Market Update

The U.S. stock market experienced significant developments during the week of June 29 to July 5, 2025, driven by macroeconomic data, legislative developments, and anticipation of corporate earnings. This report provides a detailed analysis of last week's market performance, expectations for this week, and near-term issues that may impact the markets. It examines the upcoming Q2 2025 S&P 500 earnings reports and the Federal Reserve's July 2025 meeting decisions, drawing on recent economic data, market analyses, and expert commentary.

U.S. Stock Market Performance: June 29–July 5, 2025

The week of June 29 to July 5, 2025, was marked by robust gains across major U.S. equity indices, fueled by positive economic data and legislative progress. The following details highlight last week's performance:

- **S&P 500**: The S&P 500 gained 2.3%, closing at a record high of 6,279.35 on July 3, 2025, marking its fourth record close in five days. The index was up 1.7% for the week, reflecting bullish momentum driven by a strong jobs report and optimism surrounding trade negotiations.
- **Nasdaq Composite**: The Nasdaq rose 2.2%, closing at 20,601.10, also hitting a record high. Tech stocks, particularly those in AI and cloud computing, led the rally, with companies like Datadog gaining 9.4% after its inclusion in the S&P 500.
- **Dow Jones Industrial Average**: The Dow advanced 3.3%, closing at 44,828.53, just shy of a new high since December 2024. The index gained 344.11 points (0.77%) on July 3 alone, supported by broad-based strength.
- **Russell 2000**: Small-cap stocks outperformed, with the Russell 2000 rising 3.5%. The index closed above its 200-day Simple Moving Average (SMA) at 2,175, signaling bullish confirmation, though its Relative Strength Index (RSI) of 72 indicated potential near-term caution due to overbought conditions.

Key Drivers

- **June Jobs Report**: The Bureau of Labor Statistics reported that nonfarm payrolls increased by 147,000 in June, surpassing expectations of 110,000, with the unemployment rate falling to 4.1% from 4.2%. This strong labor market data underscored economic resilience but reduced expectations for an immediate Federal Reserve rate cut.

- **One Big Beautiful Bill Act (OBBBA)**: The passage of the OBBBA on July 1, 2025, boosted market sentiment. The bill, which extends 2017 tax cuts, introduces new tax breaks (e.g., for tips and overtime pay), and increases defense spending, is projected to add $3.3 trillion to the deficit but stimulate short-term economic growth.
- **Trade Developments**: Progress in U.S.-Vietnam trade talks and a 90-day tariff pause expiration on July 9, 2025, contributed to market optimism, though uncertainty persisted regarding potential tariff reimpositions.
- **Sector Performance**: Technology and consumer staples led gains, with chipmakers like Cadence Design Systems (+5%) and Synopsys (+6%) rallying after eased U.S. export restrictions to China. However, homebuilders like Lennar (-4.1%) and D.R. Horton (-2.7%) declined due to high mortgage rates and reduced rate-cut expectations.

Expectations for the Week of July 7–11, 2025

The week of July 7–11, 2025, is expected to be volatile due to a combination of economic data releases, corporate earnings, and ongoing trade policy developments. Key expectations include:

- **Market Outlook**: Analysts anticipate continued upward momentum but with potential pullbacks due to overbought conditions (e.g., Russell 2000 RSI at 72). The S&P 500 is expected to trade within a range of 5,800–6,500, with resistance near recent highs of 6,279.35.
- **Economic Data**: Key releases include consumer credit, wholesale inventories, jobless claims, and the Federal Reserve's July meeting minutes. These will provide insights into consumer spending and labor market trends, influencing rate-cut expectations.
- **Earnings Season Kickoff**: Q2 2025 earnings reports begin, with companies like Delta Air Lines, Levi Strauss, and WD-40 expected to report. These early reports will set the tone for the broader earnings season, particularly for consumer discretionary and industrial sectors.
- **Trade Policy**: The July 9 tariff pause expiration remains a focal point. Treasury Secretary Scott Bessent indicated that trade deals may extend to August 1, but failure to reach agreements could trigger heavy tariffs, potentially disrupting markets.
- **Treasury Auctions**: Several Treasury auctions are scheduled, with demand trends watched closely due to increased debt projections from the OBBBA. Rising 10-year Treasury yields (4.34% as of July 3) could pressure valuations if they approach 4.75%–5%.

Q2 2025 S&P 500 Earnings Reports

The Q2 2025 earnings season, beginning in mid-July, is a critical factor for market performance. Analysts expect positive earnings growth but highlight challenges due to trade policy uncertainties and high valuations.

- **Earnings Growth Projections**: Goldman Sachs forecasts S&P 500 earnings growth of 11% for 2025, with Q2 expected to contribute significantly due to economic resilience and tax cut benefits from the OBBBA. However, estimates have been revised downward from 12% to 7% for 2025, reflecting tariff-related concerns.
- **Sector Expectations**:
    - **Technology**: The "Magnificent 7" tech stocks (e.g., Microsoft, Nvidia) are projected to grow earnings by 6 percentage points above the broader S&P 500, though the gap is narrowing. AI-driven companies like Datadog are expected to outperform due to increased enterprise demand.
    - **Consumer Discretionary**: Import-dependent sectors face risks from potential tariffs, which could pressure margins. Companies like FedEx reported Q2 revenue of $22.2 billion (+1% year-over-year) but suspended full-year guidance due to trade uncertainties.
    - **Health Care**: Firms like Centene face challenges, with shares down 44% in 2025 due to higher medical costs and lower federal reimbursements, impacting Q2 earnings by $1.8 billion ($2.75 per share).
- **Valuation Concerns**: The S&P 500's forward price-to-earnings (P/E) ratio is near a cycle high of 21, limiting upside potential unless earnings significantly exceed expectations. A slowdown in earnings growth could lead to a downward recalibration of valuations.
- **Market Impact**: Strong earnings from tech and AI sectors could sustain the S&P 500's rally, but disappointing results in consumer discretionary or health care could trigger sector-specific sell-offs. Analysts expect a trading range unless earnings surprise to the upside.

July Federal Reserve Meeting Decisions

The Federal Reserve's July 30–31, 2025, FOMC meeting is a pivotal event for markets. The Fed's decisions and forward guidance will influence interest rate expectations and market sentiment.

- **Current Policy**: The FOMC maintained the federal funds rate at 4.25%–4.5% in June 2025, marking the fourth consecutive meeting with no change. The June "dot plot" projected two 25-basis-point rate cuts for 2025, targeting a year-end rate of 3.9%.

- **July Expectations**: Following the strong June jobs report, expectations for a July rate cut dropped from 25% to 5%–7%, per CME Group's FedWatch tool. The Fed is likely to hold rates steady, awaiting further data on inflation, trade policy impacts, and OBBBA's economic effects.
- **Key Considerations**:
  - **Inflation**: Core PCE inflation cooled to 2.3% year-over-year in June, the lowest since early 2021, supporting the case for eventual rate cuts. However, tariff risks could drive inflation higher, prompting caution.
  - **Economic Growth**: The Atlanta Fed's GDPNow estimate for Q2 2025 was revised to 2.5% on July 1, down from 2.9%, reflecting slower but positive growth. The Fed is monitoring tariff-driven distortions, such as Q1's negative GDP (-0.3%) due to import surges.
  - **Powell's Testimony**: Federal Reserve Chair Jerome Powell's testimony before Congress on July 8, 2025, will likely emphasize a "wait-and-see" approach, focusing on trade policy uncertainties and fiscal stimulus from the OBBBA.
- **Market Implications**: A hawkish stance (no rate cut signals) could pressure stocks, particularly in rate-sensitive sectors like homebuilders and utilities. Conversely, dovish signals for a September cut could fuel further gains, especially in small-cap and cyclical stocks.

Issues Affecting Markets in the Near Future

Several factors are poised to influence U.S. stock markets in the coming months, including:

- **Trade Policy and Tariffs**: The July 9 tariff pause expiration is a critical risk. Reimposition of heavy tariffs could disrupt supply chains, increase costs, and pressure consumer discretionary and industrial sectors. Conversely, successful trade deals could sustain market optimism.
- **Fiscal Policy and Deficit Concerns**: The OBBBA's $3.3 trillion deficit increase raises concerns about rising Treasury yields and debt issuance. The 10-year Treasury yield rose to 4.34% by July 3, 2025, and a breach above 4.75%–5% could trigger valuation adjustments across equities.
- **Monetary Policy Uncertainty**: The Fed's cautious approach, driven by strong labor data and tariff-related inflation risks, may delay rate cuts until September or later. High yields and mortgage rates (nearing 7%) could dampen housing and consumer spending.

- **Sector Rotation and Volatility**: Ongoing sector churn, driven by tariff uncertainties and shifting earnings expectations, is likely to persist. Technology and AI stocks may continue to outperform, but small-caps and value stocks could gain if fundamentals improve.
- **Geopolitical Risks**: The Israel-Iran conflict and potential U.S. involvement continue to weigh on investor sentiment, contributing to volatility in oil prices and defense stocks.

Conclusion

The U.S. stock market delivered strong gains during the week of June 29–July 5, 2025, with the S&P 500 and Nasdaq hitting record highs, driven by a robust jobs report, the OBBBA's passage, and trade optimism. For the week of July 7–11, markets are expected to remain rangebound with potential volatility due to earnings, trade developments, and economic data. The Q2 2025 S&P 500 earnings season will be crucial, with tech likely to lead but risks in consumer discretionary and health care sectors. The Federal Reserve's July meeting is expected to maintain current rates, with focus on Powell's testimony and tariff impacts. Near-term risks include tariff reimpositions, rising Treasury yields, and fiscal deficit concerns, while opportunities lie in sectors benefiting from tax cuts and trade resolutions. Investors should remain vigilant, balancing exposure to growth sectors with hedges against volatility.

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