

▲ Key Observations:

- ▲ News of a trade agreement between the U.S. and Japan sparked a rally in international developed equities, with Japan's Tokyo Stock Exchange making new highs and leading the MSCI EAFE to outpace the S&P 500 even as sector rotation came to fruition and breadth improved domestically.
- ▲ Fixed income indices made marginal gains even as rates ticked higher after movement on the trade front and positive labor data in the U.S. improved the outlook for domestic growth, boosting below investment grade corporates in the process.
- ▲ Positive surprises in both initial jobless claims and S&P Composite PMIs were overshadowed by catchier macro stories around trade but both further support the narrative around resiliency in the U.S. economy that markets have been pricing in since the start of July.

▲ What We're Watching This Week:

- ▲ The Job Openings and Labor Turnover Survey (JOLTS) data for June is due out on Tuesday, with forecasted job openings at 7425k, lower than the prior month reading. The Quits rate is an area to monitor as an action-based gauge of how workers are viewing their ability to 'trade up' in the current job market.
- ▲ Onlookers get their first look at second quarter U.S. GDP on Wednesday with consensus estimates at 2.4% up from last quarter at -0.5%, and the FOMC concludes their meeting with markets expecting the committee to hold rates.
- ▲ U.S. Nonfarm Payrolls come out on Friday, with the July number anticipated to show 110K jobs added in July, a slowdown from the June data upside surprise of 147K jobs added. Another upside surprise here could reaffirm resilience in the labor market.

	Price/Yield			Total Return (%)			
	7/25/2025	1 Week Ago	1 Month Ago	Year to Date	1 Year	3 Years	5 Years
S&P 500	6,388.64	1.47	4.95	9.42	19.92	19.47	16.46
NASDAQ 100	23,272.25	0.90	4.68	11.20	24.53	25.44	18.23
S&P Mid Cap 400	3,218.31	1.49	5.48	3.98	8.01	12.13	13.44
S&P Small Cap 600	1,377.40	0.92	5.05	-1.27	-0.21	6.99	11.87
MSCI World ex US	385.08	1.47	3.49	20.18	19.65	14.28	9.42
MSCI EM	1,257.78	0.70	3.38	18.85	19.74	11.07	6.01
Bloomberg U.S. Aggregate	4.64	0.37	0.01	3.60	4.49	1.91	-1.04
Bloomberg Corporate	5.07	0.56	0.44	4.06	5.63	3.59	-0.48
Bloomberg U.S. High Yield	7.03	0.35	0.98	5.07	9.12	8.63	5.28
Bloomberg EM USD Aggregate	6.27	0.56	0.94	5.48	8.88	7.71	1.31
Bloomberg Global Aggregate	3.58	0.39	-0.17	6.45	6.19	2.21	-1.75
Bloomberg Municipal Bond	4.02	0.40	-0.48	-0.99	-0.42	1.60	0.11
	Price/Yield						
	7/25/2025	1 Week Ago	1 Month Ago	12/31/2024	1 Year Ago	3 Years Ago	5 Years Ago
SOFR (yield)	4.36	4.30	4.36	4.49	5.35	1.53	0.10
30 Year Mortgage (average rate)	6.80	6.78	6.87	7.28	7.20	5.71	3.14
2 Year Treasury (yield)	3.92	3.87	3.78	4.24	4.43	3.02	0.15
10 Year Treasury (yield)	4.39	4.42	4.29	4.57	4.24	2.80	0.59
30 Year Treasury (yield)	4.93	4.99	4.83	4.78	4.48	3.02	1.23
WTI Crude (closing price)	65.16	67.34	64.92	71.72	78.28	96.70	41.29
Gold (NYM \$/oz)	3,335.60	3,358.30	3,327.10	2,641.00	2,353.50	1,719.10	1,897.50

Source: Bloomberg Index Services Limited (3- and 5-Year Annualized)

▲ **Stocks: Japanese Equities Trade To New Highs As Tariffs Improve Sentiment For Trade Negotiations Across The Globe, While Domestic Equities Broaden As Earnings Face-Off Against Valuations.**

▲ **Japanese Equities Make New Highs On Trade Agreement With The USA.**

On Wednesday markets got word that the U.S. and Japan came to terms on a trade agreement that leave U.S. import levies at 15% with a commitment to \$550B in new investments stateside. That landmark deal outpaced market expectations based on the price reaction, leading the MSCI Japan to a 3.6% gain on Wednesday alone, the fourth most successful trading day in the last 12-months and marking a 4.6% advance on the week. Those gains amount to a fresh all-time high for Japan's Tokyo Stock Exchange index (TOPIX), above the prior peak in June of 2024. Part of the positive surprise stems from markets anchoring to the 20% tariff placed on Vietnam, as consensus appeared to be mapping that deal to other countries with a trade surplus to the United States. Based on comments from Treasury Secretary Scott Bessent, Japan was able to get their tariff level lower by their "innovative financing mechanism" to invest new dollars in the United States.

▲ **International Stocks Strengthen As Trade Sentiment Spills Over.**

Signs of better sentiment abroad were present even before lower Japanese tariffs came to fruition midway through last week, as foreign developed equities started on the right foot with the dollar retracing lower. In the week prior the dollar made a run at its 50-day moving average, before being turned away at \$98.76, creating fresh resistance for the greenback and breathing new life into foreign equities last week. Undoubtedly the Japan trade deal improved market expectations of a favorable deal with Europe and China as the MSCI Eurozone index and MSCI China index both ended up higher by 2.0% and 2.8% in dollar terms on the week. Developed equities outpaced emerging markets with the MSCI EAFE gaining 1.9% in part due to its largest country weight being Japan at 21.5%, while the MSCI Emerging Markets Equity index returned roughly half that at 0.7%.

▲ **Domestic Equities Broaden, As Earnings Confront**

Valuations. U.S. stocks made a more measured advance as the S&P 500 gained 1.5%, and underneath the hood value centric sectors like real estate and healthcare led while technology was among the worst performing sectors on the week. That preference for value has been the product of cheap valuations colliding with positive earnings surprises, while areas like technology already hold rich valuations that are already priced for above consensus earnings. In an environment where valuations already have optimism priced in, it's unsurprising the S&P 500 equal weight with a forward price-to-earnings (PE) ratio of 16.5x had an easier time exceeding expectations relative to the NASDAQ 100 with a forward PE ratio of 26.2x. Alphabet was able to buck the trend in the NASDAQ 100, advancing by 4.4% last week after beating on sales and earnings estimates, while citing an uptick in artificial intelligence (AI) demand that requires a ramp up in CAPEX. The other Magnificent 7 company reporting last week was Tesla, and the results were less inspiring as the company's steep valuation ran into the rocks with its third consecutive earnings miss that was delivered alongside disappointing guidance from CEO Elon Musk. Next week tech giants Apple and Microsoft report in, giving investors more insight around developments into artificial intelligence.

▲ **Bonds: Trade Deal And Economic Data Keeping A Floor Under Rates With Capped Credit Spreads; ECB Ends Easing Cycle and Outlook For Growth In Japan Jolts Yields.**

▲ **Rates And The Dollar Downshift Before Trade Deal And Claims Data Sparked Reversion.**

Early in the week bonds rallied and the dollar drifted lower in consolidation before the trade deal with Japan and initial jobless claims came in below consensus estimate and the prior month reading at 217k. The surprise in jobless claims is a continuation of the stable labor trends we've seen in recent months, prompting rates to shift marginally higher, with the 10-year ending the week at 4.42%. Next week, we get a swath of labor data including JOLTS, nonfarm payrolls, and Challenger Job Cuts. Core bonds managed to eke out a 0.4% gain on the week even with the tick up in rates, on par with lower quality credit, as the Bloomberg High Yield Corporate index returned 0.4%. Below investment grade issuance for July

is on track to outpace prior July sales for each of the last three years, but rampant demand is driving spreads tighter with valuations narrowing 9bps last week as earnings and trade developments boost sentiment.

▲ **ECB Ends Easing Cycle, Holding Rates As Economic Growth Holds Up.**

After cutting the policy rate in each meeting since last September, the European Central Bank elected to pause their easing cycle at the prevailing 2% deposit rate, marking a 175bps decline over the last year. The lack of movement at the July meeting was broadly anticipated by market estimates as economic growth projections in the eurozone appear stable and the likelihood of a dire trade scenario has diminished. All in, consensus projections around economic growth are far from inspiring with a negative GDP print expected for the second quarter that flattens out over the balance of 2025 before re-accelerating to trend growth in the back half of 2026. Taking the flat near-term growth expectations into account, another rate cut could be in the cards in the coming quarters but based on futures market pricing odds of movement prior to December are well below 50%.

▲ **Trade Resolution Lifts Japanese Bond Yields And Emerging Bonds Capitalize On Currency Shifts.**

Rates on Japanese government bonds shifted higher by 8bps or 5% with 10-year yields landing at 1.60% as better-than-feared U.S. tariffs reignited growth expectations for the country's export-focused economy. After hedging back to the dollar, that yield comes across to U.S. investors at a more enticing 5.8% on the 10-year tenor but a staggering 240% debt to GDP ratio with stickier inflation adds valuable context to the risks incorporated in that yield. Emerging market bonds were one of the top gainers last week in fixed income, outpacing US high yield and investment grade credit, with a total return of 0.6% for the Bloomberg EM USD Aggregate Bond index as emerging currencies rallied on trade optimism. The currency advance coincides with the latest trade agreement and strikes us as a belief that favorable deals could be on the way for major emerging markets like India, China, and Mexico.

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