

We hope all of you and your families enjoyed a great July 4th! The rally continued into Independence Day – the S&P 500 notched a fresh all-time high at Thursday's early close. With another week in the green, the index is now roughly 2% above the highs reached in mid-February prior to the subsequent sharp decline driven by tariff fears. Stocks are now up 30% compared to the lows reached intra-day on April 7, reflecting one of the fastest and steepest V-shaped recoveries in market history. The rapid ascent off the lows has historically boded well for the market's future prospects, suggesting this bull market run may just be getting started.



Source: *A Wealth of Common Sense*

The catalysts behind this week's continued strength can be attributed to a stronger than expected jobs report released on Thursday morning, as well as the final passage of the tax and spending bill through both chambers of Congress. President Trump also announced a successful trade deal with Vietnam, an important producer of low-cost goods for American importers. Investors are optimistic that the deal could serve as a blueprint for other trade agreements as well, further lifting market spirits.

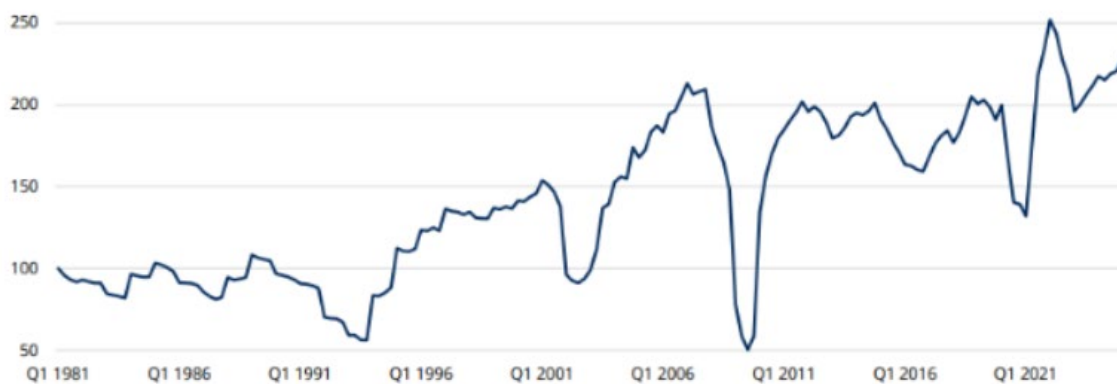
The jobs report helped assuage investor fears after a surprisingly negative print regarding private job creation released the day prior. The ADP National Employment Report estimated that private employers shed a net 33K jobs during June, the first net monthly job loss since March 2023. Furthermore, measures of economic activity across manufacturing continue to under impress, the most recent monthly reading suggesting that the sector remains slightly in contraction territory (i.e. PMI reading under 50). While estimates for

overall GDP growth in the second quarter are fairly robust, consumer and business spending may be slowing. The most recent forecast provided by the Atlanta Fed (GDPNow) predicts a sub 2% level of growth for consumer spending and an outright decline in business spending, with a significant increase in net exports (primarily due to lower import levels) lifting the headline GDP number.

Essentially, the economic picture has become somewhat mixed, in my view. Nevertheless, while growth may be slowing to some extent, a recession doesn't seem likely over the near term. That appears to be good enough to appease investors for now. Furthermore, the tailwinds from AI-related technological advancement should continue driving corporate profit growth well above the rate of growth for the overall economy. This bodes well for stock investors given that companies are valued based on future earnings they are expected to generate. In other words, the greater the level of future earnings growth, the more valuable these companies are today. Given that such a large percentage of the U.S. stock market is comprised of technology businesses, and efficiency gains from AI are spread across sectors, that's very bullish regarding the earnings outlook over the near, medium, and longer term. In fact, companies are generating near record profits relative to the size of their work force, and are expected to only become more efficient over time, providing a further boost to margins and productivity.

US companies have been generating near-record profits per employee

Real profits/employee, indexed to 100: US public companies



A Wealth of Common Sense, Schroders

As we continue to assess developments across the macroeconomic landscape, the second quarter earnings season is about to begin. Investors will be looking for clues regarding the future prospects for key companies. As always, this will not only provide valuable color regarding the outlook for these businesses, but also the market's reaction to

the news. This should offer insight regarding what's currently reflected in market expectations, and how those evolve over the coming months. The market has come a long way in a short period of time, a bullish uptrend now firmly in place. We'll see if upbeat corporate guidance is enough to provide the next leg for this rally during the second half of 2025.

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