ARGUS®

ARGUS ECONOMIC COMMENTARY

July 21, 2025

What Will the Second Half Bring?

Stocks hit their 2025 year-to-date lows in the aftermath of President Trump's "Liberation Day" tariffs announced on 4/2/25. But that seems like a very long time ago. The stock market enjoyed a strong second half of April and then roared higher in May to close the fifth month approximately in line with year-opening levels. In June, a broad range of stock indexes pushed to new all-time highs.

Coming into the third quarter, investors braced for the July 9 implementation of tariffs. While that date was pushed out to August 1, the level of tariffs with the biggest U.S. trading partners caught investors by surprise. Mexico and the EU face 30% tariffs on their goods, and Canada is looking at 35%. The president's trade team has proposed high headline tariffs for nations including China and Vietnam, only to negotiate lower rates with those countries. Investors thus believe tariffs with our largest trading partners could be reduced prior to implementation. Still, the certainty and optimism heading into 3Q25 has been dented.

Outlook for the Remainder of 2025

In 2023, the stock market rallied over 20% on signs that inflation was falling, the Fed would wrap its rate-hiking campaign, and the supply chain would normalize. In 2024, stocks again rallied more than 20% as economic growth strengthened, earnings growth accelerated, and jobs growth remained hearty.

The 2025 year began with uncertainty but also optimism that the new administration would be more business-friendly and would quickly move to lower taxes. The market response to President Trump's "Liberation Day" tariff announcements in April was severe, pushing the Nasdaq Composite into bear-market territory and unwinding broad market (S&P 500) gains going back to May 2024.

The stock market has rallied and investors have swung back to optimism on the growing sense that tariffs will be minimally impactful to economic growth; based on the perception that the balance of power in the Middle East has shifted away from Iran and its proxies; and on reviving investor interest in the generative AI economy. Month-over-month inflation readings have moderated, as sticky categories such as rent and travel services finally are coming down. In a hangover from 2024, however, the annual change in core inflation remains stalled in the "last mile" between 3% and 2%.

In 2025 to date, interest rates first moved higher on concerns that tariffs would rekindle inflation; fears the White House would attempt to fire the Fed chairman; and expected deficit impacts from the One Big Beautiful Bill Act. Rates have since come down across the yield spectrum as those fears have not come to fruition and on safe-haven investing.

For the past three years, investors have been attuned to monetary policy as the Fed sought to reduce inflation. The focus of investors in 2025 has been shifting to fiscal policy, given the administration's success in renewing consumer tax cuts first passed in 2017 and cuts in taxes on tips, social security, and other categories.

The major geopolitical event of 2023 -- the war between Israel and Hamas -- continued across 2024 and into 2025. The uneasy peace treaty reached in 2025 appears to be fraying as the humanitarian crisis in Gaza worsens. President Trump has learned that ending the war in Ukraine is not going to be easy. NATO members have pledged to increase defense spending following Mr. Trump's demand that Europe police its own back yard.

Economic activity in China, the world's second-largest economy, has warmed from post-COVID lows, but remains

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mixed. The government's ambitious fiscal-stimulus program to spur economic recovery has been muted by demographic factors. In our view, the global macro-environment remains neutral to moderately positive for U.S. stocks. Although some of the challenges facing U.S. stocks in 2025 reflect disruption from new policies coming out of Washington, we currently do not expect policy shifts to tip the economy into recession.

Measures of the commercial and industrial economy -- including manufacturing PMIs, durable goods orders, and industrial production -- have moderated but remain consistent with ongoing growth. Sentiment indicators such as small-business confidence first surged on Donald Trump's election, turned lower on tariff fears, and have since rebounded slightly as businesses and consumers "gets used to" tariffs. We also note that sentiment is an unreliable predictor of future activity and can shift rapidly.

Weariness with inflation and high financing rates weighed on consumer confidence in 2024 and continues to do so as the second half of 2025 begins. Soon-to-be-enacted tariffs and reciprocal levies from our trading partners risk pushing inflation higher, causing already strapped consumers to avoid big-ticket purchases.

We expect the U.S. economy to continue expanding in 2025, remaining on a narrow growth path that is in line with subdued population growth and higher productivity. Following 2.9% year-over-year GDP growth in 2023 and 2.8% GDP growth for 2024 (both revised), Argus is modeling 2025 GDP growth of 1.0%. That target recently was increased from 0.5%, although it had been as high as 2.0% earlier in 2025.

The Fed has slowed inflation growth, although getting to the Fed's 2% target has proven to be challenging. Based on the Fed's so-called "dot plot" from June 2025, we continue to expect two rate cuts in 2025. We also acknowledge that concerns about tariffs reversing inflation progress and leading to economic "stagflation" could keep the Fed on the sidelines for all of 2025. Argus expects short-term yields to move lower from current levels and long yields to widen their relative premium to short yields, while also moving down.

We recently reduced our forecast for 2025 S&P 500 earnings from continuing operations to $270 from $276, implying full-year EPS growth of 10%. At the sector level, key growth drivers are likely to include recovery in Healthcare earnings and improved performance from sectors (Energy, Materials, and Industrials) that dragged on 2024 earnings. For 2026, we trimmed our S&P 500 earnings estimate from $307 to $300, which assumes EPS growth of 11%. We look for a continuation of above-average growth in 2026 amid a slightly more-moderate overall outlook. Both our estimates could be subject to revision based on impacts from tariffs.

Our stock/bond barometer is signaling that stocks, following their year-to-date selloff and recovery, are trading approximately at equilibrium with bonds. For 2025, our base case outlook calls for GDP growth to slow to below 2%; corporate earnings to grow in low-double-digit percentages; employment growth to moderate but remain positive; and core inflation to approach but not reach the Fed's 2% target range.

Despite the stock market moving higher as of mid-year, investors are far from complacent, given timing of tariffs scheduled to kick in; immigration policy potentially impacting farm production and food prices; the impact on employment growth as fired federal workers run out of severance; and other challenges.

One takeaway from the year-to-date 2025 sector map is impressive breadth, with room for further appreciation by both traditional growth leaders and by recent rotation beneficiaries in rate-sensitive, defensive, and cyclical categories. 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 in the mid-single-digit percentage range at mid-year.

In the 45 trading years between 1980 and 2024, the S&P 500 has appreciated more than 5% as of mid-year -- as it did in 1H25 -- a total of 24 times. For those 24 years, the S&P 500 has averaged annual capital appreciation of 20.4%. With stocks reversing early-year weakness into second-quarter strength, we continue to expect the S&P 500 to advance 10%-15% from year-opening levels in 2025, or an additional 4%-9% in the second half of the year.

Conclusion

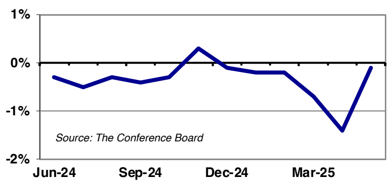
Bond investors remain concerned that the One Big Beautiful Bill Act could add substantially to the national deficit over the coming decade. Washington's tariff policies and rising deficit projections risk reducing the attractiveness of U.S. Treasury debt as the ultimate safe haven. Although we continue to model two quarter-point rate cuts in 2025, we also acknowledge the possibility that the Fed holds rates unchanged in 2025.

The stock market rallied across May and June, and the S&P 500 began July 2025 in the rare air of all-time highs. But few investors anticipate a smooth ride higher from here, given all the uncertainty across the economy, the interest rate environment, the earnings outlook, and the jobs economy. While July is usually a good stock month, the June-September period is typically a quiet time for stocks. Still, a sleepy summer for stocks may be upended as tariffs, tax policy, and geopolitics all disturb the calm.

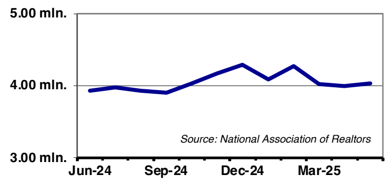
Jim Kelleher, CFA,
Director of Research

ECONOMIC TRADING CALENDAR

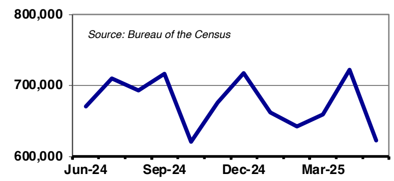
Release:	**Leading Index**
Date:	7/21/2025
Month:	June
Previous Report:	-0.1%
Argus Estimate:	-0.3%
Street Estimate:	-0.2%



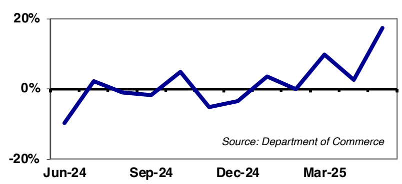
Release:	**Existing Home Sales**
Date:	7/23/2025
Month:	June
Previous Report:	4.03 mln.
Argus Estimate:	4.10 mln.
Street Estimate:	3.99 mln.



Release:	**New Home Sales**
Date:	7/24/2025
Month:	June
Previous Report:	623000
Argus Estimate:	660000
Street Estimate:	650000



Release:	**Durable Goods Orders**
Date:	7/25/2025
Month:	June
Previous Report:	17.4%
Argus Estimate:	2.0%
Street Estimate:	NA



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

ECONOMIC TRADING CALENDAR (CONT.)

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
15-Jul	Consumer Price Index	June	2.4%	2.6%	2.7%	**2.7%**
	CPI ex-Food & Energy	June	2.8%	3.0%	3.0%	**2.9%**
16-Jul	PPI Final Demand	June	2.6%	2.4%	NA	NA
	PPI ex-Food & Energy	June	3.0%	3.3%	NA	NA
	Industrial Production	June	0.6%	0.3%	NA	NA
	Capacity Utilization	June	77.4%	77.4%	77.3%	NA
17-Jul	Retail Sales	June	3.3%	3.5%	NA	NA
	Retail Sales ex-autos	June	3.5%	3.2%	NA	NA
	Import Price Index	June	0.2%	0.4%	NA	NA
	Business Inventories	May	2.2%	1.2%	NA	NA
18-Jul	Housing Starts	June	1,256K	1,350K	1,300K	NA
	U. Michigan Sentiment	July	60.7	60.0	61.3	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
29-Jul	Consumer Confidence	July	93.0	NA	NA	NA
30-Jul	GDP Annualized QoQ	2Q "1st est."	-0.5%	NA	NA	NA
	GDP Price Index	2Q "1st est."	3.8%	NA	NA	NA
31-Jul	PCE Deflator	June	2.3%	NA	NA	NA
	PCE Core Deflator	June	2.7%	NA	NA	NA
	Personal Income	June	4.5%	NA	NA	NA
	Personal Spending	June	4.5%	NA	NA	NA
1-Aug	Nonfarm Payrolls	July	147K	NA	NA	NA
	Unemployment Rate	July	4.1%	NA	NA	NA
	Average Weekly Hours	July	34.2	NA	NA	NA
	Average Hourly Earnings	July	3.7%	NA	NA	NA
	ISM Manufacturing	July	49.0	NA	NA	NA
	ISM New Orders	July	46.4	NA	NA	NA
	Construction Spending	June	-3.5%	NA	NA	NA

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