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Monthly Market Insights

August 2025

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Key takeaways:

- US markets experienced positive returns in July as solid corporate earnings, easing trade tensions, and resilient economic activity created enough positive rhetoric to keep investors bullish.
- We maintain a cautious outlook towards markets as tariff concerns create an overhang on risk assets; however, a resurgence in retail trading may generate short-term tailwinds.
- The Federal Reserve ("Fed") held rates steady at their July meeting, but a weak jobs report and additional tariff announcements make a 25 basis point ("bps") cut increasingly likely for September.

While concerns around trade war, geopolitical conflict, and fiscal policy dominated headlines, US markets continued to trend higher in July, extending the run-up from the April lows. The S&P 500 returned 2.17% for the month, with technology stocks leading the charge, as seen by the 3.70% return of the Nasdaq in July.[1] The Magnificent 7 continue to be a major contributor to the recent rally, posting a 5.81% return as a group compared to the S&P 500 ex Magnificent 7, only returning 0.13%.[2] Nvidia led the Magnificent 7 with a strong 12.58% return; however, Tesla proved to be a laggard with a -2.96% decline over the month as a disappointing earnings report weighed on the stock.[3] International stocks trailed US stocks with the MSCI ACWI ex US returning a mere 0.41% with negative returns from European and Japanese markets weighing on the index.[4] The late-month dollar rally further challenged returns for US investors in international stocks.

US stocks continue to extend their rally against what we would view as a less favorable backdrop. We believe the strong performance in US equities recently has been driven by a few factors, including solid corporate earnings, an easing in trade tensions, and relatively healthy economic data. On the earnings front, nearly two-thirds of the S&P 500 have reported and, so far, 63% have beaten consensus forecasts, one of the highest frequencies of positive earnings surprises in 25 years.[5] On aggregate, the S&P 500 is tracking towards 9% year-over-year earnings growth, well above the consensus estimate of 4% growth at the beginning of earnings season.[6] We would note that consensus expectations set a reasonably low bar to beat, but constructive corporate profits data has certainly provided investors with some recent optimism. Reports from the Mega-Cap tech companies reinforced the sustainability of the Artificial Intelligence ("AI") trade. Google and Microsoft had strong reports, with both firms raising guidance on capital expenditures against healthy demand for their cloud computing platforms. Meta similarly posted a strong print with the company noting traction with its AI-driven online advertising platform as its investments begin generating strong results.

Progress on the trade front with many key partners provided investors with some clarity around trade policy. Notably, trade deals were made with the European Union ("EU") and Japan at the end of the month, averting a bigger trade war with these two allies. The US struck a framework trade agreement with the EU, imposing a 15% import tariff on most EU goods, half the rate threatened earlier in the month.[7] Similarly,

1. Bloomberg.
2. Id.
3. Id.
4. Id.
5. Kostin, David, et al. "US Weekly Kickstart: What We've Learned from the 2Q Earnings Season so Far." Goldman Sachs, 1 Aug. 2025, publishing.gs.com/content/research/en/reports/2025/08/01/c0773db2-2a1d-4c1e-a81f-15c600bd561e.html.
6. Id.
7. Gray, Andrew, and Andrea Shalal. "US and EU Avert Trade War with 15% Tariff Deal | Reuters." Reuters, 28 July 2025, www.reuters.com/business/us-eu-avert-trade-war-with-15-tariff-deal-2025-07-28/.

Japan struck a trade deal with the US that lowers tariffs on cars and other goods to 15% in exchange for $550 billion of Japanese investment into the US.[8] Japan's leading trade negotiator, Ryosei Akazawa, said the trade deal guarantees Japan will always receive the lowest tariff rate on chips and pharmaceuticals of all the pacts negotiated by Washington. These agreements, alongside similar progress with many other trade partners, were viewed constructively by investors and likely contributed to the equity gains last month. Still, we continue to view trade policy as a major risk to equity returns as the effective tariff rate appears set to significantly increase, which we believe will increasingly weigh on corporate profitability and reaccelerate inflation in the back half of the year.

As we head into August, reciprocal tariffs appear to have risen to 15% for most trade partners from the 10% first proposed in April.[9] Goldman Sachs forecasts that the effective tariff rate will have increased to 14% by year-end and represents a 17% total increase by 2027 from levels seen prior to the start of the second Trump Administration.[10] Their forecast would imply a 7.4% increase in the effective tariff rate by year-end, nearly doubling the levels seen so far this year.[11] Despite the slew of trade agreements last month, many trade partners have yet to reach a deal with the US, and the President's mercurial temperament towards trade negotiations casts a shadow of uncertainty. On the evening of July 31, President Trump signed executive orders to impose tariffs of between 15% and 41% on goods shipped to the US from more than 67 countries, ratcheting up tariffs to the highest levels in more than a century. The new duties will go into effect on August 7, providing a small window for countries to negotiate them down. Included in the order are significant rate hikes on major trade partners like Switzerland and Canada. Switzerland will face a considerable tariff hike to 39%; however, its biggest exports to the US, pharmaceuticals and gold, are both exempt from the 39% rate.[12] Trump raised tariffs on Canada from 25% to 35% for goods that are not USMCA-compliant while maintaining the 25% tariff on Mexico for another 90 days.[13] Tariffs on Canada are effective as of August 1. The volatile nature of these trade announcements with rapidly changing terms and exemptions has challenged investors' ability to fully comprehend how these duties may affect the economy and corporate profits. We believe the trade saga will endure and the uncertainty around policy will remain a significant downside risk for markets through year-end.

Economic data remained fairly resilient despite the changes on the trade front, providing investors optimism that tariffs may not prove as punitive as originally feared. Yet, under the surface, signs of slowing growth are emerging, and a weak July jobs report has reignited fears about the health of the labor market. Real GDP rose 3.0% in the second quarter, rebounding from the 0.5% contraction in the first quarter.[14] Both releases have been heavily distorted by large swings in the trade data due to front-loading behavior in response to the Trump administration's tariff announcements. GDP growth is running at a 1.25% annualized rate when averaging across the first half of the year, while consumer spending at 1.4% in the second quarter print represents a slowdown from last year's strong measurements. We anticipate GDP growth will continue to slow down to a below 1% growth rate in the second half of the year as the effects of tariffs increasingly hinder economic activity. Inflation data has firmed modestly this year with the June core Personal Consumption Expenditure index providing a 2.8% reading with upward revisions to the April and May numbers. We anticipate inflation data will continue to trend higher for the year as a result of tariff policy. On the other hand, forward-looking housing data may indicate shelter inflation may mitigate tariff-related price increases on the composite reading as home prices continue to trend lower. While the labor market has been an area of economic strength for most of the year, the soft July jobs report may prove to be a harbinger of future weakness. Nonfarm employment rose 73,000 last month, below expectations, while the prior two months' estimates were revised down by 258,000, the largest two-month downward revision outside of April

8. Yamazaki, Makiko. "US-Japan Trade Deal Guarantees Lowest Tariff Rates for Chips, Pharma, Japanese Official Says | Reuters." Reuters, 29 July 2025, www.reuters.com/business/healthcare-pharmaceuticals/us-japan-trade-deal-guarantees-lowest-tariff-rates-chips-pharma-japanese-2025-07-29/.

9. Hussey, Chris, and Sarah Herr. "End of Week Market Intelligence: Behind..." Goldman Sachs, 1 Aug. 2025, publishing.gs.com/content/research/en/reports/2025/08/01/665dacdf-117e-481c-844d-7a07746503ec.html.

10. Peng, Elsie, and Alec Phillips. "US Daily: What Do Customs Data Tell Us About How Much the Effective Tariff Rate Has Risen? ." Goldman Sachs, 30 July 2025, publishing.gs.com/content/research/en/reports/2025/07/30/8643f30b-fa51-4a47-8d60-45685a408c63.html.

11. Id.

12. Desrochers, Daniel, and Ari Hawkins. "Trump Issues Order Imposing New Global Tariff Rates Effective Aug. 7." Politico, 31 July 2025, www.politico.com/news/2025/07/31/trump-executive-order-higher-tariff-rates-00487913.

13. Id.

14. Feroli, Michael. "US Weekly Prospects." J.P. Morgan, 1 Aug. 2025, markets.jpmorgan.com/research/email/scx/9agr8q8t/GPS-5040056-0/d28ad184-28a2-445b-904a-71b2e039e7e8.

2020.[15] In turn, the unemployment rate ticked up from 4.1% to 4.2%.[16] A weakening labor market amid recent tariff announcements will likely push the Fed to cut interest rates by 25bps in September.

As expected, the Fed chose to hold interest rates steady at their July meeting, although Fed governors Bowman and Waller cast dissenting votes, both wanting a 25bps cut in July. The July meeting had the most governor dissents since 1993 and highlights the diverging opinions amongst Fed members. Fed Chairman Powell's press conference was perceived hawkishly by the market as his comments suggested that a rate cut in September was still up for debate. Market expectations for a September rate cut fell in line; however, the weak jobs report and tariff announcements led to a quick rebound in expectations. Given recent developments, we would agree with the market that a September cut is the most likely scenario. We forecast two 25bps rate cuts for the year, but the next few rounds of labor and inflation data will likely have a significant influence on the Fed's decisions. The Fed is placed in a difficult position. While Chairman Powell noted that tariffs will likely create a one-time increase in prices, explaining away inflation anomalies can lead to policy mistakes as was seen post-pandemic. The Fed will be sensitive to repeating the same mistake twice. At the same time, the labor market is vulnerable to downside risk, and the recent weak jobs report may imply the Fed is late to cut. While a rate-cutting cycle seems imminent, a hawkish stance by the Fed presents another downside risk to markets going forward.

A resurgence in retail trading akin to what was witnessed during the meme stock craze in 2021 appeared to occur last month. Stocks like Kohl's, Opendoor, and GoPro saw dramatic daily price swings due to increased interest from retail speculators who share their investment strategies on online forums like Reddit. Recent elevated trading volumes in unprofitable stocks, penny stocks, stocks with high short interest, and stocks with extended multiples support the notion of a resurgence in speculative trading. Interestingly, previous periods with sharp increases in speculative trading, the tech bubble and 2021, have led to strong near-term returns for the broad equity market but have also come before a more significant equity market downturn. The increase in speculative trading volumes may lead to near-term upside risks for the market. However, we still retain a cautious outlook for US equities as the market's fundamental backdrop appears to be worsening. With market valuations appearing stretched and tariff risks likely to weigh on S&P profitability, we think current US equity levels present an opportunity to derisk from US markets, increase exposure to international equities, and diversify into other high-quality, lower correlated asset classes.

15. Id.

16. Id.

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