July 2025

MONTHLY MARKET INSIGHTS

Key takeaways:

- US equity markets surged in June, closing the month at new record highs, and putting the spring's correction in the rearview mirror.
- The US Dollar continued its sharp decline, posting its sixth consecutive monthly loss as measured by the US Dollar Index (DXY).
- The Federal Reserve ("Fed") held rates steady in June amid executive criticism and, for the first time this easing cycle, there appears to be internal disagreement on the path forward.

US equities closed the first half of 2025 on a strong note. In June, the S&P 500 and the Nasdaq rose 4.96% and 6.57%, respectively, setting fresh record highs and fully erasing the losses from the spring correction. While the Russell 2000 small cap index delivered a solid 5.63% gain, it remains down for the year and well below its 2024 peak, showing that leadership still rests with the largest, most liquid names[1]. While many of the risks that triggered March and April's sell off have abated, others still linger, and market participants may now be underestimating these downside risks. Valuation metrics, most notably the S&P 500's forward P/E ratio and the Shiller CAPE, are back near multi-year highs[2]. Markets appear to be banking on a Goldilocks outcome of growth re-acceleration without renewed inflationary pressures, margin compression due to tariffs, or further weakness in the labor market.

Despite the equity rally, currency markets are telling a different story. The US Dollar Index slid 2.63% in June, its sixth straight monthly decline, and closed at its lowest level in over three years[3]. Softer capital flows and lingering concerns that tariff policy could entrench inflation and slow US growth have weighed on the dollar throughout 2025. Additionally, Trump's adversarial rhetoric has led foreign governments to reconsider the magnitude of their US Treasury reserve holdings. Against this backdrop, we have tactically increased geographic diversification in client portfolios, tilting toward international developed markets such as Japan and Europe.

Geopolitical tensions flared early in the month as conflict in the Middle East dominated headlines. Israel's strike on Iranian assets prompted bilateral escalation, culminating in a US military precision strike on three Iranian nuclear facilities. Commodities reacted sharply. Most notably, WTI crude spiked 8%, before retracing within days, after President Trump announced a brokered ceasefire[4]. As in past episodes, Middle East flare-ups have had only transient impacts on global equity and credit markets. Nonetheless, it remains a situation that we will continue to monitor.

On the policy front, Congress turned its attention to tax legislation, one of President Trump's top priorities for 2025. On July 1st, the Senate passed the "Big Beautiful Bill" by a 51–50 margin, forcing Vice President Vance to cast the tiebreaking vote[5]. Market participants welcomed the certainty. Without an extension of the 2017 Tax Cuts and Jobs Act ("TCJA"), corporate and individual tax rates would have risen materially starting in 2026. The bill now moves to the House, where Republicans must secure near-unanimous backing given their narrow 220–212 majority. President Trump has pressed Republican colleagues to deliver the legislation by July 4th, though that deadline is self-imposed. In its current form, the bill extends key TCJA provisions, creates new tax breaks on tips and Social Security benefits, and reallocates funding from

1. Bloomberg
2. Id.
3. Id.
4. Id.
5. Davidson, Paul, and Natalie Andrews. "Senate Passes Trump Tax-and-Spending Bill in 51-50 Vote." The Wall Street Journal, 1 July 2025, https://www.wsj.com/politics/policy/senate-vote-trump-tax-bill-022bd480.

Medicaid and clean-energy programs to defense and border security[6]. If Republicans succeed at getting the bill passed in early July, we expect Congress's focus to shift to the debt ceiling which, as it stands, could be breached as early as August.

June also saw President Trump renew his public feud with Federal Reserve Chair Jerome Powell. At the Federal Open Market Committee ("FOMC") June meeting, the committee held its target range steady, citing tariff-driven inflation risks and a sound labor market. Hours later, the administration criticized the Fed's stance, with the President signaling he is looking to appoint a replacement committed to lowering interest rates[7]. Beyond public rebukes, some administration officials have floated naming the next Fed chair early, in hopes of shifting market focus away from Powell's forward guidance. Meanwhile, a divergence of opinion may be emerging within the Fed itself. Governors Christopher Waller and Michelle Bowman have now more openly advocated for cutting rates in the coming months citing cooling inflation and downplaying the risk of a tariff-induced inflation spike[8]. This contrasts with Chair Powell's more noncommittal, cautious stance. While differences of opinion among Federal Reserve governors are not historically unique, members have rarely strayed from the party line in recent years. We will be closely watching how the Fed navigates these debates through the year-end. For now, our base case remains two rate cuts in 2025, barring any major shocks.

Labor market data offers a nuanced view of the economy. Initial jobless claims have hovered around 235,000, broadly in line with readings since 2022. The unemployment rate sits at 4.2%, near full employment. However, continuing claims rose to a seasonally adjusted 1.97 million, the highest level since 2021, suggesting that displaced workers are finding it harder to secure new roles[9]. Overall, employers are not conducting large-scale layoffs, but hiring appears to be depressed, leaving the labor market with limited margin for error. If continuing claims remain in an upward trajectory, it could impact consumer spending later this year.

Although tariff negotiations briefly receded from view, a new front opened on June 26th when Canada's Finance Minister François-Philippe Champagne announced a digital services tax on foreign tech companies[10]. The levy, 3% on revenue from Canadian users, drew an immediate threat from President Trump to terminate US-Canada trade talks. Within days, Canada backed down, deciding to shift its focus to the July 27th G7 summit where world leaders will discuss trade among other issues[11]. Trade tensions are poised to resurface in July when the original 90-day pause on "Liberation Day" tariffs are set to expire. While the Trump administration has highlighted progress in negotiations and is likely to extend the pause, we would not be surprised if they single out specific nations to be hit with outsized tariffs in an effort to maintain credibility and leverage in their ongoing negotiations.

Looking ahead, markets face a delicate balancing act for the second half of the year. On one hand, greater fiscal policy clarity and solid corporate fundamentals could support further gains. On the other hand, stretched valuations, geopolitical and fiscal uncertainties, long-term tariff risks, and a resilient yet softening labor market leave little room for error. With interest rates still elevated and trade tensions poised to reemerge, we expect periodic bouts of volatility. Against this backdrop, we maintain a more cautious stance, focusing on diversification, and deploying new dollars into high-quality defensive areas like infrastructure.

6. Davidson, Paul, and Natalie Andrews. "Senate Passes Trump Tax-and-Spending Bill in 51-50 Vote." The Wall Street Journal, 1 July 2025, https://www.wsj.com/politics/policy/senate-vote-trump-tax-bill-022bd480.

7. Egan, Matt. "Trump Says He Has Shortlist to Replace Fed Chair Jerome Powell." CNN Business, 27 June 2025, https://www.cnn.com/2025/06/27/business/trump-fed-chair-jerome-powell-replacement.

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9. Tasker, John Paul. "Canada Says It Will Move Forward with Digital Services Tax." CBC News, 25 June 2025, https://www.cbc.ca/news/politics/canada-digital-services-tax-1.7565966.

10. Id.

11. Franck, Thomas. "Canada Rescinds Digital Services Tax after Trump Cuts Off US Trade Talks." CNBC, 30 June 2025, https://www.cnbc.com/2025/06/30/canada-rescinds-digital-services-tax-after-trump-cuts-off-us-trade-talks.html.

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