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CAPITAL MANAGEMENT

The Outlook
DCM Market Brief

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Stocks remain resilient despite renewed trade tensions. The Trump Administration has introduced a new round of tariffs ahead of its self-imposed August 1 deadline for trade agreements. Although these tariffs are broad in scope, market reaction has been relatively subdued. The S&P 500 remains near its all-time high. While tariffs still pose a risk to economic growth, their impact is being softened by recent consumer and business tax cuts under the *One Big Beautiful Bill*. It's a delicate balance, and we're monitoring it closely.

Unlike earlier rounds that focused mainly on China, this latest phase, which started in early July, targets key U.S. allies like Japan and South Korea. These countries have been formally notified of the upcoming 25% tariffs on their exports, set to begin August 1. These tariffs mirror what's being called the "Liberation Day" rate structure. Additionally, over a dozen other countries have received warnings of new reciprocal levies between 20% and 40% unless bilateral trade deals are secured by the deadline. This campaign has reignited market uncertainty, though stock prices have remained remarkably stable. Investors seem to be treating the escalation as pressure tactics rather than irreversible policy shifts.

Meanwhile, fiscal policy is helping offset tariff pressures. The *One Big Beautiful Bill Act* (OBBBA) extends key 2017 tax cuts and adds new relief, including deductions for tips and overtime, an expanded child tax credit, and the 20% pass-through for small businesses. It also restores full expensing for research and development and capital investments. Together, these measures put more money into consumers' hands and lower business costs, partially cushioning the economic impact of rising tariffs.

Beneath the surface, we're seeing a shift in stock market leadership. Cyclical sectors—industrials, materials, and financials—have regained momentum as investors position for a stronger second half. Meanwhile, defensive areas like utilities and consumer staples are lagging. This rotation reflects a market still confident in the durability of the expansion, supported by fiscal stimulus and steady employment. That confidence may be tested as companies begin reporting earnings in the coming weeks, especially those with significant international exposure.

Looking ahead, much depends on how trade negotiations unfold and the implementation of OBBBA's tax policies. For now, markets continue to downplay the risks and lean into a growth narrative that could persist as long as geopolitical surprises remain contained.

Thanks,
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