



JAMES

INVESTMENT RESEARCH, INC.

ECONOMIC
OUTLOOK

2025

3rd Quarter Outlook

An Indepth Forecast
of the Year 2025

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Executive Summary

The economic landscape in the second half of 2025 is characterized by a complex interplay of policy-induced uncertainties, persistent inflationary pressures, and emerging signs of economic deceleration. Following the dramatic market correction and subsequent recovery experienced earlier this year, markets received a significant boost by the end of June as both the S&P 500 and Nasdaq Index reached new all-time highs, driven by easing Middle East tensions and balanced Federal Reserve commentary. This historic recovery - achieving new records just months after severe corrections - represents one of the most remarkable market reversals in recent financial history.

Market Performance Update

Breakthrough Rally and Renewed Optimism

U.S. equity markets experienced dramatic volatility during the first half of 2025, characterized by a severe correction followed by an equally impressive recovery. The initial downturn saw the S&P 500 decline by 18.75% from its February 19th highs to April 8th lows, driven primarily by tariff policy uncertainty and Federal Reserve ("Fed") concerns about persistent inflation. This correction was particularly pronounced in technology stocks, which fell 25.7% during the selloff phase.

However, markets demonstrated remarkable resilience with a subsequent recovery that brought the S&P 500 back to positive territory for the year at 6.20% year-to-date. From April 8th lows through the end of June, the index gained over 24.92%, representing one of the most impressive rebounds in recent market history. Technology led this recovery with a 39.75% gain from the lows, while other sectors showed more modest but still positive returns. This recovery has masked underlying structural concerns that are becoming increasingly apparent as we enter the second half of 2025.

The rally was significantly boosted by easing Middle East tensions following an unexpected ceasefire agreement between Iran and Israel brokered by President Trump.

Sector Performance and Outlook: Technology continues to drive market dynamics, having led both the correction (-25.7%) and recovery (+39.75%). However, the

sustainability of this leadership faces significant challenges from elevated valuations and policy uncertainty. On a year-to-date basis, Communication Services and Industrials have emerged as top performers with gains of 12.70% and 12.64% respectively, while the defensive Utilities sector provided steady 9.40% returns during periods of market uncertainty. In contrast, Energy posted a disappointing 0.60% gains and Healthcare turned negative with a 1.18% decline, highlighting the uneven sector rotation patterns in 2025.

Size and Style Dynamics: The persistent underperformance of small-cap stocks, with the Russell 2000 Index remaining negative (-1.79% YTD) despite the broader market recovery, signals deeper economic concerns. Approximately one-fourth of Russell 2000 Index members are classified as "zombie" borrowers, failing to generate sufficient operating income to cover interest costs. Growth stocks have reclaimed leadership following their more severe correction, but this outperformance may prove fragile given elevated borrowing costs and economic uncertainty.

Earnings and Valuation Concerns

Earnings Outlook Deterioration Continues: The earnings outlook has deteriorated significantly since the beginning of the quarter, with the latest FactSet data showing S&P 500 earnings growth projections for Q2 2025 falling to just 5.0%, down from 9.4% at the start of the quarter. This represents the lowest expected earnings growth since Q4 2023 (4.0%) and marks a substantial 4.1% decline in estimated earnings for the index since March 31. All eleven sectors have experienced downward revisions to earnings estimates, led by Energy (-19.1%), Consumer Discretionary (-7.2%), and Materials (-6.4%).

Valuation Expansion Despite Earnings Weakness: The forward 12-month price/earnings ("P/E") ratio has increased to 21.9, well above both the 5-year average (19.9) and 10-year average (18.4), and notably higher than the 20.2 recorded at the end of Q1. Since March 31, the index price has increased by 9.4% while forward earnings per share ("EPS") estimates have risen only 0.9%, indicating that valuation expansion rather than earnings growth has driven recent gains. This dynamic raises sustainability concerns given the deteriorating earnings backdrop.

Sector-Level Earnings Pressures: Energy sector earnings estimates have been particularly impacted, with a 19.1% decrease in estimated dollar-level earnings since March 31, as lower oil prices (\$63.63 average in Q2 vs. \$80.66 in Q2 2024) weigh on profitability. The sector now faces a 25.9% year-over-year earnings decline. Consumer Discretionary faces margin pressure from higher input costs, with major companies like Amazon, General Motors, and Tesla contributing to earnings declines. The Materials sector shows broad-based weakness, with 77% of companies recording estimate decreases.

Economic Indicators and Growth Trajectory

Near-Term Economic Dynamics

The U.S. economy contracted 0.2% at an annualized pace in Q1 2025, primarily due to trade-related disruptions as businesses “front-ran” tariff implementations. Net exports alone subtracted nearly 5 percentage points from gross domestic product (“GDP”), creating significant volatility in economic measurements. A striking example of this front-running behavior emerged in pharmaceutical imports from Ireland, where \$36 billion worth of weight-loss drug ingredients were airlifted to the U.S. in just four months - representing more than double the entire previous year’s weight-loss drug ingredient imports from Ireland - as companies like Eli Lilly stockpiled critical supplies ahead of potential tariff deadlines. While Q2 is expected to show a mechanical rebound of approximately 4% growth due to reduced imports and inventory contributions, this masks underlying weakening in private demand.

Business Behavior and Investment Hesitation: The surge in imports during Q1 2025 reflected widespread corporate efforts to build inventories ahead of anticipated tariff increases. This pull-forward of demand, while temporarily depressing GDP calculations, is likely to fade in the second half of the year, potentially creating a significant drag on private demand growth. Companies remain wary of making hiring and investment decisions due to persistent uncertainty about the trading environment and policy implementation timelines.

Delayed Price Pass-Through and Margin Pressure: While initial tariff cost pass-through to consumers has

been muted as companies absorbed higher input costs and utilized boosted inventories, this dynamic is expected to change significantly in the third quarter. Major retailers including Walmart and Target have already issued warnings about forthcoming price increases. The combination of higher input prices and consumers’ reduced tolerance for inflation is expected to create substantial pressure on corporate margins. Small-cap companies face particular vulnerability due to limited buffers against input price increases and fewer opportunities to adjust supply chains.

Economic Data Divergence and Tariff Impact

Assessment: Recent economic indicators present a mixed picture that complicates policy and investment decisions. The May services Institute for Supply Management (“ISM”) reading fell below 50 to its lowest level since June 2024, with particularly weak new orders (lowest since December 2022) and elevated prices (highest since November 2022). However, PMI surveys tell a more optimistic story, with the composite Purchasing Managers Index (“PMI”) ticking back up to 52.8 versus the ISM composite sliding into contraction territory.

This divergence appears significant beyond typical survey variations. Since the pandemic, PMI has proven more accurate in predicting actual GDP growth, while ISM has consistently understated economic expansion. The key difference may be that ISM doesn’t restrict survey responses to U.S.-only conditions, potentially capturing negative sentiment from overseas operations, particularly in China where many U.S. companies maintain manufacturing facilities. As a result, ISM may be amplifying tariff-related concerns while PMI better captures the net domestic impact.

Labor Market Resilience Amid Growth Concerns: Despite services weakness, employment indicators remain relatively stable. The ISM services employment component actually strengthened to 50.7, exceeding expectations, while the broader employment picture hasn’t shown the deterioration that typically accompanies recession periods. Historically, economic downturns require both services ISM contraction and ADP hiring falling below 100,000 jobs - a combination not currently present.

Housing Market Pressures and Inflation Dynamics:

The housing market faces significant headwinds that extend beyond typical cyclical patterns, creating both economic and inflationary pressures. Homebuilder

confidence plummeted in June 2025 to its lowest level since December 2022, driven by a combination of high mortgage rates, buyer anxiety over tariffs, and broader economic uncertainty. All three components of the homebuilder sentiment index declined, with present sales reaching their lowest level since 2012.

Construction Cost Inflation and Supply Constraints:

According to Bloomberg, builders are projecting that tariff policies could increase construction costs by nearly \$11,000 per home, forcing 37% of respondents to cut prices in June - the highest percentage since monthly tracking began in 2022. The National Association of Home Builders anticipates declining single-family housing starts, even as rising inventory of previously owned homes creates additional competition for new construction.

Lock-In Effect and Market Dysfunction: A significant structural issue has emerged from the Federal Reserve's rate hiking cycle. While homeowners have been largely shielded due to record-high equity levels and locked-in low mortgage rates, this has created a "lock-in effect" where existing homeowners are reluctant to sell and face higher replacement mortgages. With the average effective mortgage rate at 4.0% and 75% of homes carrying mortgages below 5.0%, even modest rate relief is unlikely to meaningfully change selling incentives.

Persistent Inflationary Pressure: Housing remains the largest component within services inflation and continues to be stubbornly persistent. Shelter prices rose 0.3% month-over-month for two consecutive months, driven by a decade of underbuilding, constrained inventory from low mortgage rate lock-in effects, and demographic demand trends. Higher labor, materials, and insurance costs are contributing to elevated maintenance expenses affecting both homeowners and renters in Consumer Price Index ("CPI") calculations. While some economists suggest slower immigration could potentially reduce shelter inflation pressures, the structural supply-demand imbalance suggests housing will remain a significant inflationary force throughout the third quarter.

Inflation and Stagflationary Pressures

The Federal Reserve's updated economic projections reveal a notable shift toward a more stagflationary outlook, with 2025 real GDP growth forecasts revised down from 1.7% to 1.4% and personal consumption expenditures ("PCE") inflation projections raised to 3.0% (core PCE to 3.1%) - well above the 2% target. The unemployment rate projection also ticked up slightly to 4.5%. This combination of weaker growth and stickier inflation significantly complicates hopes for a soft landing and represents the challenging economic backdrop that has prompted the Fed's cautious stance.

Despite companies initially absorbing tariff costs, retailers like Walmart and Target have warned of forthcoming price increases. Consumer surveys show longer-run inflation expectations becoming "unanchored," with median expected price changes over the next 5-10 years reaching 4.2% in May.

Geopolitical Risk Premium Reduction: While the escalating Israel-U.S.-Iran conflict had reintroduced significant geopolitical risk with oil prices climbing above \$78 per barrel for Brent crude, the recent ceasefire has provided substantial relief. The dramatic 15% decline in oil prices significantly reduces the risk of the worst-case scenario involving closure of the Strait of Hormuz, which could have surged crude to \$130 per barrel and potentially added 1.3 percentage points to headline CPI.



Federal Reserve Policy Outlook

Current Stance and Forward Guidance

The Federal Reserve maintained its benchmark rate at 4.25% - 4.50% while projecting two 25-basis-point cuts for 2025, though policymaker consensus has weakened significantly. Eight Federal Open Market Committee (“FOMC”) participants now anticipate one or zero rate cuts this year, compared to four in December. Chairman Powell has emphasized the Fed’s position to “wait to learn more” about the economy’s trajectory, particularly regarding tariff impacts, before implementing policy adjustments.

Tariff Pass-Through Uncertainty and Fed’s “Wait and Learn” Approach: The Federal Reserve faces unprecedented uncertainty regarding how tariff costs will ultimately be absorbed across the economy. Powell has explicitly acknowledged that the cost of tariffs will “fall on the end consumer,” but the timing and mechanism of this pass-through remains unclear. The Fed is closely monitoring three potential scenarios: suppliers absorbing costs (creating minimal inflationary impact), companies accepting margin compression (generating earnings pressure without broad inflation), or full consumer pass-through (creating direct inflationary pressure). The central bank’s cautious “wait and learn” approach reflects recognition that tariff impacts could manifest through any combination of these channels, making preemptive policy adjustments potentially counterproductive.

Balance Sheet Policy: The Fed announced a deceleration in quantitative tightening beginning April 1st, reducing the monthly Treasury securities redemption cap to \$5 billion from \$25 billion while maintaining the \$35 billion cap on agency debt and mortgage-backed securities. This “slower for longer” approach reflects recognition of evolving market conditions while maintaining the trajectory toward a Treasury-only portfolio.

Policy Dilemma and Market Implications

The Fed faces an increasingly complex mandate balancing slowing growth against persistent inflation. Fed officials have explicitly acknowledged tariffs’ economic impact and incorporation into forecasting models. The central bank’s inflation-fighting credibility remains paramount, potentially limiting policy flexibility even as economic data weakens.

Market expectations currently price in approximately 50 basis points of cuts for 2025, with the first likely in September.

Labor Market Dynamics

Current Strength Amid Growing Vulnerabilities

The labor market maintains surface strength with unemployment at 4.24% in May and unexpected job openings increases in April. However, mounting risks suggest notable weakening ahead. Layoffs have climbed to their highest level since October, while voluntary job quits have declined, indicating waning employee confidence.

Sectoral Concentration Risks: A concerning 87% of job gains over the past two and a half years have been concentrated in just three sectors: government, leisure & hospitality, and private health & education services. These sectors face particular vulnerability given current economic and political dynamics, with government positions already experiencing losses.

Wage Growth and Inequality: Overall wage growth has remained constant at just over 4% for three months, but wages for the lowest-paid quartile are rising slower than pre-COVID levels. This differential creates additional consumer spending pressures for vulnerable demographic segments.

Investment Implications and Sector Analysis

Equity Market Outlook

Technology Sector Leadership and AI Momentum: While technology drove the recent recovery with a 39.75% rebound from April lows and achieved new all-time highs on June 30th alongside the broader Nasdaq Index, sustainability faces challenges from elevated valuations and policy uncertainty. The Bloomberg Magnificent 7 Total Return Index rose 36.98% from its April low, though it remains 4% below a December peak. Ongoing optimism about artificial intelligence remains a primary driver,

with Microsoft Corp. going from one record to the next on AI optimism, while Broadcom Inc. and Oracle Corp. have also rallied on AI-related tailwinds. Nvidia Corp. issued a blockbuster report last month. AI infrastructure investments continue supporting capital expenditure, but most companies are expected to pause new capex plans pending clarity on input costs and regulatory environment.

Small-Cap Underperformance Persistence: Small-cap stocks are expected to continue underperforming until interest rates decline and growth becomes more resilient. These companies face particular vulnerability from tariff exposure, limited supply chain flexibility, and high debt service costs. The Russell 2000's persistent underperformance reflects these structural headwinds.

Defensive Positioning Warranted: Given the challenging macroeconomic backdrop, sectors demonstrating earnings stability and reduced tariff exposure offer the most attractive opportunities. Pharmaceuticals, utilities, and banks are highlighted as showing resilience, while energy and materials provide commodity exposure amid geopolitical uncertainties.

Fixed Income Strategy

Duration and Quality Focus: Current higher yield levels significantly improve fixed income return prospects, with the Bloomberg U.S. Aggregate Index yielding 4.56%, above its 10-year average. Investment strategies should emphasize high-quality segments, including select investment-grade corporates and AAA/AA-rated structured products.

Corporate Credit Performance and Spreads: Higher-quality bonds have outperformed through the first half of 2025, demonstrating the value of quality positioning in uncertain markets. Credit spreads widened significantly following tariff announcements and deteriorating consumer sentiment, reflecting growing concern about the economic outlook. While valuations have improved from the start of the year and appear more attractive on a relative basis, current spread levels are not yet sufficient to justify broad-based credit buying. Spreads are unlikely to return to the narrow levels seen earlier, and if recession risks escalate, significant further widening is expected.



Risks to Long-Dated Treasuries: Longer-dated Treasuries (beyond 20 years) face significant headwinds from fiscal spending concerns, large U.S. borrowing needs, and persistent policy uncertainty. The traditional role of Treasuries as a safe haven has been questioned, as they failed to rally during recent Israel-Iran attacks, leading some investors to reduce Treasury exposure. According to Bloomberg, the government's annual financing needs have skyrocketed to over \$4 trillion after years of runaway budget deficits, creating substantial supply pressures.

Dollar Decline and Financing Challenges: President Trump's economic agenda has contributed to dollar weakness, with the currency losing over 10% against the euro, pound, and Swiss franc since inauguration. This decline complicates U.S. deficit financing, as foreign private investors have become net sellers of Treasury notes and bonds despite overall foreign holdings remaining near record levels. Notably, the correlation between Treasuries and the dollar remains inverted - rising yields no longer attract investors to the dollar; instead, investors are selling Treasuries and withdrawing capital from the country.

Policy Responses and Uncertainties: The Trump administration aims to reduce longer-term Treasury yields through enhanced Supplementary Leverage Ratio ("SLR") reform for banks, potentially freeing up balance sheet capacity to increase Treasury demand. However, skepticism exists regarding whether banks will deploy this additional capacity toward Treasury purchases or shareholder returns. The projected \$2 trillion deficit addition from the GOP budget bill could further increase debt issuance and term premiums, offsetting potential SLR benefits.

Municipal Bond Opportunity: High-grade municipal bonds offer compelling valuations with yields at decade highs. The Bloomberg Municipal Bond Index is yielding around 4.00% (6.33% tax-equivalent for top bracket taxpayers), representing attractive relative value. Municipal bonds remain largely insulated from direct tariff impacts.

Fiscal Policy and Government Funding Challenges

Uncertainty surrounding government funding and longer-term fiscal priorities continues to weigh heavily on business confidence and market dynamics, creating an additional layer of complexity for investors navigating the second half of 2025.

"Big Beautiful Bill" and Deficit Implications: The Trump administration is advancing comprehensive tax legislation, dubbed the "Big Beautiful Bill," which primarily extends the 2017 tax cuts. While positioned as economic stimulus, this legislation is projected to add nearly \$3 trillion to U.S. deficits over the next decade, according to Bloomberg. Combined with existing fiscal pressures, the government's annual financing needs have skyrocketed to over \$4 trillion, pushing the national debt to almost 100% of GDP. The magnitude of these fiscal challenges was underscored when the U.S. lost its final AAA credit rating in May 2025, with rating agencies citing ballooning deficits as a primary concern.

Rising Borrowing Costs and Market Impact: The deteriorating fiscal outlook has contributed to higher government borrowing costs, with 30-year Treasury yields climbing past 5% following the Moody's downgrade in



May. This increased issuance pressure across longer-term maturities has created a “bearish tilt” in bond yield forecasts, potentially establishing a higher floor for interest rates across the economy. The combination of massive supply and credit quality concerns creates persistent headwinds for fixed income markets.

Business Investment Hesitation: Policy uncertainty surrounding both the tax legislation and broader fiscal framework has made companies increasingly cautious about capital allocation decisions. Businesses remain wary of committing to major operational upgrades or expansion plans until greater clarity emerges regarding both the trading environment and overall fiscal policy direction. This hesitation extends beyond tariff-related uncertainty to encompass broader concerns about the sustainability of current fiscal trajectories.

Market Implications and Corporate Impact: While fiscal stimulus from tax cuts might provide some economic tailwind, the persistent uncertainty and rising government borrowing costs threaten to translate into higher corporate borrowing costs, potentially dampening business investment and impacting equity valuations. The contrast between strong household balance sheets and severe government fiscal imbalances creates a complex investment backdrop. Companies particularly reliant on stable long-term interest rates face heightened risks, as do sectors sensitive to government spending patterns and fiscal policy changes.

Policy Implementation Timeline: The second half of 2025 represents a critical period when the full impact of trade policies will materialize. Current tariff rates at 90-year highs are expected to remain elevated even with potential trade agreements, creating persistent headwinds for business investment and consumer prices.

Consumer Spending Sustainability: The expected Q2 consumption rebound faces significant challenges from tariff anxiety, employment uncertainty, and drawn-down pandemic savings. Lower-income households show particular vulnerability with rising credit card delinquencies and limited savings buffers.

Corporate Margin Pressure: The combination of higher input costs from tariffs and consumers’ reduced tolerance for price increases is expected to compress corporate margins. Small-cap companies face disproportionate pressure due to limited pricing power and supply chain flexibility.

Recession Probability Assessment

While recession is not our base case, probability has increased significantly. The risk of a “sentiment-driven recession” represents a particular challenge, as deteriorating confidence could become self-fulfilling through reduced business investment, consumer spending pullbacks, and tightened financial conditions.

Key Indicators to Monitor:

1. **July Policy Outcomes:** Success or failure of the July 4 tax bill and July 9 trade negotiations will be critical determinants, though both deadlines are likely to be adjusted by the President as circumstances evolve.
2. **Business Investment Decisions:** Corporate capital expenditure plans responding to tariff uncertainty.
3. **Labor Market Transition:** Any shift from current “low hiring, low firing” equilibrium toward actual layoffs.
4. **Consumer Credit Stress:** Early signs among younger and lower-income segments.
5. **Bank Lending Standards:** Further tightening reflecting perceived economic deterioration.

Global Context and Currency Implications

International Market Dynamics

International markets have provided significant diversification benefits and outperformed U.S. markets substantially, with MSCI All-World Excluding U.S. posting 19.48% year-to-date returns, significantly outperforming the S&P 500’s 6.20% gain. The U.S. dollar’s weakness, reflected in the U.S. Dollar Index declining by 12% year-to-date, has supported international returns and commodity prices.

European Fiscal Renaissance: Europe is experiencing significant policy shifts with Germany’s €500 billion infrastructure program and European Central Bank (ECB) rate cuts supporting regional growth. This contrasts with U.S. policy uncertainty and supports European asset allocation.

Emerging Market Resilience: The MSCI Emerging Markets Index gaining 15.52% year-to-date reflects continued recovery trends. Emerging markets sovereign bonds offer attractive yield and duration characteristics with lower downside risk compared to U.S. high yield.

Conclusion & Strategic Recommendations

The second half of 2025 presents a challenging investment environment characterized by policy uncertainty, persistent inflation pressures, and emerging growth concerns, now punctuated by critical July deadlines that will significantly shape the economic trajectory. The remarkable market recovery from April lows, culminating in both the S&P 500 and Nasdaq indexes achieving new all-time highs on June 30th amid geopolitical risk relief, has temporarily masked underlying vulnerabilities that are likely to reassert themselves as policy impacts become fully apparent.

Critical Near-Term Catalysts:

- **July 4-9 Policy Window:** The success or failure of tax legislation passage and trade deal negotiations will be pivotal.
- **Geopolitical Stability:** Maintenance of the Israel-Iran ceasefire and continued oil price relief.
- **Fed Policy Path:** Market expectations for September rate cuts face validation from upcoming economic data.

Key Strategic Themes:

1. **Quality Focus with Tactical Flexibility:** Emphasize high-quality assets across both equity and fixed income allocations while maintaining ability to capitalize on policy-driven volatility.
2. **Technology Sector Selective Approach:** Continue emphasis on AI-beneficiary stocks while being mindful of elevated valuations and potential policy headwinds.
3. **Duration Management:** Favor intermediate-term fixed income while avoiding excessive long-duration exposure given fiscal concerns.

4. **Sector Selectivity:** Focus on sectors with pricing power and limited tariff exposure, while maintaining energy exposure for geopolitical hedge.
5. **International Diversification:** Maintain exposure to international markets benefiting from policy divergence and dollar weakness, particularly given their substantial outperformance .
6. **Risk Management:** Prepare for continued volatility around July deadlines and potential sentiment-driven market corrections.

The outcomes of tax legislation and trade negotiations, combined with consumer behavior and Federal Reserve responses, will prove decisive in determining economic trajectories. Given the elevated uncertainty, maintaining diversification, adhering to fundamental principles, and remaining vigilant regarding policy developments will be essential for navigating the challenging weeks ahead.

While recent geopolitical risk relief and all-time high closes for both major indices provide near-term support, investors should prepare for an environment where traditional relationships between assets may continue evolving, requiring adaptive strategies and careful attention to changing market dynamics. The combination of slower growth and persistent inflation, complicated by looming policy deadlines, creates a particularly challenging backdrop that demands careful risk management and selective positioning across asset classes.

For Investors:

Equities

- Focus on high-quality companies with strong pricing power and limited tariff exposure, particularly in Technology (AI beneficiaries) and Utilities sectors
- Maintain selective exposure to Technology leaders while being mindful of elevated valuations following the sector's 34.4% recovery from April lows
- Consider defensive positioning in sectors demonstrating earnings stability: Utilities and Consumer Staples
- Emphasize Energy and Materials for commodity exposure and geopolitical hedge benefits amid ongoing Middle East uncertainties
- Remain cautious with small-cap exposure given persistent underperformance and structural vulnerabilities to tariff impacts and high debt service costs
- Prepare for continued volatility around critical July policy deadlines; maintain tactical flexibility to capitalize on policy-driven market movements

Fixed Income

- Prioritize high-quality segments including select investment-grade corporates and AAA/AA-rated structured products, leveraging

improved return prospects from higher yield levels

- Focus on intermediate-term duration while limiting excessive long-duration Treasury exposure given fiscal concerns and rising government borrowing costs
- Consider high-grade municipal bonds offering compelling yields at decade highs
- Monitor corporate credit spreads carefully as current levels may not yet justify broad-based credit buying, particularly if recession risks escalate

International Diversification

- Continue to look for opportunities in international markets capitalizing on significant outperformance
- Consider European assets benefiting from policy divergence, Germany's €500 billion infrastructure program, and European Central Bank rate cuts
- Explore emerging markets opportunities offering attractive sovereign bond yields with lower downside risk versus U.S. high yield
- Leverage continued U.S. dollar weakness supporting international returns and commodity prices

Potential Risks to our Outlook

- Failure of critical July 4-9 policy window encompassing tax legislation passage and trade deal negotiations
- Breakdown of Israel-Iran ceasefire leading to renewed geopolitical risk premium and oil price surge
- Earnings deterioration accelerating beyond current 5.0% Q2 growth projections, particularly given widespread downward revisions across all eleven sectors
- Federal Reserve policy miscalculation amid stagflationary pressures limiting soft landing prospects
- Sentiment-driven recession becoming self-fulfilling through reduced business investment, consumer spending pullbacks, and tightened financial conditions
- Corporate margin compression accelerating as companies exhaust ability to absorb tariff costs and face consumer resistance to price increases
- Labor market transition from current "low hiring, low firing" equilibrium toward actual widespread layoffs

Disclosure

This information is of a general nature and does not constitute financial advice. It does not take into account your individual financial situation, objectives or needs, and should not be relied upon as a substitute for financial or other professional advice to assess, among other things, whether any such information is appropriate for you and/or applicable to your particular circumstances. In addition, this does not constitute an offer to sell, or the solicitation of an offer to buy, any financial product, service or program. The information contained herein is based on public information we believe to be reliable, but its accuracy is not guaranteed.

Investing involves risks, including loss of principal. Past performance is no guarantee of future results.

Definitions

- *AAA Bonds: The highest possible rating assigned to the bonds of an issuer by credit-rating agencies.
- *Basis Point: one hundredth of one percent, used chiefly in expressing differences of interest rates.
- *Consumer Price Index (CPI): An index of the variation in prices paid by typical consumers for retail goods and other items.
- *Gross Domestic Product (GDP): a standard measure of the total value of all goods and services produced within a country's borders during a specific period, typically a year.
- *Growth: A company stock that tends to increase in capital value rather than yield high income.
- *NASDAQ: is a global electronic marketplace for buying and selling securities.
- *Price/Earnings Ratio: ratio for valuing a company that measures its current share price relative to its earnings per share (EPS).
- *Quantitative Tightening: monetary policies that contract, or reduce, the Federal Reserve System (Fed) balance sheet.
- *Russell 2000 Index: a stock market index that measures the performance of the 2,000 smaller companies included in the Russell 3000 Index.
- *S&P 500 Index: S&P (Standard & Poor's) 500 Index: is a market-capitalization-weighted index of the 500 largest US publicly traded companies.
- *Stagflation: an economic condition characterized by simultaneous high inflation, high unemployment, and slow economic growth.
- *Supplementary Leverage Ratio (SLR): Measures a bank's Tier 1 capital against total assets, including off-balance sheet exposures, to limit excessive leverage.
- *The Purchasing Managers' Index (PMI) is an indicator of the prevailing direction of economic trends in the manufacturing and service sectors. The indicator is compiled and released monthly by the Institute for Supply Management (ISM), a nonprofit supply management organization.
- *U.S. Aggregate Bond Index: Designed to measure the performance of publicly issued US dollar denominated investment-grade debt.
- *Indexes are not managed. One cannot invest directly in an index.



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