

JULY: US EQUITY STRENGTH CONTINUES GROWTH, INFLATION, EMPLOYMENT & THE FED

Figure 1: 7/31/2025 Returns (source: FactSet)
Conditional formatting: green (high) to red (low) for each time period

Bonds	ETF	Month	YTD	1YR	vs. 52-wk High	vs. 52-wk Low
US Aggregate Fixed Income	AGG	-0.3%	3.8%	3.4%	-3.4%	3.0%
Investment Grade Corp Bonds	LQD	-0.1%	4.5%	4.1%	-4.3%	5.5%
U.S. 20+ YR Treasuries	TLT	-1.1%	1.7%	-4.4%	-14.5%	4.4%
Muni Bonds	MUB	-0.3%	-1.0%	-0.5%	-4.5%	3.6%
US High Yield	HYG	0.1%	5.2%	8.5%	-0.4%	7.1%
Non-US Corp Bonds	IBND	-3.1%	12.5%	9.7%	-3.5%	13.9%
Emerging Markets Bond LC	EMLC	-1.4%	10.9%	9.4%	-2.7%	8.4%
Global Equity						
ACWI Global Equity	ACWI	1.1%	11.5%	15.8%	-1.5%	28.4%
ACWI Global Equity ex US	ACWX	-1.1%	17.2%	14.2%	-3.8%	23.0%
International Developed	EFA	-2.1%	17.7%	12.3%	-4.4%	21.3%
Emerging Markets	IEMG	0.5%	16.9%	15.7%	-2.8%	27.6%
Global Equity by Region						
United States	VTI	2.3%	8.0%	15.5%	-1.3%	31.5%
Europe	IEUR	-2.7%	21.6%	13.9%	-5.1%	21.1%
Asia ex-Japan	AAXJ	1.3%	16.8%	18.3%	-2.8%	30.1%
China	MCHI	4.2%	23.7%	42.3%	-3.9%	43.8%
Japan	BBJP	-1.6%	10.7%	6.4%	-4.3%	24.0%
Latin America	ILF	-5.1%	21.7%	6.8%	-7.3%	19.4%
US Equity						
US S&P 500	IVV	2.3%	8.5%	16.3%	-1.3%	31.2%
NASDAQ 100 QQQ	QQQ	2.4%	10.8%	20.6%	-1.7%	40.4%
US Large Growth	IWF	3.7%	9.9%	23.5%	-1.9%	42.7%
US Large Value	IWD	0.6%	6.5%	8.6%	-2.5%	19.7%
US Eqwt S&P 500	RSP	1.0%	5.7%	8.8%	-2.4%	22.1%
US Mid Cap	IJH	1.6%	1.8%	3.1%	-7.8%	25.7%
US Small Cap	VTWO	1.7%	-0.1%	-0.8%	-10.5%	27.9%

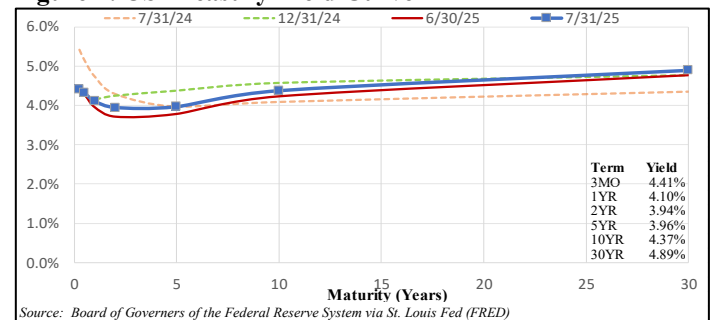
Global markets were mixed in July amid on-going uncertainty over tariffs/trade, inflation and tensions in the Middle East and Ukraine. US stocks gained on solid earnings reports from the tech sector. A US dollar rebound lowered returns on non-US assets. Performance highlights for July and year-to-date (YTD) include:

- **Bonds:** The US Aggregate index (AGG) fell 0.3% this month (+3.8% YTD). Long-term Treasuries (TLT) are very sensitive to interest rates, falling 1.1% (+1.7% YTD) as long yields rose. Corporate bonds (LQD) and high yield (HYG) outperformed. Non-US bonds underperformed as the dollar strengthened.
- **Global equity:** ACWI gained 1.1% in July (+11.5% YTD).
- **US Equity:** The broad market (VTI) rose 2.3% (+8.0% YTD); the S&P 500 (IVV) gained 2.3% (+8.5% YTD). Small stocks (VTWO +1.7%, -0.1% YTD), which are highly sensitive to US economic growth, continue to underperform and are more than 10% below all-time highs. Returns at the sector level were mixed, with gains led by utilities, technology, industrials and energy stocks while health care, consumer staples and communications stocks logged losses of 1-3%.
- **Non-US Equity:** After posting impressive gains for the first half of 2025, international developed market stocks weakened in July (EFA -2.1%, +17.7% YTD), largely due to a rebound in the US dollar. Stocks in Europe (IEUR) fell 2.7% (+21.6% YTD), and Japan (BBJP) fell 1.6% (+10.7% YTD). Emerging market stocks (IEMG) gained 0.5% (+16.9% YTD), led by gains in China (MCHI) and Korea (EWY), but stocks in India (INDA) and Brazil (EWZ) were down more than 5% likely due to increased tariffs and trade tensions with the US.

Interest Rates and the Economy

Interest rates continue to be volatile amid concerns about tariffs, inflation and economic growth. Yields moved higher in July as solid economic data dampened expectations for imminent interest rate cuts, but that changed this morning as yields are moving sharply lower after a very weak jobs report. The Federal Reserve (Fed) left rates unchanged this week, but markets now expect two 0.25% rate cuts later this year. These expectations are highly uncertain and will vary with incoming inflation and economic data. The yield curve (Figure 2) plots the interest rates for various US Treasury maturities. US 10-year Treasuries closed the month at a yield of 4.37% but are down to 4.23% this morning.

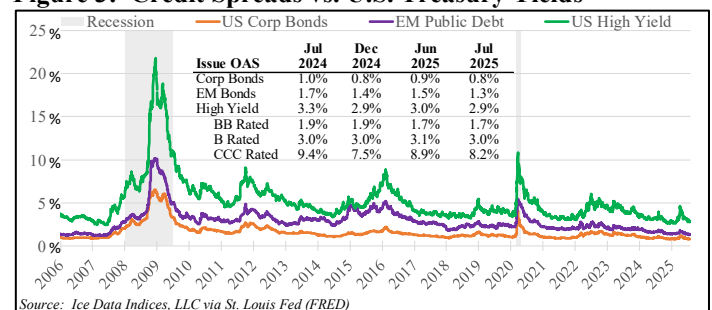
Figure 2: US Treasury Yield Curve



For bonds other than US Treasuries, we track the option-adjusted spread (OAS) between their yields and Treasuries of comparable maturities (Figure 3). Low or narrowing spreads signal optimism; high or widening spreads signal fear. Spreads narrowed this month, reflecting the “risk on” tone of US markets.

- Investment grade corporate bond spreads narrowed to +0.8% but have been relatively stable over the past year.
- High yield (non-investment grade) spreads narrowed to +2.9% last month and are down from the +3.3% spreads a year ago. Spreads of the riskiest bonds (rated CCC & below) narrowed to +8.2% and are well below the +9.4% spreads one year ago.
- Emerging market spreads narrowed to +1.3% from +1.5% last month and +1.7% a year ago; investors see low risk in EM debt.

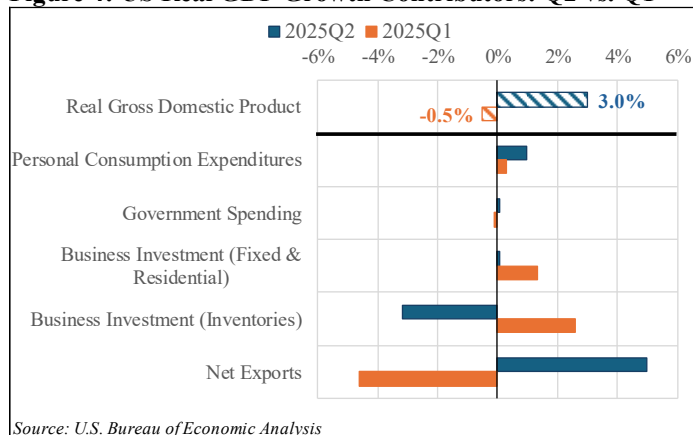
Figure 3: Credit Spreads vs. U.S. Treasury Yields



Growth, Inflation, Employment & The Fed

A slew of economic data was released over the last week, painting a mixed picture of the US economy. First, the Bureau of Economic Analysis (BEA) reported US Real GDP growth of 3.0% (annualized) in the second quarter (Q2) after contracting at an annualized rate of -0.5% in Q1. (Real GDP stands for Gross Domestic Product, the value of all final goods and services produced in the US, adjusted for inflation.) After several years of consistent growth, economic activity has been erratic this year amid heightened uncertainty due to tariff and trade war rhetoric. Figure 4 compares the primary drivers of Q1 and Q2 Real GDP growth.

Figure 4: US Real GDP Growth Contributors: Q2 vs. Q1



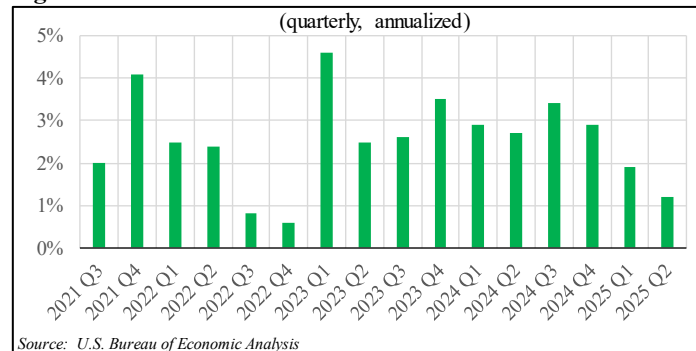
Tariff and trade uncertainty caused growth to whipsaw in the first half of 2025. The economy contracted in Q1 due to a huge increase in the trade deficit as businesses built inventories by accelerating imports in anticipation of tariff-related price increases. The Q2 rebound was a reversal of this activity as the trade deficit and inventories shrank. Key Real GDP growth drivers include:

- **Personal Consumption:** 68% of the US economy is powered by consumer spending, which continues to contribute positively to growth, albeit at a lower rate relative to recent years.
- **Government Expenditures:** 17% of GDP is driven by direct consumption of goods and services by federal, state and local governments; the impact on growth has been muted in 2025.
- **Private Investment:** 18% of the economic output comes from business spending and investment activity, including construction, equipment, manufacturing and inventories; in the graph above, we separate out the capital spending component (which has been positive contributor to growth) from the inventory component to illustrate the huge shift from Q1 (inventory build – front running tariffs) to Q2 (inventory drawdown).
- **Net Exports:** An unusually large trade deficit (US exports minus imports) negatively impacted Real GDP growth in Q1 as imports surged in anticipation of tariff-related price increases; the trade deficit shrank in Q2, positively impacting growth. (Note: The Q2 decrease in the trade deficit was entirely due to the large decline in imports, as US exports also declined.)

Because of the trade/tariff disruptions, it is difficult to ascertain the health of the US economy. At a minimum, we must recognize the “noise” in the Q1 and Q2 data and not extrapolate positive or negative inferences into the future. When we combine the data from the two quarters to smooth the trade-related volatility, we find that Real GDP grew at an annualized rate of +1.2% for the first half of 2025, a sharp decrease from the 2.8% growth in 2024.

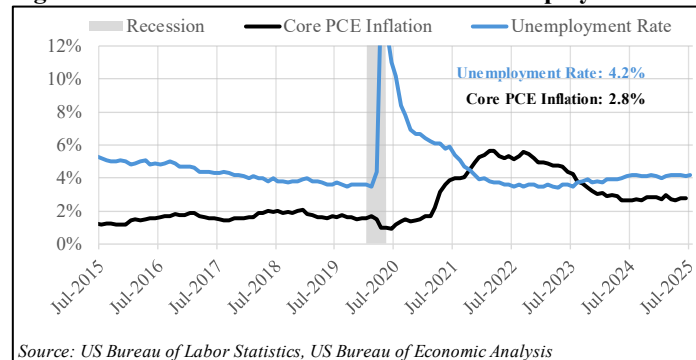
To better assess the “organic” growth of the economy, economists and investors are increasingly focused on a different metric, the Real Final Sales to Private Domestic Purchasers data (Figure 5), which is based on the same Real GDP data but excludes the volatile net export and inventory categories. While positive, US economic growth is clearly slowing. Whether this trend continues or reverses (as it did in 2022-2023) remains to be seen.

Figure 5: Real Final Sales to Private Domestic Purchasers



Amid this confusion, the Fed is in wait-and-see mode regarding interest rates. By law, the Fed’s “dual mandate” is to maintain price stability (manage inflation) *and* promote full employment. Figure 6 plots the primary measures for each. Inflation has declined significantly (as measured by Core Personal Consumption Expenditures, the Fed’s preferred inflation metric) but remains above the 2% target. Meanwhile, the Unemployment Rate is still historically low, but this morning’s weak jobs report spooked investors. Markets now expect two rate cuts this year (0.25% each).

Figure 6: Fed’s Dual Mandate: Inflation & Employment



Bottom Line

Global stocks have rebounded dramatically from the lows of early April. The rally continued in July, fueled by solid corporate earnings and declining uncertainty around global trade. Whether the trend continues is impossible to predict; volatility is likely to continue. Diversification remains critical as uncertainties remain:

- **Tariffs/Trade:** Multiple deals have been announced, but few details are known; a 15% baseline tariff on imports is lower than feared but still the highest in nearly 100 years. Obstacles remain, including negotiations with China, Canada, Mexico and India. We are only a tweet away from another seismic shift.
- **US fiscal policy:** The “One Big Beautiful Bill Act” passage will impact growth, debt/deficits, inflation and interest rates.
- **Interest rates:** The Fed must balance inflation risks (tariffs) with downside risks to the job market as the economy slows.
- **Geopolitics:** Ukraine and Middle East peace remains elusive.



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