Fort Washington Investment Advisors, Inc.

A member of Western & Southern Financial Group

MONTHLY MARKET PULSE — JULY 2025

HIGHLIGHTS

- **All-Time Highs:** The S&P 500 is back to all-time highs, following optimism around trade negotiations and the Big, Beautiful Bill.
- **Tariff Deadline:** U.S. trade partners received a 90-day delay on reciprocal tariffs ("Liberation Day"), and the July 9th deadline is approaching; however, investors are largely regarding it as a non-event.
- **Oil and Middle East Conflict:** Oil prices are off their recent highs, but we expect continued volatility as the commodity moves along the 'arc of fear.' We analyze oil's fundamentals in this month's *Spotlight* below.

MONTHLY SPOTLIGHT:
Oil Prices and the Arc of Fear
Author: David McColl
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MACRO INSIGHTS

Temps Not the Only Thing Hot in June

After a 6% gain in May, the S&P 500 added another 5% in June, closing at a fresh record high and now up 25% from the early April lows. While headline volatility remained elevated—most notably surrounding the strikes on Iran and the subsequent cease-fire—equities benefited from progress in U.S.–China trade negotiations, a contained inflation backdrop, and only modest softening in economic data. Growth stocks led for the month, and the U.S. gained ground versus non-U.S. equities.

The Federal Reserve (Fed) remained on hold in June, signaling that current rate levels remain appropriate given the inflationary risks tied to trade policy. Chair Jerome Powell acknowledged that, if not for concerns about tariffs, policy rates would likely be lower. While predicting the future path of tariffs remains difficult, the administration has so far opted for de-escalation, taking "off-ramps" when available. Attention now turns to July 9th, the deadline for the delayed implementation of "Liberation Day" tariffs. Most expect a deal, either formalized at lower tariff levels or with enough progress to justify another extension. Markets appear to agree, pricing in 65 basis points of Fed rate cuts by year-end, suggesting a view that tariffs will not prove meaningfully inflationary. Treasury yields responded accordingly, with 2-year and 10-year yields each falling roughly 20 basis points in June.

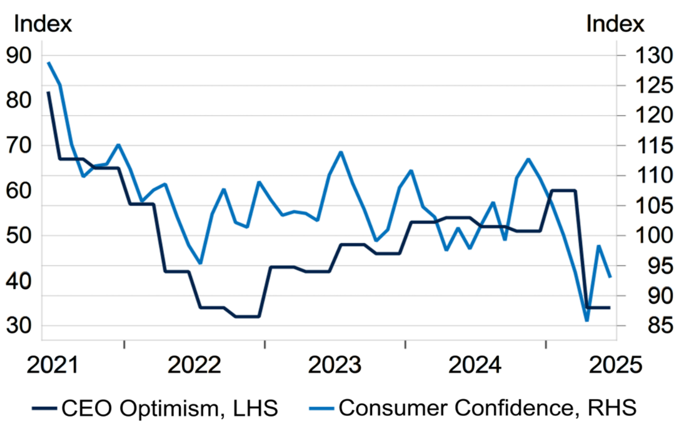
Geopolitical tensions spiked early in the month following U.S. strikes on Iran's heavily fortified nuclear sites in the wake of Israel's initial offensive. Despite widespread media coverage of the historic exchange, financial markets remained notably composed. Investors, seasoned by decades of Middle East tensions, focused on the transmission mechanism into the global economy: oil. We explore the fundamental drivers of oil in this month's *Spotlight*, but markets quickly determined Iran's options to retaliate via the Strait of Hormuz were constrained by China's dependence on those shipping lanes. The subsequent cease-fire quickly unwound the (fairly modest) geopolitical risk premium in commodity prices, helping ease concerns around both inflation and growth.

Beneath the surface of new equity highs, some economic data showed signs of cooling. Consumer spending disappointed, labor market momentum slowed, and business confidence slipped. With valuations extended and macro risks still unresolved—including tariff uncertainty, the Fed's reaction function, and unpredictable policy shifts from Washington—the margin of safety for equity investors has narrowed. The July 1st passage of the "Big, Beautiful Bill" in the Senate offers some short-term clarity on taxes; however, it also raises longer-term fiscal concerns that bear watching, especially given how rate volatility unfolded earlier this year.

Outlook Remains Uncertain

Markets have soared given optimism around trade negotiations and geopolitical de-escalation, but these have done little to provide clarity for consumers and businesses looking to spend or hire.

Consumer & Business Outlook



Source: Fort Washington and Conference Board.

Chris Shipley
Senior Vice President, Co-Chief Investment Officer
Fort Washington Investment Advisors, Inc.

WHAT TO WATCH

U.S. consumer and business outlook remains uncertain given the overhang of tariffs and potential price increases. Investors will monitor incoming inflation figures and the impact on Federal Open Market Committee (FOMC) decisions. In addition, indicators that provide insight into the state of the U.S. consumer will be in focus.

- The next FOMC meeting is on July 30th. Markets are pricing in a moderate possibility (~20%) of a rate cut.
- The next Consumer Price Index (CPI) report will be released on July 15th, and Personal Consumption Expenditures (PCE)—the Fed's preferred inflation gauge—will be available on July 31st. Investors will continue to monitor underlying data for insights into tariff impacts.
- Given uncertainty and rising concerns about the strength of the consumer and labor market, investors will pay close attention to initial and continuing jobless claims, which are released every Thursday.

MONTHLY SPOTLIGHT

DAVID MCCOLL
Vice President,
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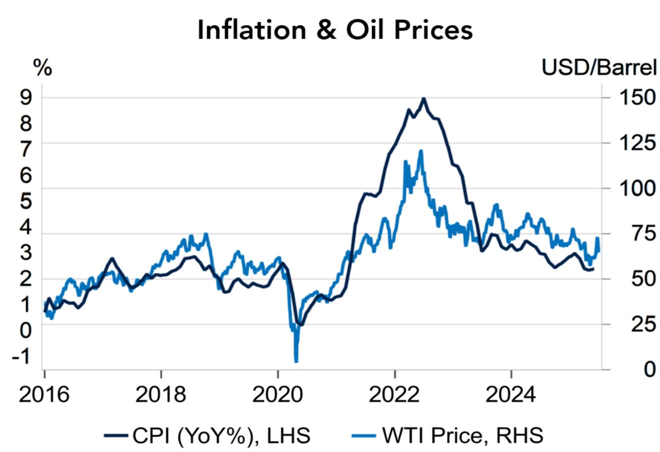
Oil Prices and the Arc of Fear

Oil is well known for its volatility, and ongoing conflicts in the Middle East often contribute to these price moves, given that the region accounts for about a third of global oil supply. In light of the recent missile exchanges between Israel and Iran—and the U.S. involvement—we believe it is important to remain mindful of the potential upside risks to oil. However, and perhaps more importantly, given the unpredictability of these events, we examine the fundamental supply-and-demand economics shaping oil's trajectory.

Oil prices typically move along a familiar "arc of fear," as the pendulum swings between concerns over supply deficits and fears of oversupply, often overshooting the equilibrium (or fair value) price. Over the past 60 to 90 days, prices have moved sharply along this arc: falling to the mid-$50s as fears of excess supply gripped the market, then rebounding to $80 amid renewed concerns over supply shortages driven by conflict in the Middle East.

There are several reasons why the market has been concerned about potential supply shocks, such as Iran blocking the Strait of Hormuz or attacking oil production in neighboring countries. While we continue to view any disruption of flows through the Strait as extremely unlikely, the potential for sanctions is more difficult to assess. Aggressive sanction enforcement appears plausible; however, recent comments from President Trump reinforce our view that he is content with Iranian exports, as long as they help contain prices.

Enforced sanctions could remove almost 2 million barrels per day (mb/d) from the global oil market, reducing OPEC's spare capacity to 4 mb/d. However, this would still be sufficient to keep a lid on prices, especially when considering the broader supply chain. We expect OPEC supply growth of 1.0-1.5 mb/d for 2025, and non-OPEC supply growth of around 1 mb/d. With demand expected to remain largely flat, this increase in supply would result in a surplus of approximately 1 mb/d, allowing inventories to build. As a result of non-OPEC producers expanding both onshore and offshore production, as well as substantial strategic oil reserves, there is a sizeable buffer in place should we experience a prolonged supply shock.



With inventories building, we expect oil prices to move lower, potentially bottoming around $55 a barrel (WTI) by year-end. Higher prices would require a material upward demand revision (specifically in China), with no positive supply response, in addition to a resumption of OPEC cuts, which we view as unlikely.

Despite our expectation that oil prices will overshoot fair value as they move along the "arc of fear" over the next couple of quarters, a steady decline in prices should bode well for inflation. This trajectory is likely to help pull headline inflation down over the coming months, offsetting potential goods inflation driven by tariffs. Consequentially, this trend should also place downward pressure on rates.

Source: Fort Washington, BLS, and Bloomberg.

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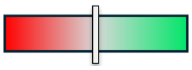
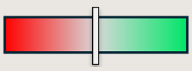
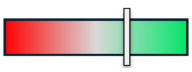
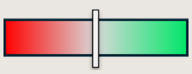
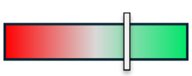
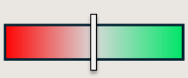
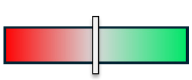
CURRENT OUTLOOK

Topic	View	MoM Change	Commentary
			Macroeconomic Views
Economic Growth		–	▶ **Uncertainty remains elevated** amid shifting trade policy and geopolitical tension; however, the pause in tariffs and de-escalation in the Middle East have offered markets some relief. ▶ U.S. economic **growth is expected to slow** compared to the recent trend, as tariffs present a near-term headwind for consumer spending and business investment. ▶ So far, hard economic data has remained stable despite tariff volatility, but risks are skewed to the downside.
Inflation		–	▶ Market forecasts for inflation have increased due to tariffs; however, the **impacts are expected to be short-term**, investors do not expect the effects to be persistent. Longer-run inflation estimates remain largely grounded. ▶ While service inflation should remain stable over the coming months, tariffs create elevated uncertainty around goods inflation. ▶ **Further upside risks remain** from retaliatory tariffs or a breakdown in trade negotiations.
Monetary Policy		–	▶ The Fed has kept rates unchanged so far this year. Shifting growth estimates and tariff concerns have resulted in volatile expectations for rate cuts in 2025. ▶ FOMC members have articulated **patience** and a "wait and see" approach as they remain **data dependent**. However, Powell recently articulated that, excluding tariff uncertainty, economic data largely justifies cutting rates. ▶ Investors anticipate two rate cuts in 2025, with current pricing implying a terminal rate around 3%.
Fiscal Policy		↑	▶ The Big, Beautiful Bill (BBB) is expected to be signed into law this summer. While there may be a few changes, the bill is largely baked in at this point. In the short term, the BBB supports growth through individual tax cuts and encourages capital expenditure through accelerated depreciation. ▶ Flexibility within fiscal policy remains low, as federal debt levels continue to rise and **higher interest costs** consume a larger portion of government outlays.
			Market Valuations
Rates		–	▶ Yields declined modestly during the month as inflation expectations subsided, but fiscal concerns remain for investors. ▶ We anticipate the **magnitude of expected rate cuts will remain volatile**, with new economic data and developments around executive branch policies presenting opportunities for tactical adjustments. ▶ Long rates are within our expected fair value range, but we believe they are biased slightly lower.
Credit		–	▶ Credit **spreads tightened during June**, ending well inside the widest levels seen this year and tighter than historical averages. ▶ We believe the **risk/reward is more balanced** at current levels, but downside risks remain elevated. ▶ Investment-grade spreads (10-year BBB Industrials) ended the quarter at their 13^{th} percentile, and high yield (single B corporates) at their 8^{th} percentile, since the 1990s.
Equity		–	▶ The **S&P 500 continued its rally** in June, rising 5.1%, ending the quarter at all-time highs and up 25% from the April lows. ▶ Valuations for equities are now back to levels comfortably **above long-term averages**. ▶ The market is likely to remain skittish to headline risk until investors have more clarity around longer-term trade policy.

MARKET DATA & PERFORMANCE | AS OF 06/30/2025

U.S. Snapshot	Current	6 Months Prior	1 Year Prior
Core Inflation (YoY%)	2.7	2.9	2.6
Unemployment Rate	4.2	4.1	4.1
Real GDP (YoY%)	2.0	2.5	3.0
Retail Sales (YoY%)	3.3	4.6	2.0
30-Year Mortgage Rate	6.8	6.9	7.0
10-Year Treasury	4.2	4.6	4.4
US Corporate IG Yield	5.0	5.3	5.5
US Corporate HY Yield	7.1	7.5	7.9

TOTAL RETURNS

Asset Class	MTD	QTD	YTD	1 Year	3 Years*	5 Years*
Equity						
Russell 3000 Index	5.1%	11.0%	5.8%	15.3%	19.1%	16.0%
S&P 500 Index	5.1%	10.9%	6.2%	15.2%	19.7%	16.6%
S&P Midcap 400 Index	3.6%	6.7%	0.2%	7.5%	12.8%	13.4%
Russell 2000 Index	5.4%	8.5%	-1.8%	7.7%	10.0%	10.0%
MSCI World Index	4.3%	11.6%	9.8%	16.8%	18.9%	15.1%
MSCI World Excluding US	2.4%	12.3%	19.5%	19.3%	16.4%	12.1%
Fixed Income						
Bloomberg US Aggregate	1.5%	1.2%	4.0%	6.1%	2.5%	-0.7%
US Corporate Investment Grade	1.8%	1.8%	4.2%	6.8%	4.2%	0.1%
US Corporate High Yield	1.8%	3.5%	4.6%	10.3%	9.9%	6.0%
Emerging Market Debt	2.2%	3.3%	5.4%	10.7%	9.0%	1.6%
US Treasury (7-10 Year)	1.8%	1.5%	5.2%	5.4%	0.9%	-2.3%
Cash	0.3%	1.1%	2.1%	4.8%	4.7%	2.8%

Source: Fort Washington and Bloomberg. *Returns longer than 1 year are annualized. Past performance is not indicative of future results.

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