

Breaking news:

First: The July Employment report was released on Friday and missed expectations, reporting less than 100k of new jobs. The bigger shock was the downward revisions of over 250k jobs for May and June.

Second: Trump came out with several revisions to the tariff rates for countries who have not made new trade deals. Some were up and some were down, but that the can wasn't kicked in combination with the weak jobs report, caused a meaningful selloff to start the month.

Back to our regularly scheduled programming...

KEY TAKEAWAYS

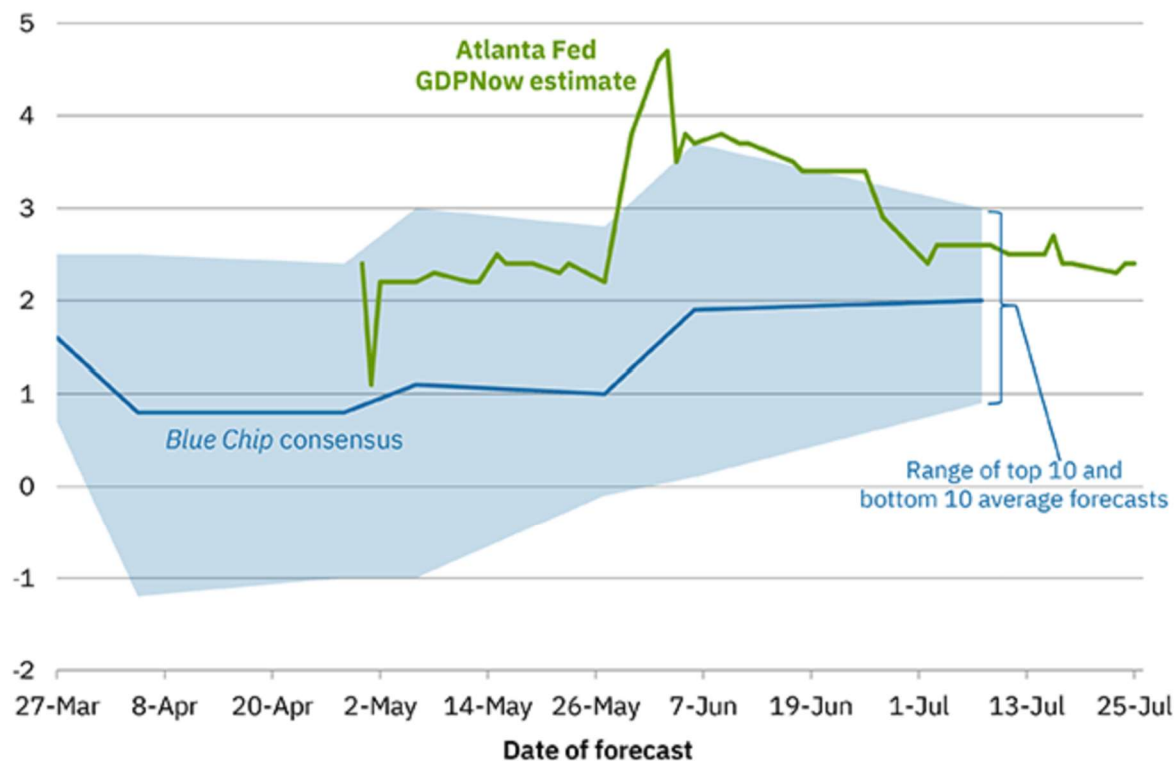
- The equity markets once again meandered higher for 3 weeks to all-time highs on the S&P 500 and then wobbled at the end with a big reversal on the last day of the month.
- The U.S. 10-year Treasury Yield rallied higher the first half of the month to near 4.5% before settling at the mid-point of the range, 4.36%.
- Crude oil rose steadily to \$70 as demand vs geopolitical noises was relatively tame this month.

The U.S. Economy

The first read of 2nd quarter GDP came in at +3.0%, beating expectations of +2.6%. Core PCE, the imbedded inflation measure, came in slightly higher than expected at 2.5% vs. 2.3%, though less than last quarter's 3.5%. With the 2nd quarter behind us it is time to turn to 3rd quarter's GDP estimates, GDPNow is at +2.3%, and the Blue-Chip consensus forecast is near +2.0%, as shown in the chart on the next page. With the tariff noise largely behind us, the economic reports remain good and the PCE deflator is returning closer to the Fed's sweet spot of "2%" inflation. The 1st half GDP came in with reasonable growth and inflation and employment seem to be stabilizing.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2025: Q2

Quarterly percent change (SAAR)



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

Source : <https://www.frbatlanta.org/cqer/research/gdpnow>

Stocks and Bonds

The U.S. 10-year Treasury yield traded in a similar range to last month, though moving from low to high in the range of 4.25% to 4.50%, before settling near the mid-point to finish the month. The perceived strength of the employment report and more chatter about rising yields in Japan seemed to be the catalyst for the move higher. As the month continued, inflation reports were reasonable, and the Japanese bond market settled down after their elections. The Fed met at the end of the month and made no changes to policy, though two Fed governors dissented and voted for a 25-basis point cut, the largest number of dissenters since 1993. The modest rise in yields was a head wind for High Quality fixed income, which as measured by the iShares US Aggregate Bond ETF declined -0.25% for the month. The U.S. 10-year Treasury bond yield ended the month at 4.36%, up from June's close of 4.23%.

The Dow Jones Industrial Average was basically flat +0.08%, the S&P 500 rose +2.17%, and the small cap iShares Russell 2000 ETF climbed +1.71%. The international markets traded mixed versus the U.S. markets. The MSCI EAFE iShares Core International Developed Markets ETF Index fell -2.29%, and the MSCI Emerging Markets iShares Core ETF Index increased +1.19%.

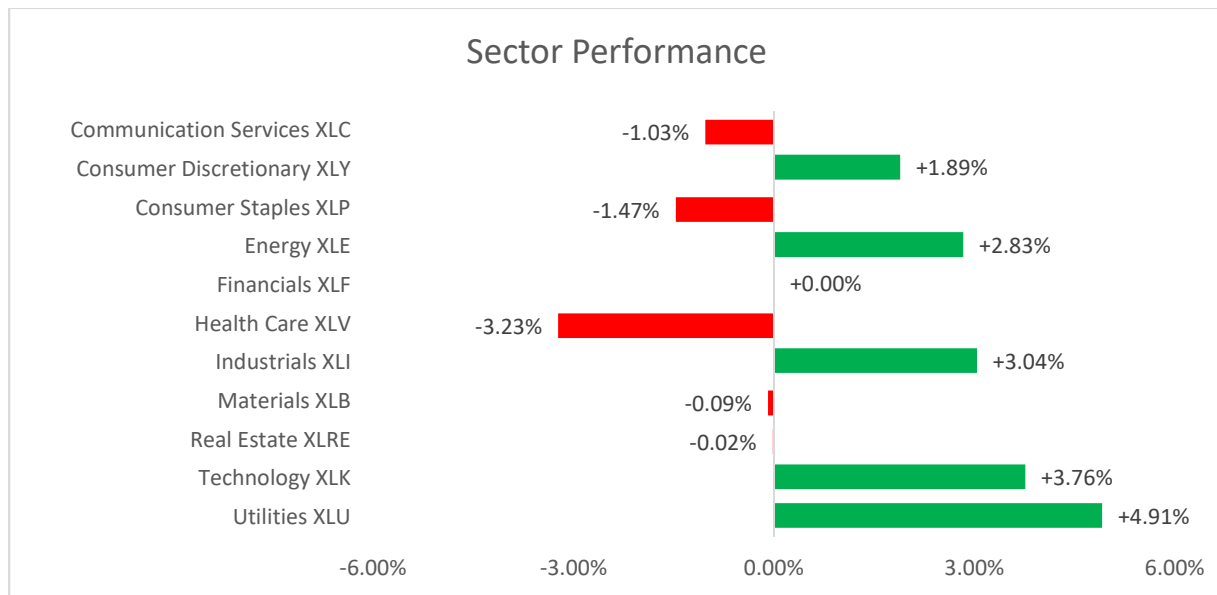
July's sector performance was mixed though leaning green.

The best performers were...

- Utilities: +4.91%
- Technology: +3.76%
- Industrials: +3.04%

The worst performers were...

- Health Care: -3.23%
- Consumer Staples: -1.47%
- Communication Services: -1.03%



Source: <https://www.morningstar.com>

Oil Report

Crude Oil was much quieter this month, though the conflicts with Russia/Ukraine and Israel/Hamas continue to provide headline risk. Price meandered higher throughout the month ending near \$70. Threats of more sanctions on Russia and Israel ratcheting up threats on Hamas contributed to the price increase. The current NYMEX WTI Crude Oil futures settled at \$69.26, gaining over 6% from the prior month's close of \$65.11 a barrel. RBOB gasoline was more volatile than Crude, bouncing around in a 5% range, though ending near the top of that range, gaining nearly 5% for the month vs. June's close. The driving season has been uneventful and hopefully the same will be said about the upcoming hurricane season.

The Rest of the Data

The June ISM Manufacturing Index increased to 49.0 from May's reading of 48.5, remaining below 50. The ISM Services Index increased to 50.8 in June, from May's print of 49.9, returning to greater than 50 after a one-month dip below. Any reading below 50 generally indicates deteriorating conditions and any reading above 50 generally indicates improving conditions. The prices paid component for

Manufacturing remains high in the elevated range and Services' prices eased off highly elevated levels. Consumer confidence increased to 99.2 in July, which compared to an upwardly revised 95.2 in June. The unemployment rate fell to 4.1%, while the number of jobs added came in at 147,000 in June, handily beating expectations of 106,000 jobs. The Consumer Price Index for All Urban Consumers (CPI-U) increased +0.3% in June, on a seasonally adjusted basis. Over the last 12 months, the All-Items Index rate increased to +2.7% on a non-seasonally adjusted basis. The CPI ex Food and Energy bumped up to 2.9% over the last year. The general theme continues to be on autorepeat, reasonable to slowing economic growth, stable employment and noisy inflation data with some showing firming and others showing continued abatement. The Fed, certainly Chairman Powell, seems to be seeing more of the strengths of the economy rather than some of the items that seem to be softening. The Fed continues to error on the side of inflationary concerns as was stated in Powell's more hawkish than expected press conference. Powell has the opportunity to shift the narrative at Jackson Hole at the end of August if he chooses to set up a different position ahead of the September Fed meeting. We will continue to monitor economic activity, policy announcements, and inflation reports for potential shifts.

Summary

As mentioned above, Powell seems to be focusing only on the positive. The changes in immigration policy are likely causing distortions in the employment data as the labor pool has shrunk which is holding down the unemployment rate. Though the number of new jobs continues to ease. Powell's commentary during his press conference, "the economy and employment is strong", surprised the market and led to the big reversal to end the month. Granted, the markets have been very strong the last few months and always love an excuse to take profits. However, more and more economists are commenting that the reported data is masking underlying deterioration, leaving the markets feeling like the Fed is getting behind the curve as they usually do. We are now in the seasonally weak time period, so the market may be on edge for a bit unless the data meaningfully firms or the Fed softens their rhetoric.

More than ever, the markets can be emotional, so we retain our focus on what we can control, which is the amount of equity risk that is taken in a clients' portfolio in concert with the clients' risk tolerance and long-term goals. The markets will always face different "worries", today it is inflation/tariffs vs. growth and interest rates, tomorrow it will be something else. We have built our asset allocation models with dynamic features and quarterly rebalancing, both in fixed income and equities.

If you have specific questions about your portfolio or financial situation, we are here to help. Long-term financial planning is designed to deal with uncertainty like those we discussed above. Our portfolio management process is to design a prudent allocation across many asset classes. Equities are for long-term growth and several vehicles that we utilize offer defensive mechanisms to mitigate equity market declines.



Kevin Churchill, CFA®, CFP®
Chief Investment Officer
WaterRock Global Asset
Management



Institutional Asset Management adapted for Private Wealth™

WaterRock Global Asset Management, LLC
Kailua-Kona, HI 96740 & Scottsdale, AZ 85260
(808) 896 – 4957

WaterRock Global Asset Management, LLC. ("WaterRock Global") is a Registered Investment Advisory Firm regulated by the State of Washington and the Securities Exchange Commission under the Investment Advisors' Act of 1940 and in accordance and compliance with applicable securities laws and regulations. Investing in the stock market involves risk, including the risk of principal loss. Information in this newsletter is in no way intended as personalized investment advice and should not be interpreted as such. Past performance is not necessarily indicative of future results.