First Citizens Wealth™

Making Sense

Basis Points | July 8, 2025

Still Standing

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1. Beating the Odds

US financial markets emerged from the first half of 2025 not just unshaken but surprisingly strong – defying a barrage of risks that could have easily derailed them. New tariffs came in considerably higher than expected, but their impact so far has seemed surprisingly limited. War in the Middle East – including direct US involvement – raised geopolitical and oil-price risks to the outlook but stabilized faster than feared. Meanwhile, tax and debt-ceiling legislation looked far from guaranteed given razor-thin margins in the House and Senate yet cleared Congress with relative ease. On top of all this, inflation and interest rates remained elevated, and pockets of the economy showed more signs of fatigue. **As the first half fades into the rearview, this laundry list of risks and challenges has not been enough to hold back US equities and the economy: the S&P 500 just crossed all-time highs, corporate earnings are projected to rise further, and unemployment is still very low.**

2. Cautious Optimism

This outperformance is a sign of resilience, but will markets continue to withstand and bounce back from adversity? For the last several quarters, US equities trounced bearish forecasts not just because the macro environment proved more than manageable, but also because corporate earnings powered on and margins continued to expand. Today, many analysts view policy uncertainty, steep tariffs, and elevated interest rates as factors that weigh on business and economic activity. **Policy uncertainty might delay business decisions in the near-term, but in our view these challenges may prove short-lived if government policy crystallizes and corporations adjust to the new rules of the road.**

3. Eyes on Earnings

Corporate earnings growth is projected to slow markedly in the upcoming earnings season, with analysts penciling in 5% growth in Q2 from the stronger-than-expected 13% in Q1. As company results come in, we will pay attention not only to the earnings figures but also to management commentary, where we hope to get color on how companies are thinking about the medium-to-longer term outlook, particularly how they intend to balance higher costs, profit margins, capital expenditures and employment. **Our 12-month ahead price target for the S&P 500 remains 6,400, or about +3% from today's level.**

4. Monetary Policy Uncertainty

For several quarters, markets have waited for the Federal Reserve to cut interest rates, leading to easier financial conditions that supported equities. But inflation is still well above the Fed's 2% target, and policymakers actually expect the inflation rate to rise, not fall, from here. Employment is softening around the edges, which aids the case for rate cuts, but it's hard to look past a 4.1% national unemployment rate, the lowest in months. Although tariffs act as a new corporate tax (to the tune of around $25 billion a month so far), the One Big Beautiful Bill Act will deliver substantial fiscal stimulus in the near term, which could make the need for rate cuts less apparent. **Markets currently see two rate cuts this year and five by the end of 2026. But unless inflation subsides or economic conditions weaken materially, we are not so sure the Federal Reserve will deliver so much monetary easing.**