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Market Overview

July delivered another strong month for risk assets, building on momentum that began in April. Equities posted broad based gains, led by large cap U.S. stocks. International markets trailed, while small caps kept pace. The narrative continues to shift away from recession fears and toward soft-landing confidence, supported by resilient earnings and a consumer that remains in decent shape. While policy noise from tariffs and Fed speculation remains elevated, markets appear to be looking through it for now.

Earnings Season: Sentiment > Expectations

Earnings once again exceeded lowered expectations. After a subdued setup, corporate results broadly beat estimates, with standout reports from several megacap tech names. Strength was concentrated, but encouragingly, commentary pointed to stabilization in demand across sectors. Margins showed improvement, particularly where companies demonstrated pricing power and capital discipline. Meanwhile, the potential for tariff refunds stemming from legal rulings could offer an unexpected boost to select corporates in coming quarters.

Tariff Clarity Emerging

While tariffs remain a front page topic, recent developments suggest more clarity is entering the mix. Trade agreements with countries like Vietnam and the EU are being finalized, bringing down uncertainty. Despite media focus on potential consumer pain, the burden of new tariffs has so far been absorbed by corporations, not end consumers. Legal challenges to certain tariff collections could result in refunds, adding a potential earnings tailwind later in the year. Markets seem to be discounting the worst case outcomes.

Fed: Internal Division and Market Patience

The Fed held steady in July, though internal dissent is growing. For the first time since 1993, two members dissented on policy direction. Growth is moderating, and while labor and inflation data remain within range, consumption has cooled. With the Jackson Hole symposium approaching, markets are watching for a potential policy pivot. The Fed's balance of restrictive policy and political pressure will remain a key variable into year-end.

The Tail Environment Continues

Markets remain defined by their tail behavior. Despite volatility in headlines, the S&P is up roughly 9% year to date, remarkably close to historical averages, but rarely where full year returns actually land. History suggests such middling returns rarely persist, with markets more often delivering

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either double digit gains or drawdowns. The setup heading into the second half remains constructive, especially if monetary policy turns more supportive.

Looking Ahead: Clarity or Complacency?

With earnings season mostly wrapped and fewer macro catalysts on deck until fall, the next few months could bring a pause or a pivot. If the Fed signals future cuts, and legal tariff developments provide a corporate earnings tailwind, upside surprises remain possible. Still, markets may need fresh data or events to maintain the pace. Against this backdrop, staying balanced, active, and flexible is as important as ever.

Final Thoughts

July reinforced familiar themes: resilient earnings, a still strong consumer, and a market willing to look past short term noise. The path forward will likely remain nonlinear, but the conditions for continued gains are in place. Tail risks, both positive and negative, remain the dominant market driver. The priority now is positioning to adapt, not predict.

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