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July Market Update

June saw markets improve as the inflation narrative shifted and trade policy zigged and zagged. Confronted with such a challenging assortment of factors, the Federal Reserve is remaining cautious. Read on for key highlights from last month.

Major U.S. Stock Indexes

U.S. stocks hit new highs last month as the financial markets returned to a risk-on stance. Both the S&P 500 and Nasdaq 100 finished June in record territory.

- The S&P 500 rose 4.96%.
- The Nasdaq 100 increased 6.27%.
- The Dow Jones Industrial Average climbed 4.32%.

Federal Reserve Stays the Course

- Financial markets are betting the “patient” faction led by Federal Reserve Chair Jerome Powell will maintain its hold, with traders pricing in just a [23%](#) chance of a July rate cut.
- Powell told Congress last week that “For the time being, we are well positioned to wait to learn more about the likely course of the economy before considering any [adjustments](#) to our policy stance.”
- **What could accelerate rate cuts? Deterioration in the economic outlook, particularly weakness in the labor market. While the unemployment rate remains low at [4.2%](#), leading indicators of job growth are pointing to a cooling labor market, with continued jobless claims now at their highest level since November 2021.**

Inflation and Tariffs

- Prices in the U.S. rose [2.3%](#) in May compared with a year ago, up from just 2.1% in April. Excluding the volatile food and energy categories, core prices rose 2.7% from a year earlier, an increase from 2.5% the previous month.

- Most people expect inflation to rise soon due to tariffs, since the added costs will end up paid by someone along the supply chain — whether it's manufacturers, retailers, or consumers — [according to Fed Chair Powell](#).
- **Indeed, early indications show the inflationary impact of tariffs: Walmart in May reported that its customers will start to see higher prices in June and July with back-to-school shopping, and Nike expects [U.S. tariffs](#) will cost the company \$1 billion this year, saying it will institute “surgical” price increases in the fall.**

Are Consumers Tiring?

- Factors indicating consumer fatigue include falling gas sales, declining auto purchases after a tariff-fueled buying rush earlier in the year, and broader unease over the economic outlook. Excluding autos, sales fell [0.3%](#), though retail sales rose 0.4% without the most volatile categories.
- The University of Michigan's consumer sentiment index, released on June 27, rebounded from its near two-year low in May, marking the first increase in six months. However, the survey continued to reflect [expectations](#) of rising inflation and an impending economic slowdown.
- The data follows the June 26 revisions to U.S. GDP estimates, which reduced first-quarter consumer spending growth from a 1.2% increase to a mere [0.5%](#).

Job Pressures Impact Confidence

- The number of Americans receiving ongoing unemployment benefits has risen to its highest level in three and a half years, signaling a [softening labor market](#). Both current job availability and hiring conditions have weakened.
- The Conference Board Consumer Confidence Index [fell by 5.4 points](#) in June to 93.0. The Present Situation Index — based on consumers' assessment of current business and labor market conditions — fell 6.4 points to 129.1. The Conference Board surveys focus on the labor market and job security from the worker's perspective.
- Despite consumers' declining view about business conditions for the sixth straight month, with a less favorable take on job availability, spirits for the labor market were still moderately upbeat.

Looking Ahead

The market's rebound from April lows and recent global events is encouraging, but significant uncertainties remain. Most notable is the potential impact of the Middle East conflict on oil supplies from the Gulf, which holds half of global reserves and a third of production.

Amid tariff uncertainties and market volatility, it's crucial to stay focused on your long-term goals. Investing success comes from thoughtful strategy, as opposed to market timing. Volatility is part of the process, and markets often – but not always – price in future risks well before they materialize.

If you'd like to discuss the current outlook or review your strategy based on recent developments, please feel free to reach out to your advisor.

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