



Wealth Advisory Market Update

August 11, 2025



Market Update

Equities

Equity markets continued their upward momentum in July, with technology stocks once again leading the charge and meme stocks making a notable return. The S&P 500 climbed more than 2.2% to reach new record highs. However, the month ended with several developments that gave investors pause, including disappointing labor data, the Federal Open Market Committee (FOMC) meeting and a wave of corporate earnings reports. Breadth has also remained poor. Since April, 80% of the returns in the S&P 500 have come from just ten technology stocks.

From a broad perspective, this earnings season appears to be one of the stronger ones historically. So far, 83% of companies that have reported have exceeded analysts' expectations. On average, revenues have topped estimates by 2.6%, while earnings have beaten forecasts by over 8%. However, it is important to recognize that many of these "beats" are the result of analysts lowering their estimates over the past few quarters. They are beating on lowered expectations. This is evident in cases where companies missed both revenue and earnings expectations—such stocks fell over 5% on average, compared to the five-year average decline of 3.2% for similar misses.

Market fundamentals continue to look stretched. The equal-weighted S&P 500 index is now trading at 17.2 times forward earnings—its highest level since 2021. The index's dividend yield stands at just 1.25%, only 20 basis points above its all-time low set in 2000. Technical indicators are also flashing warning signs. The Nasdaq has remained above its 20-day moving average for 63 consecutive trading sessions—the longest streak since 1999. Additionally, the resurgence of meme stocks echoes the speculative frenzy of 2021. Retail investors have returned to high-risk trades, as seen with Opendoor, which on one day accounted for 10% of total U.S. stock trading volume—surpassing Meta, whose market cap is 1,000 times larger. Opendoor's options activity even exceeded that of Nvidia and Tesla combined. Historically, such speculative behavior has been an indicator of market tops.

Economic Indicators and Fed Policy

The FOMC's July meeting delivered no major surprises, with the committee opting to leave the federal funds rate unchanged. However, for the first time since 1993, two committee members dissented. In the press conference that followed, Chair Jerome Powell reiterated that rate cuts are not needed at the moment, citing continued strength in the labor market. The Fed remains committed to a data-dependent approach.

Yet, the July labor report released shortly after the meeting told a different story. While economists expected 104,000 new jobs, only 73,000 were added, with 55,000 of those coming from the healthcare sector. What rattled markets most was the substantial downward revision to the previous two months' data—job gains for May and June were revised down by a combined 258,000, to just 19,000 and 13,000, respectively. In addition, full-time employment declined by 440,000 from the previous month. These figures suggest a weakening labor market that may soon demand more attention from the Fed.

Adding to the economic concern is a growing issue with loan delinquencies, particularly among student loans. During the COVID-19 pandemic, student loan payments were paused, and attempts by the previous administration

were made to cancel debts. However, those efforts were unsuccessful and payments resumed, serious delinquencies (90+ days overdue) jumped to a record 12.9%. Surprisingly, Americans aged 50 and older were the most affected, with over 18% falling into serious delinquency. This trend poses a threat to consumer spending—a critical driver of the U.S. economy, accounting for over 70% of GDP. Rising debt burdens and a softening job market could significantly constrain future growth, forcing the Fed to reassess its policy stance moving forward.

Strategy

As the market rally continues, we remain disciplined in our investment approach and avoid chasing short-term gains. Our focus remains on identifying companies with superior pricing power, consistent free cash flow generation, and robust balance sheets. We are actively seeking businesses trading below their intrinsic value, where current valuations offer compelling entry points.

In fixed income, volatility persists as interest rates react to tariff developments and shifting economic data—most notably, the July labor report, which pushed the 10-year Treasury yield down by 15 basis points. In this environment, we continue to favor the intermediate part of the yield curve. Mortgage-Backed Securities (MBS) and Municipal Bonds remain attractive, with current spreads favoring opportunities in high-quality credit.

Outlook

We remain committed to active, risk-conscious portfolio management amid a rapidly changing macroeconomic landscape. While the outlook is complex and evolving, we continue to identify opportunities that align with our long-term investment philosophy. We appreciate your continued trust and partnership as we navigate these uncertain times.

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