Monthly Market Commentary

July 2025

Stocks trade up despite looming tariff concerns.

- Global equities, as measured by the MSCI ACWI Index, gained ground in July. Investors were encouraged by some clarity on U.S. trade policy before uncertainty resurfaced toward the end of the month. Generally positive corporate earnings reports also bolstered the markets. Emerging markets outperformed developed markets.
- Global fixed-income assets recorded losses for the month. U.S. Treasury yields moved higher across the yield curve, with the exception of the 3-month segment, which was flat. (Prices move inversely to yields.)
- There has been a good deal of volatility year-to-date, particularly for equities, but a broad group of assets is in positive territory.

Economic Backdrop

Global equities, as measured by the MSCI ACWI Index, gained ground in July. Investors were encouraged by some clarity on U.S. trade policy before uncertainty resurfaced toward the end of the month. Generally positive corporate earnings reports also bolstered the markets. Emerging markets outperformed developed markets in July, led by Jordan, Egypt, and Morocco. Chinese stocks listed on the Hong Kong Stock Exchange also performed well. Latin America recorded a negative return and was the most notable market laggard for the month. North America was the top performer within the developed markets in July due mainly to strength in the U.S. Additionally, the Pacific ex Japan region benefited from market upturns in Hong Kong and Singapore. In contrast, the Nordic countries were hampered by weakness in Denmark and Norway. The slump in European Union stocks for the month was attributable to a market downturn in the Netherlands.[1]

Global fixed-income assets, as represented by the Bloomberg Global Aggregate Bond Index, declined 1.5% (in U.S. dollars) in July. High-yield bonds led the U.S. fixed-income market, followed by investment-grade corporate bonds. Mortgage-backed securities (MBS) and U.S. Treasurys registered losses during the month. U.S. Treasury yields moved higher across the yield curve, with the exception of the 3-month segment, which was flat. Yields on 2-, 3-, 5-, and 10-year Treasury notes rose by corresponding margins of 0.22%, 0.21%, 0.17%, and 0.13% to 3.94%, 3.89%, 3.96%, and 4.37%, respectively. The yield curve remained inverted (3-month yields exceeded 10-year yields) during the month.[2]

Global commodity prices, as represented by the Bloomberg Commodity Index, were down 0.5% in July. Spot prices for West Texas Intermediate (WTI) and Brent crude oil climbed 6.4% and 7.4%, respectively, in July due to ongoing geopolitical tensions regarding the Israel-Iran military conflict in the Middle East, as well as strong demand from emerging markets, particularly Asia and Latin America. The geopolitical tensions also contributed to the 1.2% rise in the gold price for the month as investors sought safe-haven assets. The 11.0% decline in the New York Mercantile Exchange (NYMEX) natural gas price was attributable to softer demand due to reduced industrial activity in several major global economies and rising inventories in the U.S. The wheat price fell 2.8% in July amid concerns about potential trade deals and the possibility of new tariffs.

U.S. trade policy remained a focal point for the global financial markets during the month. On July 7, Trump extended the deadline for trade deals with several nations from July 9 to August 1, and threatened tariffs ranging from 25% to 40% on countries that do not reach trade deals with the U.S. by the new deadline. The following day, Trump imposed a 50% levy on global imports of copper beginning August 1. Copper prices subsequently rose to record highs, increasing costs for numerous industries, including semiconductor and aircraft manufacturers, and data centers. On July 9, Trump announced a 50% tariff on imported goods from Brazil starting August 1 in response to the Brazilian government's legal actions against former President Jair Bolsonaro and U.S. technology firms. Bolsonaro has been charged with plotting to overturn Brazil's 2022 presidential election, a legal action which Trump characterized as "an attack on a political opponent."

Late in the month, Trump announced that the U.S. had reached trade deals with Japan and the European Union (EU). Under the terms of the agreement with Japan, the U.S. will impose a 15% tariff on imported goods from Japan—a significant reduction from the Trump administration's previously stipulated 25% tariff. Additionally, Trump said that Japan will invest $550 billion in the U.S., including energy infrastructure and semiconductor manufacturing. The trade deal with the EU includes a 15% tariff—one-half of the 30% tariff the U.S. had initially proposed—on most European exports to the U.S., including cars, pharmaceuticals, and semiconductors. A 50% tariff on imported steel and aluminum will still apply, however. The EU agreed to eliminate tariffs on a wide range of U.S. exports and purchase $250 billion annually in U.S. energy products through 2027. At the end of the month, Trump announced that the U.S. will impose tariffs on numerous countries, but the start date for the levies would be pushed back from August 1 to August 7. Trump also issued an executive order applying 35% tariffs on imports from Canada, citing his view that the government had failed to stem the flow of fentanyl over the border, along with Canada's retaliatory tariffs on goods from the U.S. earlier this year. The Trump administration also reached trade deals with several other countries in July, most notably South Korea. The ongoing trade policy developments remain highly volatile and in constant flux.

On the geopolitical front, in late July, the U.S. and Israel recalled their negotiating teams from the Gaza ceasefire talks, citing frustration with Hamas' response to a proposal for a 60-day truce in the Israel-Hamas military conflict. U.S. special envoy Steve Witkoff accused Hamas of not acting in good faith and showing a "lack of desire" to reach a ceasefire. He stated that the U.S. would now consider "alternative options" to secure the release of hostages and stabilize Gaza. Israel also withdrew its delegation, saying Hamas' latest response to the ceasefire proposal did not allow for progress without significant concessions. However, Israel indicated it remains open to further discussions.

Economic Data (unless otherwise noted, data sourced to Bloomberg)

- According to Statistics Canada, consumer prices (as measured by the change in the Consumer Price Index (CPI)) rose 0.1% in June. Year-over-year consumer prices were up 1.9% as consumers paid more for durable goods, such as passenger vehicles and furniture, while energy prices were significantly weaker. Producer prices were higher in June, as the Industrial Product Price Index (IPPI) and the Raw Materials Price Index (RMPI) rose 0.4% and 2.7%, respectively. Year-over-year prices were also higher, up 1.7% and 1.1%, respectively, for the IPPI and RMPI. Prices for metals have sharply increased over the past 12 months, while crude oil prices were once again notably weaker after starting 2025 in strong fashion. The Canadian labour market shed 41,000 jobs in July, while the unemployment rate was steady at 6.9%.

- It appears that the Trump administration's tariffs are beginning to have an impact on inflation. According to the Department of Labor, the consumer-price index (CPI) rose 0.3% in June, up from the 0.1% rise in May and in line with expectations. Fuel oil costs increased 1.3%, while gasoline and electricity prices rose 1.0%. Conversely, prices for used cars and trucks and new vehicles fell by corresponding margins of 0.7% and 0.3% for the month. The CPI advanced 2.7% year-over-year in June—higher than the 2.4% increase in May and meeting expectations. Costs for utility gas service and electricity climbed 14.2% and 5.8%, respectively, over the previous 12-month period, while gasoline prices declined 8.3%, and fuel oil prices were down 4.7%. Core inflation, as measured by the CPI for all items less food and energy, rose 2.9% year-over-year in June, edging up from the 2.8% annual upturn in May. Housing prices increased 3.6% year-over-year, while costs for medical services and transportation services each were up 3.4%. According to the advance estimate from the Department of Commerce, U.S. gross domestic product (GDP) increased at an annual rate of 3.0% in the second quarter of 2025—a significant improvement from the 0.5% decline in the first quarter and exceeding expectations. The upturn in the economy in the second quarter was attributable primarily to a notable decline in imports (which are subtracted from the calculation of GDP)—following a surge in imports in the first quarter as businesses rushed to stockpile goods before the Trump administration's tariffs took effect in early April—as well as an increase in consumer spending. These more than offset downturns in private inventory investment (a measure of the changes in values of inventories from one time period to the next) and exports.

- The Office for National Statistics (ONS) reported that inflation in the U.K., as measured by the CPI, increased 0.3% in June, edging up from the 0.2% rise in May. The CPI advanced at an annual rate of 3.6% in June, slightly higher than the 3.4% year-over-year increase for the previous month. Restaurants and hotels, transportation, and alcohol and tobacco posted the largest gains in June, while clothing and footwear costs declined. Prices for housing and household services, education, and alcohol and tobacco were up 7.5, 7.5%, and 6.4%, respectively, over the previous 12-month period. Furniture and household goods costs were up just 0.9% year-over-year.[3] The ONS also announced that U.K. GDP increased 0.7% in the first quarter of 2025 (the most recent reporting period), up from the 0.1% growth rate in the fourth quarter of 2024. Output in the production, services, and construction sectors rose 1.3%, 0.7%, and 0.3%, respectively, over the quarter.[4]

- Eurostat pegged the inflation rate for the eurozone at 2.0% for the 12-month period ending in June, slightly higher than the 1.9% annual upturn in May. Costs in the services sector rose at an annual rate of 3.3% in June, edging up from the 3.2% increase in May. Prices for food, alcohol and tobacco increased 3.1% year-over-year in June versus the 3.2% annual rise for the previous month. In contrast, energy prices fell 2.6% year-over-year. Core inflation, which excludes volatile energy, food, and alcohol and tobacco prices, increased at an annual rate of 2.3% in June, unchanged from the year-over-year increase in May.[5] Eurostat also reported that eurozone GDP rose 0.6% the first quarter of 2025 (the most recent reporting period), representing improvement over the 0.3% growth rate for the fourth quarter of 2024. Eurozone GDP increased 1.5% over the previous 12-month period. The economies of Ireland and Iceland were the strongest performers for the first quarter, expanding 9.7% and 2.7%, respectively. In contrast, GDP in both Denmark and Luxembourg declined 0.5% during the quarter.[6]

Index Data (July 2025)

- The S&P/TSX Composite Index gained 1.69%.
- The FTSE Canada Universe Bond Index declined 0.74%.
- The S&P 500 Index, which measures the performance of U.S. equities, returned 3.60%.
- The MSCI ACWI (Net) Index, used to gauge global equity performance, gained 2.70%.
- The ICE BofA U.S. High Yield Constrained Index, representing U.S. high-yield bond markets, returned 0.24% (currency hedged) and 1.73% (unhedged).
- The Chicago Board Options Exchange Volatility Index (VIX)—a measure of implied volatility in the S&P 500 Index that is also known as the "fear index"—was little changed from 16.73 at the end of June to 16.72 to end July.
- The WTI Cushing crude oil price—a key indicator of movements in the oil market—rose from US$65.11 to US$69.26 a barrel during July.
- The Canadian dollar weakened to C$1.38 per U.S. dollar. The U.S. dollar was mixed against the world's other major currencies, ending July at US$1.14 versus the euro, US$1.32 against sterling, and at 150.50 yen.

Glossary

Yield is the income returned on an investment, such as the interest received from holding a security. The yield is usually expressed as an annual percentage rate based on the investment's cost, current market value, or face value.

Yield curve represents differences in yields across a range of maturities of bonds of the same issuer or credit rating (which is used to assess the risk of default of companies or countries). A steeper yield curve represents a greater difference between the yields. A flatter curve indicates that short- and long-term yields are closer together.

Index Definitions

The **Bloomberg Commodity Total Return Index** comprises futures contracts and tracks the performance of a fully collateralized investment in the index. This combines the returns of the index with the returns on cash collateral invested in 13-week (three-month) U.S. Treasury bills.

The **Bloomberg Global Aggregate Bond Index** is a market capitalization-weighted index that tracks the performance of investment-grade (rated BBB- or higher by S&P Global Ratings/Fitch Ratings or Baa3 or higher by Moody's Investors Service) fixed-income securities denominated in 13 currencies. The index reflects reinvestment of all distributions and changes in market prices.

The **Cboe Volatility Index** (**VIX)** measures the constant 30-day volatility of the U.S. stock market using real-time, mid-quote prices of S&P 500 Index call and put options. A call option gives the holder the right to buy a stock at a specified price; a put option gives the holder the right to sell a stock at a specified price.

The **Consumer Price Index (CPI)** is based on a fixed basket of goods and services designed according to international standards and methods.

The **FTSE Canada Universe Bond Index** comprises a series of benchmarks designed to track the performance of the bonds denominated in Canadian dollars.

The **ICE BofA High Yield Constrained Index** is a market value-weighted index of all domestic and Yankee high-yield bonds, including deferred interest bonds and payment-in-kind securities, with maturities of one year or more and a credit rating of BB+ or lower by S&P Global Ratings and Fitch Ratings or Ba1 or lower by Moody's Investors Service, but are not in default.

The **Industrial Product Price Index (IPPI)** reflects the prices that producers in Canada receive as goods leave the factory gate. The IPPI does not reflect what the consumer pays. Unlike the Consumer Price Index, the IPPI excludes indirect taxes, such as sales taxes and tariffs, and all costs that occur between the time a good leaves the plant and the time the final user takes possession of the good. This includes transportation, wholesale and retail costs. Although the IPPI does not measure the direct effect of tariffs on prices, tariffs may indirectly influence prices measured in the IPPI. For example, inputs used in the production process that are imported and on which Canada imposes a tariff may raise the prices charged by Canadian producers. Tariffs on Canadian imports or exports may also indirectly influence prices in the IPPI through their impact on supply and demand dynamics.

The **MSCI ACWI Index** is a market capitalization-weighted index that tracks the performance of over 2,000 companies, and is representative of the market structure of 48 developed and emerging-market countries in North and South America, Europe, Africa, and the Pacific Rim. The index is calculated with net dividends reinvested in U.S. dollars.

The **Raw Materials Price Index (RMPI)** reflects the prices paid by Canadian manufacturers for key raw materials. The RMPI includes all charges purchasers incur to bring a commodity to the establishment gate, including transportation charges, net taxes paid, and customs duties and tariffs paid on imported raw materials. Many of the prices measured by the RMPI are set on the world market. However, as few prices are denominated in foreign currencies, their conversion into Canadian dollars has only a minor effect on the calculation of the RMPI.

The **S&P 500 Index** is a market-weighted index that tracks the performance of the 500 largest publicly traded U.S. companies and is considered representative of the broad U.S. stock market.

The **S&P/TSX Composite Index** tracks the performance of the broad Canadian equity market—i.e., stocks listed on the Toronto Stock Exchange (TSX).

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[1] All equity market performance statements are based on the MSCI ACWI Index.
[2] According to the U.S. Department of the Treasury. As of June 30, 2025.
[3] According to the ONS. July 16, 2025.
[4] According to the ONS. June 30, 2025.
[5] According to Eurostat. July 17, 2025.
[6] According to Eurostat. June 6, 2025.