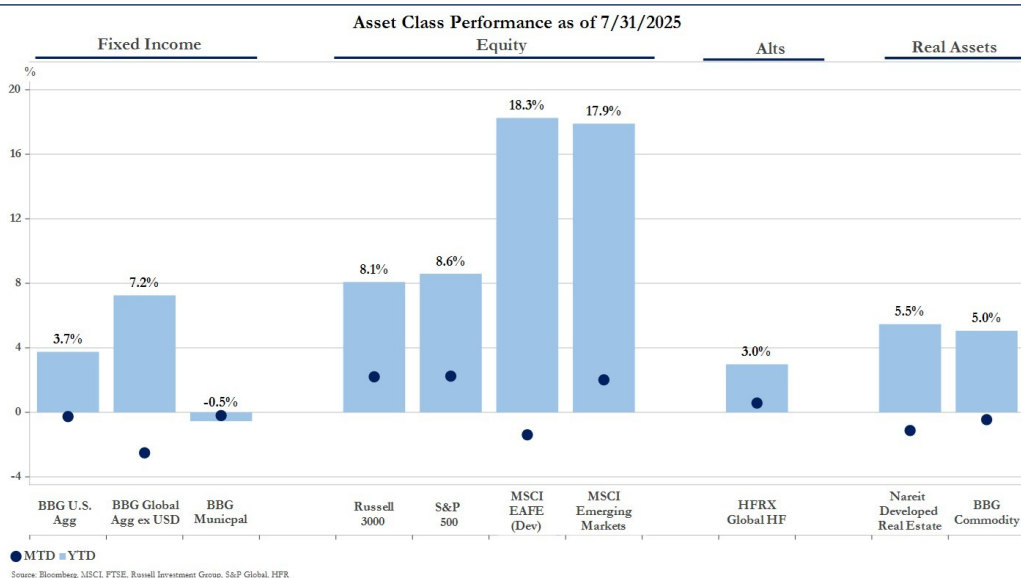




Key Takeaways

- Based on the Bureau of Economic Analysis' most recent estimate, U.S. real GDP growth rebounded sharply in Q2, growing at a 3.0% annualized rate after contracting 0.5% in Q1, largely driven by resilient consumer spending and a slowdown in imports.
- Following its July meeting, the FOMC held interest rates steady for the fifth consecutive time, despite dissent from two governors who advocated for a 0.25% rate cut, which highlights growing division within the central bank over the potential economic impact of President Trump's tariffs.
- June inflation data was supportive of the FOMC's decision, as Core PCE, which excludes food and energy, increased by 0.3% for the month and climbed to 2.8% year-over-year, remaining above the Fed's 2% target and slightly outpacing forecasts.
- The most recent jobs report, however, showed cracks in the labor markets, with nonfarm payrolls rising by only 73,000 in July, well below consensus expectations of 110,000.
- Perhaps more importantly, revisions to May and June cut the cumulative job gain for those two months by 258,000, so the average monthly job gain for the last three months is now just 35,000. President Trump responded to the revisions by calling for significant rate cuts in the near-term, and the market reacted similarly, now pricing in a 90%+ probability of a cut in September.
- After trending higher early on, the S&P 500 lost momentum in the last week of July but finished up 2.2% for the month, leaving the YTD tally at 8.6%. U.S. equities subsequently fell on August 1st as the underwhelming jobs report surprised investors and renewed recession concerns.
- International equities lagged in July but continue to meaningfully outpace their U.S. counterparts year-to-date, benefitting from a weaker U.S. dollar and more attractive valuations as some investors have rotated away from richly valued U.S. large cap stocks.
- After a steep decline to start the year, the U.S. Dollar Index (DXY) modestly rebounded in July but remains down ~9% year-to-date. Relatively higher rates in the U.S. have been supportive, but the forward direction of the greenback remains clouded by trade policy uncertainty and the potential for domestic interest rate cuts in the near-term.
- Bond market performance was mixed with broad indices finishing slightly negative while high yield issues posted modest gains. The U.S. 10-year Treasury yield ended July at 4.37%, up slightly from 4.24% in June, indicating upward pressure on long-term rates, which is likely a symptom of persistent concerns regarding inflation and budget deficits.
- Despite reaching some trade agreements in recent months, President Trump aggressively expanded his tariff regime by signing executive orders to resume reciprocal tariffs on imports from nearly 70 countries on July 31st, ranging from 10% to 41%. The latest deadline to reach trade deals is now August 7th, but the situation remains fluid.
- The announcement led to a sell off across equity markets, and investors should assure portfolios are risk appropriate and aligned with long-term financial planning goals as heightened volatility may persist in the coming months.



Economy

Inflation Ticks Higher in July

- The Personal Consumption Expenditures (PCE) price index rose 0.3% in June and was up 2.6% year-over-year, slightly above expectations and May's 2.4% annual gain.
- Core PCE, which excludes food and energy, also increased by 0.3% for the month and climbed 2.8% compared to June 2024.
- Goods prices showed a more pronounced increase relative to services, with durable goods prices rising 0.5% month-over-month after being flat in May.
- Core services inflation rose a more modest 0.2% month-over-month, but had a significant impact as services represent the majority of consumer spending and its consistent uptrend remains the bigger driver keeping overall PCE inflation elevated above the Fed's 2% target.

Labor Market Cracks Emerge

- U.S. job creation slowed sharply, with only 73,000 nonfarm payroll jobs added in July which was well below expectations of 110,000.
- The May and June figures were revised down by a total of 258,000 jobs, marking one of the weakest three-month stretches for job growth in recent history.
- Unemployment also ticked up to 4.2% from 4.1% in June but remained in its recent range.
- The job gains that did occur were highly concentrated, with health care and social assistance contributing 94% of total growth. Other sectors like retail and finance saw modest increases, while federal government employment continued to decline.

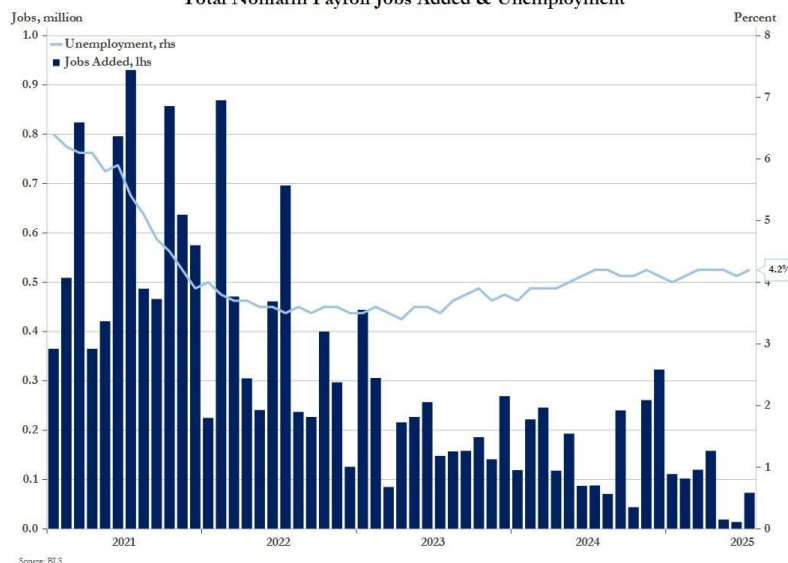
Yield Curve Remains Inverted, Markets Eye September Rate Cut

- Longer-term yields have risen modestly during the month and year-to-date, partially driven by improving fiscal balances and stronger-than-expected corporate earnings, which has helped ease recession fears and improved investor sentiment toward risk assets.
- The U.S. Treasury yield curve remained inverted throughout July, with the 10-year yield finishing at 4.37% and the 2-year yield at 3.94%, which is below the current Fed Funds Rate of 4.25% - 4.50%.
- The July FOMC meeting concluded with no changes as the Fed maintained a cautious stance amid mixed economic signals. However, the subsequent release of weaker labor market data increased market expectations for a rate cut in September.

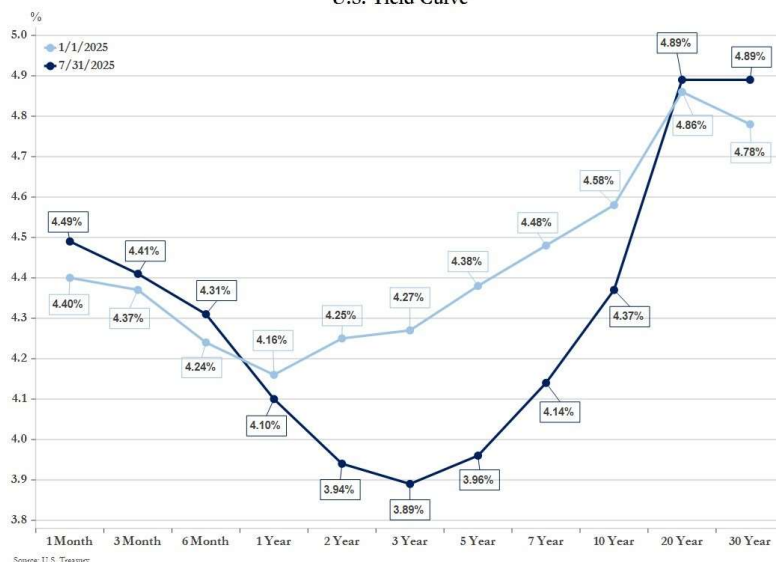
Core & Headline PCE - YoY



Total Nonfarm Payroll Jobs Added & Unemployment



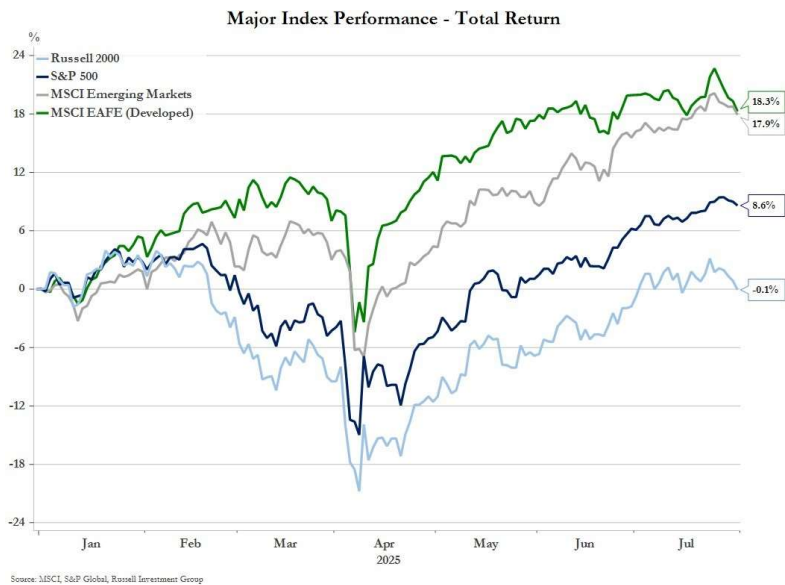
U.S. Yield Curve



Markets

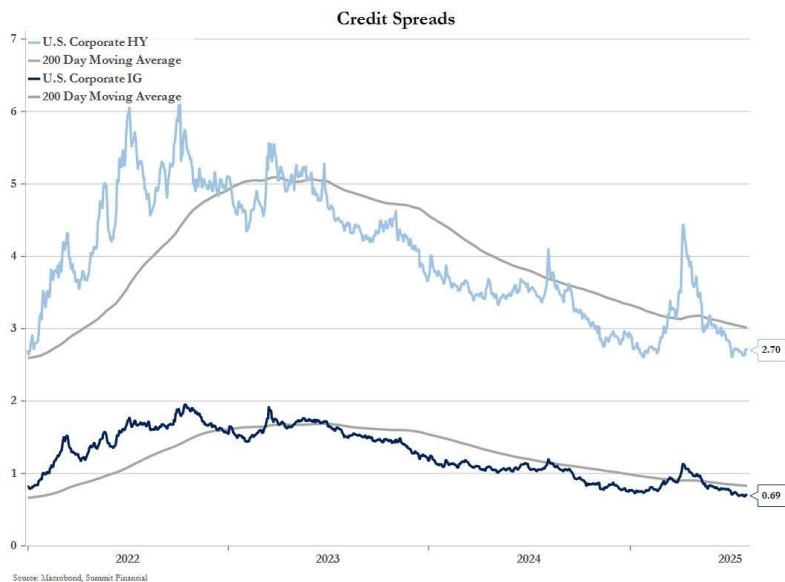
Momentum Continues for U.S. Equities

- U.S. equities had a strong July, with the S&P 500 hitting a new all-time high driven by optimism around easing trade tensions and a resilient macroeconomic backdrop.
- The Q2 earnings season started strong, with overall earnings growth above trend driven by robust results from the Technology, Financials, and Communications sectors.
- International Equities trailed their U.S. counterparts in July, but continue to lead by a wide margin year-to-date.
- The Russell 2000 finished positive in July but continues to lag as elevated interest rates, tighter credit conditions, ongoing macro uncertainty and tariff-related risks disproportionately affect smaller companies with higher borrowing costs and less stable revenue.



Credit Spreads Narrow, Munis Underperform

- Credit spreads narrowed in both investment grade and high yield markets in July, supported by improved investor sentiment, strong corporate earnings, and easing recession fears.
- Global investment grade credit outperformed similar duration government bonds, buoyed by tighter spreads and favorable technicals.
- High yield bonds also posted gains, driven by solid earnings and incremental trade agreements diminishing recession concerns.
- Conversely, municipal bonds declined, breaking a two-month rally as increased supply and fiscal uncertainties pressured demand, resulting in modest spread widening and underperformance versus taxable fixed income benchmarks.



USD Weakens After July Bounce

- The U.S. Dollar Index (DXY) rebounded modestly in July but remains roughly 9% lower year-to-date; it weakened further in early August as softer economic data fueled rate cut expectations.
- Dollar weakness has been driven by U.S. trade policy uncertainty, slower growth, and fiscal deficit concerns, despite higher relative interest rates providing support.
- A September rate cut could continue to drive dollar weakness and favor international equity outperformance.
- Conversely, lower rates may boost U.S. markets, especially small caps, and increase risk appetite, making the dollar's trajectory a key factor in equity allocations and market outlooks.



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| Label | Index | Index Description |
|------------------------------|--------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| BBG U.S. Agg | Bloomberg U.S. Aggregate Bond Index | The Bloomberg U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS, and CMBS (agency and non-agency). |
| BBG Global Agg ex USD | Bloomberg Global Aggregate Index | The Bloomberg Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes Treasury, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging markets issuers. |
| BBG Municipal | Bloomberg Municipal Bond Index | The Bloomberg Municipal Bond Index covers the U.S. dollar-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. |
| Russell 3000 | Russell 3000 Index | The Russell 3000 Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market. It is constructed to provide a comprehensive, unbiased, and stable barometer of the broad market and is completely reconstituted annually to ensure new and growing equities are included. |
| Russell 2000 | Russell 2000 Index | The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. |
| S&P 500 | S&P 500 Index | The S&P 500 Index is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market. It measures the movement of the largest issues. Standard and Poor's chooses the member companies for the 500 based on market size, liquidity, and industry group representation. Included are the stocks of eleven different sectors. |
| MSCI EAFE (Dev) | MSCI EAFE Index | The MSCI EAFE Index (Europe, Australasia, Far East) captures large- and mid-cap representation across developed markets countries around the world, excluding the U.S. and Canada. The index covers approximately 85% of the free float-adjusted market capitalization in each country. |
| MSCI Emerging Markets | MSCI Emerging Markets Index | The MSCI Emerging Markets Index captures large- and mid-cap representation across emerging markets countries across the world. The index covers approximately 85% of the free float-adjusted market capitalization in each country. |
| HFRX Global HF | HFRX Global Hedge Fund Index | The HFRX Global Hedge Fund Index is comprised of funds representing the overall hedge fund universe. Constituent funds include but are not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event-driven, macro, merger arbitrage, and relative value arbitrage. The underlying strategies are asset-weighted based on the distribution of assets in the hedge fund industry. |
| Nareit Developed Real Estate | FTSE EPRA/NAREIT Developed Index | The FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real estate companies and REITs worldwide. Index constituents are free float-adjusted, subject to liquidity, size, and revenue screening for inclusion. |
| BBG Commodity | Bloomberg Commodity Index | The Bloomberg Commodity Index reflects commodity futures price movements and is calculated on an excess return basis. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production, and weight-caps are applied at the commodity, sector, and group level for diversification. The roll period typically occurs from the 6th-10th business day based on the roll schedule. |
| Consumer Confidence Index | Conference Board Consumer Confidence Index | The Consumer Confidence Index is a measure based on a survey administered by The Conference Board that reflects prevailing business conditions and likely developments for the months ahead. This monthly report details consumer attitude, buying intentions, vacation plans, and consumer expectations for inflation, stock prices, and interest rates. |
| U.S. Dollar Index (DXY) | U.S. Dollar Index (DXY) | The U.S. Dollar Index (DXY) is an index of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies. The Index goes up when the U.S. dollar gains "strength" (value) when compared to other currencies. |
| DJIA | Dow Jones Industrial Average | The Dow Jones Industrial Average (DJIA), commonly known as “The Dow”, is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities. |
| ISM Manufacturing Index | ISM Manufacturing Index | The ISM Manufacturing Index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of executives covering all North American Industry Classification System's businesses in the manufacturing sector. |
| ISM Non-Manufacturing Index | ISM Non-Manufacturing Index | The ISM Non-Manufacturing Index is a monthly indicator of U.S. economic activity based on a survey of executives covering all North American Industry Classification System's businesses in the services (or non-manufacturing) sector. |

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