

## Through the Fire | 07.25.2025

Stocks continued to climb through July, with the S&P 500 hitting a series of new record highs. This rally has been driven by large tax cuts for consumers and businesses, stable inflation and unemployment rates, solid earnings reports, and a gradual easing of trade tensions. On top of that, the Federal Reserve appears poised to shift its focus back toward rate cuts. After walking through fire in 2025, stocks are emerging stronger.

The headlines remain noisy, but the market has grown resilient. A big reason for this is the passage of the *One Big Beautiful Bill Act (OBBBA)*—one of the largest tax cuts in U.S. history. It's estimated to reduce taxes by nearly \$5 trillion over the next decade. While spending cuts and tariff hikes will offset some of the stimulus, the core aim is to boost domestic consumption and investment. With this support in place, the tariff debate has become much more manageable for markets.

It's also clear now that tariffs aren't intended to upend the global trading system. The high rates floated months ago were largely a negotiation tactic. As new trade deals have emerged, the final terms have proven far more reasonable. Early evidence also suggests that the burden of tariffs isn't falling solely on consumers—exporters, importers, retailers, and consumers are all sharing in the cost increases.

President Trump and Fed Chair Jerome Powell continue to generate headlines. The President has been vocal in pushing for lower rates and critical of Powell's leadership. While this raises concerns about the Fed's independence, Trump has repeatedly stopped short of removing Powell. Still, the pressure has had an impact, and the Fed is now giving more weight to the case for rate cuts. Markets are currently pricing in three to four quarter-point cuts by year-end.

Corporate performance has also played a key role. Despite the uncertainty around trade, most companies have capitalized on the relatively strong economy. While earnings estimates fell earlier in the year, they've started to rebound over the past few weeks as strong second-quarter results came in. Analysts now expect above-average earnings growth to continue for the foreseeable future.

Valuations aren't cheap, but they're not excessive either, especially when considering the growth trajectory many companies are on. With much of the noise drowned out by tax relief, it's back to business as usual. As long as companies keep hitting their earnings targets, there's little reason stocks can't continue to climb.

Thanks,

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