

Markets extended their gains in July, albeit at a more measured pace than in recent months, as major U.S. equity indices once again reached record highs. The S&P 500 advanced approximately 2.24% for the month, posting ten new all-time highs. The Nasdaq Composite outperformed with a 3.72% gain, while the Dow Jones Industrial Average added just 0.16%, reflecting more modest performance in value-oriented and cyclical sectors. Investor sentiment remained constructive, supported by resilient corporate earnings, ongoing enthusiasm for AI and technology-driven productivity gains, and expectations for eventual Federal Reserve rate cuts. The 10-year Treasury yield held steady near 4.37%, though both CPI and PCE inflation indicators were on the rise, and signs of a cooling labor market added to a guarded market sentiment.

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Second-quarter earnings were mixed rather than uniformly strong: about one-third into reporting, the share of S&P 500 companies beating EPS was above average, but the size of those surprises was below average; index-level earnings were ticking higher week-to-week, yet year-over-year growth was on pace for the weakest since Q1 2024.¹ The Technology sector showed notable strength, as robust demand for AI infrastructure, advanced semiconductors, and cloud services continued to drive top-line and margin expansion. This was highlighted by Alphabet’s (GOOG/GOOGL) strong results in AI-enhanced Search and Cloud Services and Microsoft’s (MSFT) 12% revenue increase, driven by 31% Azure growth and 175% AI revenue growth.² Consumer Discretionary also posted healthy gains on the back of solid e-commerce and travel spending, as online retail sales rebounded toward pre-pandemic highs. Broadly, companies with high earnings visibility and exposure to structural growth themes continued to lead performance, while more defensive sectors such as Health Care and Consumer Staples saw relative underperformance.

Macroeconomic data in July reflected a more nuanced economic backdrop. The U.S. economy added just 73,000 jobs during the month, well below expectations and raising concerns that tight monetary policy and trade frictions may be starting to slow the labor market. At the same time, the New York Fed’s survey of consumer inflation expectations showed a rise in both near-term and long-term outlooks, with five-year-ahead inflation expectations climbing to 2.9% compared to 2.6% in June. The combination of softer employment data and rising inflation expectations renewed market discussion of stagflation risks, even as headline inflation measures remained contained. The July CPI report reflected ongoing moderation in price pressures, but the Federal Reserve reiterated that it requires “sustained evidence” of disinflation before adjusting policy rates.

The narrative of a cooling labor market was reinforced by significant downward revisions to previous months’ job gains. The Bureau of Labor Statistics revised the May and June nonfarm payroll figures down by a combined 258,000 jobs.³ This trend of negative revisions suggests that the slowdown in hiring has been more pronounced and sustained than initially reported. This detail was not lost on market participants, who increasingly viewed the labor market—once a pillar of economic strength—as a potential vulnerability. The weakening trend added weight to the arguments for a more accommodative monetary policy, as continued labor softness could eventually dampen consumer spending and overall economic growth.

At its July 30 meeting, the Federal Reserve kept the federal funds rate target unchanged at 4.25%–4.50% for a fifth consecutive meeting.

While the policy statement maintained a data-dependent tone, two dissenting votes, Governors Waller and Bowman, signaled growing internal pressure to begin an easing policy. Markets interpreted the Fed’s cautious language alongside the weak jobs report as increasing the likelihood of a September rate cut, with futures markets now pricing in a meaningful probability of at least one 25-basis-point reduction before year-end.

On the trade front, July was marked by a fragile truce as the U.S. and China engaged in last-minute negotiations ahead of the August 1st deadline. Mid-month, U.S. trade officials signaled a potential willingness to extend the existing tariff pause on a targeted basis, contingent on progress in specific areas like intellectual property protection and market access. However, rhetoric from both sides remained tense, with China’s Ministry of Commerce reiterating its opposition to all unilateral tariffs. This uncertainty kept global supply chains on edge and contributed to cautious sentiment in industrial and manufacturing sectors, which are particularly sensitive to trade frictions. While a full-blown escalation was averted for the moment, the lack of a definitive long-term agreement means that trade policy will remain a key source of potential market volatility.

Global equity performance was broadly positive in July, supported by somewhat easing geopolitical tensions and constructive trade developments, though gains were uneven across regions. European markets posted modest advances despite lingering concerns over manufacturing activity, while Asian markets benefited from a weaker U.S. dollar and improving investor sentiment toward emerging economies. Nonetheless, trade policy risks remained elevated ahead of the August 1 expiration of the extended tariff pause between the U.S. and China, keeping investors attentive to headline risk.

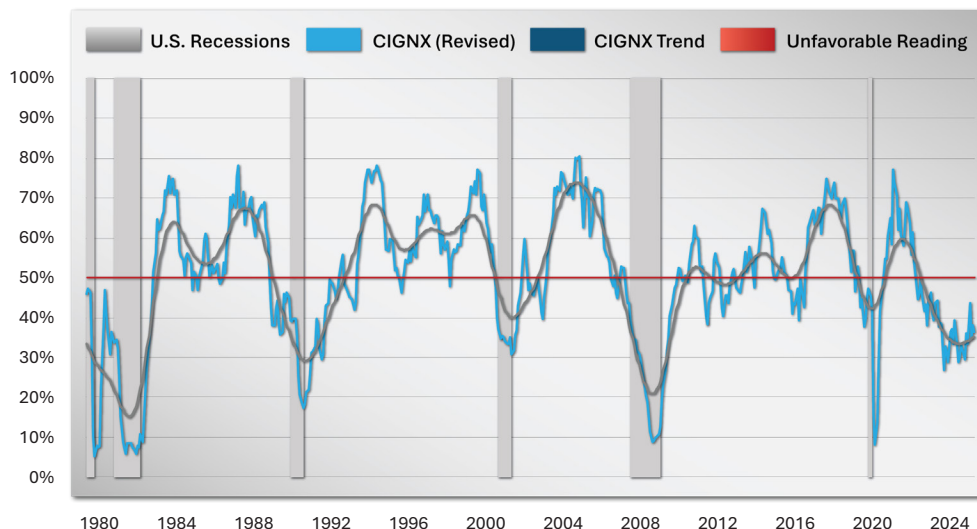
Looking ahead, markets enter August with a mix of tailwinds and headwinds. While earnings resilience, improving global sentiment, and the prospect of Fed easing support the bullish case, risks from trade negotiations, potential stagflationary pressures, and geopolitical uncertainty remain. Against this backdrop, we continue to maintain a disciplined and risk-aware approach, balancing exposure to structural growth opportunities with a focus on diversification and downside protection.

1 https://insight.factset.com/sp-500-earnings-season-update-july-25-2025?utm_source=chatgpt.com

2 <https://www.ainvest.com/news/navigating-valuation-divergence-tech-resilience-consumer-discretionary-caution-post-earnings-landscape-2507/>

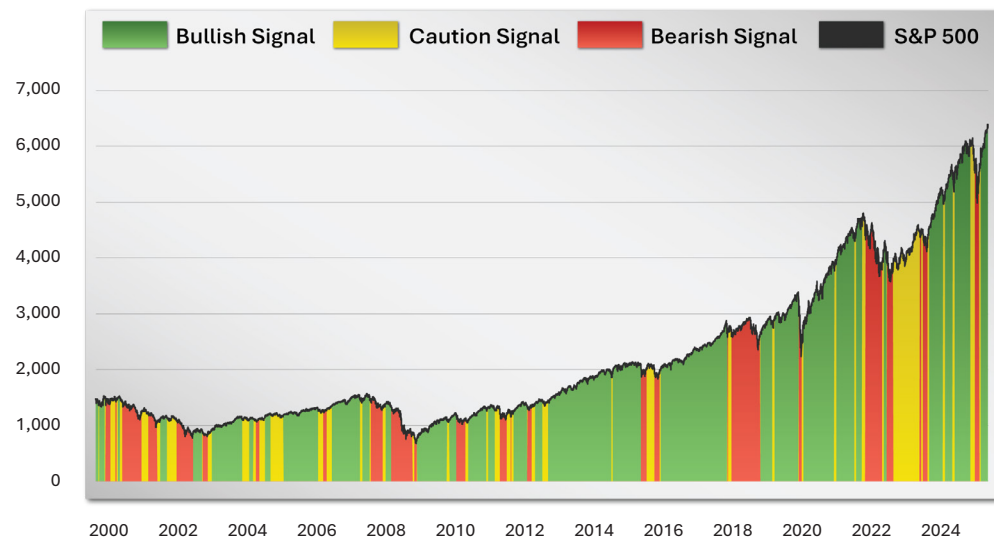
3 <https://www.usatoday.com/story/money/2025/08/06/jobs-downward-revisions-data-trump-bls-chief/85534445007/>

CIGNX = 36.8



Our **CIGNX** Economic Indicator has a reading of **36.8**, slightly higher from last month's revised reading of **36.4**. The reading is indicative of slowing economic activity. This remains below our baseline threshold of **50.0**, indicative of unfavorable conditions, and slightly below our secondary baseline reading of **40.0**, which we typically interpret as the economy experiencing recessionary conditions. **Our overall economic outlook remains unfavorable.**

ALPHA = Positive (Buy) OMEGA = Positive (Buy)



Both our short-term signal (**Alpha**) and our intermediate-term signal (**Omega**) remained **Positive** in July, indicating the near-term and the intermediate-term market outlooks remain favorable. We continue to maintain a "Bullish" positioning across each of our Dynamically and Tactically managed portfolios, with an increased exposure to equities. **Our overall market sentiment is Bullish.**

U.S. Large Cap Stocks
S&P 500 Index
Monthly: 2.24%
Year to Date: 8.59%

U.S. large-cap equities rose again in July, with the S&P 500 up 2.24% for the month and 8.59% year-to-date. Fresh record highs were supported by generally resilient Q2 earnings—beat rates above average even as surprise magnitudes were more muted—and ongoing enthusiasm around AI and cloud spending. Leadership broadened beyond mega-cap tech, with Utilities outperforming while Health Care and Consumer Staples lagged. A softer July payrolls print alongside firmer inflation gauges kept the Fed on hold but heightened expectations for cuts later this year, helping drive a continued risk appetite through month-end.

U.S. Mid Cap Stocks
S&P 400 Index
Monthly: 1.62%
Year to Date: 1.82%

U.S. mid-cap stocks posted modest gains in July, with the S&P MidCap 400 rising 1.62% for the month, and bringing the year-to-date returns to 1.82%. Performance has continued to lag that of large caps as investors have favored mega-cap growth leaders, though select industrial, utility, and technology names provided some support to the segment. Mid-sized companies remained more sensitive to interest rate expectations and trade policy uncertainty, which tempered upside returns despite an improving corporate earnings backdrop and signs of stabilization in broader economic conditions.

U.S. Small Cap Stocks
S&P 600 Index
Monthly: 0.93%
Year to Date: -3.58%

U.S. small-cap stocks edged slightly higher in July, with the S&P SmallCap 600 gaining 0.93% for the month but remaining down 3.58% year-to-date. The advance was modest as persistent headwinds—including higher borrowing costs, elevated input prices, and sensitivity to domestic economic trends—continued to weigh on sentiment for smaller companies. While pockets of strength emerged in select industrial and technology names, weakness in consumer-oriented sectors and ongoing caution around the economic outlook kept gains limited relative to larger-cap counterparts.

U.S. Bonds
U.S. Agg Bond Index
Monthly: -0.26%
Year to Date: 3.75%

Bonds were slightly weaker in July, with the Bloomberg U.S. Aggregate Bond Index declining 0.26% for the month but maintaining positive on the year with a 3.75% gain year-to-date. Yields moved marginally higher as firmer inflation data offset the impact of softer labor market readings, tempering expectations for near-term Federal Reserve rate cuts. While fixed income markets continue to benefit from their diversification role, the balance between persistent inflation pressures and signs of slowing economic growth kept investor positioning cautious across the yield curve.

Alternative Assets
S&P GSCI Index
Monthly: 3.62%
Year to Date: 5.62%

Alternative assets advanced in July, with the Bloomberg GSCI Index gaining 3.62% for the month, bringing the total return to 5.62% year-to-date. The rally was once again led by energy, as the GSCI Crude Oil Index climbed 8.86% on expectations for tighter global supply and ongoing geopolitical risks. Precious metals were mixed—silver rose 4.70%, supported by industrial demand and safe-haven interest, while gold slipped 0.37% amid firmer U.S. yields. Broader commodity markets remained influenced by shifting global demand trends, supply constraints, and investor positioning in inflation-sensitive assets.

U.S. Real Estate
S&P 1500 Real Estate
Monthly: -0.18%
Year to Date: 2.10%

The S&P 1500 Real Estate sector was little changed in July, slipping 0.18% for the month, but maintaining a 2.10% gain year-to-date. Higher interest rates and lingering macroeconomic uncertainty continued to weigh on sentiment, offsetting the sector's income-generating appeal and diversification benefits. While fundamentals remain steady and demand for reliable cash flow persists, performance was constrained as investors weighed the impact of tighter financial conditions on property valuations and transaction activity.

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