The Weekly Market Update – 7/7/25: One Big Budget Bill and Jobs Gains Drive Equity Gains

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	6,279.35	1.72%	1.20%	6.76%	15.00%	6,279.35	0.0%
Dow Jones Industrial Average	44,828.53	2.30%	1.66%	5.37%	14.60%	45,014.04	0.4%
NASDAQ Composite	20,601.10	1.62%	1.14%	6.68%	16.18%	20,601.10	0.0%
Russell 2000	2,249.04	3.52%	3.40%	0.85%	9.83%	2,442.74	8.6%
MSCI EAFE (USD)	2,658.13	0.17%	0.13%	17.52%	14.84%	2,658.13	0.0%
MSCI Emerging Markets (USD)	1,236.97	0.69%	1.16%	15.02%	13.88%	1,444.93	16.8%
Bloomberg Commodity Index	103.39	0.49%	1.34%	4.69%	2.38%	237.95	130.1%
Barclays U.S. Aggregate Bond	92.20	-0.22%	-0.55%	1.96%	2.50%	112.07	21.5%

Source: FactSet

As the U.S. celebrated Independence Day, the president signed the 2025 budget bill, capping a busy week that included a solid June jobs report. After receiving majority votes from both the Senate and House of Representatives, the vigorously debated “One Big Beautiful Bill Act” (OBBBA) was signed by the president on July 4th. The budget reconciliation process, which requires just 51 Senate votes vs. 60 votes for most other legislation, led to investor focus on the annual budget deficit and national debt. The bill raised the debt ceiling limit by +$5.0 trillion (T) and did little to reduce the trajectory of the estimated annual budget deficit, which was -$2.0T for the most recent twelve months through May 2025. The bill faced many negative headlines, as some wanted higher tax rates on high incomes and corporations, others pushed for more spending cuts and lower deficits, and still others worried about cuts in entitlements, especially Medicaid. Equity markets rallied through the debate however, as the widely followed S&P 500 gained +1.7% last week, and since 6/20/25 increased +5.2% (both as of 7/3/25). The index closing price of 6,279 on 7/3/25 was an all-time closing high. We attribute positive investor reaction to removal of budget uncertainty (now we know everything in the bill) and extending/continuing lower individual tax rates that were created in the 2017 Tax Cuts and Jobs Act (TCJA) (this was a perceived headwind if TCJA tax cuts expired and reverted higher). In addition, the bill includes pro-growth business investment incentives (primarily due to aggressive depreciation metrics). Ironically, positive investor sentiment might also be linked to fewer spending cuts imbedded in the bill, as austerity measures (reduced government spending) can create growth headwinds. While this positive reaction could be tenuous if annual budget deficits continue to grow, the near-term response is positive if growth expectations improve. According to the Bureau of Labor Statistics (BLS), June nonfarm payrolls (jobs) increased by +147 thousand (K), exceeding the FactSet consensus estimate for +120K. The monthly jobs increase for the second quarter (2Q25) was +150K, up from the 1Q25 monthly average of +116K. While not suggestive of a surging economy, recent jobs gains support expectations for continued consumer spending growth.

With the budget debate largely completed, investor focus is expected to return to tariffs and trade deal negotiations. With President Trump’s 90-day delay on reciprocal tariffs set to expire on 7/9, tariff uncertainty has returned to market discussions. While trade deals have moved forward with the U.K., Vietnam, and China, it appears that tariffs will escalate this week with other countries. We see potential market volatility as renewed tariff uncertainty can weigh on equities. Trade deals, on the other hand, can be a positive. When the president announced reciprocal tariffs (tariffs above the 10% universal level) on 4/2/25, the S&P 500 decreased -12.8% over the next four days. Since the low, the index has gained +26.0% and is now +10.7% above the pre-reciprocal tariff announcement date. We believe that investors view a universal 10% level as increasingly likely but want to see trade deals rather than tariff escalation from those levels. A tariff-driven trade war can be negative for equities over the weeks ahead.

Equity markets are lower to begin the post-holiday week, as elevated valuations and tariff headlines weigh on indices. The S&P 500 was down -1.0% in mid-morning trading (Monday) following two weeks of strong gains. The S&P 500 trades at 22.5x estimated earnings over the next four quarters, as we await the beginning of 2Q25 earnings reports next week. The president has announced 25% tariffs on Japan and South Korea as of 8/1/25, a new salvo in the trade war that is likely intended to create urgency in negotiations.

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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, exchange-traded companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. Today the NASDAQ Composite includes over 3,000 companies. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance.

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analysts' estimates from firms that submit estimates to FactSet for a given financial metric.

The Trump Administration on 2/12/25 announced a framework for its Reciprocal Tariffs, with a link to the memorandum, "Fair and Reciprocal Plan." On 3/26/25 the White House announced tariffs on imported automobiles and certain automobile parts. Here is a link to a Fact Sheet from the President that outlines the action. The President's April 2, 2024 Tariff Announcement is also linked. Also linked is the White House Fact Sheet on the U.K. trade agreement. The 90-day pause on Reciprocal tariffs was announced on 4/9/25. The Wite House provided links to the One Big Beautiful Bill Act as of 7/4/25. The reconciliation process is a way the expedite bills, as they can be passed by a simple majority vote in the senate as long as certain budgetary rules are followed.

The consumer price index (CPI) is a measure of average change, over time, in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics. Data is reported on a total basis and "core-CPI" basis. Core-CPI excludes food and energy prices, which are inherently more volatile and less impacted by Federal Reserve interest rate policy.

In 2025 the U.S. Congress (both the Senate of House of Representatives) will work on a joint budget bill that is expected to include an increase in the debt ceiling and include spending priorities and spending cuts supported by the President.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data as a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at www.bea.gov.

S&P 500 earnings growth reflects the year-over-year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index. S&P 500 earnings in the first quarter of 2025 increased +13.0% year-over-year, exceeding the FactSet consensus estimate (as of 3/31/25) of +6.4%. The forward price-to-earnings calculation for the S&P 500 as of 7/3/25 takes the closing index value of 6,279 divided by the weighted average (by market capitalization) forward eartnings estimate (3Q25 through 2Q26) from FactSet of $279.

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys. The household survey measures labor force status by demographics, while the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component of the establishment survey is drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work.

The U.S. Treasury publishes its Monthly Treasury Statement, which tracks federal government revenue and outlays (spending). The difference is the monthly budget deficit (if spending exceeds revenue) and monthly budget surplus (if revenue exceeds spending). The annual budget deficit can be looked at on a 12-month rolling basis or for the full fiscal year as of 9/30 each year.

The Tax Cuts and Jobs Act was tax legislation passed by Congress in 2017. The legislation reduced the statutory corporate income tax rate, and also lowered tax rates across personal income tax brackets. It also made changes to the personal standard deduction, personal exemption and estate taxes. Many of the provisions of the TCJA (not the corporate tax rate) are set to expire at the end of 2025, unless extend