



ARGUS ECONOMIC COMMENTARY

July 14, 2025

The Second-Quarter: Getting Used to Uncertainty

The second quarter of 2025 represented a remarkable turnaround from a down first quarter. The second quarter did not start well, as adverse reaction to President Trump's "Liberation Day" tariffs sent the Nasdaq Composite into bear-market territory and the S&P 500 into a deep correction. Yet both selloffs proved to be short-lived, as the White House immediately began pausing and/or softening proposed tariffs while also backing off attacks on Fed independence.

Investors fearful that the proposed tariffs could pitch the U.S. economy into recession had a new concern as the quarter unfolded. "The One Big Beautiful Bill Act" signed by the president on July 4 likely will trigger severe escalation in the U.S. deficit over the coming decade, as spending reductions in safety-net programs are insufficient to pay for new and renewed tax cuts, higher defense spending, and higher immigration-enforcement spending.

Despite the familiar threat of tariffs and new concerns about U.S. deficits, stocks rallied in 2Q25. Sharp 1Q25 earnings growth underscored the strengths of corporate America. Jobs growth and unemployment surprised to the upside, signaling that fully employed consumers could withstand current challenges. Multiple companies signaled that they could live with tariffs at approximately the current level of 10%-15% across all imports. As well, second-quarter GDP growth appears to be on track to rebound from 1Q25's negative number.

A review of markets, interest rates, and the economy in the second quarter of 2025 underscores the strengths and weaknesses that the U.S. economy will bring to bear as the world adjusts to trade wars and eventually moves beyond them.

Second-Quarter Review

Following a more-than 23% gain in 2024, the S&P 500 declined 4.8% in the first quarter of 2025 on fears of pending

tariffs and disruptions from DOGE cuts. Stocks bounced back sharply in 2Q25, with the S&P 500 rising 10.6% -- the best second-quarter performance since 2020 and the best performance in any quarter since 4Q23.

Stocks in the second quarter recovered from a near bear market in mid-April, which was caused by concerns that steep "Liberation Day" tariffs would slam economic growth. During a wild April, the blue-chip index fell 12% by 4/8/25 and, at one point, was down nearly 20% from the early February high. Based on bargain buying in the final week of April, the index finished with a 0.8% decline for the month. The S&P 500 rose by 6.2% in May, as individual-nation trade deals, including with China, lessened the feared impact of tariffs.

The broad market then rose 5.1% during an eventful June, which included The One Big Beautiful Bill Act going before Congress, a mid-month Fed meeting, the Israeli-Iran war, and U.S. bombing of Iranian nuclear sites. By month's end, investors, along with CEOs and consumers, had concluded that tariffs were survivable and that deficits in the "big bill" would be at least partly offset by tax breaks.

The Nasdaq Composite, which more than doubled the S&P 500's decline in 1Q25, nearly doubled the index gain in 2Q25 and rose 17.8% for the quarter. As of mid-year, capital appreciation on the S&P 500 and Nasdaq Composite was identical at 5.5%. The blue-chip DJIA advanced 3.6% in the first half.

In 2024, solid economic growth and falling inflation gave the Fed room to cut interest rates by a total of 100 basis points across its fall 2024 FOMC meetings. Fears that tariffs and higher deficits could rekindle inflation have kept the Fed on the sidelines so far in 2025. The Fed made no change in the fed funds target rate at its June FOMC meeting, in keeping with earlier 2025 meetings.

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ECONOMIC & MARKET COMMENTARY (CONT.)

The Trump administration earlier this year chided the Fed to cut rates, but then backed off on concerns that the attack on Fed independence was hurting the bond market and the dollar. But now, the Trump White House (emboldened by benign May CPI data and dovish commentary from two Fed officials) has renewed its demand that the Fed cut rates immediately. That said, language from the Fed following the June FOMC meeting signaled no such intent.

The central bank reduced its GDP growth forecast for 2025 to 1.4% from 1.7%, after having lowered the GDP outlook from 2.1% following the March FOMC meeting. The Fed raised its unemployment rate forecast to 4.5% exiting 2025, from an earlier 4.4% (and an initial 4.3%). Most meaningfully, Fed members forecast core PCE inflation of 3.1% exiting 2025, raised from 2.8% in March and up from 2.5% at the beginning of 2025. Fed Chair Powell commented that “someone has to pay for tariffs.”

Perhaps because many planned tariffs are on pause, inflation has been more benign in recent months. The Fed’s preferred inflation gauge, the core PCE Price Index, edged up 0.1% in May after rising 0.2% in April. The annual change of 2.7%, however, has moved little from 2.7% in July 2024.

Bond investors are concerned that the “big bill” could cause deficits to spike, and that fear prompted long-maturity interest rates to move higher across April and May. Long rates came down in June, however, on safe-haven investing amid the Israeli-Iran war and U.S. response. The 10-year Treasury yield was 4.29% as of the end of June 2025, compared with 4.41% as of the end of May 2025; the cycle peak was 4.9% in October 2023. The two-year Treasury yield was 3.73% as of the end of June 2025, vs. 3.83% as of the end of May; the peak level was 5.2% in October 2023.

The U.S. employment economy delivered a strong finish to the second quarter of 2025. U.S. nonfarm payrolls rose a better-than-consensus 147,000 in June, driven by surprising strength from the public sector (state and local government). Revisions to prior months lifted three-month average jobs growth to 150,000, below the full-year 2024 average of 166,000. The unemployment rate was 4.1% for June compared with 4.2% for May. The low-4% level has prevailed for most of 2025 to date, with the U.S. employment economy in a “low-fire, low-hire” phase. Over 250,000 federal employees let go by DOGE are still on severance and thus not yet listed as unemployed. The quality of jobs is perceived as weakening, with little growth in higher-wage areas including manufacturing and construction in May and most growth coming from lower-wage areas such as healthcare and services. Average hourly earnings grew 3.7% annually in June, down from 3.9% year over year in May.

Industrial production slipped 0.2% in May, following no change in April and a 0.3% decline in March. Capacity

utilization of 77.4% as of May 2025 was 2.2 percentage points below the long-run average.

The ISM manufacturing PMI ticked down to 48.5 for May from 48.7 for April, after hitting a low of 47.9 for March. Purchasing managers anticipate that tariffs will incentivize companies to shift from overseas manufacturing to onshore production, but timing of such shifts is uncertain. The ISM services PMI contracted in May for the first time since June 2024, but at 49.9 remained just a fraction below the 50 level demarcating contraction from expansion.

The NFIB’s small business optimism index, which reached a six-year high of 105.1 in December 2024, has been declining amid on-again, off-again tariff policy. The NFIB index bounced to 98.8 in May, back above its 51-year average of 98.0 after two straight months below that level.

Overall U.S. retail sales for May fell 0.9% month over month, after declining 0.1% for April. Retail sales were up 3.3% annually from May 2024. Although consumers remain concerned that tariffs could cause higher inflation, the University of Michigan’s consumer sentiment index steadied month over month in May at 52.2 and then surged to 60.7 in June, for its first increase in six months.

Calendar first-quarter 2025 earnings from continuing operations rose approximately 14% from 1Q24, representing the strongest annual growth since 4Q22 and marking a seventh consecutive quarter of annual EPS growth. Nearly 80% of companies exceeded low-ball consensus EPS expectations for 1Q25, and the magnitude of the beat was at the upper end of the 5%-9% historical range.

First-quarter 2025 GDP contracted 0.5%, following growth 2.4% in 4Q24 and 2.8% growth for all of 2024. 1Q25 GDP was shaped by a surge in imports (subtractive to GDP) partly offset by inventory stockpiling in advance of anticipated steep tariffs. Personal consumption expenditures (PCE) for 1Q25 rose 0.5%, following PCE growth of 4.0% for 4Q24 that was the strongest of any quarter of 2024. Nonresidential fixed investment rose 10.3% in 1Q25 as companies sought to invest in their infrastructure before stiffer tariffs were put in place.

After two quarters (4Q24 and 1Q25) of rotation away from growth and toward defensive and rate-sensitive, the market swung back to traditional growth leadership in the second quarter. Information Technology was the sector leader in 2Q25, rising over 20%. Other leading sectors in 2Q25 were Communication Services and Consumer Discretionary, while 2Q laggards included 1Q25 winners such as Energy, Healthcare, and Consumer Staples. Eight of 11 sectors were up year-to-date as of mid-year 2025. Given nontraditional sector strength in 1Q25 and the return to growth leadership in 2Q25, most sectors were up 2%-9% at mid-year and only one sector (Communication Services) was up in low-double-digit percentages.

ECONOMIC & MARKET COMMENTARY (CONT.)

Conclusion

Across the first half-year of the second Trump administration, the chief concern among investors has been that tariffs would rekindle inflation. Currently, most tariffs are slated to kick in between July 9 and August 1. To get inflation, you have to have spending. In subsequent months, we will learn whether consumers will maintain or curtail their spending as they confront final tariffs.

If consumers sharply reduce their spending due to tariff-driven price hikes, their contribution to GDP (70%

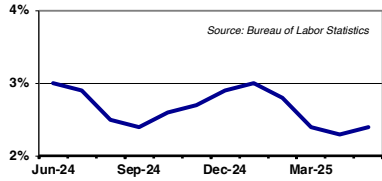
of total) could be diminished, leading to below-trend economic growth. Their behavior in the second half of 2025 will go a long way to telling us how well (or how poorly) the U.S. economy is adjusting to a final tariff regime.

Against this potential negative are positives in the jobs economy, corporate earnings, and economic growth. Our base case remains that the U.S. can avoid recession in 2025, but we acknowledge that the situation is highly dynamic within an ever-shifting risk environment.

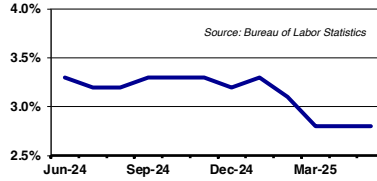
Jim Kelleher, CFA,
Director of Research

ECONOMIC TRADING CALENDAR

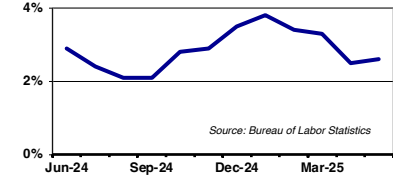
Release: **Consumer Price Index**
 Date: 7/15/2025
 Month: June
 Previous Report: 2.4%
 Argus Estimate: 2.6%
 Street Estimate: 2.7%



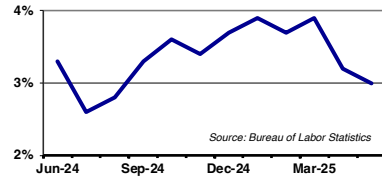
Release: **CPI ex-Food & Energy**
 Date: 7/15/2025
 Month: June
 Previous Report: 2.8%
 Argus Estimate: 3.0%
 Street Estimate: 3.0%



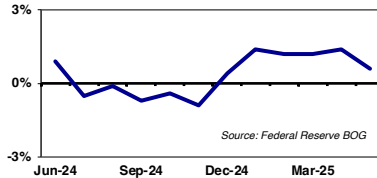
Release: **PPI Final Demand**
 Date: 7/16/2025
 Month: June
 Previous Report: 2.6%
 Argus Estimate: 2.4%
 Street Estimate: NA



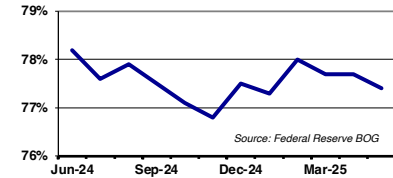
Release: **PPI ex-Food & Energy**
 Date: 7/16/2025
 Month: June
 Previous Report: 3.0%
 Argus Estimate: 3.3%
 Street Estimate: NA



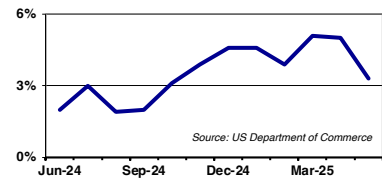
Release: **Industrial Production**
 Date: 7/16/2025
 Month: June
 Previous Report: 0.6%
 Argus Estimate: 0.3%
 Street Estimate: NA



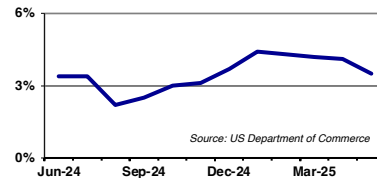
Release: **Capacity Utilization**
 Date: 7/16/2025
 Month: June
 Previous Report: 77.4%
 Argus Estimate: 77.4%
 Street Estimate: 77.3%



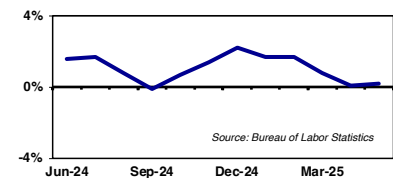
Release: **Retail Sales**
 Date: 7/17/2025
 Month: June
 Previous Report: 3.3%
 Argus Estimate: 3.5%
 Street Estimate: NA



Release: **Retail Sales ex-autos**
 Date: 7/17/2025
 Month: June
 Previous Report: 3.5%
 Argus Estimate: 3.2%
 Street Estimate: NA



Release: **Import Price Index**
 Date: 7/17/2025
 Month: June
 Previous Report: 0.2%
 Argus Estimate: 0.4%
 Street Estimate: NA



Previous Week's Releases and Next Week's Releases on next page.

ECONOMIC TRADING CALENDAR (CONT.)

Release: **Business Inventories**

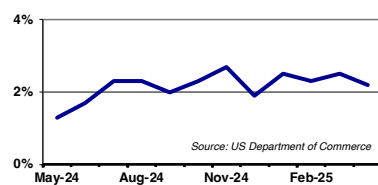
Date: 7/17/2025

Month: May

Previous Report: 2.2%

Argus Estimate: 1.2%

Street Estimate: NA



Release: **Housing Starts**

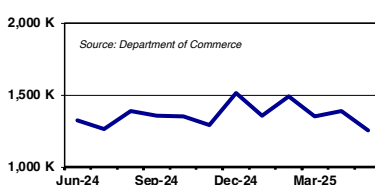
Date: 7/18/2025

Month: June

Previous Report: 1,256 K

Argus Estimate: 1,350 K

Street Estimate: 1,300 K



Release: **U. of Michigan Sentiment**

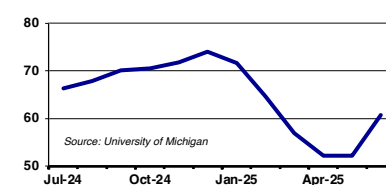
Date: 7/18/2025

Month: July

Previous Report: 60.7

Argus Estimate: 60.0

Street Estimate: 61.3



Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
7-Jul	Total Vehicle Sales	June	15.60 Mln.	15.25 Mln.	NA	15.34 Mln.
9-Jul	Wholesale Inventories	May	2.3%	1.4%	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
21-Jul	Leading Index	June	-0.1%	NA	NA	NA
23-Jul	Existing Home Sales	June	4.03 Mln.	NA	NA	NA
24-Jul	New Home Sales	June	623K	NA	NA	NA
25-Jul	Durable Goods Orders	June	17.4%	NA	NA	NA

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