

Stocks posted a strong week of gains; the S&P 500 was up 2.4% compared to last Friday and closed within a point of the previous all-time high on July 28. While notable cracks in the labor market remain concerning, companies continue to display financial strength and provide guidance that suggests further profit growth is the most likely outcome over the near term. Notably, a consensus view is forming which calls for broad-based earnings growth across sectors throughout the remainder of 2025 and 2026. Should this materialize, it bodes well for the market as a whole as companies prove resilient against an uncertain macro backdrop.

On Wednesday, Apple CEO Tim Cook visited the White House. This was followed by a joint press conference with the President to highlight the company's latest \$100 billion commitment to manufacture in the U.S. However, after Cook finished speaking, the President proclaimed that he will soon impose a 100% tariff on semiconductors, but not for companies that have "committed to build" in the U.S. That was on top of the other aggressive tariff posturing that seems to come out of the White House every day. Stocks were unphased; S&P futures barely moved on the announcement while the index finished flat at the following day's close.

With all of the tariff noise that's occurred for most of the year, markets have started to become numb to the risk, exhibiting headline fatigue. It's becoming clear that carveouts will be applied for companies which commit to invest in the U.S. going forward. Making the trip to the Oval Office, followed by a high-profile press briefing with flattering commentary, certainly doesn't hurt either. I suspect other CEOs from the largest American companies will follow suit, which suggests that the ultimate impact from tariffs (at least for large public companies) should hopefully be somewhat manageable. Regardless, this appears to be the consensus view that's been taking shape over the past few months.

Despite that optimistic perspective, it's undeniable that tariff duties are starting to add up, which puts a dent in economic growth. On Thursday, U.S. Commerce Secretary Howard Lutnick said that he expects monthly tariff duties to reach roughly \$50 billion (currently running at \$28 billion compared to \$8 billion per month last year). If correct, that implies approximately \$500 billion in additional taxes per year that companies could have otherwise put towards capital investments for future growth. To put that in perspective, these additional duties would amount to roughly a 13 percentage point corporate tax hike (U.S. corporate profits are currently roughly \$3.9 trillion annually¹). Corporate spending

¹ Bureau of Economic Analysis, National Data (National Income and Product Accounts) – Corporate Profits by Industry

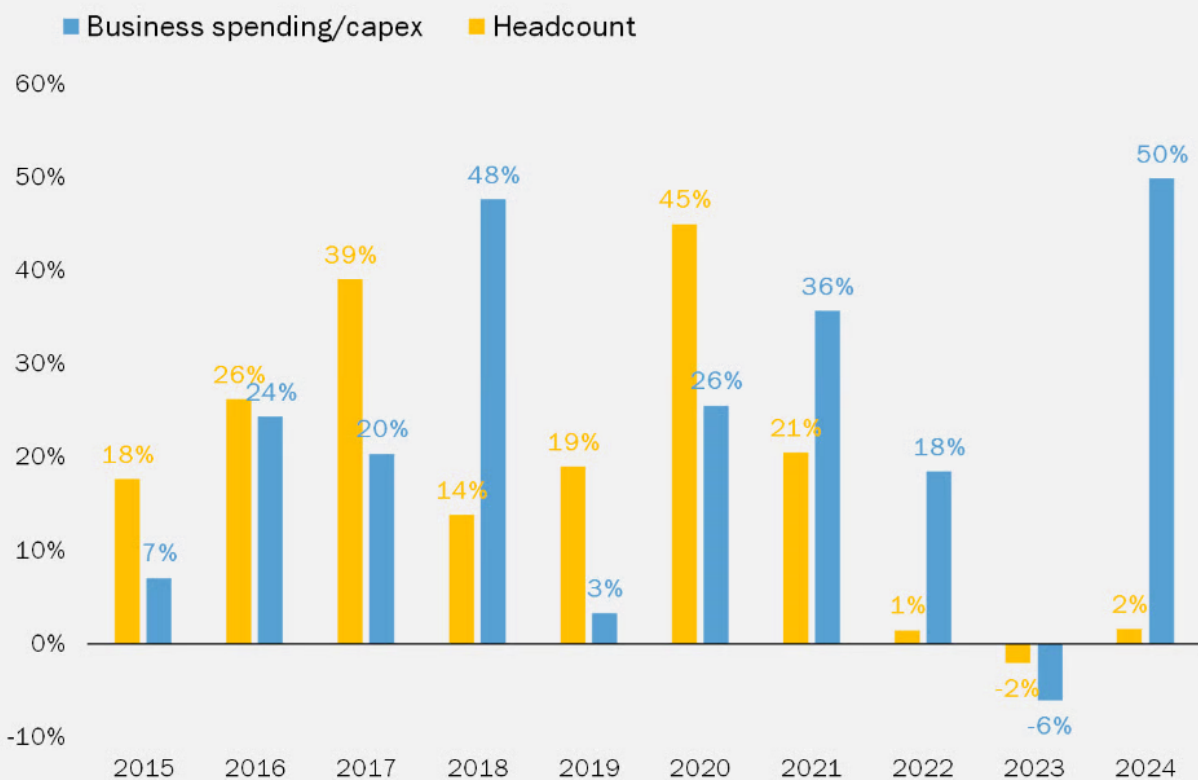
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generally has the highest economic multiplier effect, so roughly half a trillion per year being transferred from this bucket into the government's coffers is a very meaningful impact.

Despite the drag from tariffs, positive trends across business investment, mostly related to technology (i.e. AI) spending, continue to power this market forward. In essence, the major secular tailwind from megacap tech spending, and future productivity gains from transformative AI adoption, is the overwhelming pro-growth trend.

Fewer employees, more robots

Big tech's annual change in headcount vs. business spending

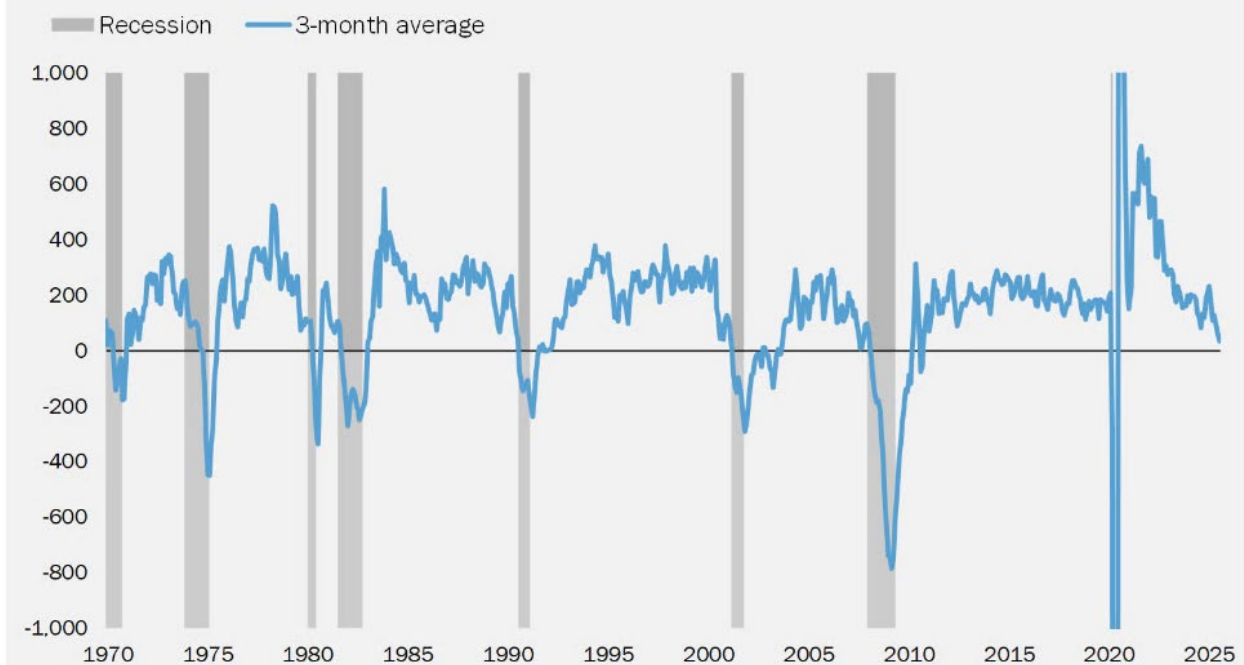


Source: Callie Cox Media LLC, Bloomberg, company filings. Data is for Alphabet, Amazon, Apple, Meta and Microsoft. Microsoft headcount data is as of June of each year.

Without it, the American economy may otherwise be flirting with an imminent recession, especially given that the labor market has been deteriorating in recent months. Current jobs-related weakness isn't surprising; companies are getting squeezed from higher tariff costs and need to maintain margins.

Hiring grinds to a halt

Three-month average of non-farm payrolls



Source: Callie Cox Media LLC, FRED, NBER

Robots are pulling the economy along this year

Inflation-adjusted change by GDP component

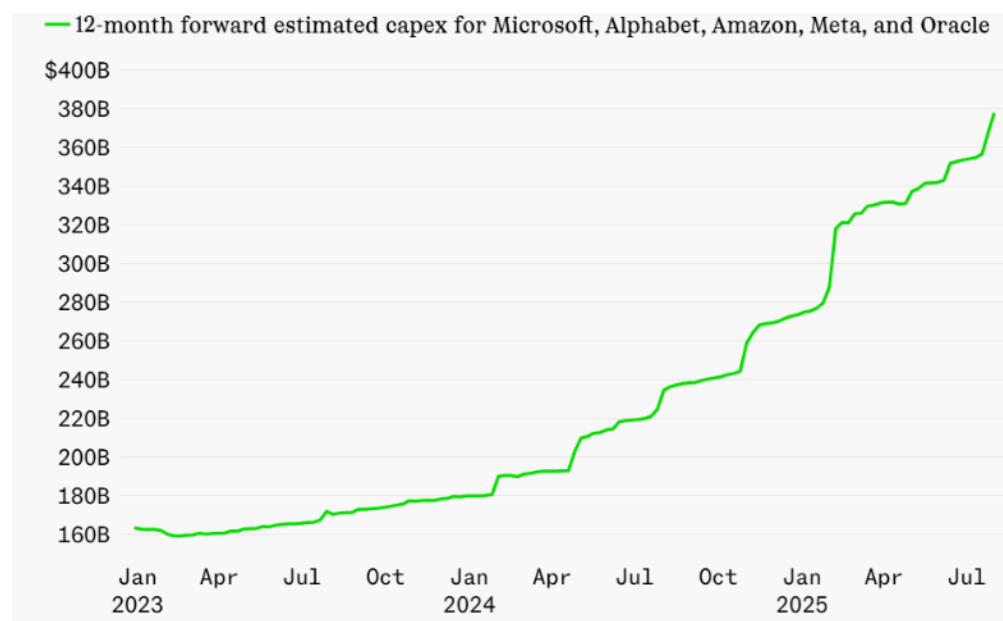


Note: AI/Tech investments are measured by adding the investments in information processing equipment and software

Source: Callie Cox Media LLC, Bureau of Economic Analysis

The good news is that continued growth across capital investment, already running at an unprecedented scale, is expected to persist for years to come. That has been a common theme during recent earnings releases and embedded in guidance provided by the most consequential American businesses. Profit forecasts, previously subject to sharp negative revisions earlier in 2025, are now trending higher for both this year and next. The largest technology companies (with very little reliance on debt financing) continue to generate record levels of free cash flow, which is likely to compound further at high growth rates in coming years. Those are powerful reasons to remain in the bullish camp.

Forward 12-Month Capital Expenditures Forecast



Source: Bloomberg, *A Wealth of Common Sense*

Natural market forces remain strong; in the aggregate, companies continue to churn out high levels of profitability with attractive go-forward growth prospects. Capital allocation, in my view, has never been more efficient. The most positive outcomes for economic growth and societal advancement occur when the greatest technical minds (i.e. engineers, data scientists, nuclear physicists, etc.) combine forces with the savviest business leaders united under a common profit motive. That's exactly when we're witnessing during this once-in-a-generation technological revolution. Unlike during the late 1990s, where skeleton ideas were indiscriminately rewarded with blank check funding, the companies currently leading the charge are highly profitable with proven business models. Thus, absent an unforeseen recession, I expect corporate profit expansion to far surpass GDP growth for the foreseeable future, which is the best news one can hope for as an investor.

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