



# Q3 2025 Market & Economic Outlook

Cerity Partners Investment Office

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July 17, 2025

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# Our Second Half Outlook

Key drivers for the path forward in 2H.

## Key Tailwinds

- Incremental stimulus from the One Big Beautiful Bill begins to take hold.
- The Federal Reserve is expected to join many other global central banks by pivoting back towards policy easing.
- A.I. spending continues to power forward.
- Despite the uncertainty, corporate profit growth still looks solid.

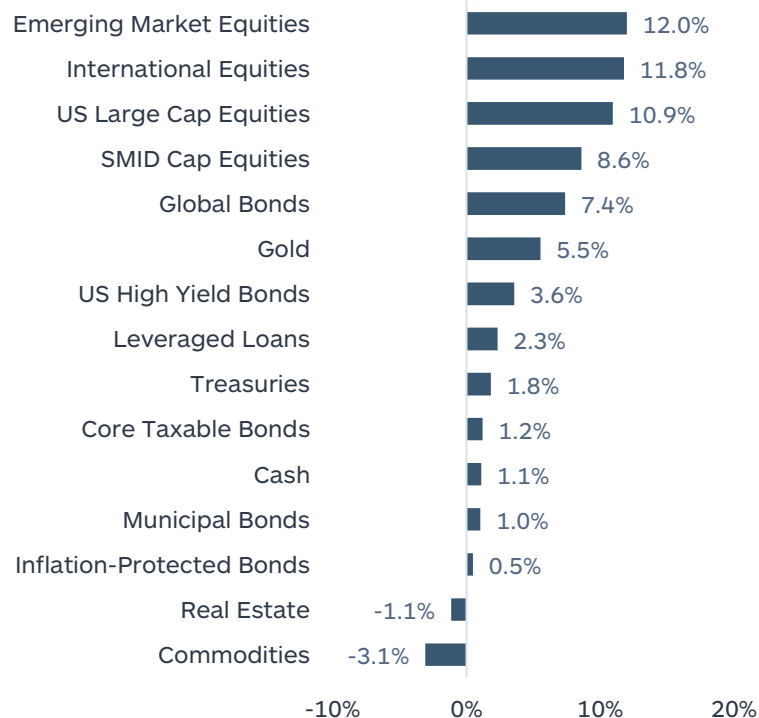
## Key Headwinds

- High fiscal deficits will continue to be a part of the conversation on bond yields.
- Tariffs will cause a hit to disposable incomes (though the magnitude is still unknowable).
- Trade uncertainty is not abating, which prolongs the hesitancy to hire and begin new projects.
- Index-level market valuations and concentration are still a concern.

# Q2 in Review

Another good quarter for global diversification.

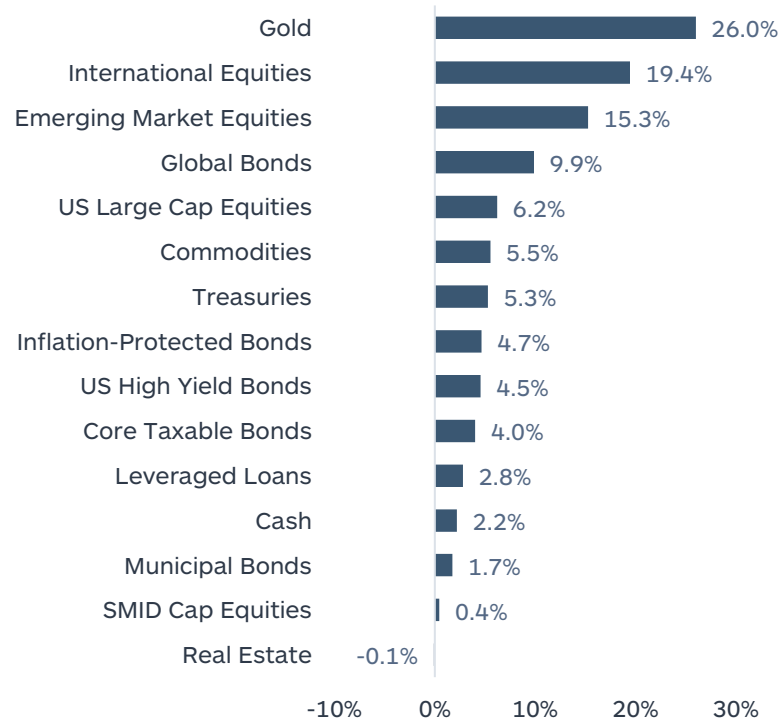
## Q2 2025 Total Return



Source: Morningstar Direct, Cerity Partners, 6/30/2025

Notes: Asset classes represented by the following benchmarks: Bloomberg Commodity TR USD, Bloomberg Municipal 1-10Y Bend 1-12Y TR, Bloomberg US Agg Bond TR USD, Bloomberg US Treasury US TIPS TR USD, FTSE WGBI NonUSD USD, ICE BofA US High Yield TR USD, MSCI EAFE NR USD, MSCI EM TR USD, MSCI US REIT GR USD, Russell 2500 TR USD, S&P 500 TR USD, FTSE Treasury Bill 3 Mon USD, Bloomberg Treasury 5-7 YR TR USD, Morningstar LSTA US LL TR USD, LBMA Gold Price PM USD

## Year-to-Date Total Return

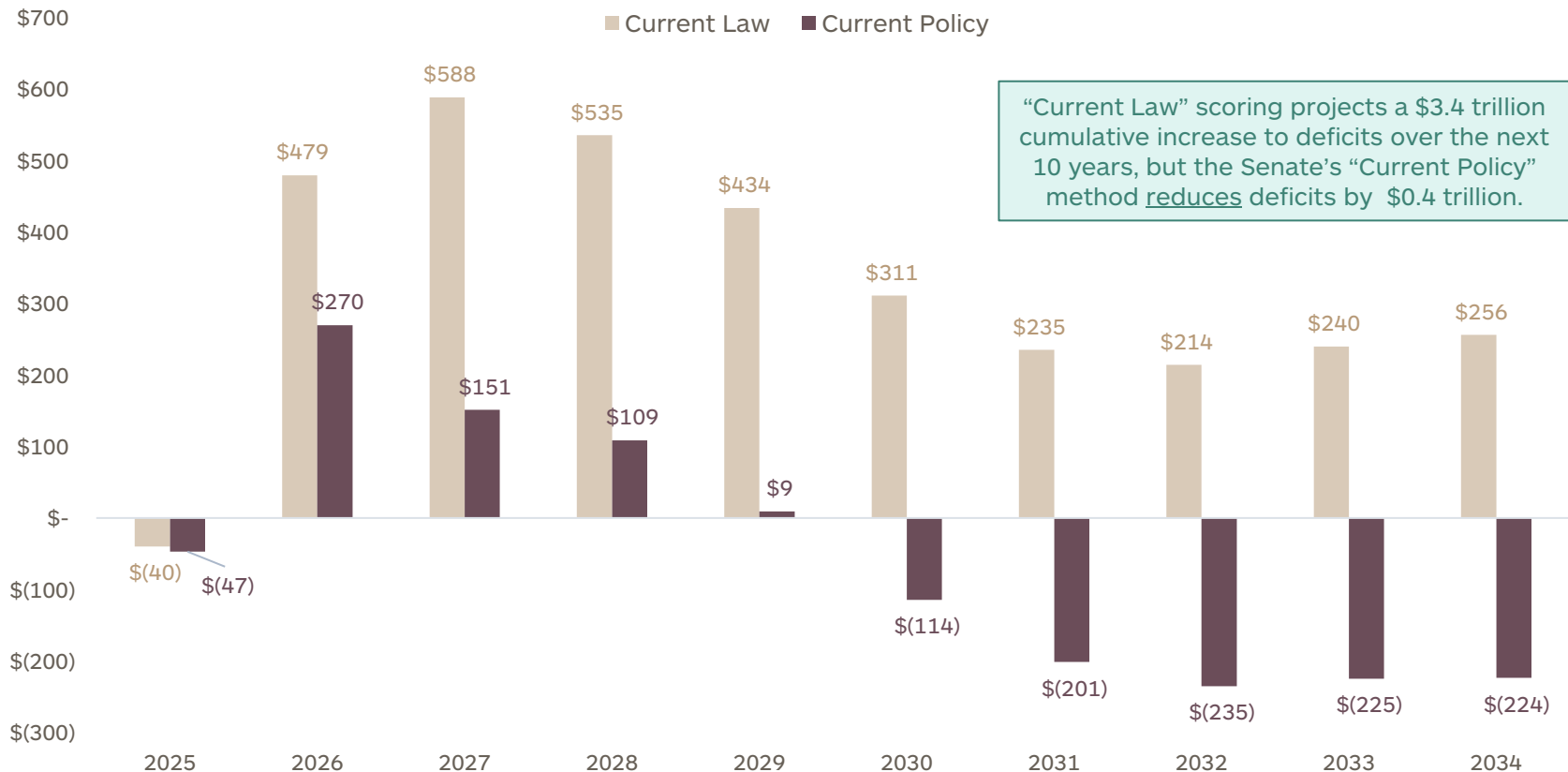


Source: Morningstar Direct, Cerity Partners, 6/30/2025

# How Much Does The OBBB Increase the Deficit?

Depends...do you prefer “current law” or “current policy”?

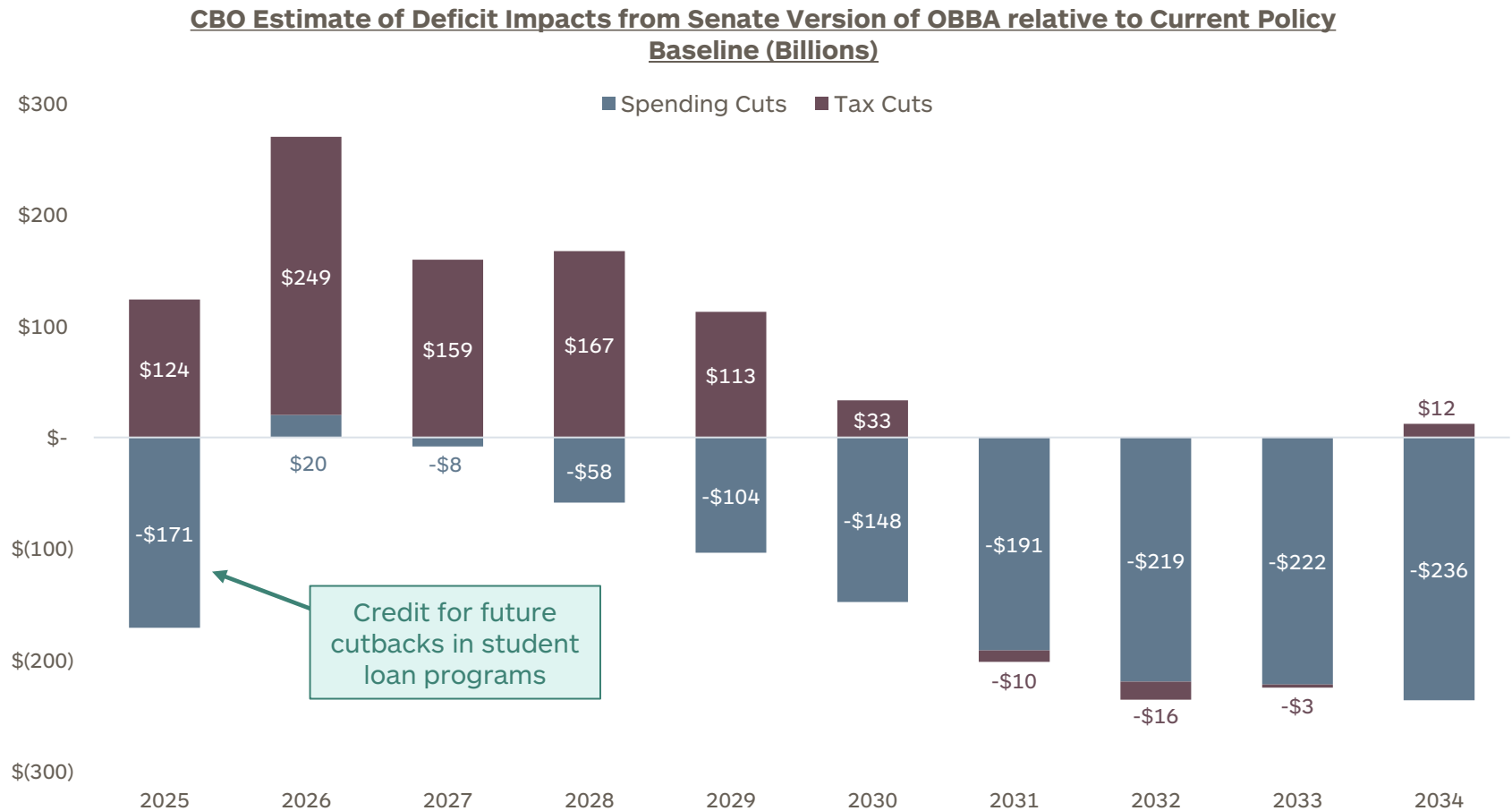
## CBO Projected Change in Annual Fiscal Deficits from the OBBBA (Billions)



**Source:** Cerity Partners, Congressional Budget Office, staff of the Joint Committee on Taxation, cost estimates released 6/28/2025 (“Current Policy”) and 6/29/2025 (“Current Law”)

# First Comes the Stimulus, Then Comes the Austerity.

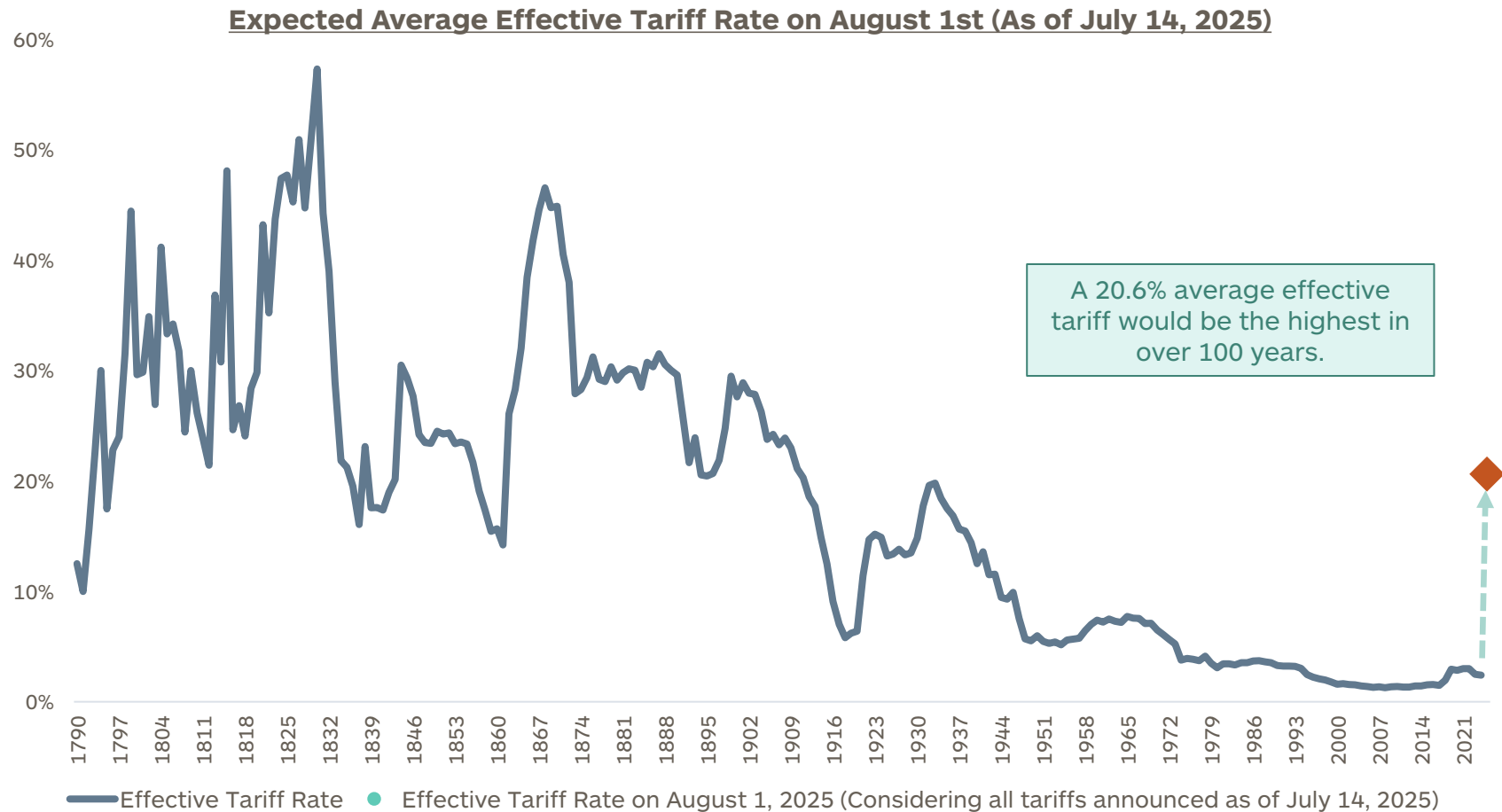
Aside from extending the TCJA, the bill front-loads the new tax breaks and back-loads the spending cuts.



Source: Cerity Partners, Congressional Budget Office, staff of the Joint Committee on Taxation, cost estimate released 6/28/2025

# Where Do We Stand With Tariffs?

With taxes in the rearview mirror, trade tensions are starting to ramp back up.

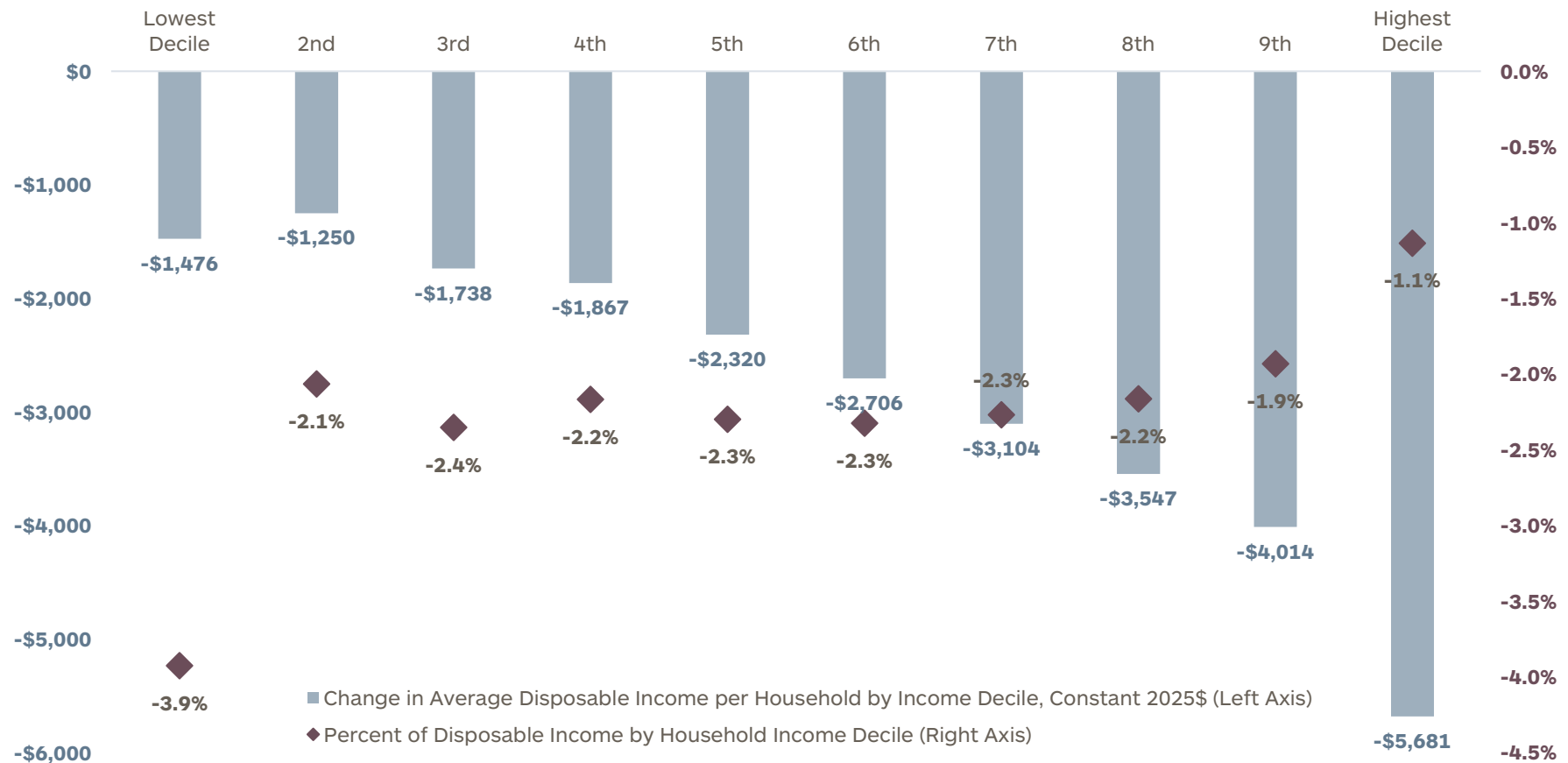


Source: Cerity Partners, "State of U.S. Tariffs: July 14, 2025" from The Budget Lab at Yale

# Estimating the Cost of Tariffs

The biggest pinch will be felt by lower-income consumers.

**Short-Run Distributional Impact of 2025 Tariffs Announced as of July 14, 2025**

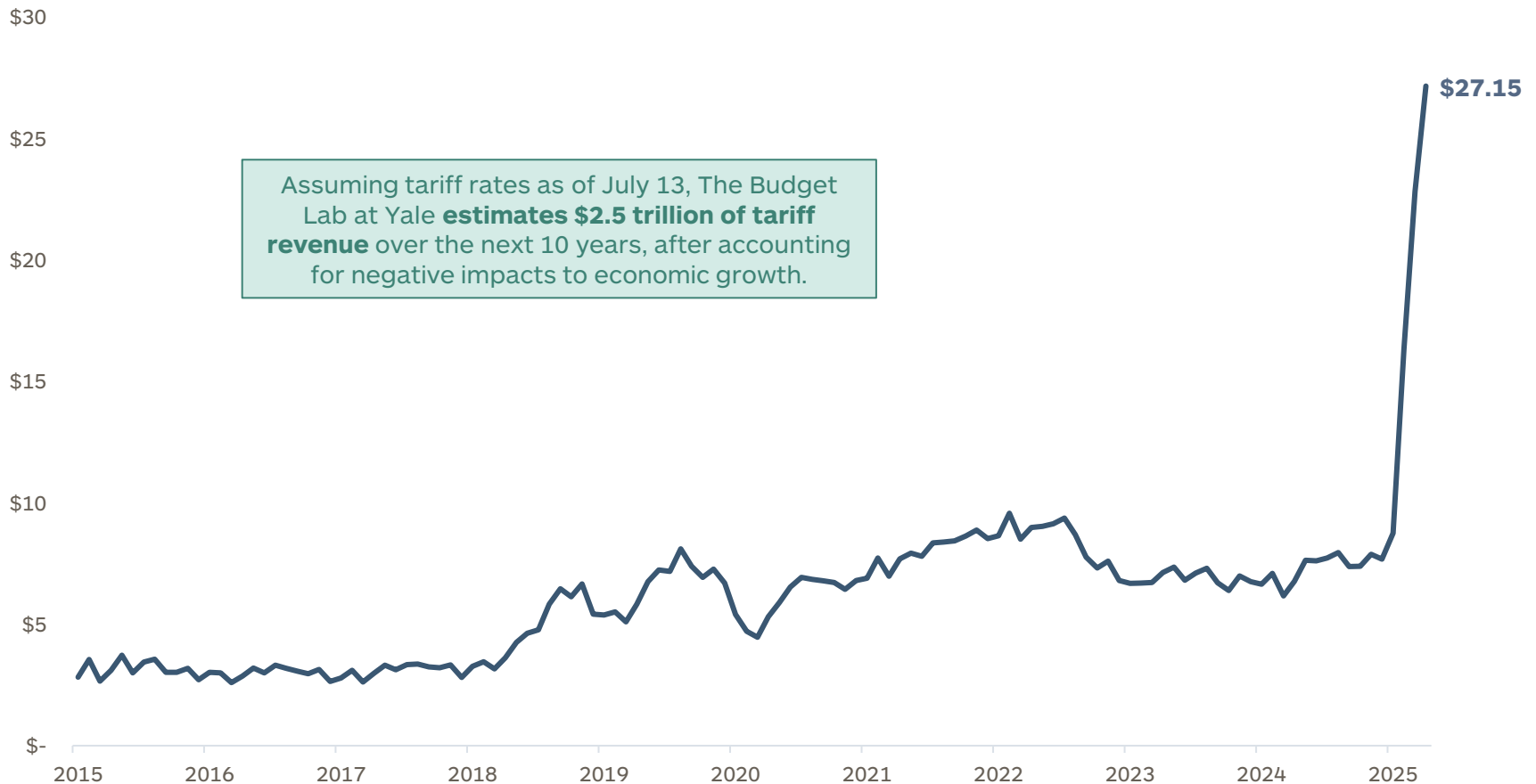


Source: Cerity Partners, "State of U.S. Tariffs: July 14, 2025" from The Budget Lab at Yale

# Can Tariffs Help the Fiscal Situation?

As of June, tariff revenue is running at a \$326 billion annualized rate.

## U.S. Treasury Monthly Gross Receipts: Customs Duties (Billions)



Source: Cerity Partners, Monthly Treasury Statement, U.S. Treasury.



# Core Goods Inflation Heatmap

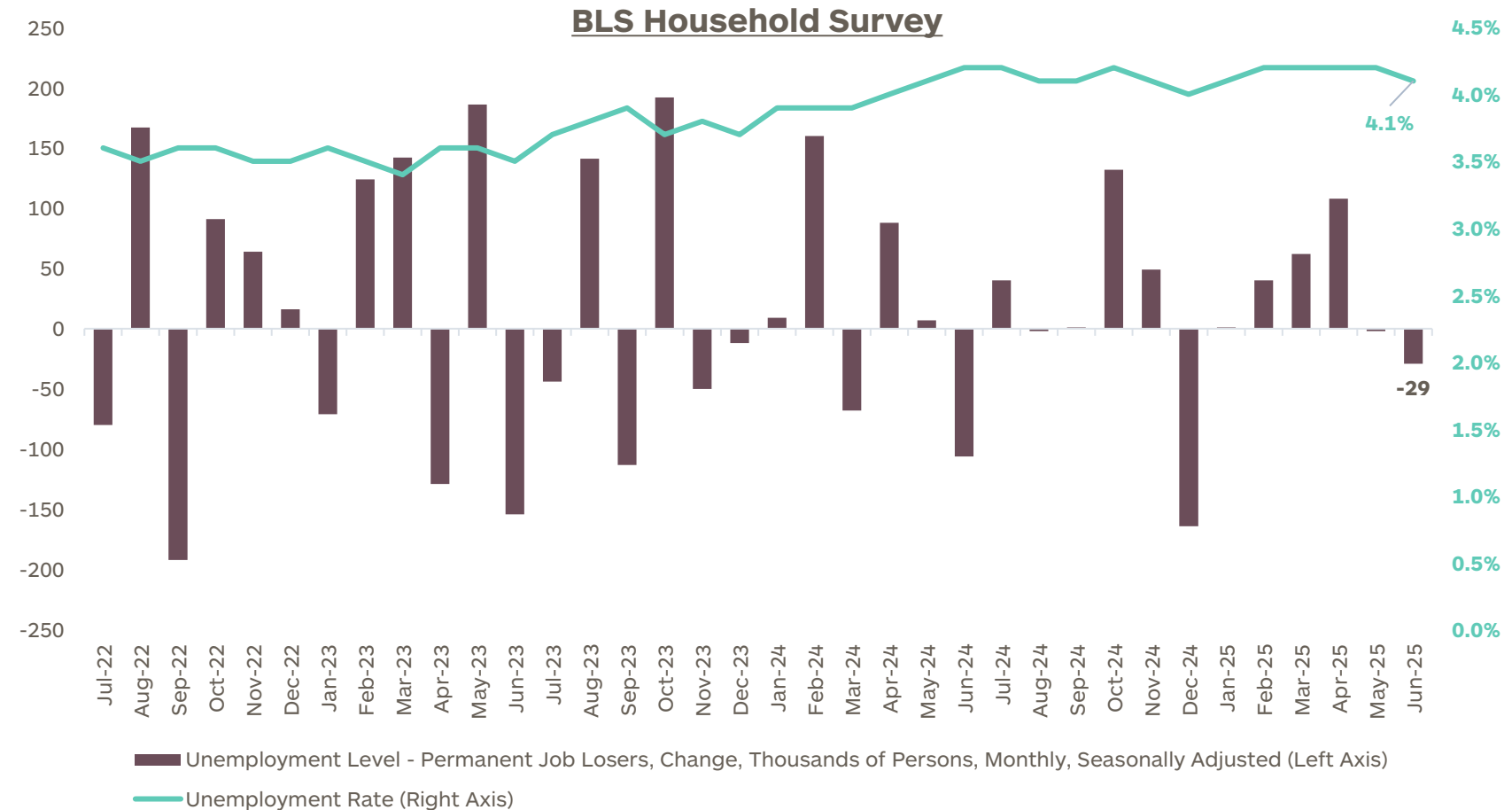
Pressure is building in some places (e.g. appliances), but is being offset by weakness in others (e.g. cars)

			Consumer Price Index: Monthly Percent Change (Seasonally Adjusted)											
		Weight in Overall CPI	24-Jul	24-Aug	24-Sep	24-Oct	24-Nov	24-Dec	25-Jan	25-Feb	25-Mar	25-Apr	25-May	25-Jun
Core Goods Overall		19.3%	-0.2%	-0.1%	0.2%	0.0%	0.2%	0.0%	0.3%	0.2%	-0.1%	0.1%	0.0%	0.2%
Subcategory	Examples													
Transportation	New and Used Cars, Vehicle Parts	7.2%	-0.5%	0.0%	0.3%	0.4%	0.6%	0.5%	0.8%	0.2%	-0.2%	-0.2%	-0.3%	-0.4%
Household Furnishings and Supplies	Furniture, Appliances, Hardware	3.4%	0.0%	-0.3%	0.0%	0.0%	0.6%	-0.2%	-0.2%	0.2%	0.0%	0.2%	0.3%	1.0%
Apparel	Clothing, Shoes, Jewelry	2.5%	-0.3%	0.1%	1.0%	-0.9%	0.1%	0.1%	-1.4%	0.6%	0.4%	-0.2%	-0.4%	0.4%
Recreational Goods	Televisions, Audio Equipment, Sporting Goods	1.8%	-0.3%	-0.2%	-0.4%	0.0%	-0.4%	-0.5%	0.3%	-0.7%	-0.3%	0.4%	0.4%	0.8%
Medical Care	Drugs, Medical Equipment	1.5%	0.2%	-0.2%	-0.7%	-0.2%	-0.1%	0.0%	1.2%	0.1%	-1.1%	0.4%	0.6%	0.1%
Other Goods	Tobacco, Personal Care Products	1.3%	0.2%	0.2%	0.2%	0.4%	0.2%	-0.4%	0.2%	0.8%	0.3%	0.3%	0.2%	0.3%
Alcoholic Beverages	Beer, Wine, Spirits	0.8%	0.1%	0.1%	0.1%	0.4%	0.0%	-0.3%	0.3%	0.5%	0.2%	0.0%	-0.1%	0.1%
Education and Communication	Computers, Cell Phones, Textbooks	0.7%	-0.2%	-0.7%	-0.6%	-0.3%	-0.9%	-1.3%	0.1%	-0.2%	0.5%	0.3%	0.1%	0.0%

Source: Cerity Partners, FactSet, Bureau of Labor Statistics, 6/14/2025

# Still No Evidence of Layoffs at the Macro Level

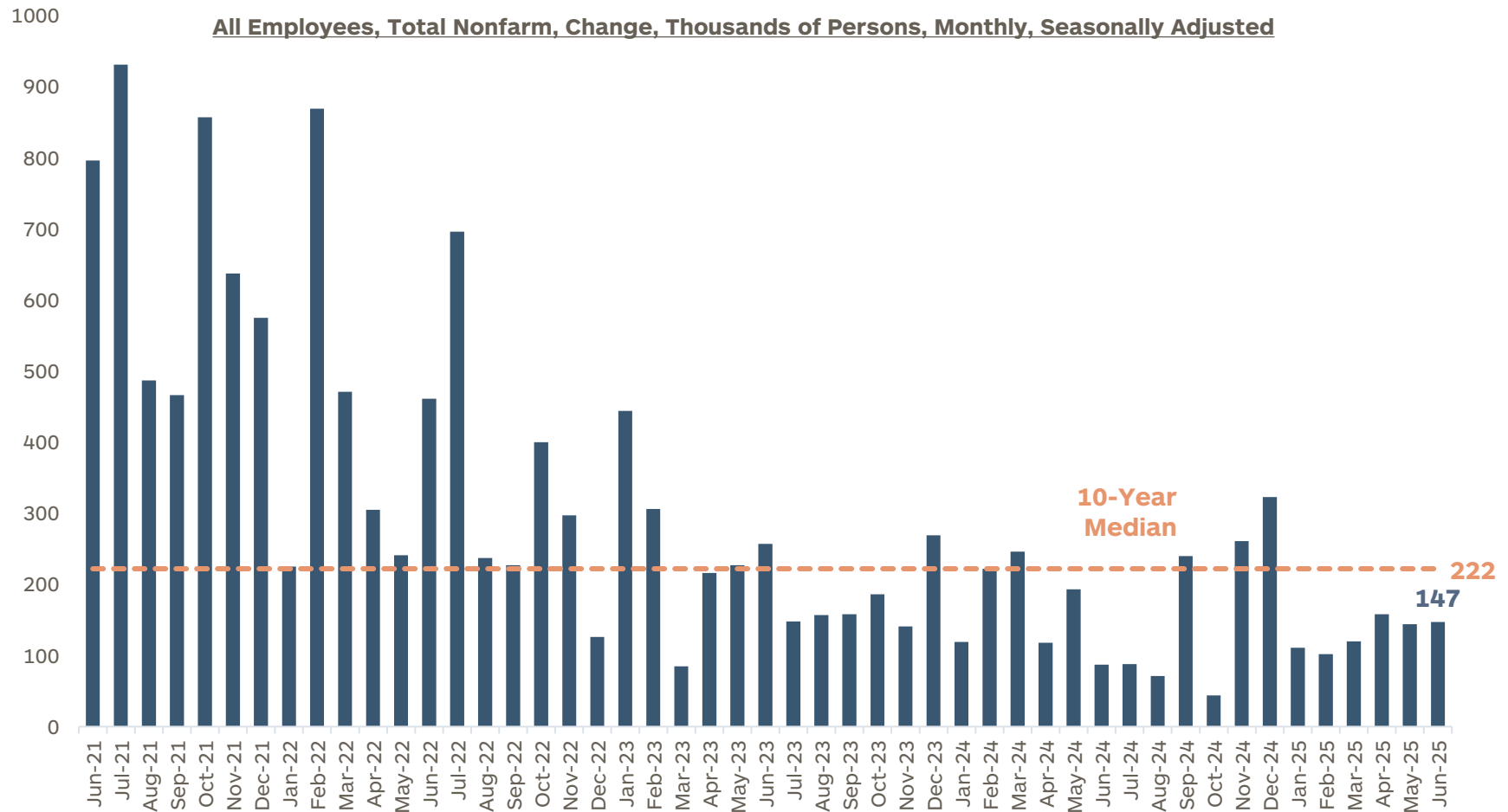
Despite the tariff uncertainty, the number of “permanent job losers” has fallen for two months



Source: Cerity Partners, FRED, 7/3/2025

# Hiring is Slower, but Stable

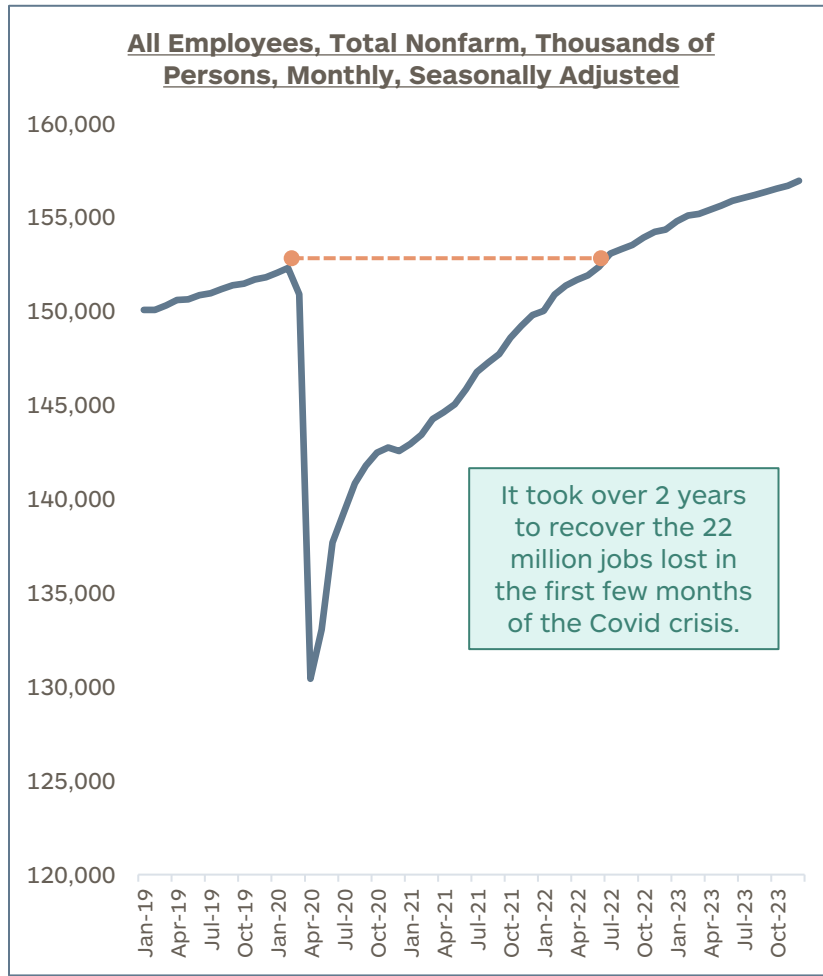
Given limited layoffs, quits, and labor force growth, a lower pace of job creation can maintain equilibrium.



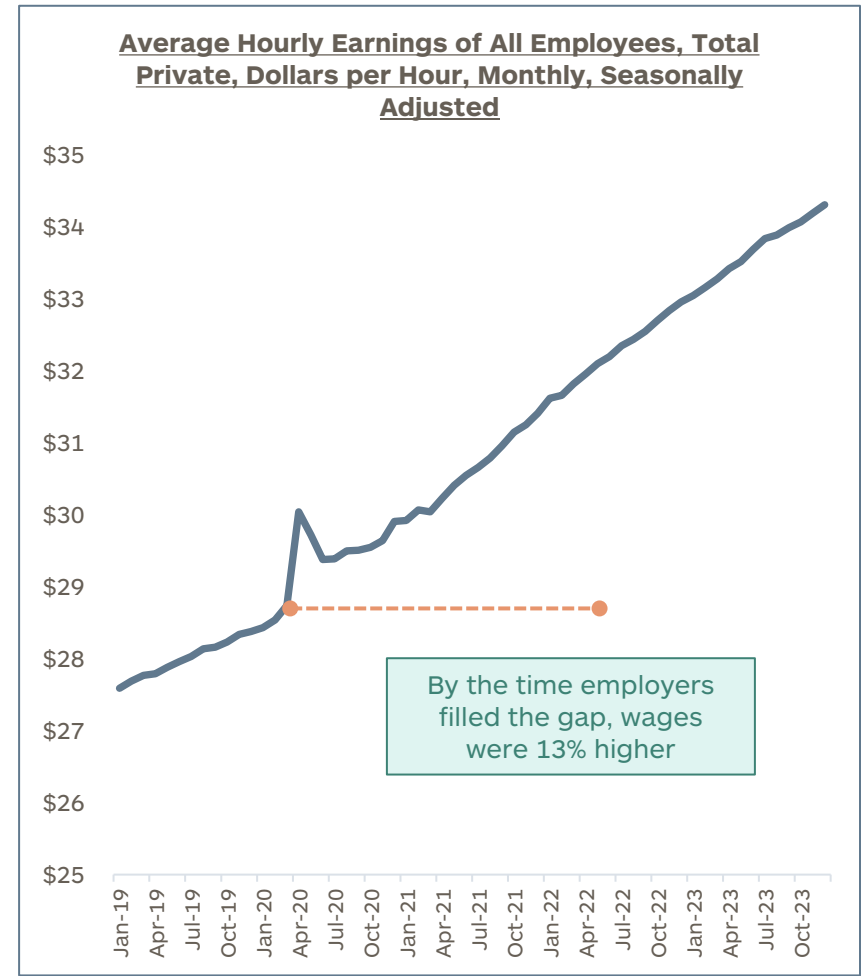
Source: Cerity Partners, FRED, 7/3/2025

# Hiring Managers Have Not Been Quick to Forget

Scrambling to rehire after the Covid shock was an expensive endeavor.



Source: Cerity Partners, FRED, 6/8/2025

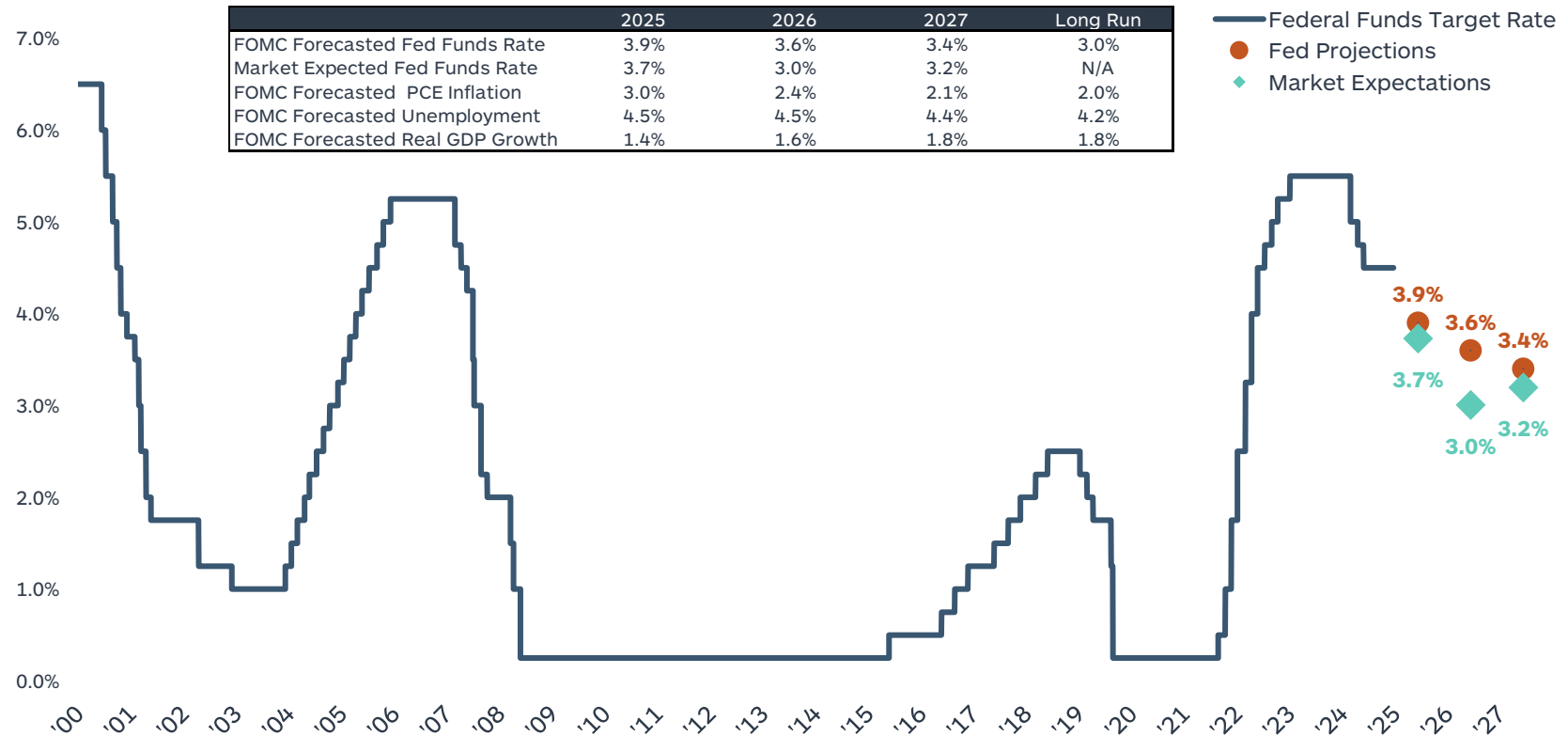


Source: Cerity Partners, FRED, 6/8/2025

# The Fed May Get Back to Cutting in 2H.

Several governors have expressed willingness to look past tariff impacts and focus on softening labor markets

## Federal Funds Rate



Source: Factset, FOMC, Cerity Partners, 6/30/2025. Market expectations derived from Fed Funds Futures

# Longer-Term Yields Are Still Rangebound

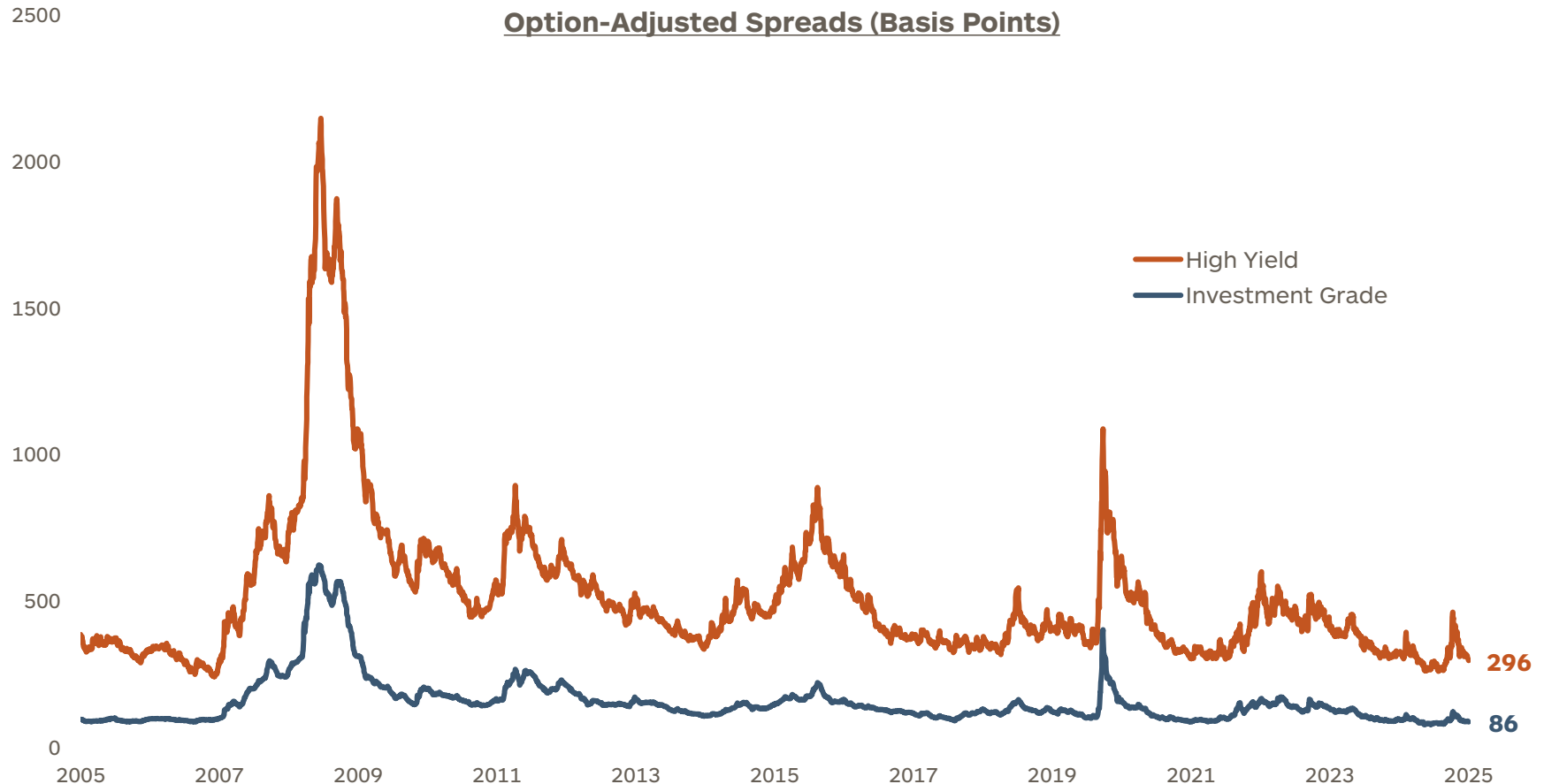
Despite concern about increased supply and reduced demand, yields are still well off their most recent high.



Source: Cerity Partners, FactSet, 6/30/2025

# Credit Spreads Remain Sanguine

No signs of economic jitters from corporate bonds.

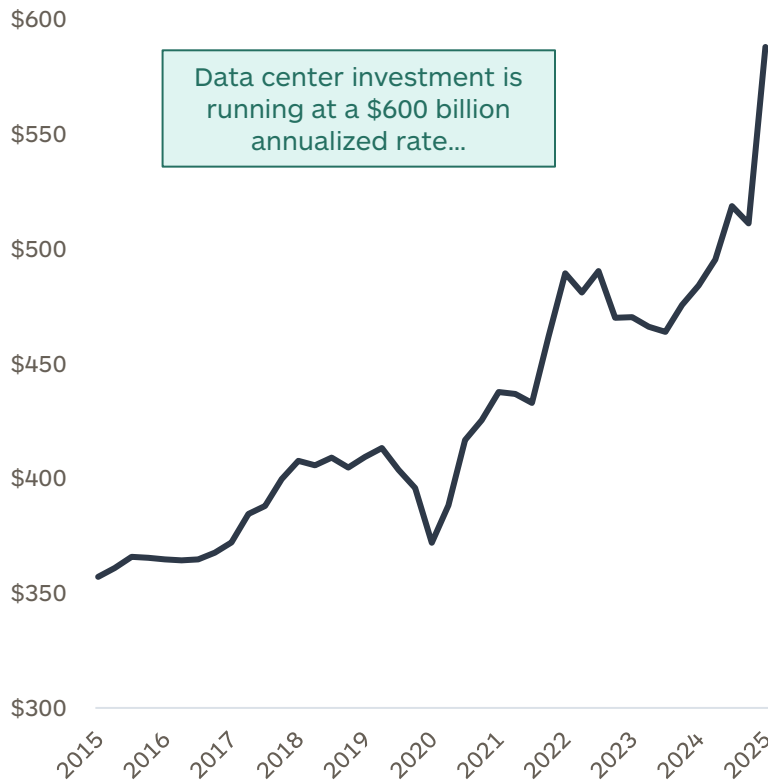


**Source:** Cerity Partners, FactSet, 6/30/2025. High Yield is referenced by the ICE BofA US High Yield index. Investment grade is referenced by the ICE BofA US Corporate benchmark

# Another Tailwind: The A.I. Boom

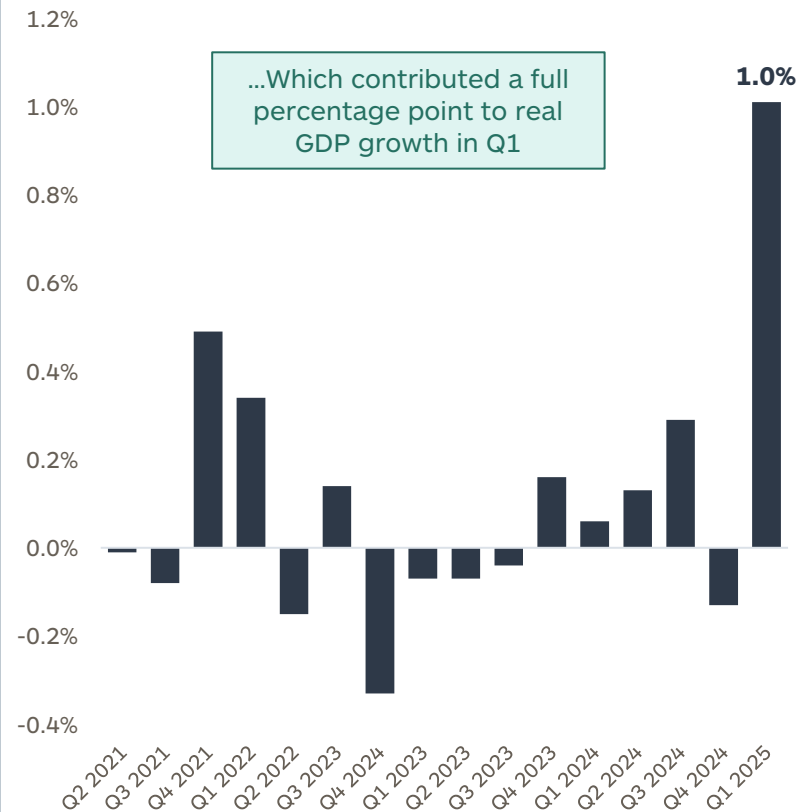
With adoption still relatively limited, we think the trend is just getting started.

**Gross Private Nonresidential Investment:  
Information Processing Equipment, Billions of  
Dollars, Quarterly, Seasonally Adjusted Annual  
Rate**



Source: Cerity Partners, FRED, Q1 2025

**Information Processing Equipment:  
Contributions to Percent Change in Real Gross  
Domestic Product**



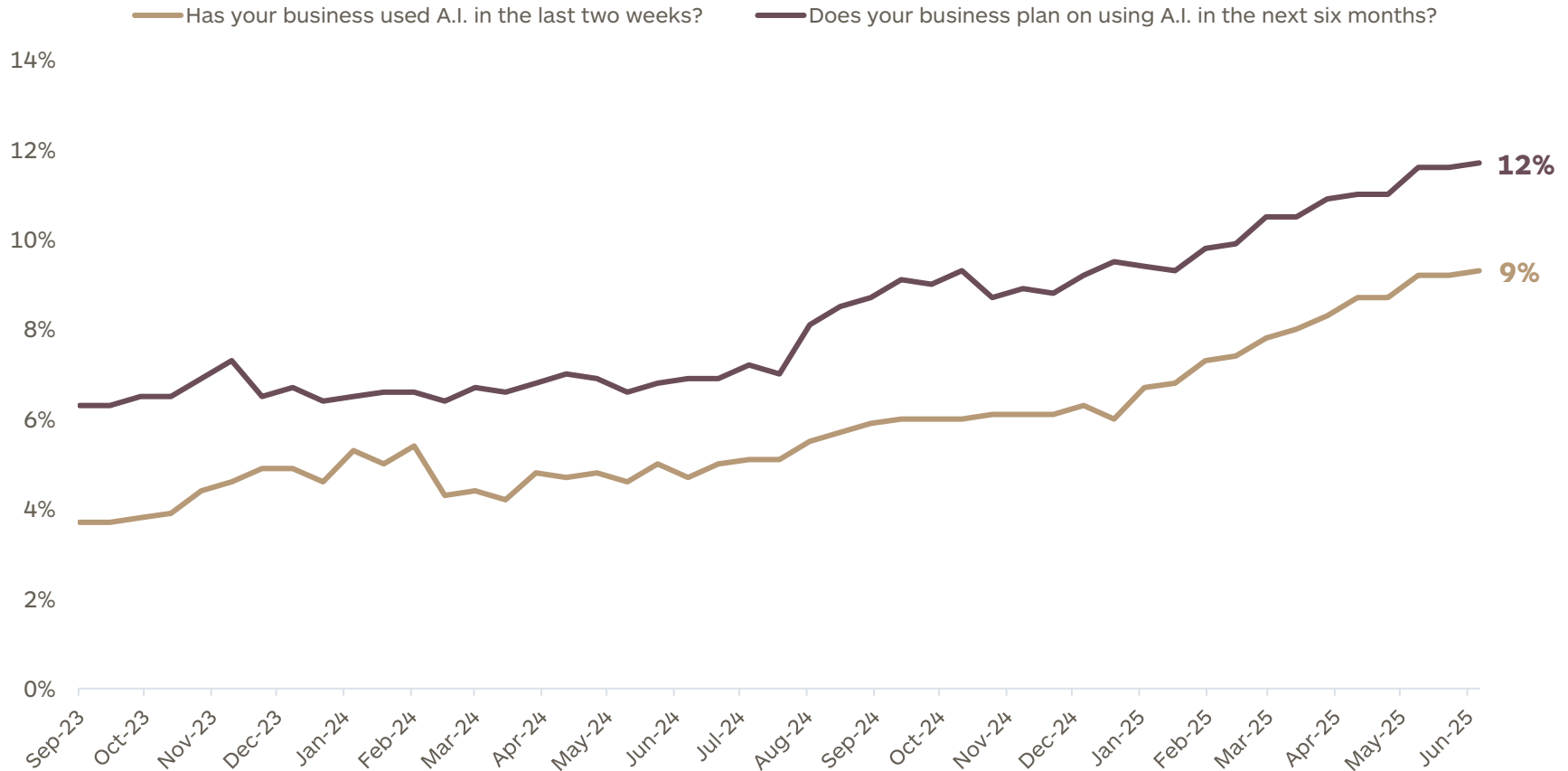
Source: Cerity Partners, FRED, Q1 2025



# A.I. Adoption is Still in Early Innings

We see productivity gains picking up steam over the next few years.

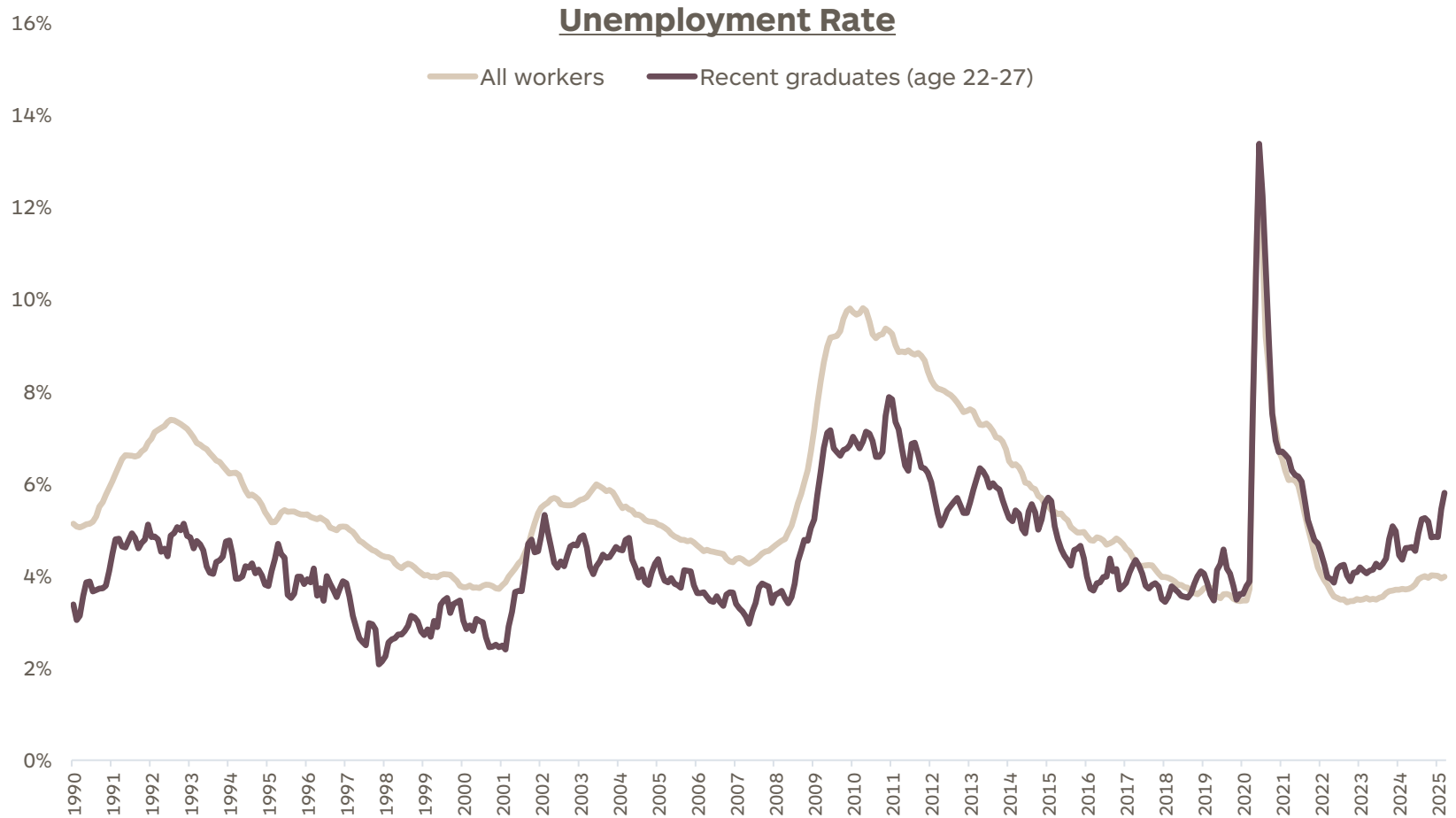
## Census Bureau Business Trends and Outlook Survey: % of "Yes" Responses



Source: Cerity Partners, U.S. Census Bureau "Business Trends and Outlook" Survey, 6/29/2025

# Is A.I. Making the Job Hunt Tougher for Recent Grads?

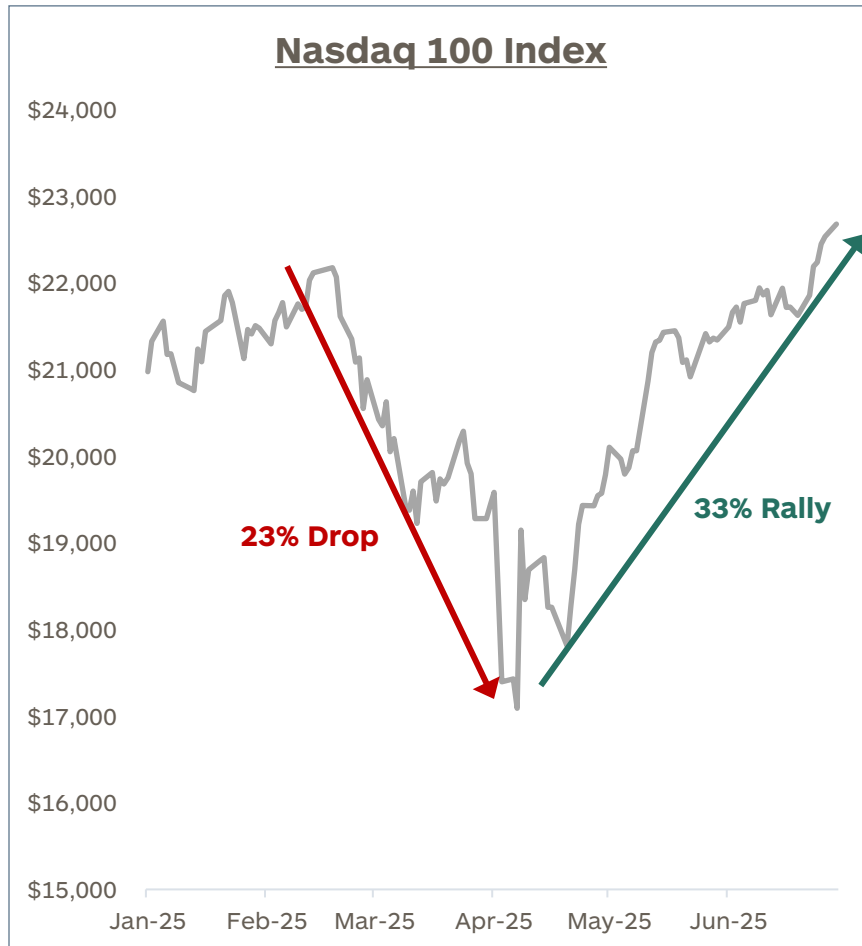
Tough to say with certainty, but life isn't easy for new college graduates.



Source: Cerity Partners, Federal Reserve Bank of New York, Q1 2025

# Blink and You Missed It

Just like that, we're back to new highs for the Nasdaq and S&P 500.



Source: Cerity Partners, FactSet, 6/30/2025. Excluding dividends.

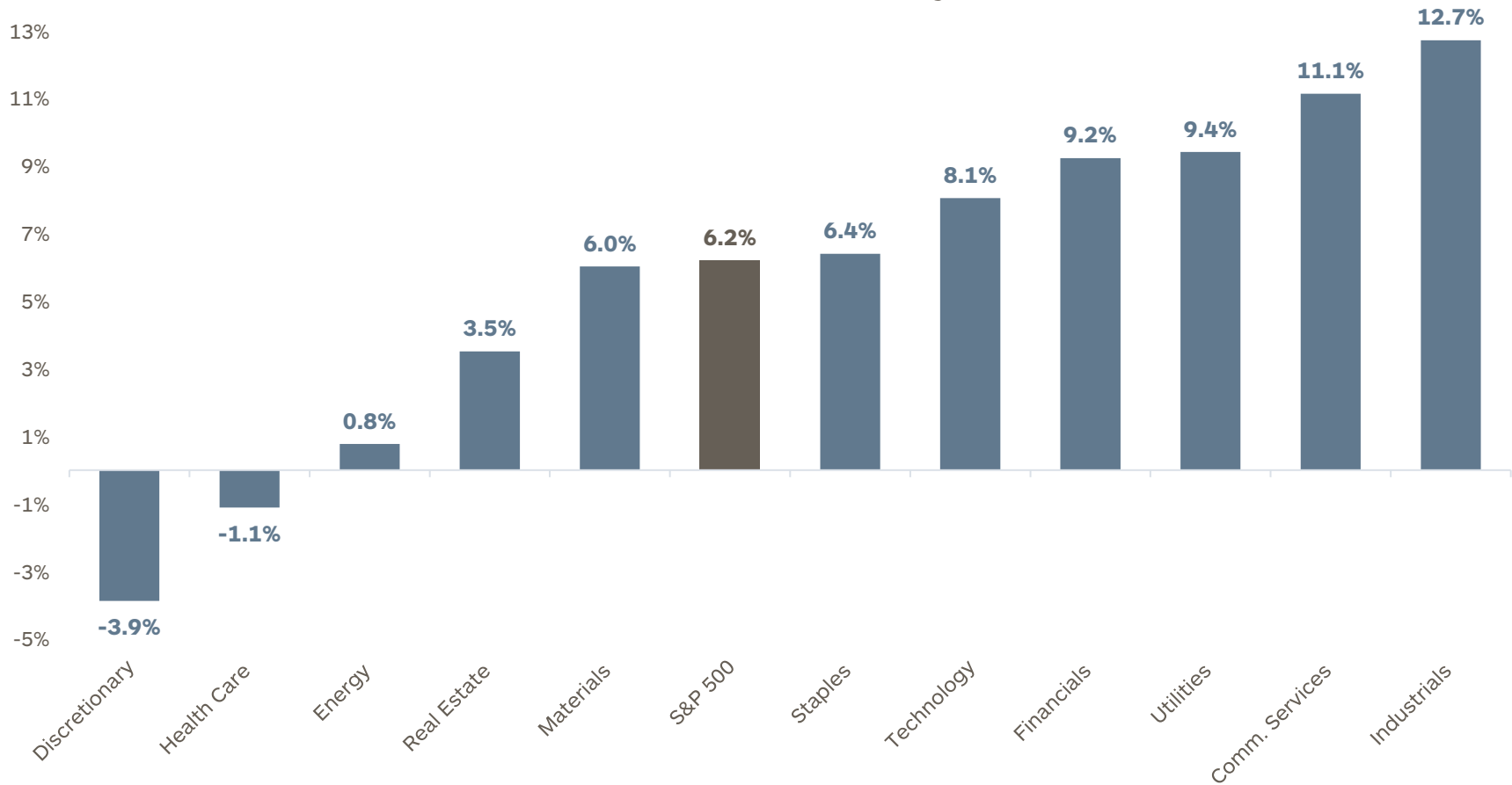


Source: Cerity Partners, FactSet, 6/30/2025. Excluding dividends.

# It's Not Just About Tech Anymore

Good participation this year from non-Mag 7 sectors.

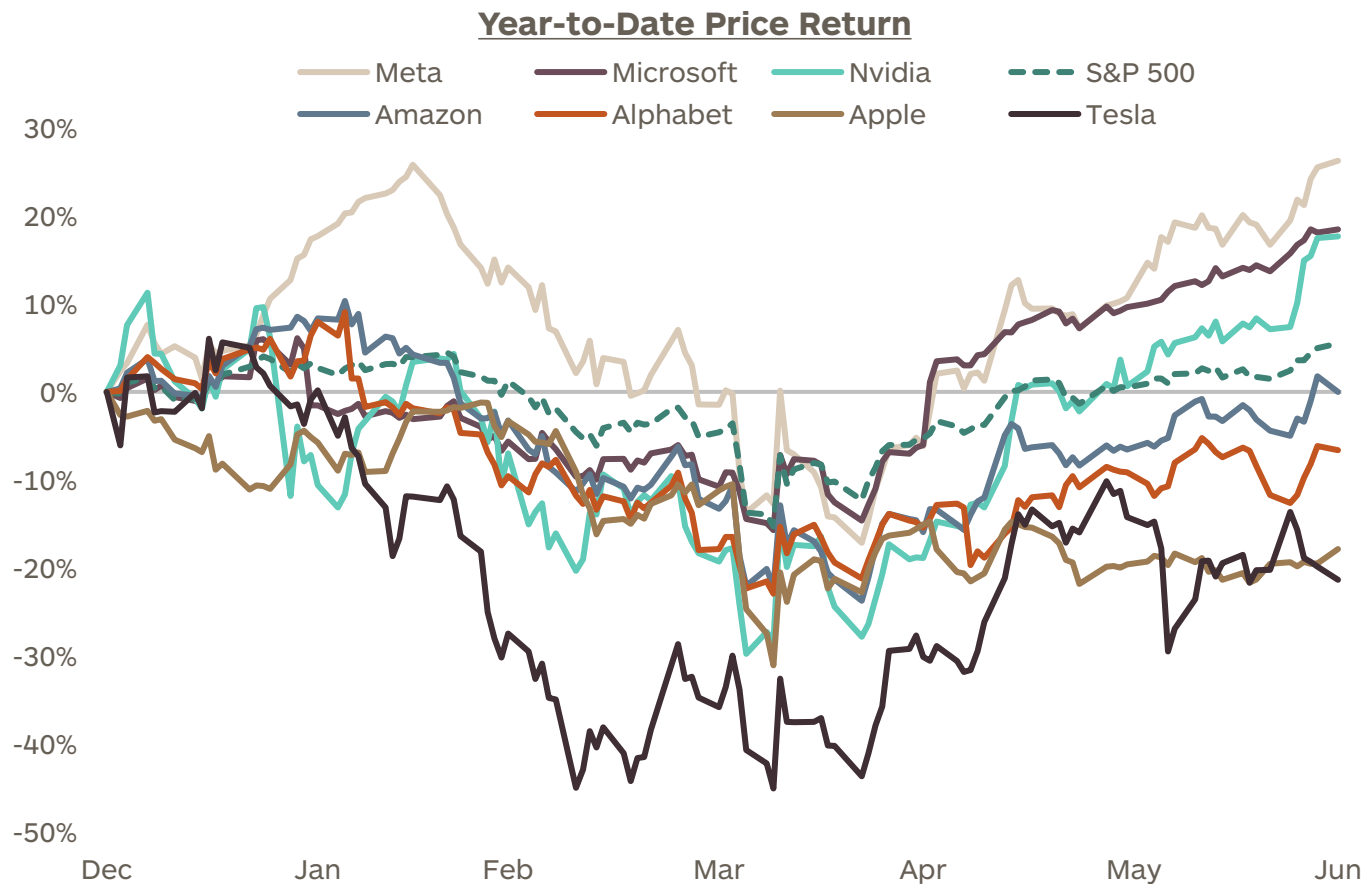
## Year-to-Date Total Returns by Sector



Source: Cerity Partners, Morningstar, 6/30/2025

# The Magnificent Seven Are No Longer a Monolith

While often grouped together, each are still subject to their own idiosyncratic factors.

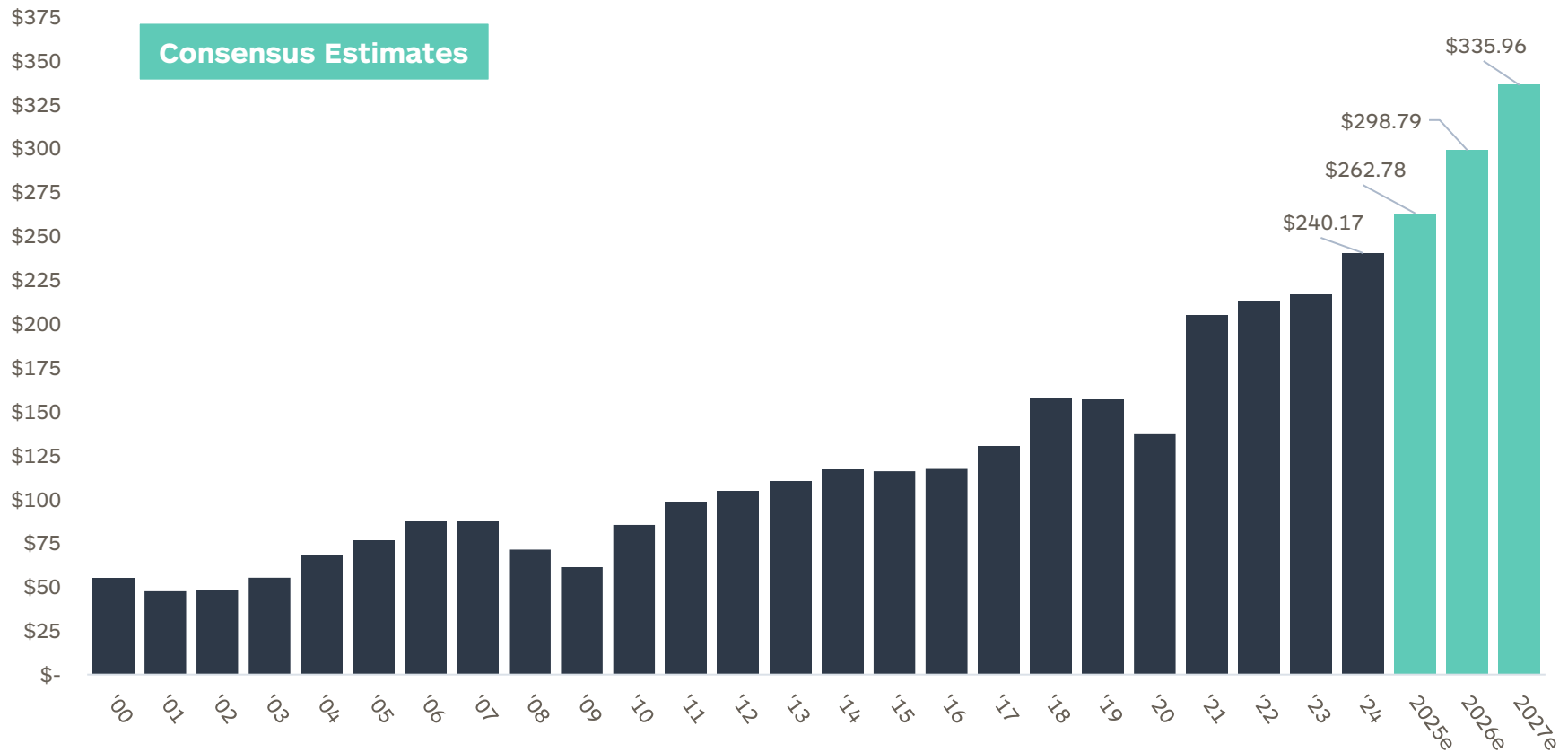


Source: Factset, Cerity Partners, excluding dividends, 6/30/2025

# The Earnings Outlook is Solid

Expectations are for decent earnings growth in 2025 that should reaccelerate in 2026.

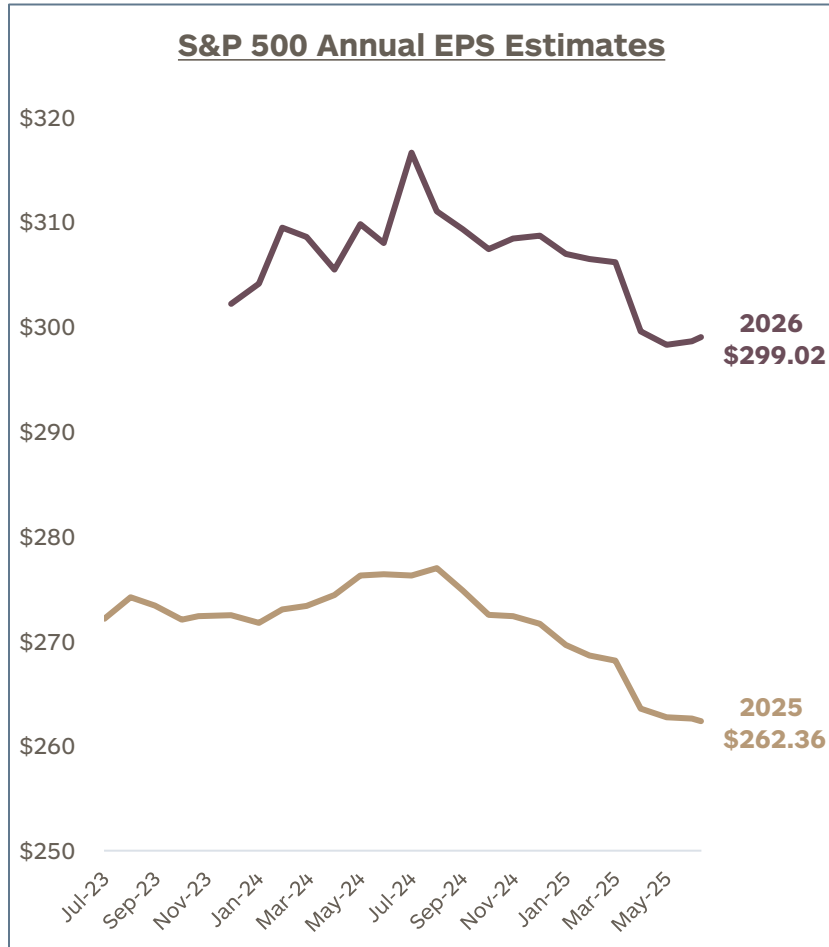
## S&P 500 Earnings per Share



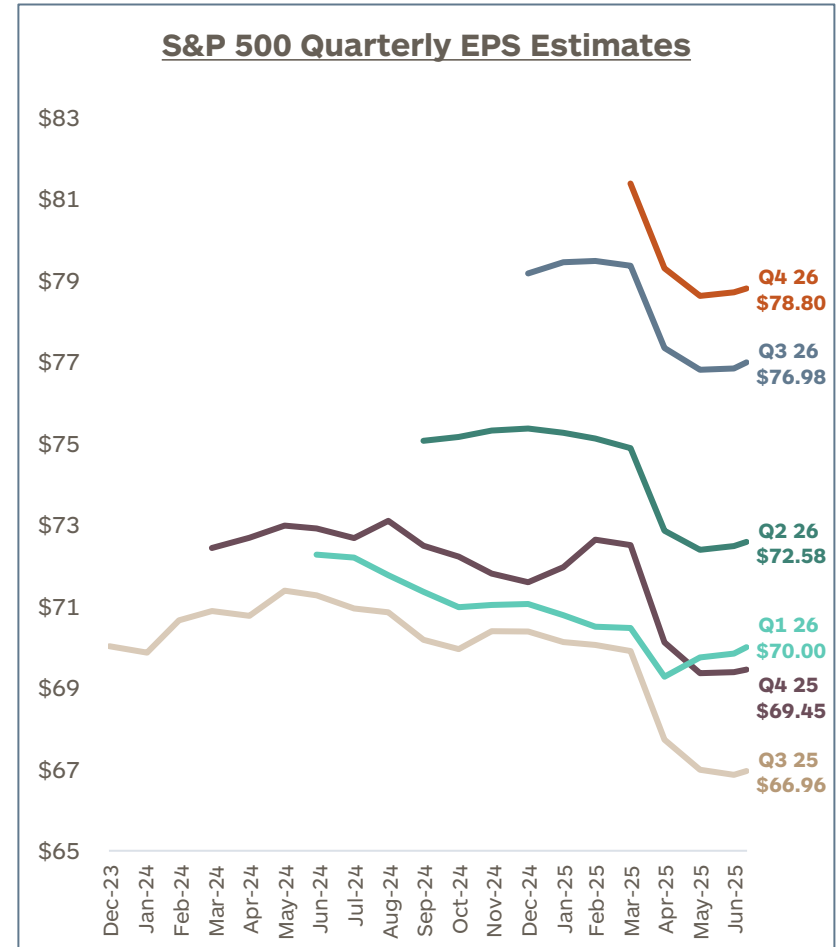
Source: FactSet, Cerity Partners, 6/30/2025

# Earnings Expectations are Stabilizing

At least some of the tariff hit to sales and margins is already priced in.



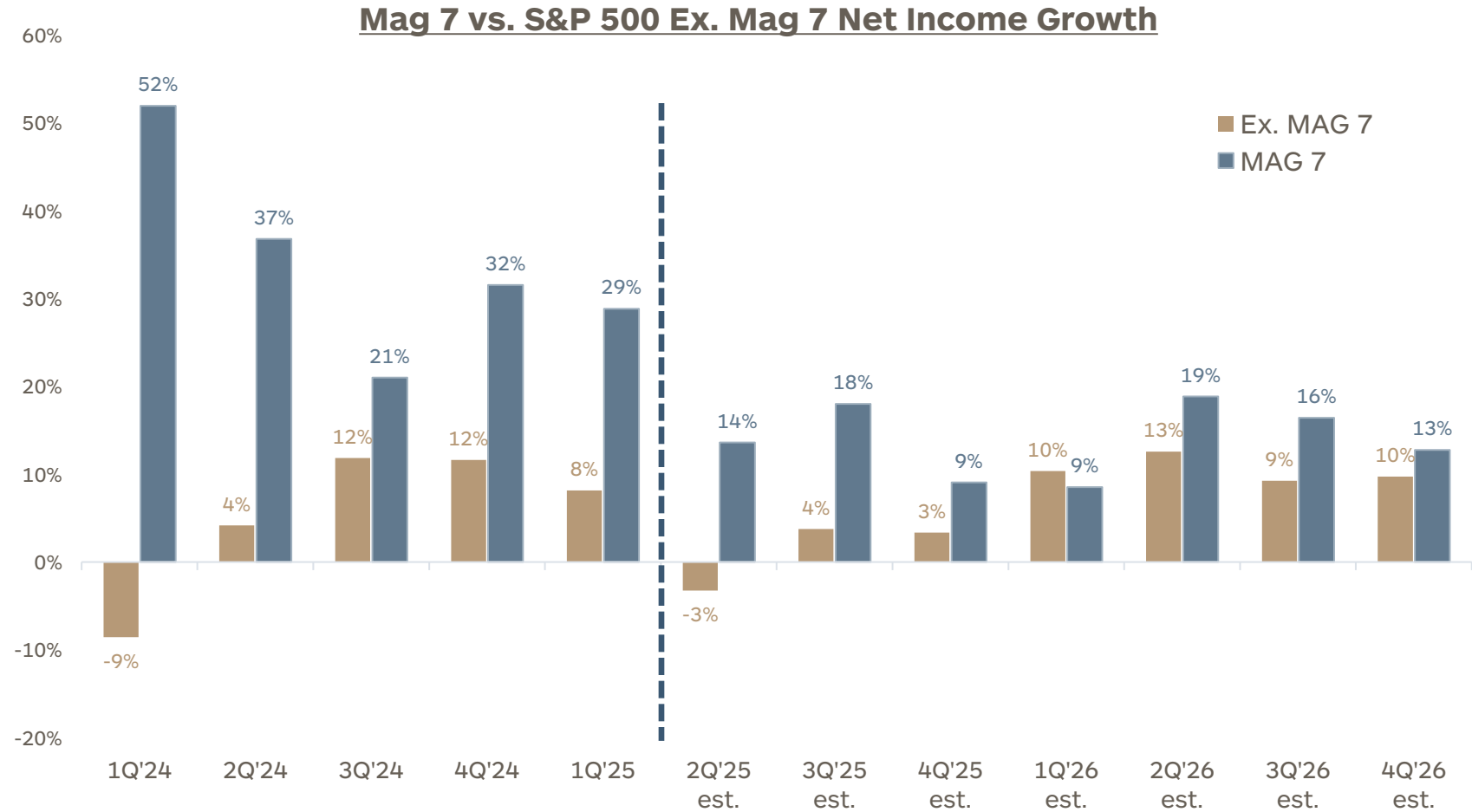
Source: Cerity Partners, Morningstar, 7/11/2025



Source: Cerity Partners, Morningstar, 7/11/2025

# The Earnings Bar is High For Some, Low For Others

Mag 7 earnings growth is decelerating but is still expected to outpace the broader market.



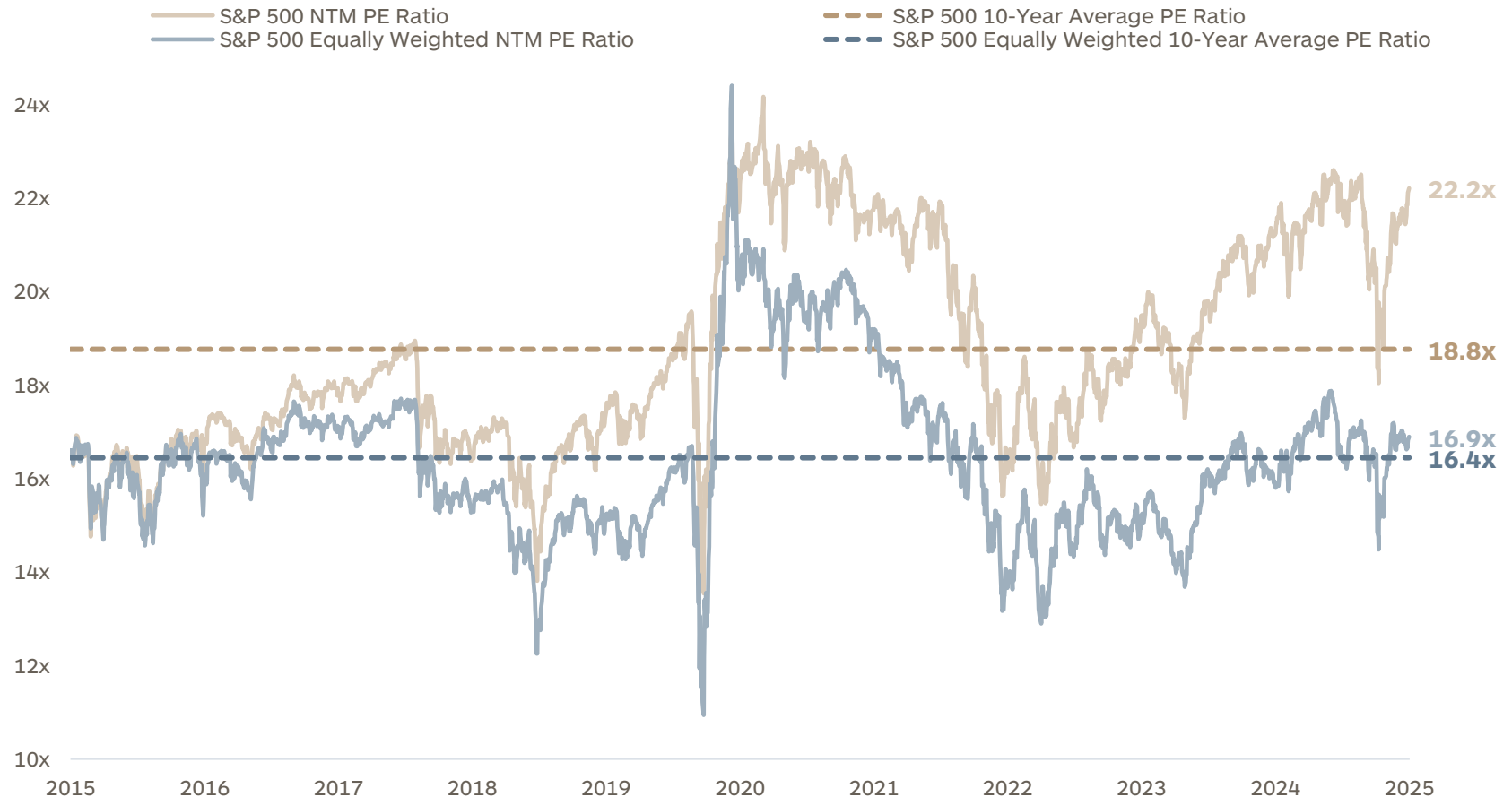
Source: Cerity Partners, Strategas, FactSet, 6/30/2025



# The Market is Expensive, but the Average Stock is Not.

The S&P 500 Equally Weighted index is sitting right near its 10-year average.

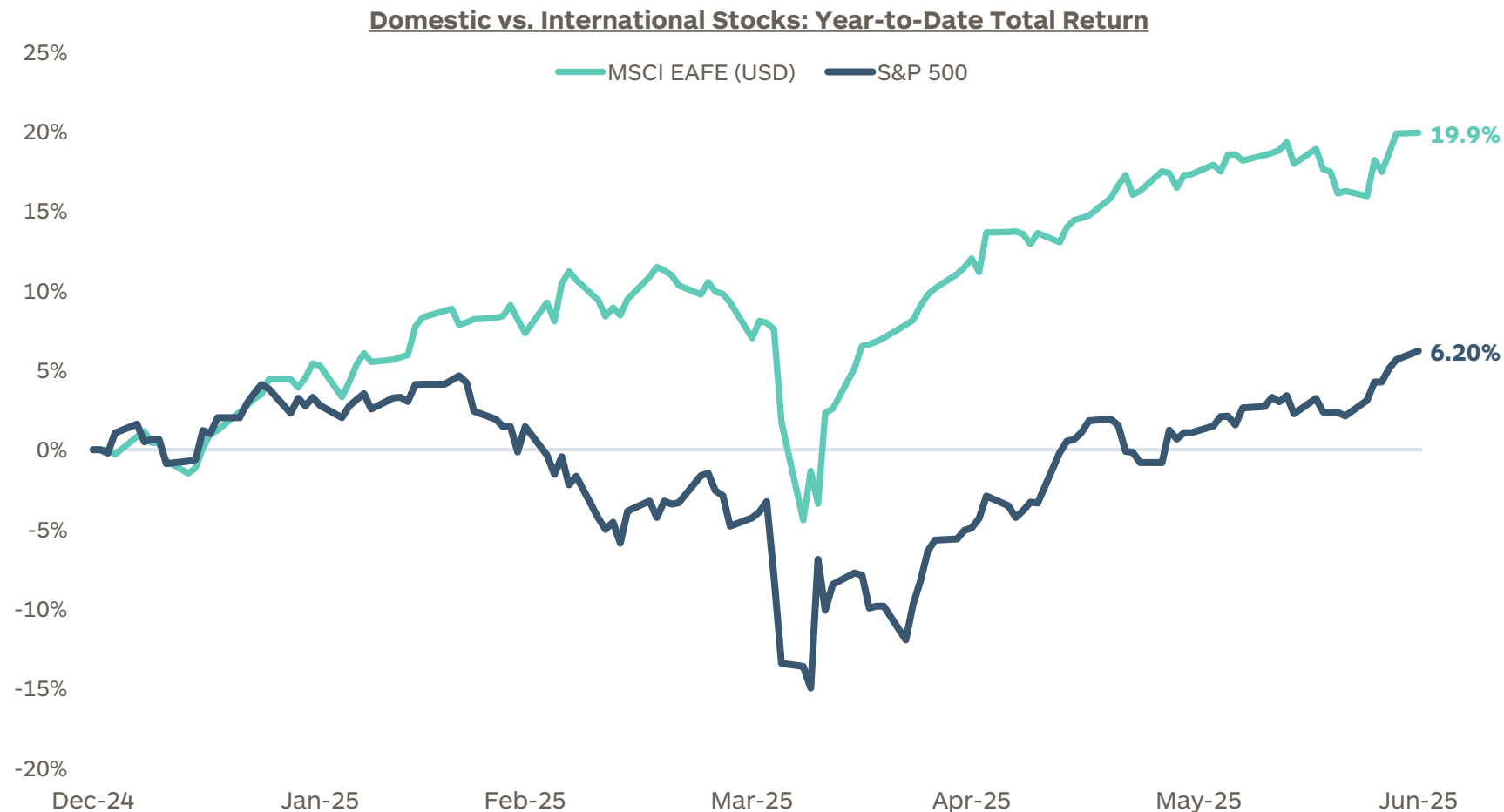
## Valuations vs. History: S&P 500 and S&P 500 Equally Weighted



Source: Cerity Partners, FactSet, 6/30/2025. Past performance is not indicative of future results.

# International Stocks Continue to Shine

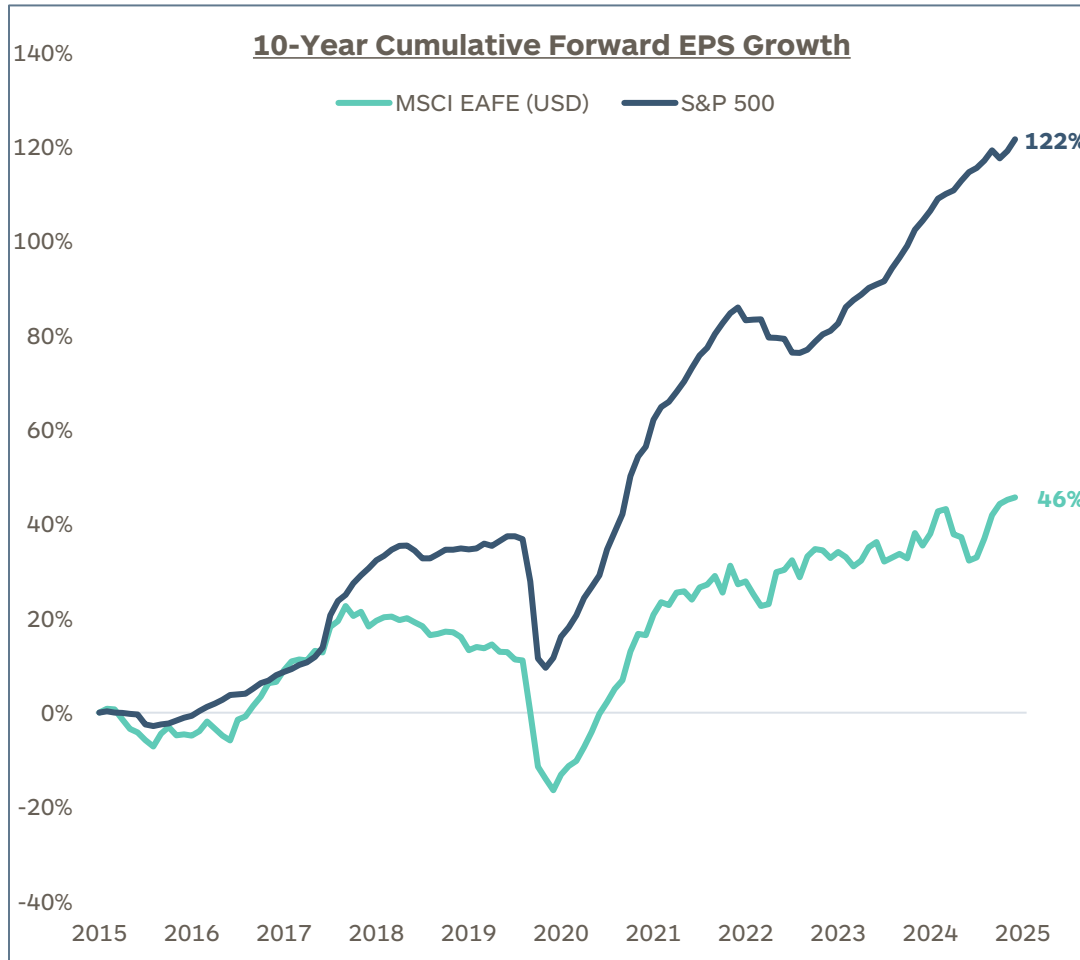
Foreign stocks maintained their lead in the second quarter (with some help from a weak dollar)



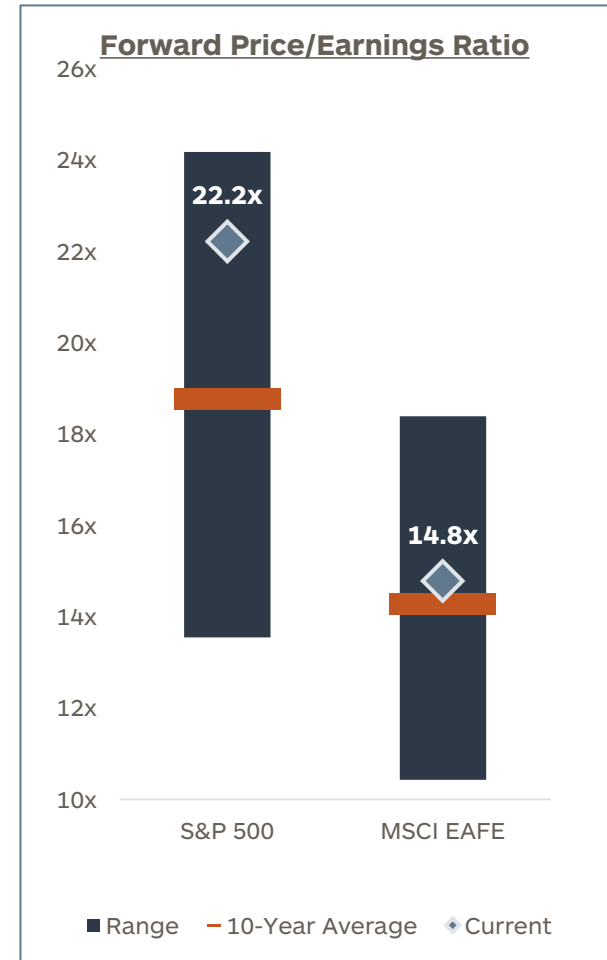
Source: Cerity Partners, FactSet, 6/30/2025

# U.S. Valuations Reflect Historically Strong Earnings Growth

If other countries can start to close the earnings gap, cheap valuations give their stocks room to run.



Source: Cerity Partners, FactSet, 6/30/2025



Source: Cerity Partners, FactSet, 6/30/2025

# Nervous About Investing at Today's Highs?

Markets spend more time at the “highs” than you might expect.



**Source:** Cerity Partners, FactSet, 6/30/2025. Returns exclude dividends. Past performance is not a guarantee of future performance.

# Our Current Outlook & Positioning

## Economic Key Themes

- › **The U.S. economy is resilient**, with labor markets remaining strong enough to buoy consumption, which makes up nearly 70% of gross domestic product.
- › Our current **expectations of a recession in the next 12 months are moderately low** though our economic and financial markets prognosis depends heavily on trade policy outcomes
- › The **“One Big Beautiful Bill” has the potential to offset some of the negative impacts of tariffs** to consumers.
- › The Federal Reserve is still looking to cut interest rates. Tariff effects cannot be known until firmly established. **We expect 1-2 cuts this year, likely starting in September.**
- › **We expect S&P 500 profits to grow** at mid-single-digits in 2025 and re-accelerate to low double digits by 2026.
- › **Uncertainty works both ways.** Companies appear hesitant to embark on new projects but equally hesitant to layoff workers.

## Tactical Positioning

▼ Underweight   ● Neutral   ▲ Overweight

Equities	
S&P 500	●
S&P 500 Equally Weighted	▲
International Equities	●
SMID Cap Equities	●
Emerging Market Equities	▼
Fixed Income	
Core Fixed Income	▲
High Yield	▼
Cash	

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