

Market Commentary 8/6/25

An Oxford Harriman & Company Market Commentary

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The S&P 500 Index returned 2.3% in July, pushing its year-to-date return to 8.4%. Large Cap Growth stocks led the gains, increasing by 3.7%, while Large Cap Value increased by just 0.6%.

Utilities was the top-performing sector, with the Technology, Industrials, and Energy sectors also outperforming the S&P 500. Defensive sectors underperformed, with Health Care, Consumer Staples, and Communication Services all trading lower.

International stocks underperformed the S&P 500 as the U.S. dollar strengthened. Developed Markets fell 2.1%, while Emerging Markets returned 0.7%.

Bonds posted a slight loss as Treasury yields increased. The U.S. Bond Aggregate declined 0.3%, with longer maturity Treasury bonds underperforming the index. Corporate bonds outperformed as credit spreads tightened, with investment-grade falling 0.1% and high-yield gaining 0.1%.

Strong Second Quarter Earnings & Trade Agreements Send Stocks to All-Time Highs

Stocks climbed to new highs in July, with the S&P 500 and Nasdaq both posting six consecutive record closes late in the month. Investor sentiment improved after better-than-expected second-quarter earnings and trade agreements with Japan and the EU, with tariff rates on the deals less severe than feared.

Market breadth improved early in the month as smaller companies outperformed the S&P 500. However, by the end of July, market leadership was top-heavy again, with the Magnificent 7 gaining over 5% after leading AI firms reported strong second-quarter earnings. Volatility remained subdued for most

of July, and the VIX fell below 15, signaling investor confidence but also showing investor complacency.

Stock valuations are stretched after the multi-month rally from April's lows. The S&P 500 trades at over 22x the next 12-month earnings, up from around 18x in early April and well above the 16.8x average since 2000.

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We believe today's extended valuations mean the market is more reliant on earnings growth to fuel gains, which gives companies less room to disappoint. Although the tariff rates in recent deals were lower than feared, the overall effective tariff rate has risen sharply this year.

The higher effective tariff rate raises questions about the long-term impact on corporate earnings, consumer demand, and economic growth, as well as the potential near-term impact on inflation.

Interest Rate Cuts Continue to Be Pushed into the Future

After cutting interest rates by a full percentage point in late 2024, the Fed has held interest rates steady through five meetings this year. The pause in the Fed's rate-cutting cycle reflects two dynamics: inflation progress has stalled, with core CPI stuck near 3.0%, and the labor market remains solid, with unemployment holding near 4%.

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From a market's perspective, rate cut expectations have been repeatedly delayed. An anticipated March cut was pushed to May, then to June, and then to September. The odds of a September cut fell below 50% after the July meeting, with the market pushing the rate cut to October. The market now expects only one rate cut this year, followed by another in January 2026.

The takeaway: With no clear signal from the data or the Fed, the market is taking it one meeting at a time.

Please reach out at any time to discuss,

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The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.

The CBOE Volatility Index® (VIX®) shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. This volatility is meant to be forward looking and is calculated from both calls and puts. The VIX is a widely used measure of market risk and is often referred to as the "investor fear gauge."

The NASDAQ Composite Index measures the market value of all domestic and foreign common stocks, representing a wide array of more than 5,000 companies, listed on the NASDAQ Stock Market.

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