

# Mid-Quarter Update

Stocks and bonds have continued to provide positive results. We are pleased to share that the environment has enabled investors to build on the returns reported at mid-year. While the capital markets are optimistic, the path forward for the economy, and how investors may respond, remains uncertain. For this reason, investors were highly focused on the Federal Reserve's (Fed) most recent statements in Jackson Hole last week.

Two recent economic releases underscore this uncertainty: Gross Domestic Product (GDP) and employment. The advance estimate for second quarter real GDP came in at 3.0% year over year, a notable rebound from the first quarter's -0.5%. Both numbers, however, were heavily distorted by trade activity related to tariff policy, which depressed imports in one quarter and boosted them in the next. On a more consistent basis, first-half GDP growth averaged just 1.25%, with final sales to domestic purchasers, a good indicator of basic demand in the economy, slowing to 1.2% in the second quarter.

The employment backdrop also softened. Job creation in July was a disappointing 77,000, and downward revisions to prior months brought average job growth over the last three months to only 35,000, near stall speed. Still, the unemployment rate edged up only slightly to 4.2%, a historically strong level, with reduced immigration helping keep the number low.

Despite these trends, equity markets have remained resilient, with corporate earnings stronger than expected given the potential impact of tariffs and a slowing economy. Bond markets, by contrast, responded to the weaker jobs data by pushing long-term interest rates lower. The primary headline from the recent Fed meeting was a shift in posture that now signals they will be more willing to reduce interest rates if economic conditions continue to weaken. The Fed will be monitoring the economic impact of tariffs and their influence on inflation. For more insight on this topic, please review our most recent Perspectives article.

The common theme across markets continues to be uncertainty. Tariff deadlines have now passed, and the coming months may provide more clarity on the effects of elevated trade barriers. Until then, we remain confident in our approach. From an investment standpoint, our position remains unchanged: keep the focus on the long term and commit to investing in high-quality companies. When there is uncertainty, it is best to seek haven in high-quality issues. Such businesses have the

## August 2025

balance sheet strength, management discipline, and competitive positioning to navigate unsettled conditions. They also possess the corporate resources and flexibility to adapt as conditions change.

The good news is that our quality bias has served clients well year-to-date, with strategies performing strongly against their stated goals and objectives. We believe we are well-positioned for the remainder of the year, and we continue to emphasize the importance of focusing on the long term, even when the short-term outlook is uncertain.