

Market Commentary 6th of August 2025

World equities gained ground in July for the third consecutive month, supported by investor optimism over generally strong corporate earnings and data showing continued resilience in global economies—despite ongoing uncertainty surrounding the impact of tariffs. The S&P 500 hit a record high, gaining 2.17% by the end of the month. The FTSE 100 Index was the top performer, rising 4.24%, while the Eurostoxx 50 Index ended the month flat.

Bond markets also finished the month mostly flat, as the U.S. Federal Reserve chose not to cut interest rates, mirroring the European Central Bank, which held rates steady as well.

Gold prices paused after a strong run earlier in the year, posting a slight 0.4% loss for the month. However, gold remains up more than 25% year-to-date, supported by a weaker U.S. dollar and ongoing geopolitical tensions. Meanwhile, crude oil prices rose 6.37% in July, driven by heightened global conflict and supply concerns.

The U.S. Dollar Index (DXY) rebounded in July, gaining 3.19% and recovering part of its year-to-date losses—helping to stall what had been one of its worst declines since 1973. Bitcoin also performed strongly, rising 8.26% for the month.

Just three months ago, at the height of tariff uncertainty, few would have predicted that markets would be setting new all-time highs by midyear. This remarkable turnaround underscores the importance of maintaining a long-term investment perspective and resisting reactionary decisions based on daily headlines. Reacting to short-term noise is more akin to speculation than true investing.

Why we remain long term bulls on the US economy & market

There has been a lot of talk about the end of US exceptionalism, and many market commentators and economists are becoming increasingly skeptical of whether the US can maintain its place as the world's strongest economy with the largest and deepest financial markets.

Below are a few “pictures”, mostly from the Bank of America’s global research team that illustrates why we should continue to invest in the US markets.

The table on the next page shows some market characteristics of the Asian and European markets versus the S&P 500, the main equity US index.

With a forward P/E of 24, the S&P 500 is far more expensive than Asia and Europe that are at a 16 and 15 Price-to-Earnings multiple respectively. So the US market is about 50% more expensive on this, the most common valuation metric. One would logically seek perceived bargains in Asia and Europe.

Looking at the other metrics, it is easy to justify the US market’s premium valuation. The biggest driver of markets is companies’ earnings growth (EPS growth), and here the US long term growth is expected to be 14.7% annually, versus 7.7% and 10% for Asia and Europe.



Market characteristics (as of 7/30/25)

	Asia	Europe	S&P 500
Market Cap (\$)	7,520,600	15,883,137	57,084,931
Div payout	25%	25%	26%
FCF / Share	0.60	3.02	7.03
EPS L12m	1.54	3.31	10.72
FCF / EPS L12M	39%	91%	66%
FY1 EPS	2.26	17.25	11.24
FY2 EPS	2.47	18.89	12.83
FY2 vs FY1 EPS growth	9%	10%	14%
Long-Term Projected EPS Growth	7.7	9.0	14.7
FY1 EPS Est Dispersion	0.08	0.08	0.04
FY2 EPS Est Dispersion	0.11	0.11	0.06
% B+ or Better	N/A	N/A	60%
Debt to Market Capitalization	21.2%	19.1%	8.8%
% of non-earners	3.2%	5.7%	1.4%
Forward PE	16	15	24
EPS Variability	2.1	3.2	2.0

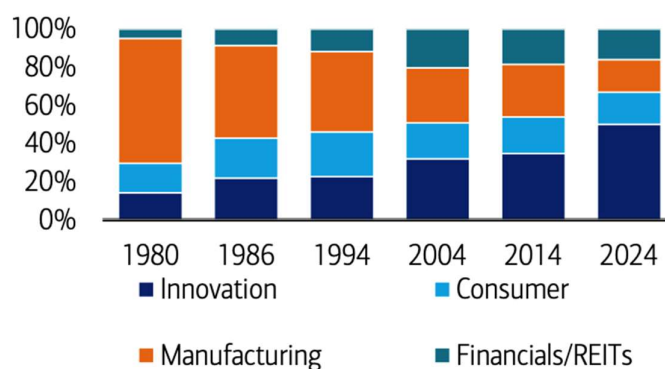
Source: BofA US Equity and Quant Strategy, FactSet. Asia and Europe constituents are based on MSCI EAFE. US large caps are based on S&P 500. Metrics are market-cap weighted aggregates.

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US companies also have much less debt as a ratio of the market value of their companies, and generate much higher Free Cash Flow.

The US market sectors are overwhelmingly more “asset-light” than they were in the past, as the table below shows. This can partially explain why the market higher market multiples than in the past.

% of S&P 500 market cap by sector



Source: Haver Analytics, FactSet, BofA US Equity & Quant Strategy* present (Asset light / Innovation = Tech, Comm. Services ex-Telecom & Health Care, Consumer = Staples/Discretionary, Manufacturing/Asset Intensive/Capex = Industrials, Materials, Energy, Utilities, Telecom)

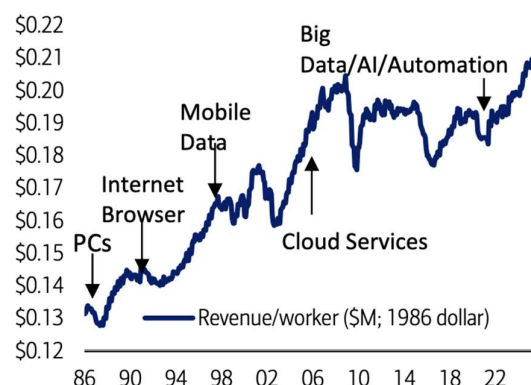
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Additionally, “high-quality” companies account for more than 60% of the total today, much more than they did in the last 30 years.

Stronger productivity than most of their peers has always been an aspect of the US economy. The graph on the next page shows how real revenue per worker has grown by 60% since the mid-eighties, as innovation has spurred more productive workers.



S&P 500 companies' real revenue per worker (\$M 1986 dollar)



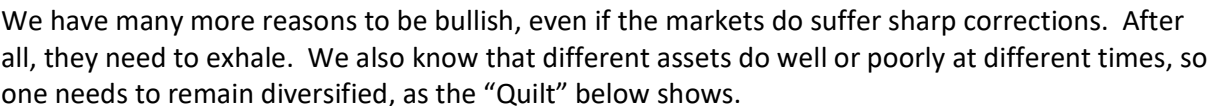
Source: BofA US Equity & Quant Strategy, FactSet, Bloomberg
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Another reason why we are long term bulls of the US market is that AI is a huge game-changer. This week, Demis Hassabis, the Nobel-prize winner, who runs Google's highly respected Deep Mind that does research on AI, gave an interview to the Guardian. Below is the headline and he link:

Demis Hassabis on our AI future: 'It'll be 10 times bigger than the Industrial Revolution – and maybe 10 times faster'

The head of Google's DeepMind says artificial intelligence could usher in an era of 'incredible productivity' and 'radical abundance'. But who will it benefit? And why does he wish the tech giants had moved more slowly?

<https://www.theguardian.com/technology/2025/aug/04/demis-hassabis-ai-future-10-times-bigger-than-industrial-revolution-and-10-times-faster>



Source: BofA Global Investment Strategy, Bloomberg *2025 YTD

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The Elgin Analysts Team

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