

A quarterly newsletter with cues and views covering capital markets

INSIDE

The Balancing Act

Is the bond market ready for growing levels of Treasury debt issuance?

Inflation, Inflation, Where Art Thou?

Deciphering the difference between inflation expectations and current trends

Keep your eye on AI

CapEx growth is increasingly driven by Technology sector companies

Going Global - International Equities Finally Rouse Themselves

Underlying conditions driving the rebound in global equities bear watching



The Balancing Act: Finding Harmony with Supply & Demand

By Tim Senechalle, CFA

While many global macroeconomic & geopolitical issues remain unresolved heading into the 2nd half of 2025, passage of the Administration's One Big Beautiful Bill removes a significant element of uncertainty and positions investors with clarity regarding U.S. fiscal policy. With annual Federal budget deficits for the coming decade, including estimates for tariff revenues, expected to average 6.5% of GDP¹, a stable level of demand for Treasury debt is necessary for preserved market stability.

T-Bill Issuance

Recent comments from Treasury Secretary Bessent indicate a preference for marginal debt issuance in the Treasury Bill market in over the coming quarters, rather than increasing auction sizes of longer-term maturities. The market appears well-positioned to absorb this additional supply, supported by a still-low share of T-bills relative to total marketable U.S. Treasury debt (see Figure 1) and steady demand from money market funds as short-term rates begin to reset modestly higher.

Term Premium

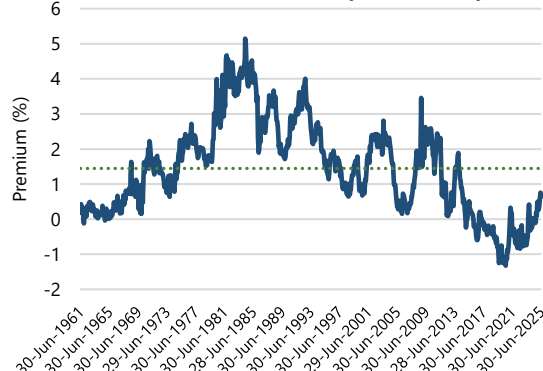
As we await the July 30th Treasury auction announcement and issuance details, we will also closely monitor the slope of the yield curve and the recent trend of increased estimated term premia. Increases in both measures bear watching, but do not indicate an elevated level of concern when compared to historical patterns.

T-Bills, % of Total Marketable U.S. Treasury Debt



Source: U.S. Department of the Treasury

Estimated Term Premium - 10yr U.S. Treasury



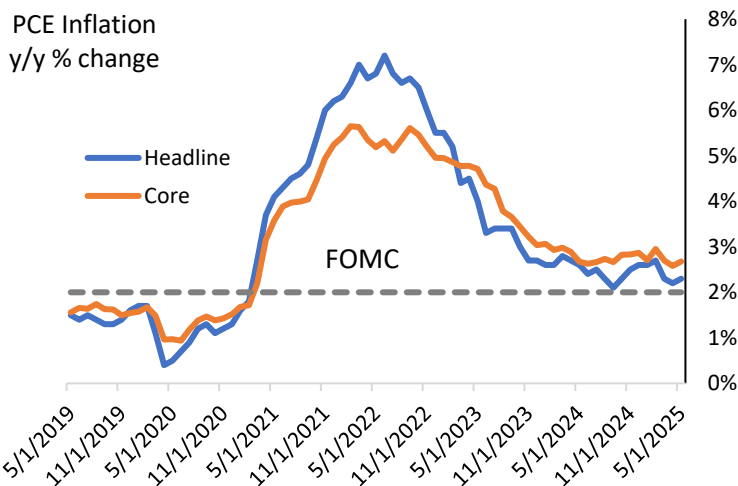
Source: Federal Reserve Bank of New York

Inflation, Inflation, Where Art Thou?

By Marco Bravo, CFA

Economic forecasters, market participants, consumers, and the Federal Reserve all anticipate that inflation will trend higher in the second half of this year. This outlook is primarily driven by expectations that tariff policies will finally begin exerting upward pressure on consumer prices. So far, inflation has remained relatively subdued and has been trending lower. As illustrated in Exhibit 1, the core Personal Consumption Expenditure (PCE) Price Index - the Fed's preferred measure of inflation -- is currently up 2.7% year-over-year. Over the past three months, core PCE has increased at an annualized rate of just 1.7%. According to the Fed's June "Summary of Economic Projections," core PCE is projected to rise by 3.1% for the full year 2025.

Exhibit 1: PCE Price Index

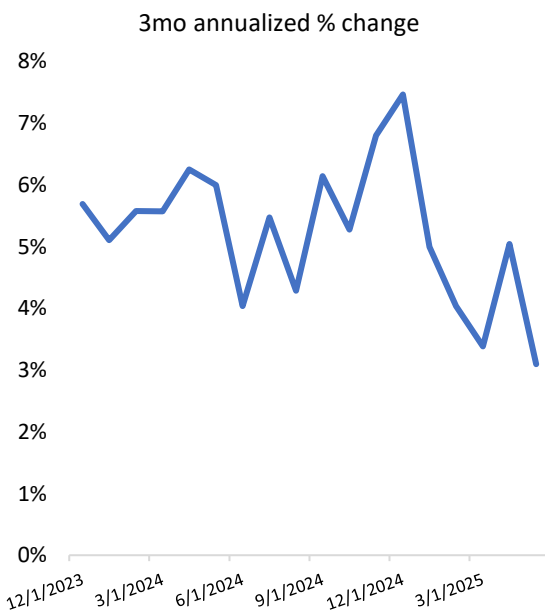


Source: Bureau of Economic Analysis, Bloomberg

The impact that tariffs will have on inflation will depend on several factors, with the most important being the level of tariffs imposed and how businesses and consumers respond. While trade negotiations between the U.S. and its trading partners are ongoing, the average level of tariffs is projected to settle in above pre-Liberation Day levels. U.S. companies importing tariffed goods will need to assess how much of the added cost they can absorb through lower margins versus how much they will try and pass on to consumers. To the extent that domestic alternatives exist, consumers may shift their purchases to goods not subject to tariffs. According to a recent Blue-Chip Financial Forecast survey, 67% of respondents expect tariffs to lead to a one-time increase in prices, while 33% anticipate a more persistent rise in inflation. Inflation readings in the coming months will offer clearer insight into the effects of tariffs.

Personal spending has moderated in recent months, as illustrated in Exhibit 2. This slowdown likely reflects growing uncertainty around tariff policies. Given that personal spending accounts for roughly two-thirds of U.S. gross domestic product (GDP), the deceleration is a key driver behind the below-trend GDP growth expected in 2025. After rising at an annualized rate of 3.1% in 2024, personal spending is projected to slow to just 1.1% in 2025. While uncertainty over tariffs is weighing on consumer confidence, underlying fundamentals remain solid - unemployment is low and wages are growing at a rate above 3% year-over-year. Part of the recent softness in spending may also be due to earlier purchases being pulled forward ahead of anticipated tariffs. For instance, vehicles sales surged to an average annualized rate of 17.4 million units in March and April, but have since declined to just over 15 million. We'll be closely monitoring upcoming data on the consumer and spending to better assess the health of the consumer and impact on economic growth.

Exhibit 2: Personal Spending



Source: Bureau of Economic Analysis, Bloomberg

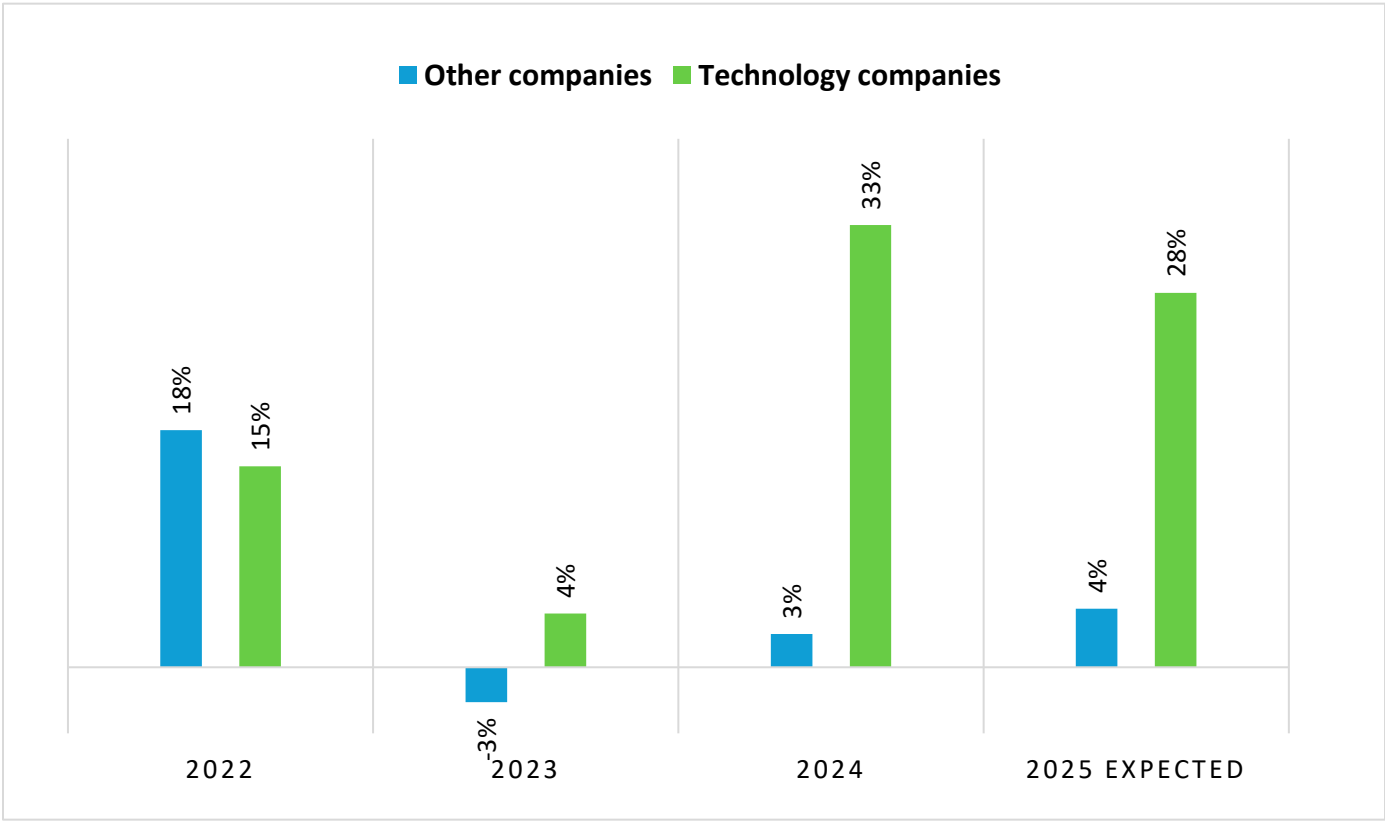
Keep your eye on AI

By Elizabeth Henderson, CFA

While death and taxes may be two certainties, today we would add AI to the list. Growing adoption is fueling a global arms race, giving us greater confidence that spending on AI and its adjacent fields will continue an upward trajectory. Backed by strong balance sheets and technical know-how, technology companies seeking to build moats in the face of obsolescence (i.e., Google) as well as building AI-related infrastructure, are spending at a faster pace than the average company (Exhibit 3).

The promise of AI to deliver productivity gains and other expense-related reductions is coming at an opportune time for companies, as profit margins are historically elevated and firms are reporting inflationary and labor concerns¹. This works as a tailwind for markets and the economy in the face of macro-related headwinds.

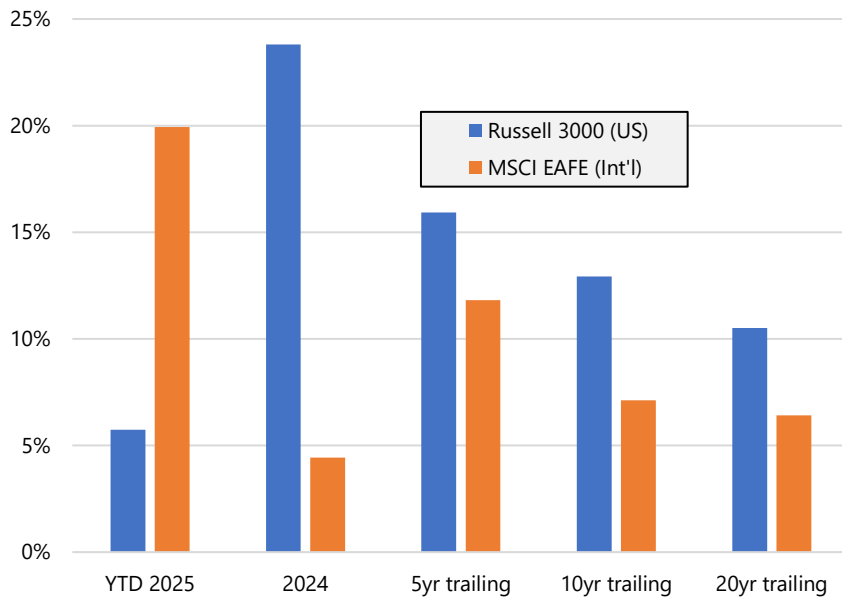
Exhibit 3: Annual Growth in Capital Spending



Source: AAM, Bloomberg data for investment grade companies (“Other” is excluding Financials and Utilities as well as Technology companies)

¹ [SBET Report - NFIB](#)

Exhibit 4: US vs Int'l Equity Historical Returns



Source: Bloomberg. Data as of 6/30/25. Periods longer than 1yr are annualized

Going Global - International Equities Finally Rouse Themselves

By Peter Wirtala, CFA

International Developed (EAFE) equities outperformed the US by 14.2% year-to-date through June 30th, after a decades-long stretch of chronic underperformance. Are shifting macroeconomic winds finally breathing some life back into foreign stocks?

Why have global stocks started pulling ahead? Here are a few likely reasons:

- After years of US outperformance global markets are due for a period of relative strength, and recent turmoil over the impact of tariffs on international trade and dollar demand created a ripe opportunity for capital to shift abroad
- Germany recently approved a massive \$546 billion spending package focused on infrastructure and defense, raising the prospects that expanded European government investment will drive a wave of growth
- Investors have placed greater scrutiny on AI themes and valuations as the rush to pour capex into the sector has yet to generate commensurate new revenue sources. Meanwhile global equities are more heavily weighted in more modestly priced sectors like banking and healthcare
- A 10% decline in the US dollar in the 1st half of 2025 - exacerbated by shifting tariff policy, rising Treasury interest costs, and a major spending bill winding its way through Congress - increased the relative value of international assets to overseas investors

For investors, the key question is: does this mark a lasting regime change with global equities delivering greater competitiveness (and diversification) vs. the US? The crucial question is what the ultimate impact will be on global supply chains, trading blocs, and capital flows, which can be evaluated and priced once a new set of trade deals are inked and a new status quo materializes. If economic decoupling ultimately leads to greater competition for capital and reduced cross-border correlation, there will be additional opportunities ahead to reap gains in EAFE stocks that have languished behind their US counterparts for decades.

US Dollar Index



Source: Bloomberg. Data as of 6/30/25