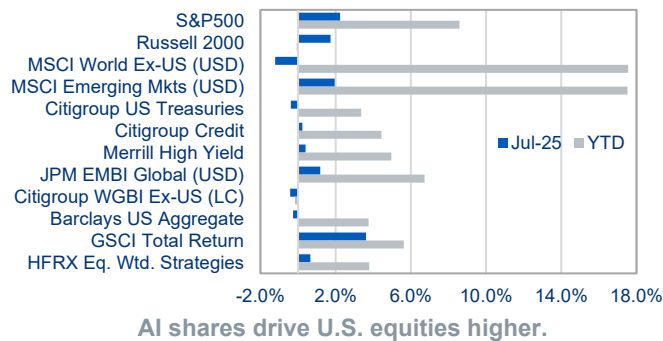


# Global Market Review

Earnings beyond the wildest dreams of Wall Street propelled AI-related shares higher in July, extending a trend of total AI market domination. The earnings, market capitalization, and price gains of the U.S. equity market have all been heavily concentrated on AI-related firms. Outside of the U.S., advanced economy equity markets fell slightly, while emerging markets rose thanks to a jump in Chinese equities. With policy uncertainty high, the U.S. economy at full employment, inflation above target, and signs of incipient price pressures, the Fed, to no one's surprise, left rates unchanged in July. There were, however, two dissenting Governors who argued that early signs of weakness warranted a rate cut. U.S. Treasury and investment grade credit markets lost ground. Yields on intermediate maturity Treasury notes rose but rates were little changed at the long and short ends of the curve. The U.S. dollar rose against major currencies in July, partially reversing its depreciating trend. Gold prices rose slightly.

## Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.

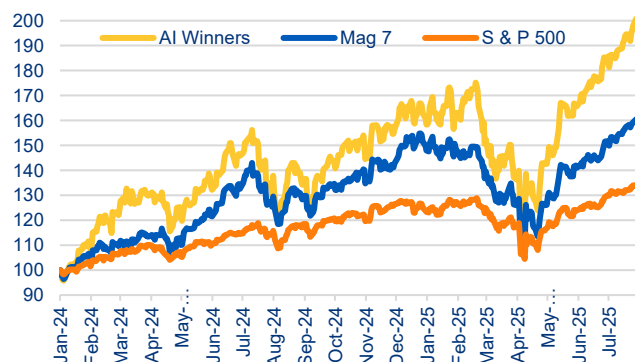


## Raging Bulls, Roaring Kitties, Record Highs

The S&P 500 gained 2.4%, briefly reaching another record high in July, bringing its gain so far this year to 8.6%. AI shares continue to be the market's driving force, rising 8.3% in July and 27% so far this year (Exhibit 1). Microsoft, Google, Meta, and Amazon all reported double-digit earnings growth from AI-related businesses. NVIDIA and Microsoft are the first two firms to reach a capitalization of \$4 trillion, the equivalent of about 13% of U.S. GDP. Given AI's dominance, growth stocks (+3.7%) outperformed value (+0.6%) and large cap stocks (+2.2%) beat small (+1.7%). The Reddit retail crowd also made a cameo appearance in July, sending meme stocks like Krispy Kreme and GoPro up 24% and 74%, respectively.

## Exhibit 1. Double Digit Earnings Fuel AI Frenzy

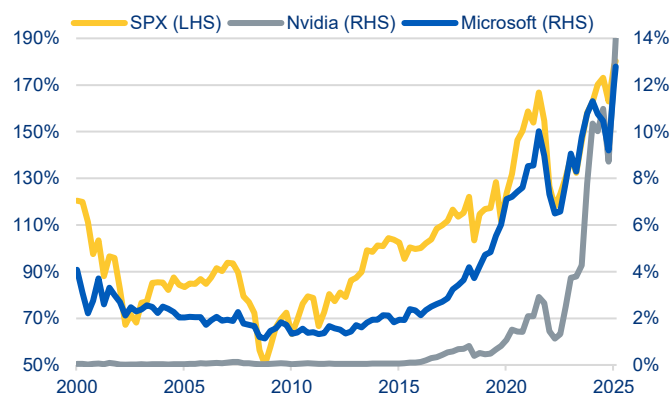
Source: Bloomberg. Index January 1, 2024 = 100.



Putting aside the YOLO revival of meme stock trading, there are other more serious signs of building market excess. The Shiller CAPE ratio stands at 37.8, just shy of its all-time high of 44.2, reached just before the tech bubble burst in 2000. The U.S. equity forward P/E ratio is 22.3, about 1.5 standard deviations above its long-term average. The U.S. stock market capitalization has reached a record high relative to U.S. GDP, reflecting high share prices and the increasing financialization of the economy (Exhibit 2). Following a blip in April, equity market volatility has been subdued, despite continued high levels of economic policy uncertainty. Further speculative excesses are evident outside of the equity market, with Bitcoin prices topping \$120,000 as an increasingly favorable regulatory environment for cryptocurrencies raised hopes for their widespread acceptance and integration with the banking system.

## Exhibit 2. U.S. Market Cap at Record High Percent of GDP

Sources: Bloomberg and Fred. Market capitalization as percent of GDP.

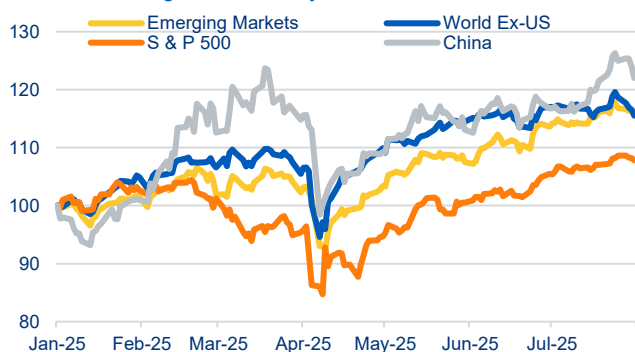


## Mixed Performance Across Non-U.S. Equity Markets

The MSCI World ex-U.S. index of advanced economy stocks fell 1.2% in July, largely reflecting the appreciation of the U.S. dollar against major currencies (Exhibit 3). European and Japanese equity markets' local currency returns were positive but were down in U.S. dollar terms. For the year as a whole, the dollar's depreciation has boosted the returns to U.S. based investors in non-U.S. assets. The MSCI World ex-U.S. index is up 17.6% in dollar terms so far in 2025, reflecting gains of 20.9% and 10.2%, respectively from European and Japanese markets.

## Exhibit 3. Chinese Equities Lead Other Major Markets

Source: Bloomberg. Index January 1, 2025 = 100.



Emerging equities rose 2% in July, notwithstanding the U.S. dollar's appreciation. Asian emerging markets led other regions thanks to a 4.8% jump in Chinese equities. Chinese equities have risen 23% so far this year, notwithstanding tariff uncertainty and continued concerns over the lingering disinflationary effects of a property bubble and debt overhang. Fiscal and monetary stimulus as well as other measures to bolster economic growth and household sentiment appear to be bearing fruit.

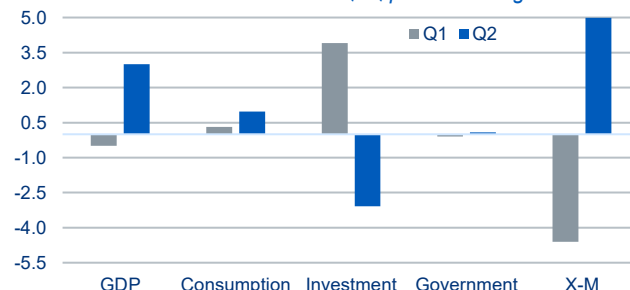
## Tariffs Distort U.S. GDP Amid Signs Slowing Growth

U.S. GDP data have been distorted by wide swings in imports and inventories (Exhibit 4). GDP fell 0.5% in the first quarter,

the first quarterly decline in three years. This decline mainly reflected a surge in imports (which detract from domestic output) and a corresponding accumulation of inventories (included under investment). In the second quarter, this dynamic was reversed as imports declined sharply contributing to a rise in GDP that was partially offset by destocking.

## Exhibit 4. Swings in Imports and Inventories Distort GDP

Source: BEA. Contributions to GDP QoQ percent change.



Forward-looking data suggest that the economy may be starting to slow and inflation to rise. Real retail spending has been flat since March and real spending on durable goods has declined. Employment data released on August 1 show that job growth has slowed significantly since April, a slowdown widely attributed to economic policy uncertainty. Inflationary pressure as measured by the PCE deflator is also beginning to build, especially in the case of goods prices.

## Fed Leaves Rates Unchanged

Prior to the Fed's July meeting, the futures market was pricing in a near certainty that the FOMC would leave the Fed Funds rate unchanged at 4.25 – 4.5%. The market was not disappointed. Citing a low unemployment rate, a solid labor market, and above-target inflation, the Board of Governors voted to leave rates unchanged. There were, however for the first time in 30 years, dissenting votes among the Governors with two advocating a rate cut of 25 basis points on the grounds that the economy was slowing. The employment report released on August 1, the day after the meeting, seemed to vindicate this view. Although the unemployment rate remained low at 4.2%, the pace of job growth slowed significantly. Following the release of the employment report, the futures market indicated an 85% chance that the Fed will reduce the Fed funds rate by 25 basis points at its September meeting, notwithstanding signs of incipient inflation.

## Performance of Major Market Indices through 07-31-2025

Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	2.2%	2.2%	8.6%	16.3%	17.1%	15.9%
Russell 2000	1.7%	1.7%	-0.1%	-0.6%	7.0%	9.8%
MSCI World Ex-US (USD)	-1.2%	-1.2%	17.6%	13.7%	13.4%	10.7%
MSCI Emerging Mkts (USD)	1.9%	1.9%	17.5%	17.2%	10.5%	5.4%
Citigroup US Treasuries	-0.4%	-0.4%	3.4%	2.7%	0.9%	-1.9%
Citigroup Credit	0.2%	0.2%	4.4%	4.6%	3.4%	-0.4%
Merrill High Yield	0.4%	0.4%	5.0%	8.6%	7.9%	5.1%
JPM EMBI Global (USD)	1.2%	1.2%	6.7%	8.8%	7.5%	1.3%
Citigroup WGBI Ex-US (LC)	-0.4%	-0.4%	-0.2%	1.1%	-0.9%	-2.4%
Barclays US Aggregate	-0.3%	-0.3%	3.7%	3.4%	1.6%	-1.1%
GSCI Total Return	3.6%	3.6%	5.6%	7.7%	0.8%	17.6%
HFRX Eq. Wtd. Strategies	0.7%	0.7%	3.8%	5.4%	4.3%	3.4%