in 2025 have clearly deteriorated with the revised numbers now in place, employment markets are not signaling recession. Employers may be hiring less but there are also few signs of layoffs. Jobless claims for the week ending August 1st remained at relatively low levels of 226k and were below expectations. We are seeing a rise in continuing claims which shows that employees being laid off are finding it more difficult to find new jobs. Prior to July's report the Fed's dual mandate leaned towards continuing to stabilize inflation that was above target, but July likely changes the Fed's attention to supporting employment. The Fed has communicated that they view their policy as restrictive, given this labor report they will likely want to adjust policy towards neutral. We are of the opinion that inflation data in July and August will still matter, but odds for the Fed restarting their cutting cycle at September's meeting have clearly increased.

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