Post Oak Private Wealth Advisors

ADVISORY, CONSULTING & INVESTMENT MANAGEMENT

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Monthly Market Commentary

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As the summer of 2025 began, investors seemed to have tuned out Washington D.C.'s reruns of political theater to enjoy the tasty waves of rising technology stocks. The return of the "Magnificent Seven" to lead the major stock market indices to new all-time highs captivated investors throughout July—although the group was a few riders short as Apple and Tesla lagged the others. Surging revenues for Alphabet, Meta Platforms and Microsoft showed the market that the demand for AI was real. Meanwhile, NVIDIA became the first publicly traded firm to reach $4 trillion in market capitalization as the AI chip developer overcame concerns about export restrictions that have snarled US-China trade negotiations.

Technology stocks were by far the biggest drivers to the stock market's return in July, contributing 1.7% to the S&P 500's 2.2% return for the month. The tech-heavy Nasdaq Composite rose nearly 4% and both indices are up around 9% for the year to date.

Politicians did their best to make waves of their own last month. July 4th brought fanfare with the passage of President Trump's signature "One Big, Beautiful Bill", with lots of provisions for investors and businesses to like. Perhaps most notably, the lower tax rates enacted in Trump's first terms are now permanent, which removes a lot of uncertainty around planning for companies and taxpayers. The legislation is generally good for the economy and good for markets, although spending cuts will impact many Americans and the potential increase to the federal government's budget deficit could raise interest rates and stifle economic growth. Markets mostly shrugged following the bill's passage with their focus fixed on the upcoming earnings season.

Eventually, reality came back to bite as the month ended. The Federal Reserve kept markets in suspense at their July 30 meeting, holding the federal funds rate steady as it waits to gauge the inflationary impact of tariffs, but two dissenting FOMC members who voted to cut rates added intrigue to the Fed's future plans. The specter of tariffs also returned as President Trump slapped higher tariffs on a host of trading partners, including Canada, Taiwan and several Southeast Asian countries. As the good vibes dissipated and investor worries mounted, U.S. stock markets fell back from their all-time highs.

Are the markets tired of tariffs?

Earlier in the month, it seemed investors had become immune to any developments on tariffs, whether positive or negative. Despite extending the deadline for the "Liberation Day" pause in early July, Trump continued to issue tariff threats, singling out not only specific trade partners such as Japan, South Korea, Brazil and the European Union but also specific industries and commodities such as autos and copper. The stock market appeared to take all of these announcements in stride, notching new all-time highs on just about a daily basis.

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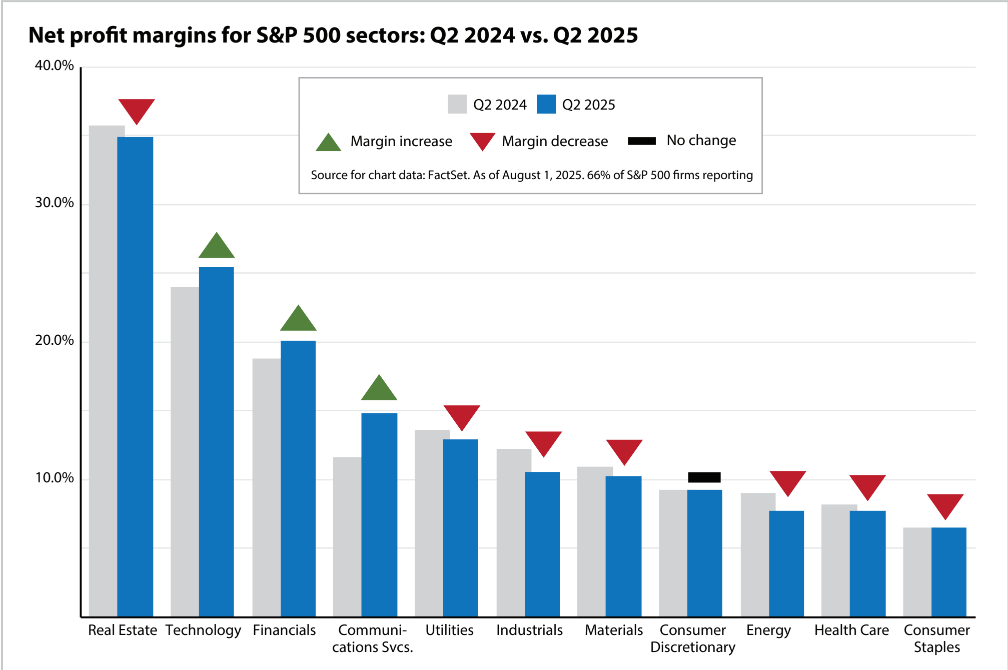
News of trade deals with Japan and the E.U. had nearly the same effect; while Trump theoretically "won" as both agreements included higher tariff rates (although not as high as threatened), stocks pressed on into record territory. Perhaps investors were encouraged by signals that the tariffs that have been imposed aren't really impacting the economy, at least not yet. For example, the June inflation report showed consumer prices rose from one month and one year ago, but both increases were lower than what economists were expecting. Much of the headline increases in inflation were due to higher food and energy prices, which would generally be immune to tariff impacts, but prices for toys, audio/video equipment and home furnishings also rose at rates not seen in several years.

Second-quarter earnings reports also gave investors reasons to feel more sanguine about tariffs. S&P 500 firms are topping analyst estimates at a historically average rate, and although the overall earnings growth rate is lower than previous quarters it's still in the double-digits at 10.3% (with 66% of firms reporting as of August 1, per FactSet). Margins also continued to look good, which may become important as tariffs start to add to companies' operating costs. But at a sector level, margin growth increased from one year ago for just three S&P 500 sectors—technology, communications and financials. (See the chart below.) As more earnings reports roll in, it's important to remember that a lot of front-loading happened during Q2 as companies increased purchases and built inventories in advance of higher potential tariffs.



Firms seem to be absorbing the tariff impact for now, but it's uncertain how long that will last. It's possible that companies are looking to cut costs in other areas, such as employment, in order to preserve earnings growth. The July jobs report (released on August 1) showed just 73,000 new jobs added for the month. Even worse, the relatively good payroll numbers for May and June were revised downward significantly, with only 33,000 new jobs created in the two months combined. Additionally, more than half of private-sector employers cut jobs in June according to Labor Department data, something that's happened only three times since the early days of the COVID

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pandemic. There have also been reports of fewer entry-level jobs for recent college graduates as AI takes over many of these routine tasks.

The Fed comes under fire

Given the different dynamics of good earnings, moderate inflation and softer employment, it's not surprising to hear many investors wondering where the U.S. economy goes from here. We are all, like the Federal Reserve, in wait-and-see mode. The Fed's decision to hold rates steady in July was largely expected, but recent FOMC meeting notes and public pronouncements show central bankers appear to be at odds over what course to take in the coming months. Some FOMC committee members are maintaining a hawkish stance against rate cuts, citing resilience in the overall economy. Others appear more eager to get in front of a potential slowdown by lowering rates now.

Then there's the drama happening outside of the Federal Reserve's walls as President Trump pressures Fed Chair Jerome Powell to lower interest rates and threatening to fire him if he doesn't. Of course the current president wants lower interest rates; all other presidents who came before Trump wanted the same thing. It's doubtful that Trump will follow through on his threats to fire Powell, and even unlikely that the President has the legal authority to do so. Still, that doesn't prevent Trump from using the bully pulpit to try to force his will on the central bank and affect interest rates by floating possible replacements for the current Fed chair. Complaints about the cost of building renovations are nothing more bargaining tactics meant to weaken Powell's political standing.

What may get lost in this narrative is that monetary policy isn't determined by the one person chosen to lead the nation's central bank. Rate-setting decisions are done by committee with nine Fed officials (including the Chair) sharing equal voting rights. Dissenting votes like those cast by two committee members last month are not common but not unusual either. In a way, it's good to have differing opinions in such key roles that determine the direction of the U.S. economy and financial markets.

For investors, it's better that Powell finishes his full term and his replacement chosen by the President and approved by Congress, just like every other Fed Chair since the Federal Reserve's founding. "Business as usual" is a good way to preserve the Fed's independence, which is critical to the central bank's role in the U.S. financial system and allows market participants to have confidence in our financial markets.

The market's dog days are at hand

The mega-cap tech stocks have a big influence on overall market performance because their size tilts index weightings to their favor. Beyond tech, performance among other S&P 500 sectors for the month was mixed. While other growth-oriented sectors also outperformed the market (e.g., consumer discretionary, communications), some of the more traditional value and defensive sectors also did well, including utilities, industrials and energy. But health care and consumer staples stocks had a rocky month, while financials and materials were flat. (See the monthly sector performance chart on the following page.

As the summer rolls on, we enter what has historically been the most difficult period for stocks, between August and October. While volatility has been subdued recently, the conditions are nearly ideal for turbulence to surge again with pervasive uncertainty about fiscal and monetary policies

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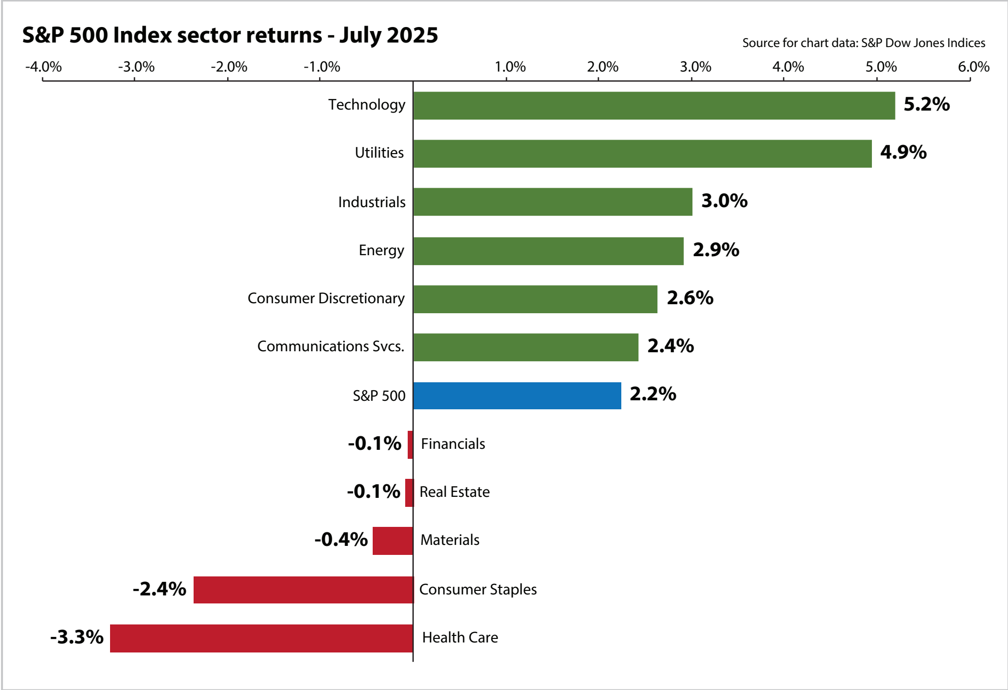

and weakness filtering into the economy. Even during volatile markets, there will be opportunities for well-run companies to outperform and deliver returns. But caution and vigilance will also be necessary to stay on course for investment growth over the longer term.

As always, we are here to guide you through the coming months with prudent strategies to seek return and manage risk, no matter where the markets go from here. You may contact us any time to discuss your portfolio or conditions in the financial markets. We are here to help you realize your financial goals over the long term.