NEAM VANTAGE POINT

Trade Winds

JULY 2025

ECONOMIC & CAPITAL MARKET OVERVIEW

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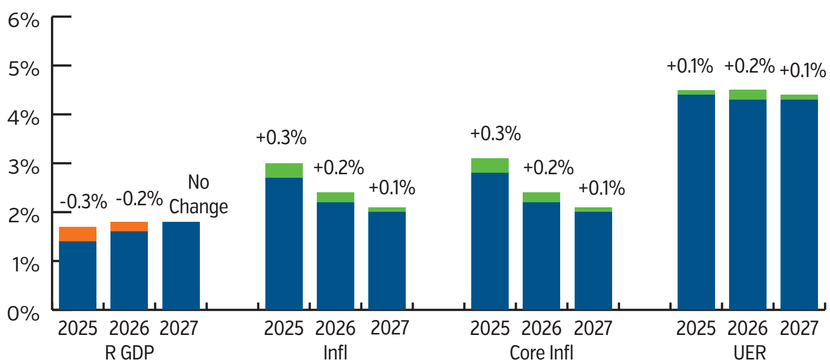
Monthly Economic Highlights

JUNE OVERVIEW

The Fed stayed the course in June, keeping the benchmark policy rate range at 4.25 - 4.50% while advocating a cautious approach as recent trade policy measures have yet to show their impact on economic activity and inflation. Per its statement, the Fed believes that uncertainty has "diminished but remains elevated," the labor market is in "solid" shape, while inflation remains "somewhat elevated." However, with the effect of newly initiated trade policies not yet widely appearing in prices, it sees its current policy stance as appropriate until it can gain a clearer vision, a message Fed Chair Powell reiterated later in the month in testimonies to the House and Senate. Accompanying the Fed's statement was the release of its summary of economic projections. Relative to the last release in March, the projections showed nearer term growth expectations slowing, with the median estimate for GDP for this year and the next falling but remaining unchanged thereafter. Concurrently, estimates for unemployment, headline and core inflation rose slightly across the board. With these assumptions in mind, the median estimate for the Fed Funds rate remained level for this year (implying 50 bps of cuts), although the dot plot showed a slight shift closer to the current positioning than the previous meeting. The Fed finds itself in a difficult position, with diverging economic projections highlighting that the Fed's dual mandate remains "in tension," as inflation estimates increase while growth expectations decrease. For now, however, and until the data carves a path more definitively one way than the other, the Fed has decided to stay put.

Exhibit 1. Median Economic Projections: FOMC Economic Projections & Change



Source: FRB, Haver, NEAM

On the labor front, the most recent payrolls number came in at +139K, leaving the three-month average total at +135K despite a downward revision for the previous two months. As has been the case for some time, healthcare jobs drove the increase with the largest share of the monthly total, along with a notable contribution from the leisure and hospitality sector.

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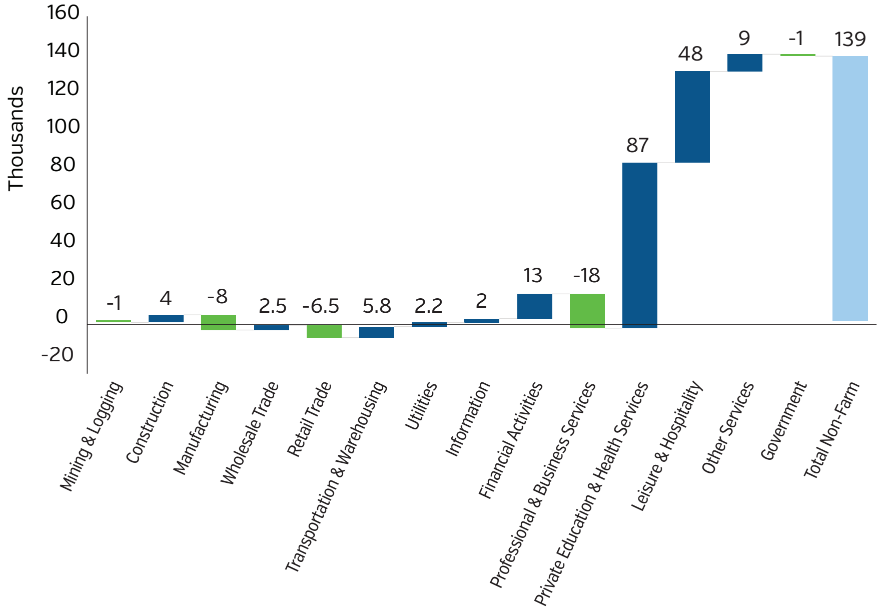
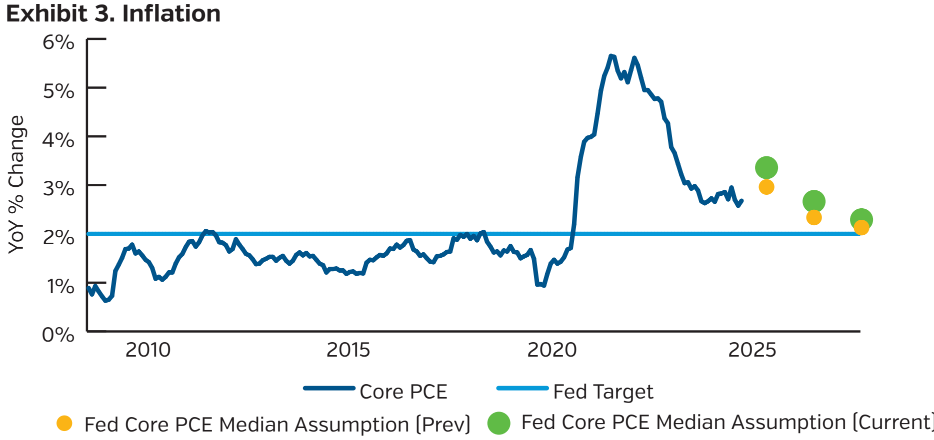
Principal offsets to the gains were reductions in the manufacturing and professional and business services areas. The unemployment rate remained relatively steady at 4.2%, with similar declines in the labor force and number of unemployed. JOLTS data showed both higher job openings and hires for the month, but lower quit rates and more layoffs, supporting the notion that although not as strong as before, the labor market's health remains intact. In terms of wages, the growth rate of average hourly earnings continues to decelerate, increasing +0.4% for the month and a slower 3.8% on an annual basis, although nominal and real personal spending fell. Elsewhere, consumer confidence surveys were mixed, with the University of Michigan's index changing directions and rising while the Conference Board's measure of confidence fell. In both cases, levels remain below long-term averages and concerns over tariffs, inflation and the path of the economy stood front and center.

Exhibit 2. Payroll Breakdown



Source: BLS, Haver, NEAM

Exhibit 3. Inflation



Source: FRB, BEA, Haver, NEAM

Industrial production fell over the month by -0.1%. A 2.9% decrease in utilities could not be overcome by a +0.1% uptick in mining and manufacturing, respectively, the latter led by motor vehicle production but lagging overall elsewhere. National PMIs showed that manufacturers are struggling with tariffs, while regional PMIs continue to echo the challenged sentiment, with surveys at both levels continuing to contract overall. Increased uncertainty has been accompanied by an uptick in optimism however, with the NFIB optimism index increasing for the first time this year, as the percentage of small business owners seeing potential for higher sales and an improving economy grew relative to last month.

Inflation remains above the Fed's desired level and recent prints were mixed. Headline CPI posted a +0.1% gain for the month, below market expectations, as gains in food (+0.4%) and core inflation (+0.1%) outweighed a (-1.0%) drop in the energy sector led by lower gasoline prices. At the core level, core goods prices were flat while the pace of core service price increases slowed to (+0.2%). Diving deeper, price gains in household furnishings, recreation and education kept core goods prices level despite declines in apparel, as well as new and used vehicles. At the core service level, shelter prices added their customary weight to the overall picture, increasing +0.3% again. Away from shelter, core service price gains slowed to a +0.1% gain, as continued declines in airline fares countered increases in motor vehicle insurance, while gains in medical care and hospital services softened. In contrast to core CPI, core PCE numbers came in above expectations at +0.2% for the month. Overall, the numbers show that increases from tariffs are not yet making a pronounced impact on the data. Despite this, the Fed remains in a cautious stance, waiting for a clearer view as it weighs its next move.

CAPITAL MARKET IMPLICATIONS

With geopolitical tensions adding to the already heightened trade policy uncertainty, Treasury yields fell across the board, while equity prices gained.

Exhibit 4. U.S. Historical Yield Curves

	Dec 2021	Dec 2022	Dec 2023	Dec 2024	June 2025
Fed Funds Range	0.00-0.25%	4.25-4.50%	5.25-5.50%	4.25-4.50%	4.25-4.50%
2-Year	0.73%	4.43%	4.25%	4.24%	3.72%
5-Year	1.26%	4.00%	3.85%	4.38%	3.80%
10-Year	1.51%	3.87%	3.88%	4.57%	4.23%
30-Year	1.90%	3.96%	4.03%	4.78%	4.77%

Source: Bloomberg, NEAM

Capital Markets

FIXED INCOME RETURNS

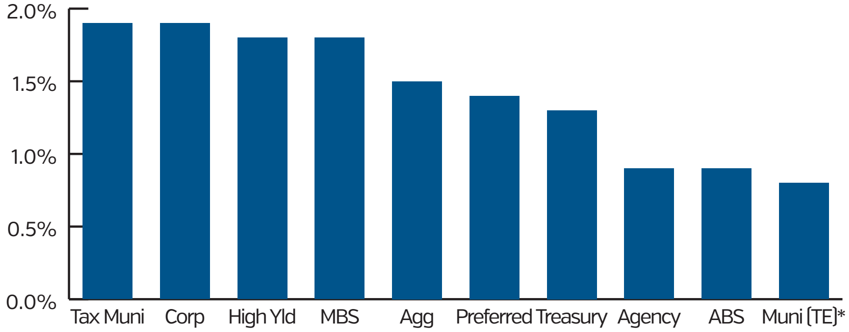
The Fed remained cautiously on hold as it waits to see the inflationary impact of recent trade policy changes. With geopolitical tensions rising and then easing during the month, Treasury yields ended the month lower, while credit spreads remained resilient.

Exhibit 5. Fixed Income Returns

	June	3-Month	YTD
Bloomberg Barclays U.S. Aggregate	1.54%	1.21%	4.02%
Blended ICE/ BofAML Preferred Stock	1.39%	0.88%	1.06%
ICE BofA US Taxable Muni - Broad	1.91%	0.77%	3.70%
ICE BofA Municipals Master (TE)	0.83%	0.08%	-0.24%
Bloomberg Barclays U.S. MBS (fixed rate)	1.78%	1.14%	4.23%
Bloomberg Barclays U.S. ABS	0.87%	1.38%	2.93%
Bloomberg Barclays U.S. Agency	0.89%	1.30%	3.44%
Bloomberg Barclays U.S. Treasury	1.25%	0.85%	3.79%
Bloomberg Barclays U.S. Corporates	1.87%	1.82%	4.17%
Bloomberg Barclays High Yield	1.84%	3.53%	4.57%

Source: Barclays, Bloomberg, NEAM

Exhibit 6. Domestic Fixed Income Sector: Month-to-Date Total Returns (6/30/25)



** Taxable Equivalent*
Source: Bloomberg, Barclays, ICE BofAML, NEAM

EQUITY TOTAL RETURNS

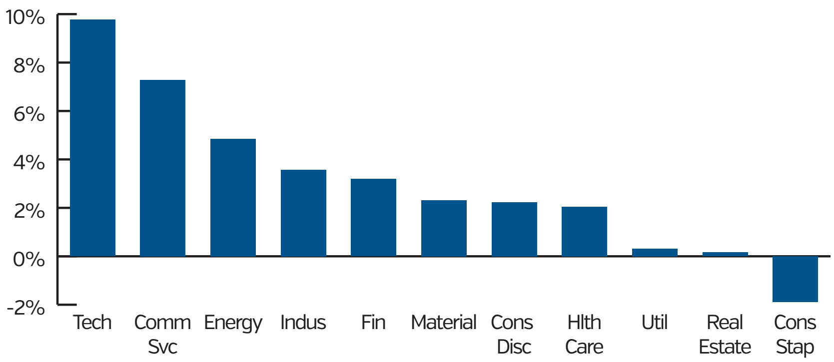
Investors digested a flare and subsequent calming of geopolitical conflict, along with ongoing trade policy uncertainty, and equity markets climbed. The S&P, Dow and Nasdaq all finished the month with positive gains.

Exhibit 7. Equity Total Returns

	June	3-Month	YTD
S&P 500	5.08%	10.94%	6.20%
NASDAQ	6.64%	17.97%	5.86%

Source: Bloomberg, NEAM

Exhibit 8. Domestic Equity Returns: Month-to-Date Total Returns (6/30/25)



Source: Bloomberg, NEAM

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