Market Commentary

August 2025

Equity and Bond Market Update

(as of July 31, 2025)

Index	YTD	1-Year
Dow Jones Industrial Average TR	+4.7%	+10.0%
S&P 500 Total Return Index	+8.6%	+16.3%
Russell 2000 Total Return Index	-0.1%	-0.6%
MSCI EAFE Index (net)	+17.8%	+12.8%
MSCI Emerging Markets Index (net)	+17.5%	+17.2%
Bloomberg US Aggregate Bond TR	+3.8%	+3.4%

Recent Economic Indicators

	Statistic	Data as of
Unemployment Rate	4.2%	Jul 2025
Gross Domestic Product (GDP)	+3.0%	Q2 2025
Consumer Price Index (CPI) – Y/Y	+2.7%	Jun 2025
Consumer Confidence (1985=100)	97.2	Jul 2025
30-year fixed mortgage rate	6.78%	Wk of Jul 27
Housing Starts (single family)	883,000	Jun 2025
10-Year Treasury Yield	4.36%	7/31/2025

Although domestic stocks experienced moderate positive returns and foreign stocks saw losses in July, foreign stocks have still dominated returns this year with both foreign developed markets and diversified emerging markets up over +17% each. The domestic S&P 500 Index has recouped all of its downturn from April this year and has consistently been posting new all-time highs since late June. Domestic small-caps as represented by the Russell 2000 have also rallied off their early-April lows but have yet to post new highs since early February. The aggregate bond market retreated a bit during the month, with the yield on the 10-year Treasury ticking up from 4.24% to 4.36%.

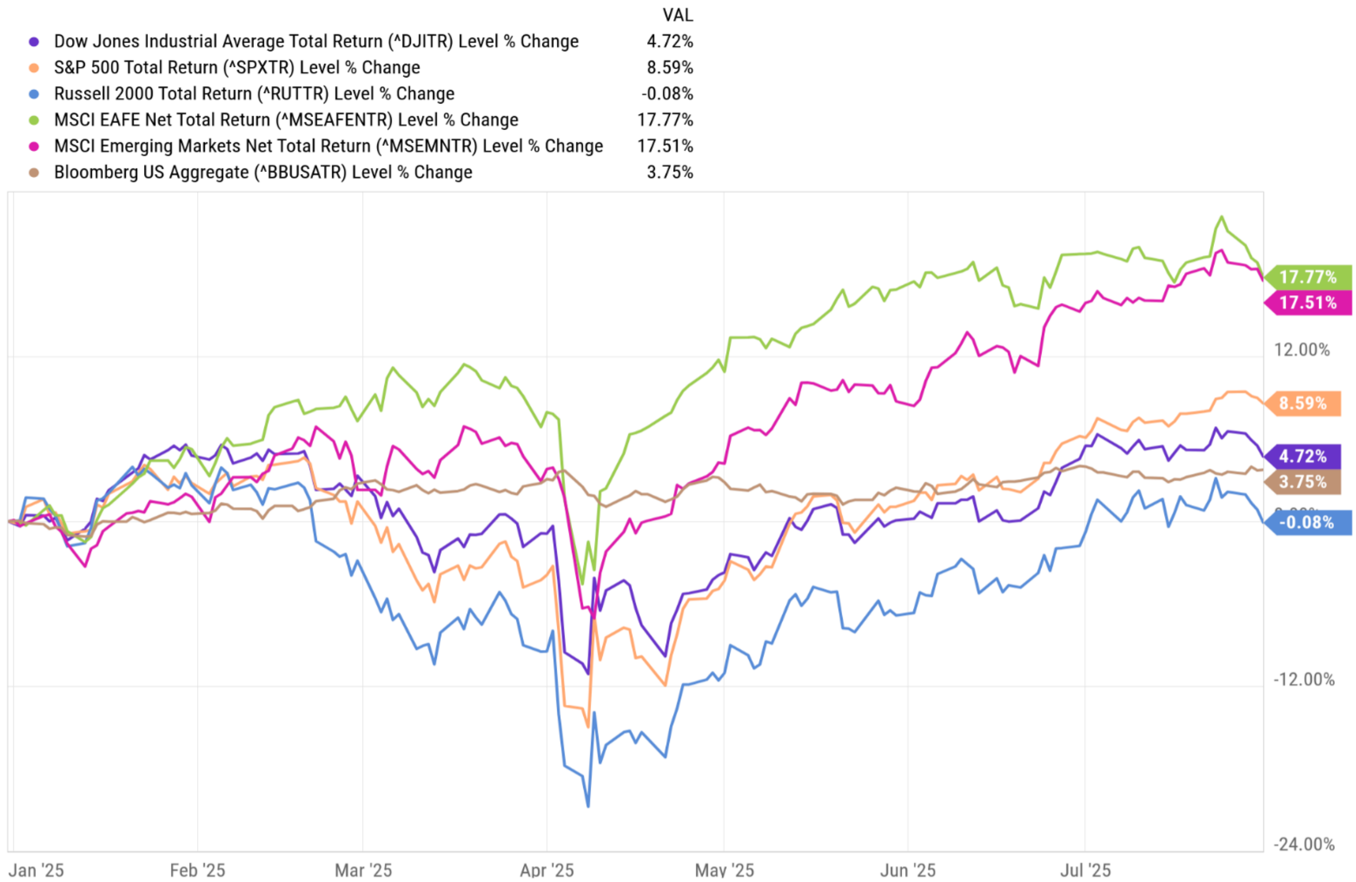
The Federal Reserve left short-term interest rates unchanged at their July 29-30 meeting. This continues to peg the rate at 4.25% - 4.50%. The meeting was the first in over 30 years that two Fed governors dissented from the Board's decision, each opting to recommend a 25 basis point cut. There is increasing pressure, both from the federal and economic community, to cut rates with both citing a struggling housing market, weakening employment growth picture, and risks to increasing federal borrowing costs at such high interest rate levels. Currently, fed funds futures are predicting an 88% chance of a rate cut at the mid-September meeting. By the end of the year, predictions are the greatest that we may see a reduction in the rate of up to 75 basis points. Whether that is three 25 basis point cuts at each of the last three meetings or, as some have called for, a 50 basis point cut in September, followed by another 25 basis point cut in either the October or December meeting remains to be seen. In the meantime, Fed governor Adriana Kugler (a Biden-era appointee) announced she would be stepping down as of August 8th, opening the door for the Trump administration to appoint a dovish-leaning replacement. Either way, the whole Federal Reserve is currently a bit chaotic, with increasing pressures to cut, Fed governors resigning prior to serving out their term, and the eventual replacement of Chairman Jerome Powell in the first half of 2026 weighing the environment.

Second quarter GDP was announced at the end of July, posting a first estimate of +3.0%, easily beating projections averaging around +2.3%. This 3.0% growth rate follows a -0.5% contraction in domestic GDP in the first quarter due to businesses front-running purchases of foreign goods during that quarter to stock up on inventories prior to the expected tariffs taking effect in the second quarter. As we get more into the third quarter, the field will become more clear of what to expect for this quarter's GDP, but for now, the Federal Reserve Bank of Atlanta is estimating growth of +2.1%.

Since the 90-day tariff pause was announced in early-April roughly one week after "Liberation Day", growth stocks have outperformed value stocks by almost +20 percentage points. Up to that point, value stocks had provided some cover earlier in the year as stock markets began declining in mid-February. Year-to-date, growth stocks are back in the lead returning almost +13% for the year (versus value stocks +4.2%). This is an extension of what we have experienced since October of 2022, where the large-cap growth market has almost doubled (+98%) versus their value counterparts returning +60%. The blended S&P 500, which is still biased toward the top ten stocks measured by market capitalization making up almost 40% of the overall index, is up +8.6% in 2026.

As of the writing of this commentary, roughly two-thirds of the S&P 500 Index constituents have reported earnings for the second quarter. Adding expectations for the remainder of companies, we will have seen an +8.6% growth rate in earnings over the first quarter, and a +10.1% growth rate in earnings over the last year versus the previous twelve months. These are pretty stellar growth numbers. Looking

Major Market Indices Total Return (YTD through July 31, 2025)



Source: YCharts

forward, analysts are currently expecting almost +16% earnings growth over the next twelve months. As we have expressed before, this is very optimistic given we haven't seen this type of earnings growth since we were coming out of the COVID lockdown period. Is this too optimistic? Maybe, but not if you factor in the effects of companies increasing productivity and expanding margin growth by leveraging AI into their operations. We are already seeing much of this by early adopters, and will continue to see this as AI and robotics move into more mainstream of corporate operations, cutting costs and making processes more efficient.

As a reminder, we always stress reaching out to your financial advisor to update your financial situation and discuss any thoughts you have regarding your financial plan. With markets recovering and continuing to reach new highs, this is a much more rational conversation since you are not allowing your emotions dictate your investment decisions. Make a plan with your advisor, update it, stick to it, and allow markets to work for you over the long-term.

Always keep in mind that fear, panic, and optimism are not investment strategies, but rather emotions that drive short-term markets.

Please contact Lifestyle Asset Management, Inc. at (281) 992-9220 or by email at **pjackson@lsaminc.com** should you have any questions or comments.

Sources:
S&P Dow Jones Indices website (us.spindices.com)
MSCI Barra website (http://www.mscibarra.com)
The Conference Board (www.conference-board.org)
Bureau of Economic Analysis (www.bea.gov)
JP Morgan Guide to the Markets
CME FedWatch Tool (www.cmegroup.com)
FTSE Russell (www.ftserussell.com)
Bankrate.com (www.bankrate.com)
Bureau of Labor Statistics (www.bls.gov)
United States Census Bureau website (www.census.gov)
Federal Reserve Bank of Atlanta (https://www.atlantafed.org/cqer/research/gdpnow)
OpenAI, ChatGPT

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The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The S&P 500 is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities. The index is meant to reflect the risk/return characteristics of the large capitalization U.S. universe.

The S&P 500® Equal Weight Index is the equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

The Russell 2000 is an index measuring the performance of approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of the 3,000 largest stocks in the United States. The Russell 2000 serves as a benchmark for small-cap stocks in the U.S. and is meant to reflect the risk/return characteristics of the small capitalization U.S. universe.

The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. It is maintained by MSCI Barra, a provider of investment decision support tools; the EAFE acronym stands for Europe, Australasia and Far East.

The MSCI Emerging Markets Index is an index created by Morgan Stanley Capital International (MSCI) designed to measure equity market performance in global emerging markets.

The Barclays US Aggregate Bond Index is a broad-based benchmark index that measures the investment-grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS.

The Dow Jones Equity All REIT Index is designed to measure all publicly traded real estate investment trusts in the Dow Jones U.S. stock universe classified as equity REITs according to the S&P Dow Jones Indices REIT Industry Classification Hierarchy. These companies are REITs that primarily own and operate income-producing real estate.

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