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Economics Weekly

Midyear Update—Resiliency Amid Uncertainty

Please refer to important disclosures on pages 17 and 18. Analyst certification is on page 17.

The first half of this year has been a particularly volatile one for both the economy and financial markets. President Trump came into office with a strong mandate for change and has seemingly been doing everything he can to live up to the promises he made on the campaign trail—even though some of these changes have proved to be highly controversial for large parts of the country and the global economy. Yet, despite all of this, the economy has so far proved resilient and defied earlier expectations for stagflation. Looking to the second half of the year, growth is likely to moderate, and the Fed will likely soon start to lower interest rates, despite a possible uncomfortable blip upward as the impact from tariffs is passed through to consumers. **In this *Economics Weekly*, we present a midyear update, with a review and preview of the first and second halves of 2025.**

Fiscal Policy and Geopolitics—Following First-Half Shock and Awe, Markets Now More Desensitized for Second Half

As we have discussed previously, we believe a major regime change has been taking place since 2020. While this did not begin with President Trump, it has been amplified by him.

In this new regime, fiscal policy has become a much more important driver of economic change, and monetary policymakers have found themselves on the back foot. They are no longer able to act preemptively. Instead, they are having to be reactive to highly consequential decisions made in Washington about taxes and spending, immigration and deportations, tariffs, the DOGE, and geopolitical decisions that impact commodity markets directly and other areas of the economy indirectly.

For financial market participants, this shift in policy drivers creates greater uncertainty and, in turn, heightened volatility.

The Fed has spent the last few decades attempting to increase its transparency and thereby smooth any potential market volatility associated with policy changes, in what has become a well-honed symbiotic tango with investors—their signals nudge investors in one direction or another, and they have become much more adept at sensing which direction markets are willing or unwilling to take.

Meanwhile, financial market participants understand the tools that monetary policymakers are using, and they generally recognize the direction of travel and timing needed to get there. Thus, investors are perfectly capable of hedging against those changes should they feel the need.

Fiscal policymakers, conversely, are incapable of such transparency; decisions go back and forth between the House, Senate, and president. Politicians are less rational economic technocrats and more actors responding to their constituents and/or the election calendar. As such, these policymakers' decisions might greatly benefit their region, though not always the economy as a whole. They often have little understanding of financial markets and investors' likely reactions to any policy changes. The consequential tax and spending decisions they make are often hard to track and hedge against, and their economic impacts are also often difficult to estimate.

Treasury Secretary Bessent seems to fully understand this transition and has been incredibly visible in acting as translator in chief and attempting to bridge the uncertainty gap between policymakers in Washington and financial market players. President Trump, meanwhile, has been forced to dance his own tango with markets, and on several occasions now, he has backed away from some of his most controversial policies where markets have been reluctant to tread. This has been comforting for investors, who now believe that there are effective guardrails around policy decisions.

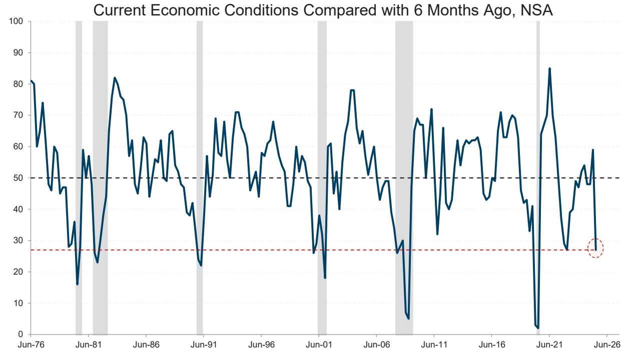
Hence, if the first half of 2025 with this new administration was all about moving fast and breaking things, and throwing as much as possible at the wall in an effort to overwhelm and blindside any opposition, it seems that this phase is now over. The president has apparently distanced himself from the tech bros, Elon Musk has acrimoniously departed the White House, and the opposition is now mobilizing—various policies are being tested in the courts, and some have been reversed.

As a result, we should expect less shock and awe through the second half of this year and beyond as thoughts start to shift toward the 2026 midterm elections. While the president seems to still like a little drama and to thrive with instability, investors have also become slightly more accustomed to this new dance partner, and in the process have become a little less sensitive and knee-jerk reactionary to each twist and turn made by the White House.

Economic Growth—If the First Half Was About the Soft Data, the Second Half Will Be About the Hard

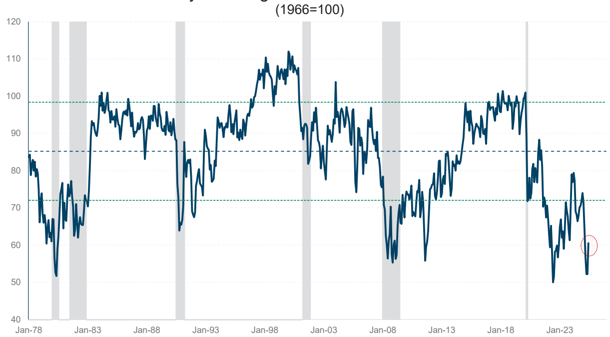
The immediate response from both the corporate and consumer sector to changes taking place in Washington was a sharp collapse in confidence (exhibits 1 and 2).

Exhibit 1
CEO Confidence
Current Economic Conditions Compared with 6 Months Ago, NSA



Source: The Conference Board, William Blair Equity Research

Exhibit 2
University of Michigan Consumer Sentiment Index
(1966=100)



Sources: University of Michigan, William Blair Equity Research

This naturally resulted in increased market fears that weak soft data would soon translate directly to the hard data, resulting in a dramatic economic slowdown, if not an outright recession.

Many leapt on the first quarter's 0.5% decline in GDP as being the start of such economic weakness, but the fall was entirely due to a sharp increase in imports (which detract from GDP) as companies and consumers raced to get ahead of the tariffs. Real final sales to private domestic purchasers—which excludes the impact from inventories, trade, and government spending, and hence is a purer measure of underlying domestic demand from consumers and businesses—increased by a solid 1.9%.

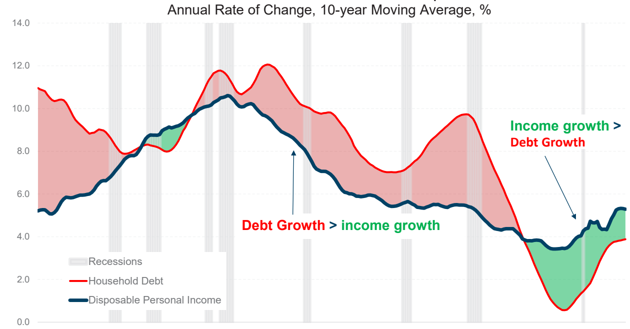
Meanwhile, hard data through May—which include data on retail sales, industrial production, factory orders, and employment—show that growth has indeed started to soften, and this moderate deceleration will likely continue through the third quarter.

Growth, however, is not falling off a cliff, as many had feared, and the odds of a recession are still low. We would view this as more of a midcycle slowdown. The private sector is being forced into making adjustments to manage the new tariff regime. These changes include: establishing new supply chains, cutting costs and seeking out greater efficiencies, adjusting inventories, negotiating with suppliers and end-market consumers, and potentially cutting less profitable lines of business or ones where input components might be more costly due to tariffs. Companies are also raising prices where they can.

Consumer Situation—Softening Amid Resiliency

The U.S. consumer as a whole is in relatively good shape. The household debt service ratio is barely back up to pre-COVID levels; consumer's debt-to-income ratio remains around late-1990s levels; and the pace of income growth has been far above debt growth for the last decade (exhibit 3).

Exhibit 3
Growth in Household Debt vs. Nominal Disposable Income
Annual Rate of Change, 10-year Moving Average, %



Sources: Federal Reserve, William Blair Equity Research

In fact, household consumption over the last decade has been more income-driven than credit-driven, and as a result, balance sheets have not become overly extended. This means that consumers would be far more receptive and responsive to lower interest, when the Fed does finally decide to start easing again, than was the case following the global financial crisis, when consumers were reluctant to take on more debt at any price.

Nevertheless, there are also some tentative signs of softening that could increase further without monetary policy shifting to a more neutral setting in the coming months. These include steadily declining rates of job openings and modestly rising rates of initial and continuing jobless claims. In addition, delinquencies across most areas of consumer credit for the last year have returned to their pre-COVID levels.

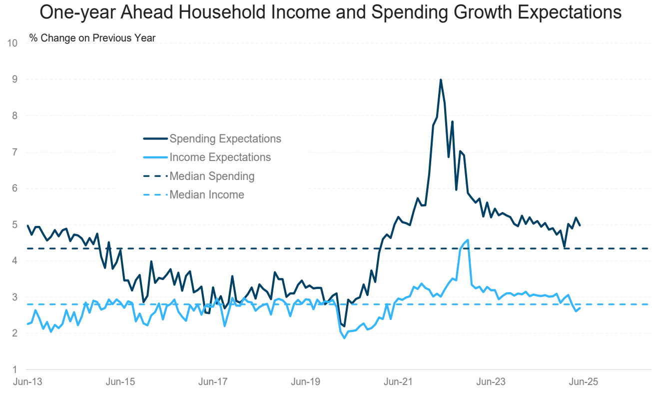
In the case of auto loans and credit cards, delinquencies are now above pre-COVID levels, while student loans have accelerated following the end of the moratorium on repayments, but remain below their level in 2019, according to data from the New York Fed. These levels are consistent with an economy that is in the mid- to late-cycle period and is an area of moderate stress, which should only provide further reason for the Fed to continue its easing cycle to return rates to a more neutral setting.

The impact of less immigration and deportations is also acting to restrain consumption. The April revocation of Employment Authorization Documents (work permits) issued to migrants under the CBP One humanitarian parole program impacts nearly 1 million immigrants who were admitted to the program, but are now at risk of deportation. Many of these workers will necessarily start to drop out of the labor market—moving from employed or unemployed to not in the labor force.

As we discussed in our snapshot of the current labor market last week, none of the gauges of labor market pressure signal a particularly acute employment problem yet. The latest survey from the New York Fed on consumer spending and income expectations (exhibit 4), for example, shows some easing in income expectations, but only back to their historical average, and spending expectations remain elevated. Neither of these data are indicative of a highly stressed consumer.

Exhibit 4

One-year Ahead Household Income and Spending Growth Expectations



Business Investment—Similarly Resilient, Similarly Decelerating

For the corporate sector, we also continue to see resiliency. As exhibit 5 shows, the debt-to-equity ratio is the lowest in the postwar period. While this is partly being driven by the strength in the denominator as opposed to weakness in the numerator, debt-to-net-worth is also below its historical average (exhibit 6).

Exhibit 5

Corporate Debt to Equity

Total Value of Corporate Debt to Market Value of Equity for All Nonfinancial Corporate Business

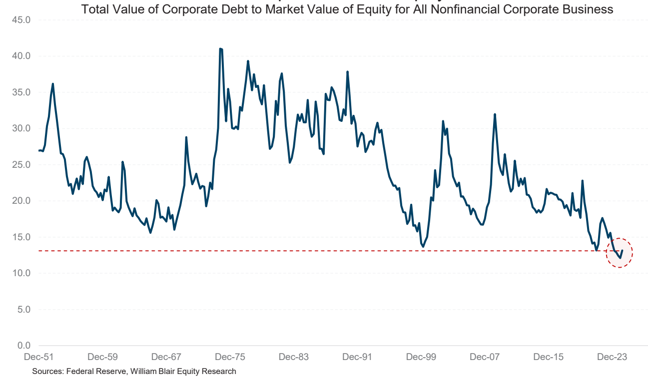
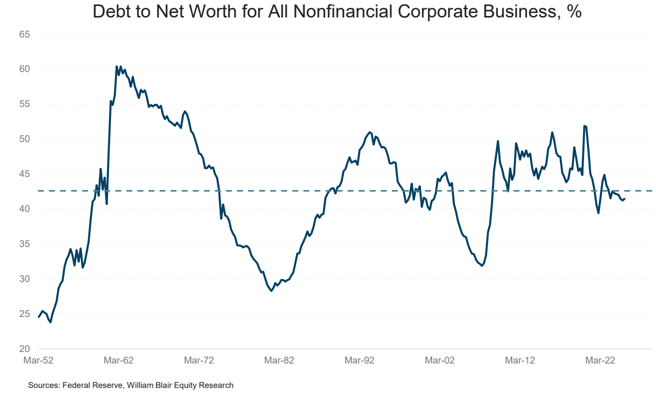


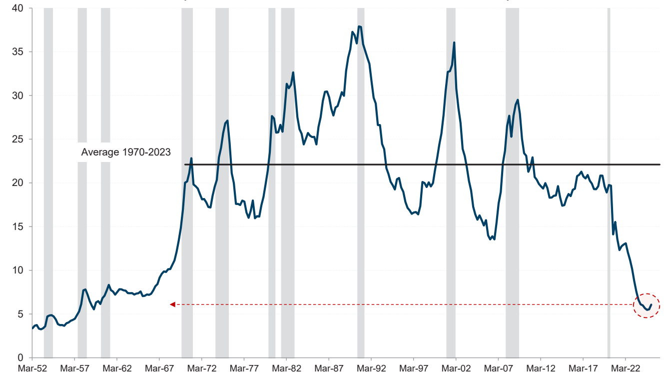
Exhibit 6

Debt to Net Worth for All Nonfinancial Corporate Business, %



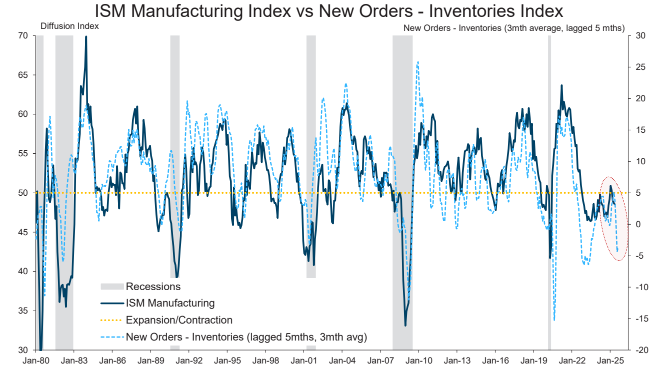
Companies also still have very high levels of cash on their balance sheets, and despite howls from the housing sector about biting interest rates, net interest expense to EBIT for the aggregate nonfinancial corporate sector is the lowest it has been since 1960 (exhibit 7).

Exhibit 7
Net Interest Expense as % of EBIT for All Nonfinancial Corporate Business



Sources: Federal Reserve, William Blair Equity Research; Shaded Bars = Recessions

Exhibit 8
ISM Manufacturing Index vs New Orders - Inventories Index



Sources: Institute for Supply Management; William Blair Equity Research, Shaded Area = Recessions

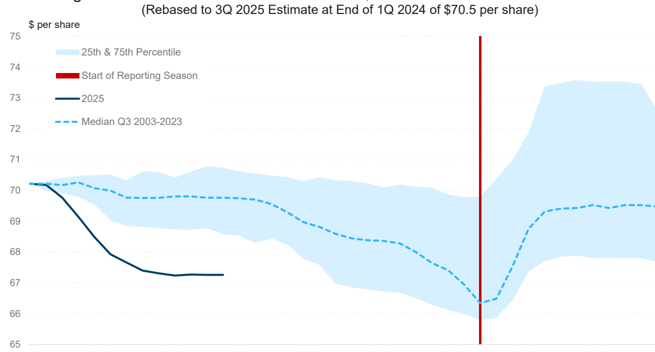
The overwhelming headwind, however, is still very much the tariffs and the uncertainty around them. As Chair Powell reminded us this week, someone somewhere is going to have to pay for them.

Companies at the recent William Blair 45th Annual Growth Stock Conference were quite clear that they are using a number of mitigation strategies, including: pushing back on suppliers; running down built-up inventory; absorbing some of the costs themselves and searching for efficiencies to compensate; rejigging their supply chains; and as much as possible, passing along the higher tariff rates to the end-consumer.

This is already reflected by a slowdown in the manufacturing sector, where the ISM Manufacturing Index has dipped back into contraction territory (where it had been for the previous two years), following a brief pop above 50% in January and February. Freight forwarding and container shipping companies have also recently been warning about slowing growth. As uncertainty about expected future demand has increased, companies have reduced investment as they await further clarity on the extent to which demand will be adversely impacted by the tariffs.

From a corporate earnings perspective, through the first-quarter earnings season, companies aggressively lowered earnings guidance, which was duly reflected in a reduction in analysts' earnings estimates that was well below their normal progression for the second and third quarters (exhibit 9). The message we have heard from the corporate sector, and as demonstrated in EPS revisions, is that companies are now comfortable with the current guidance setting following the tariff announcements—unless something else untoward happens.

Exhibit 9
Progression of S&P 500 3Q EPS Estimates, 3Q 2025 vs. Median 3Q 2002-2024
(Rebased to 3Q 2025 Estimate at End of 1Q 2024 of $70.5 per share)



Sources: LSEG I/B/E/S, William Blair Equity Research

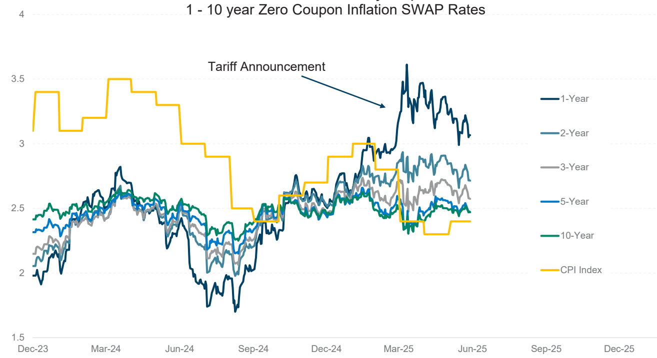
Inflation—Tariff Blip, Then Dip

We still do not know the ultimate effective tariff rate, though we have a rough idea of its contours, which seem to be between 10% and 15%, and likely closer to the latter if we take into account various sector-specific tariffs, such as those on steel and aluminum. Hence, today's uncertainty is now less about the tariff rate itself and more about its impact on inflation and economic growth.

A study by the San Francisco Fed found that approximately 9% of consumers' aggregate spending basket is spent on foreign imported items. The Fed study assumes a 25% tariff rate is fully passed through and suggests that this would result in a substantial 2.2% increase in inflation. The reality is likely to be far less; not only is a 25% tariff unlikely, but so too is the assumption of a full pass-through.

Tariffs, just like energy price increases, are demand destructive and not stimulative. Any potential blip in inflation is not the result of too much money chasing too few goods as in Milton Friedman's traditional recipe for inflation. Rather, tariffs are a one-off price level tax increase. While there are risks that tariffs spark a further de-anchoring of consumers' inflationary expectations, encouraging a wage-price spiral that could prolong and amplify the tariff impact, the market is not pricing that in today. Where one-year inflation swaps point to a 3% inflation rate—an estimate that has been steadily falling—5- and 10-year swaps have been extremely sticky around 2.4% (exhibit 10), showing no sustained surge.

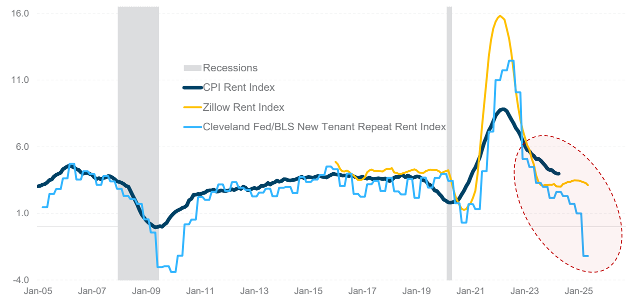
Exhibit 10
Market-Based Inflationary Expectations
1 - 10 year Zero Coupon Inflation SWAP Rates



Sources: Bloomberg, Bureau of Labor Statistics, William Blair Equity Research

Furthermore, following a particularly sticky period of high shelter costs driven by strong rental price increases, rental prices continue to decelerate (exhibit 11). Not only are inventories of new and existing homes rising, but rental vacancy rates are back to just below their historical average following a sharp dip during the pandemic. This is being partly driven by the changes in immigration, where the previous surge following the pandemic was a big driver of the rental price increases. Shelter accounts for 35% of the CPI basket and represents a powerful offset to any tariff-related price increases.

Exhibit 11
CPI Rent Price Index vs. Zillow Rent Price Index & Cleveland Fed/BLS's New Tenant Repeat Rent Index
(% Change on Year Ago, CPI Rent Index lagged 12 months)



Sources: Cleveland Fed, Zillow, Bloomberg, William Blair Equity Research

Looking at the bigger picture, the prevailing inflation regime has definitively changed since 2020. We are no longer in a world where the supply-side of the economy—in terms of both labor and materials—is unconstrained, and the only inflation risk is to the downside (i.e., that some exogenous factor would hit demand and plunge the economy into deflation). We are once again in a world where supply chains matter, where goods are no longer flowing across borders as frictionlessly as was previously the case, and where the pool of available labor continues to be limited in a structurally tight labor market. In this world, while the mean level of inflation itself may not change much, there is likely to be much greater volatility or dispersion around that mean than was the case in the old inflation regime.

Fed Policy—To Wait or Not to Wait?

With the economy decelerating—notably including one of the most interest-rate-sensitive parts of the economy, the housing market—there is a growing case for the Fed to start lowering interest rates soon.

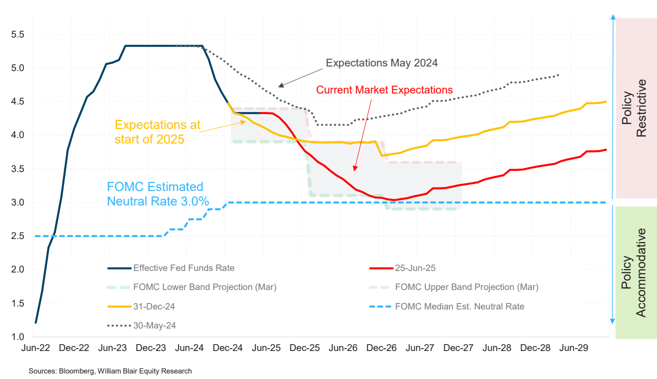
In the last week, two members of the Board of Governors, Governors Waller and Bowman, have outed themselves as wanting to lower rates as soon as the July FOMC meeting. This sentiment, however, was then countered by Chair Powell in two Congressional testimonies, where he left the door open to a July cut, but implied that he would prefer to wait and see how the inflation and employment data unfold through July and August before making that decision, implying a September cut.

With regard to rate cuts, therefore, it is not a question of if, but when. Some committee members are concerned that resuming rate cuts, just as inflation potentially starts to push upward on the back of tariffs, could look bad if already elevated consumer inflationary expectations increase further and cause a wage-price spiral, exacerbating the impact from tariffs. There is also concern that greedflation might once again set in, whereby companies—under the guise of tariffs—push up prices to increase revenues and margins.

Ultimately, tariff inflation is more of a temporary phenomenon, as opposed to any tariff-related increases in unemployment, which may not simply disappear when the price level impact fades. This means that the Fed would only be delaying rate cuts, but not derailing them completely, as employment fears would soon outweigh any possible tariff-related inflation fears.

Meanwhile, with credit spreads so tight and the stock market performing well, this does not yet feel like a liquidity constrained market that is screaming for a rate cut. Delaying cuts by only a few months would also be consistent with the re-adoption of an opportunistic disinflation policy of seizing on disinflationary opportunities by not immediately responding with lower rates. Hence, a September rate cut still looks like the most realistic outcome, and the futures market is now assigning a probability of 70% (exhibit 12). It is attaching a 25% probability to a cut in July.

Exhibit 12
Fed Funds Rate Futures Market Expectations & FOMC Projections, %



Investment Implications—Growth to GARP

After five months of his second term in office, investors are becoming a little more accustomed to President Trump. They have been learning to desensitize and not react too vigorously to each statement made by the president, as it is often the case that what is first announced is later scaled back to something more bearable for investors—along with some explaining by Treasury Secretary Bessent. This has helped calm some of the prior volatility and allow investors to more cautiously reengage with risk assets, as opposed to moments of pure risk-off during the first half of the year.

Yet, performance will still need to adjust to reflect at least two notable areas of regime change discussed here: the inflation regime shifting from low and stable to lowish and more volatile; and the regime shift from monetary policy dominance to fiscal policy dominance.

For investors, this means we are likely transitioning to more volatility in the market, where there is less certainty around inflation and the central bank can no longer act preemptively and keep rates lower for longer. It must necessarily now be more reactive to fiscal measures being taken in Washington.

This is likely to be one of the reasons behind the inversion of the prevailing negative correlation between stocks and bonds to a positive one, which means that equity investors are no longer receiving the insurance protection they were once getting from the bond market. Therefore, to better insulate portfolios, two things become increasingly important: 1) diversification across sectors and size, for equity investors, and 2) valuation, to provide some extra protection against downside losses.

Neither of these factors was particularly important in the old regime of low and stable inflation, where the Fed could be relied on to act preemptively and bonds consistently performed well when stocks performed poorly. All of these allowed investors to run increasingly concentrated portfolios of long-duration growth stocks balanced out with Treasury bonds. Today, while we are still strong believers in the merits of growth stock investing, valuations once again matter, with the result that investors will increasingly find themselves shifting from growth to GARP.

Conclusion

If the first half was all about shock and awe and uncertainty around policy changes, the second half is likely to be all about how those expectations match up with reality.

The U.S. economy has so far proved to be incredibly resilient with a remarkable ability to absorb shocks to the system across many different layers of the economy. That is likely to remain the case as the economy is once again being tested through the implementation of a new tariff regime. This creates new friction for the private sector and it will take some time to adjust and restructure as appropriate. Yet, from what we are seeing so far, these adjustments are manageable. Private sector balance sheets are in good shape, and companies have already made significant downward revisions to earnings guidance.

Nevertheless, this will not be smooth sailing. While there may be some temporary inflation bumps in the road, there are also signs of emerging softness in the labor market. Ultimately, fears about growth and employment should outweigh any near-term inflation increases from tariffs. As a result, there is a growing case for the Fed to continue to remove its still mildly restrictive policy stance and transition to a more neutral one, with this likely starting once again in September.

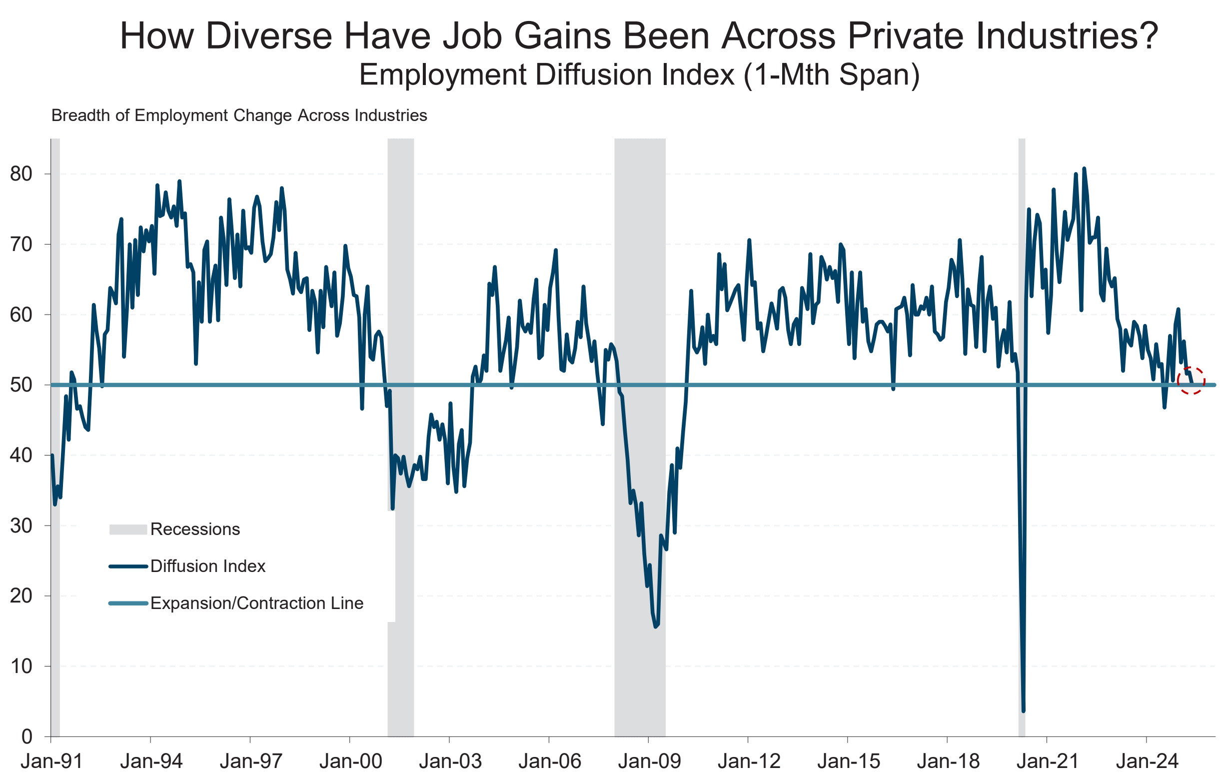
In a new world with less certainty around inflation, interest rates, Fed policy, and bond market performance, there will be a greater need to move away from highly concentrated equity market portfolios. Instead, investors should return to seeking diversification across a broad group of stocks and sectors, and increasingly take into account valuation as a deciding factor.

Highlights in the Week Ahead

Date	Time (ET)	Indicator	Last	Consensus	WB Estimate	Actual
1 July	10:00 a.m.	ISM Manufacturing Index (June)	48.5	48.5	48.8	
1 July	10:00 a.m.	JOLTS (May)	7391K	NA	NA	
3 July	8:30 a.m.	Nonfarm Payrolls (June)	139K	116K	105K	
		Unemployment Rate	4.2%	4.3%	4.3%	
		Average Hourly Earnings	0.4%	0.3%	0.3%	
3 July	10:00 a.m.	ISM Service Index (June)	49.9	50.4	50.1	

Sources: Bloomberg, William Blair Equity Research

Indicator of the Week: Employment Situation



Figures are the percent of industries with employment increasing plus one-half of the industries with unchanged employment, where 50 percent indicates an equal balance between industries with increasing and decreasing employment.
Sources: BLS, William Blair Equity Research

Economic Scorecard

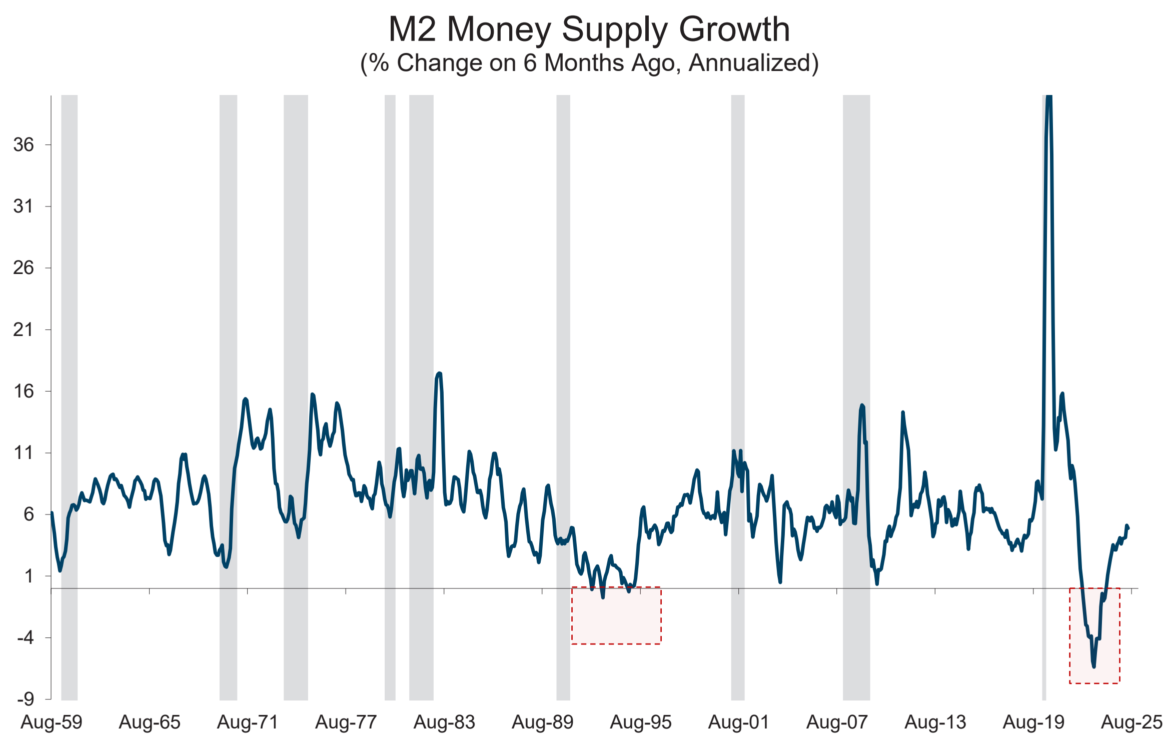
Rolling monthly heat map, % Change on Year Ago (unless otherwise noted)

	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25
Growth																			
US Leading Indicators	-6.8	-7.0	-6.5	-5.5	-5.4	-5.0	-4.5	-4.7	-4.6	-4.3	-3.7	-3.0	-3.0	-2.7	-3.0	-3.5	-4.3		
US Coincident Indicators	2.4	1.6	2.0	2.1	1.7	1.9	2.1	1.7	1.7	1.6	1.6	1.3	1.7	1.6	1.6	1.9	2.2		
US Lagging Indicators	0.3	1.2	1.2	1.2	1.4	1.2	1.1	1.0	0.8	0.3	0.1	0.0	0.1	-0.1	0.1	-0.3	-0.3		
Consumer																			
Total Retail Sales	5.3	0	2	3.4	2.6	2.8	2	3	1.9	2	3.1	3.9	4.6	4.6	3.9	5.1	5.0	3.3	
Personal Income	5.2	6	5.9	5.9	5.7	5.5	5.4	5.3	5	4.8	5.2	5.1	5.2	4.3	4.7	4.8	5.5		
Real Disposable Personal Income	4.7	3.7	3.3	3.1	2.8	2.8	2.7	2.6	2.4	2.4	2.5	2.3	2.2	1.3	1.6	2.1	2.9		
Real Personal Consumption	3.6	1.9	2.1	2.7	2.4	2.8	2.9	2.9	2.9	3.2	3.1	3.1	3.1	3	2.7	3.1	3.2		
Personal Saving Rate (%)	4.4	5.5	5.4	5.2	5.1	4.9	4.8	4.3	4.2	3.8	4.1	3.9	3.5	4.1	4.4	4.3	4.9		
Consumer Confidence (Conference Board)**	108	110.9	104.8	103.1	97.5	101.3	97.8	101.9	105.6	99.2	109.6	112.8	109.5	105.3	100.1	93.9	85.7	98.4	
Employment																			
Employment Growth	1.7	1.5	1.4	1.5	1.5	1.4	1.3	1.3	1.2	1.3	1.2	1.3	1.3	1.3	1.2	1.1	1.1	1.1	
ASA Temporary Staffing Index	-5.5	-12.2	-9.4	-8.2	-9.3	-10.2	-9.9	-12.5	-12.2	-12.0	-9.5	-6.6	-21.0	-8.2	-7.5	-8.7	-6.4	-5.8	
ISM Employment Index Manufacturing*	47.6	47.2	46.1	47.5	48.2	50.4	48.4	43.6	45.8	44.6	44.8	48.1	45.4	50.3	47.6	44.7	46.5	46.8	
ISM Employment Index Services*	43.7	50.2	48	48.5	46.6	47.5	46.7	51	49.6	48.2	52.2	50.9	51.3	52.3	53.9	46.2	49	50.7	
Unemployment Rate, %	3.8	3.7	3.9	3.9	3.9	4	4.1	4.2	4.2	4.1	4.1	4.2	4.1	4	4.1	4.2	4.2	4.2	
Average Hourly Earnings	4.1	4.3	4.2	4.2	4	4.1	3.9	3.6	4	3.9	4.1	4.2	4	3.9	3.9	3.9	3.9	3.9	
Initial Jobless Claims (avg. wkly. chg. '000s)	205	210	211	216	210	222	237	237	230	225	236	219	222	218	227	223	226	235	
Jop Openings	-21.1	-18.5	-14.2	-15.5	-23.7	-15.1	-19.4	-12.8	-17.6	-23.5	-10.9	-7.3	-12.5	-8.3	-11.4	-11.0	-3.0	-6.5	
Layoff Announcements	-20.2	-20	8.8	0.7	-3.3	-20.3	19.8	9.2	1	53.4	50.9	26.8	11.4	-39.5	103.2	204.8	62.7	47	
Housing Market																			
Housing Starts	16.3	1.5	10.9	-4.7	2.3	-16.9	-6.6	-13.4	5.6	-1	-1.2	-14.5	-0.5	-1.7	-4	3.3	0.5	-4.6	
New Home Sales	3.5	4.8	3.5	6.3	8.1	-10	-0.4	1.1	7.4	5.3	-8.8	10.7	11.7	-2.8	-2.4	-4.8	0.4	-6.3	
Existing Home Sales	-5.6	-2.0	-3.4	-3.3	-2.6	-3.1	-5.1	-2.5	-3.7	-3.0	3.1	6.7	9.7	2.3	-0.9	-2.4	-2.0	-0.7	
Median House Price (Existing Homes)	-2.2	5.4	-2.9	-0.6	-0.5	-1.6	-0.9	-1.6	-8	-1.2	2.1	-7.4	1.1	-0.2	-1.4	-7.5	-0.9	3	
Existing Homes Inventory (Mths' supply)	3.5	3.5	3.3	3.5	3.5	3.5	3.8	3.7	3.9	4	3.9	3.8	3.7	3.9	3.8	4.2	4.3	4.3	
New Homes Inventory (Mths' supply)	8.4	8.1	8.4	8.1	7.7	8.5	8.4	7.9	8.2	7.9	9.3	8.7	8.2	9	9.3	9.2	8.3	9.8	
NAHB Homebuilder Sentiment*	37	44	48	51	51	45	43	41	39	41	43	46	46	47	42	39	40	34	32
Inflation																			
Consumer Price Index	3.4	3.1	3.2	3.5	3.4	3.3	3	2.9	2.5	2.4	2.6	2.7	2.9	3	2.8	2.4	2.3	2.4	
CPI Less-food & energy	3.9	3.9	3.8	3.8	3.6	3.4	3.3	3.2	3.2	3.3	3.3	3.3	3.2	3.3	3.1	2.8	2.8	2.8	
Producer Price Index	1.1	1	1.6	2	2.3	2.5	2.9	2.4	2.1	2.1	2.8	2.9	3.5	3.8	3.4	3.3	2.5	2.6	
PPI Less-food & energy	1.8	2	2.1	2.3	2.5	2.7	3.3	2.6	2.8	3.3	3.6	3.4	3.7	3.9	3.7	3.9	3.2	3	
PCE Price Index	2.7	2.6	2.6	2.8	2.7	2.6	2.4	2.5	2.3	2.1	2.3	2.5	2.6	2.5	2.6	2.3	2.1		
PCE Prices Less-food & energy	3.0	3.1	2.9	3.0	2.9	2.7	2.6	2.7	2.7	2.7	2.8	2.8	2.9	2.7	2.9	2.7	2.5		
Business Activity - US																			
Industrial Production	0.8	-1.2	-0.1	-0.3	-0.8	0.0	0.9	-0.5	-0.1	-0.7	-0.4	-0.9	0.4	1.4	1.2	1.2	1.4	0.6	
New Cap Gds Orders less-aircraft & parts	-2.9	-2.5	2.2	-1.5	2.1	-2.8	-4	-0.6	-1.8	0.5	0.2	-1.1	1.9	3.3	-0.9	2.2	0.6	2.3	
Business Inventories	-0.1	-0.1	-0.2	0.3	0.2	0.6	1.1	1.5	2.1	2.1	1.9	2.2	2.6	1.9	2.5	2.3	2.5	2.2	
ISM Manufacturing PMI*	46.9	48.9	47.6	49.8	48.8	48.5	48.3	47	47.5	47.5	46.9	48.4	49.2	50.9	50.3	49	48.7	48.5	
Markit US Manufacturing PMI*	47.9	50.7	52.2	51.9	50	51.3	51.6	49.6	47.9	47.3	48.5	49.7	49.4	51.2	52.7	50.2	50.2	52	
ISM Services Index*	50.6	53.2	52.2	51.3	49.6	53.5	49.2	51.4	51.6	54.5	55.8	52.5	54	52.8	53.5	50.8	51.6	49.9	
Markit US Services PMI*	51.4	52.5	52.3	51.7	51.3	54.8	55.3	55	55.7	55.2	55	56.1	56.8	52.9	51	54.4	50.8	53.7	
Business Activity - International																			
Germany Manufacturing PMI Markit/BME*	43.3	45.5	42.5	41.9	42.5	45.4	43.5	43.2	42.4	40.6	43	43	42.5	45	46.5	48.3	48.4	48.3	
Japan Manufacturing PMI Jibun Bank*	47.9	48	47.2	48.2	49.6	50.4	50	49.1	49.8	49.7	49.2	49	49.6	48.7	49	48.4	48.7	49.4	
Caixin China Manufacturing PMI*	50.8	50.8	50.9	51.1	51.4	51.7	51.8	49.8	50.4	49.3	50.3	51.5	50.5	50.1	50.8	51.2	50.4	48.3	
China Manufacturing PMI*	49	49.2	49.1	50.8	50.4	49.5	49.5	49.4	49.1	49.8	50.1	50.3	50.1	49.1	50.2	50.5	49	49.5	
UK Manufacturing PMI Markit/CIPS*	46.2	47	47.5	50.3	49.1	51.2	50.9	52.1	52.5	51.5	49.9	48	47	48.3	46.9	44.9	45.4	46.4	
France Manufacturing PMI Markit*	42.1	43.1	47.1	46.2	45.3	46.4	45.4	44	43.9	44.6	44.5	43.1	41.9	45	45.8	48.5	48.7	49.8	
Currencies* **																			
Euro (EUR/USD)	3.1	-0.4	2.2	-0.5	-3.2	1.5	-1.8	-1.6	1.9	5.3	2.9	-2.9	-6.2	-4.2	-4.0	0.2	6.2	4.6	
Renmimbi (USD/CNY)	2.9	6.1	3.6	5.1	4.7	1.9	0.2	1.2	-2.3	-3.8	-2.7	1.6	2.8	1.1	1.2	0.5	0.4	-0.6	
Yen (USD/Yen)	7.6	12.9	10.1	13.9	15.8	12.9	11.5	5.4	0.4	-3.8	0.2	1.1	11.5	5.6	0.4	-0.9	-9.3	-8.4	
Sterling (GBP/USD)	5.4	3.0	5.0	2.3	-0.6	2.4	-0.5	0.2	3.6	9.6	6.1	0.9	-1.7	-2.3	-0.4	2.3	6.7	5.6	
Canadian $ (USD/CAD)	-2.3	1.0	-0.5	0.2	1.7	0.4	3.3	4.7	-0.1	-0.4	0.4	3.3	8.6	8.2	6.5	6.3	0.2	0.8	
Mexican Peso (USD/MXN)	-13.0	-8.6	-6.8	-8.2	-4.8	-3.8	7.0	11.2	15.8	13.0	11.0	17.2	22.7	20.1	20.5	23.6	14.4	14.3	
US Equities																			
S&P 500	24.2	18.9	28.4	27.9	20.8	26.3	22.7	20.3	25.3	34.4	36.0	32.1	23.3	24.7	16.8	6.8	10.6	12.0	
S&P 400 Midcap	14.4	3.0	11.1	21.3	14.9	23.9	11.7	13.5	16.9	24.8	30.9	31.3	12.2	18.6	7.1	-4.2	-0.3	0.6	
S&P 600 Smallcap	13.9	-0.1	4.5	13.8	10.4	18.1	6.6	12.0	15.1	23.5	27.6	30.9	6.8	14.5	4.5	-5.0	-3.6	-3.4	
Russell 2000	15.1	0.8	8.3	17.9	11.6	18.3	8.4	12.5	16.7	24.9	32.1	34.6	10.0	17.5	5.3	-5.3	-0.5	-0.2	

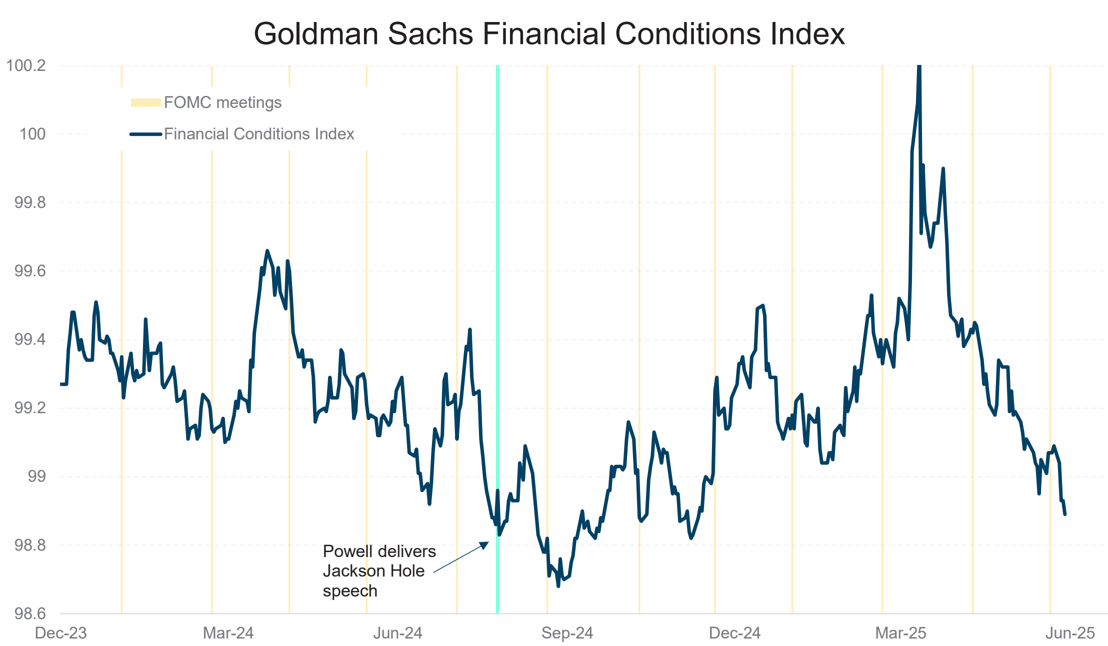
* Diffusion Index, **1985=100, ***Currencies - green/red = strengthening/weakening foreign currency vs dollar

Source: ISM, Federal Reserve, Census Bureau, Bureau of Labor Statistics, Conference Board, Bloomberg, William Blair

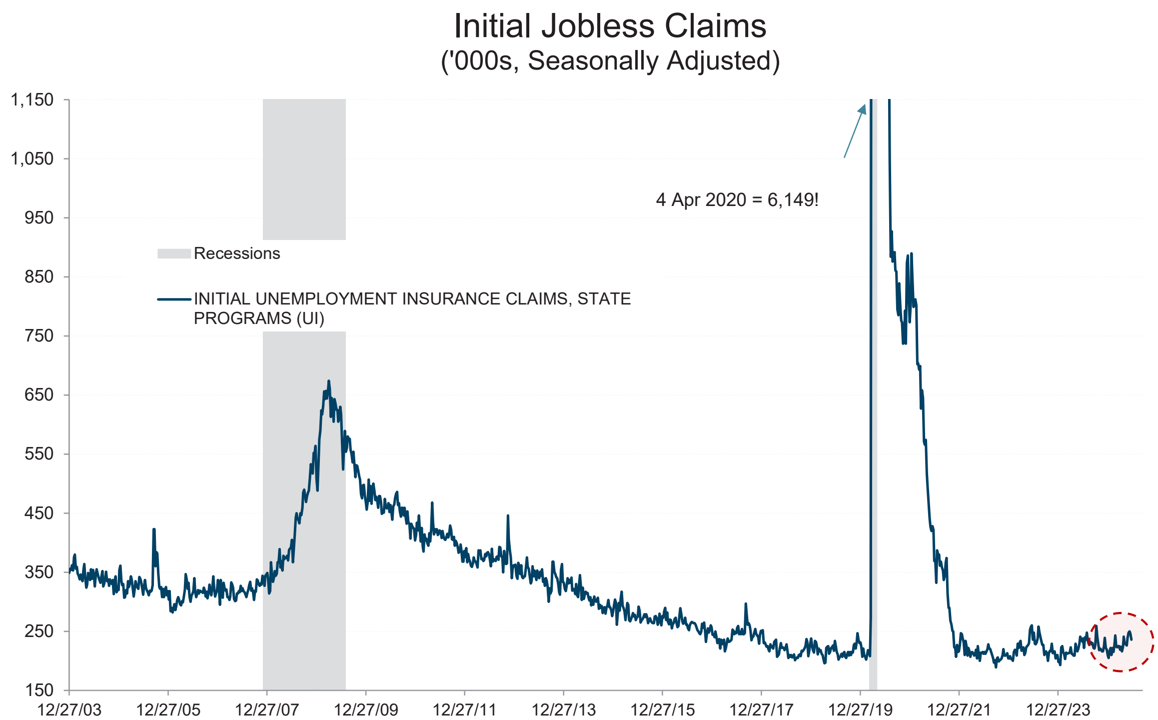
Other Economic Indicators



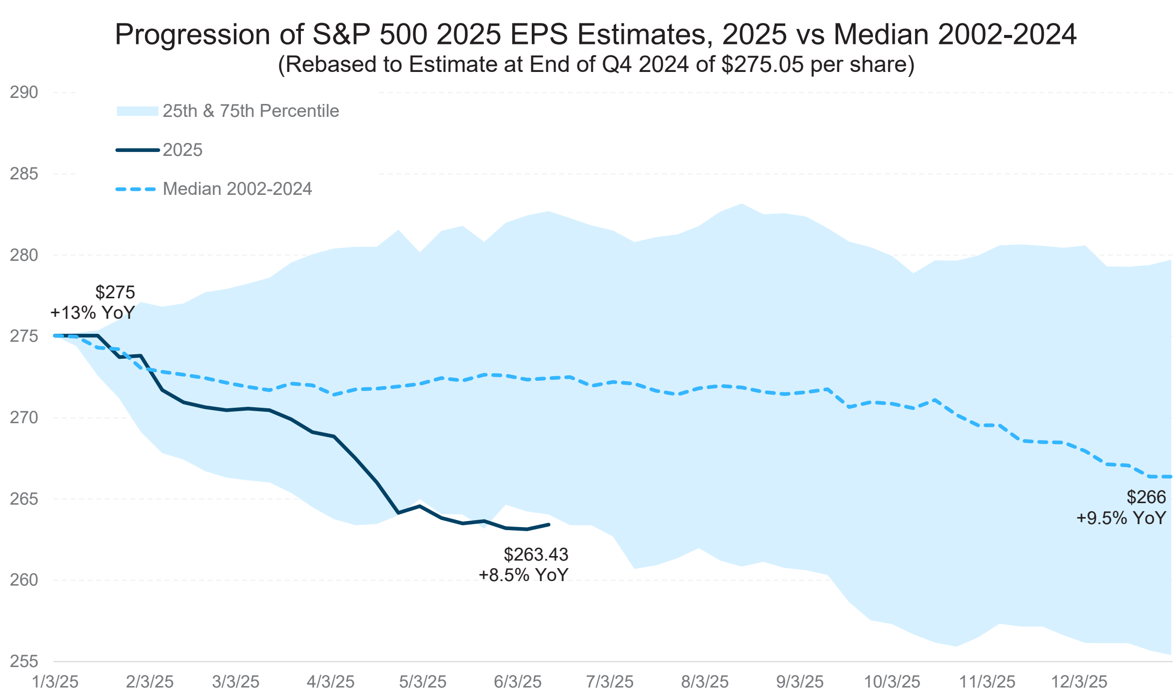
Sources: Federal Reserve, William Blair Equity Research



Sources: Bloomberg, William Blair Equity Research

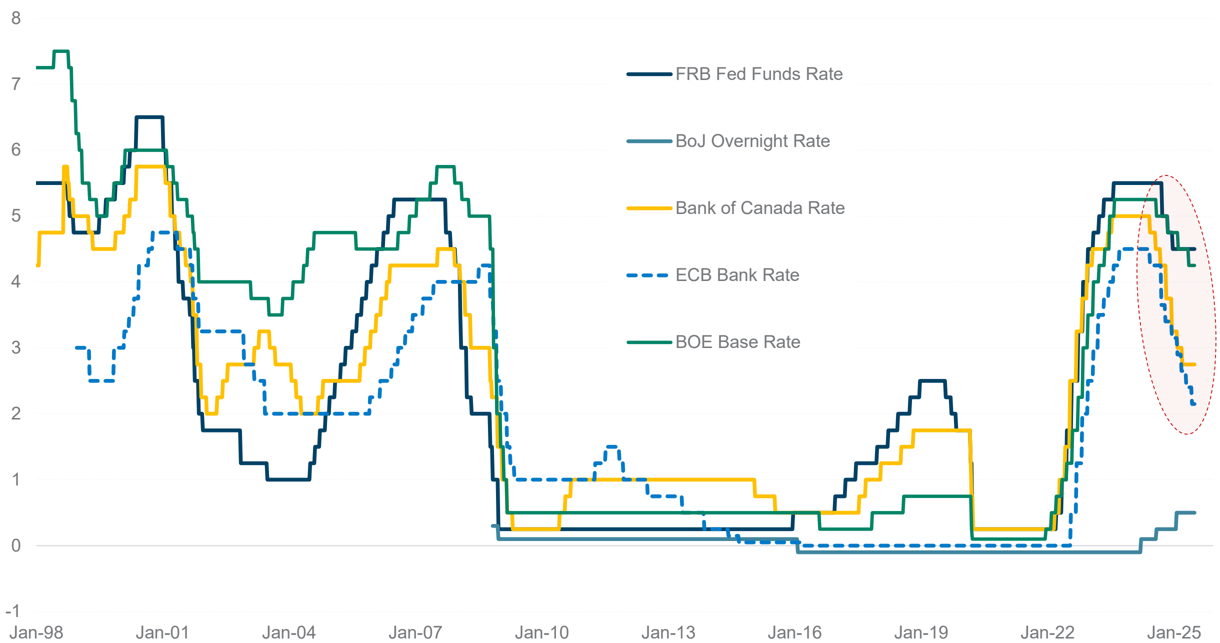


Source: Department of Labor, Bloomberg, William Blair Equity Research



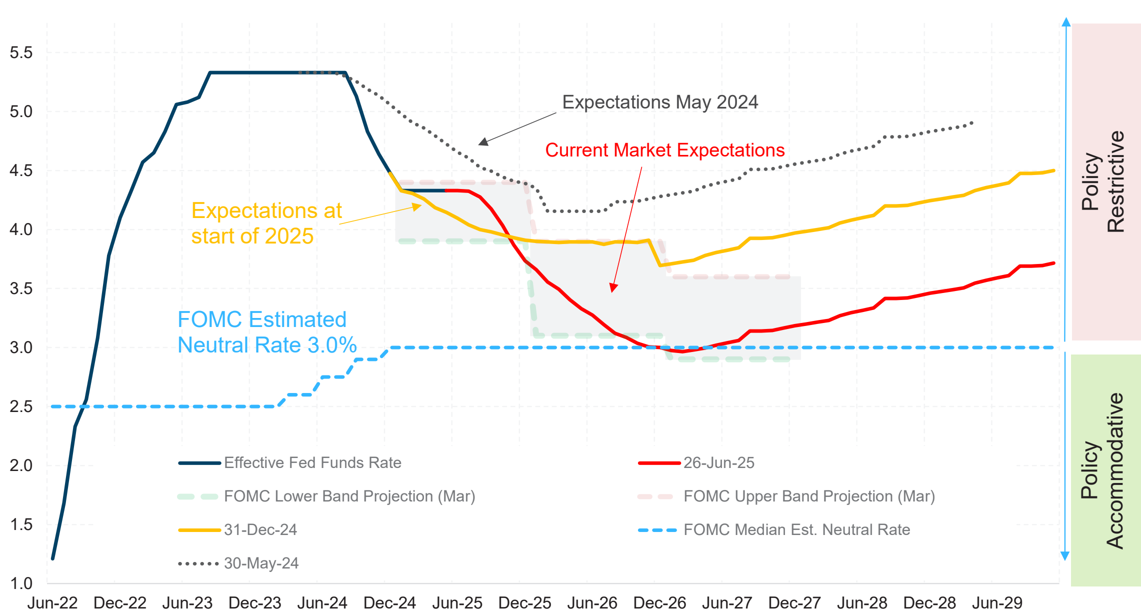
Sources: LSEG, William Blair Equity Research

Central Bank Target Short-Term Interest Rates, %



Sources: Bloomberg, William Blair Equity Research

Fed Funds Rate Futures Market Expectations & FOMC Projections, %



Sources: Bloomberg, William Blair Equity Research

S&P 500 Sector Performance

Global Industry Classification System	Current Weight* 26-Jun-25	Week Ago 18-Jun-25	Month Ago 23-May-25	Qtr-to-Date 31-Mar-25	Year-to-Date 31-Dec-24
S&P 500 Index	**100.00**	**2.68**	**5.83**	**9.43**	**4.41**
S&P 400 MidCap Index		**2.35**	**3.92**	**6.00**	**-0.85**
S&P 600 SmallCap Index		**2.73**	**5.25**	**4.43**	**-5.29**
Dow Jones Industrials		**2.88**	**4.29**	**3.30**	**1.98**
Nasdaq Composite		**3.18**	**7.64**	**16.58**	**4.44**
Communication Services	**10.12**	**2.67**	**7.41**	**16.00**	**8.56**
Advertising	0.04	3.54	-1.23	-12.82	-15.80
Broadcasting	0.06	3.33	3.09	0.62	16.29
Cable & Satellite	0.36	3.13	0.83	-2.24	-2.19
Integrated Telecommunication Services	0.71	1.13	-0.26	-3.99	13.99
Interactive Home Entertainment	0.16	2.24	6.81	12.24	18.03
Interactive Media & Services	6.66	2.07	8.52	18.00	4.20
Movies & Entertainment	1.60	5.50	10.47	32.64	31.71
Publishing & Printing	0.03	5.23	5.55	9.34	8.33
Wireless Telecommunication Svcs	0.49	4.72	-4.72	-13.23	4.84
Consumer Discretionary	**11.00**	**2.32**	**2.91**	**10.30**	**-5.10**
Apparel Retail	0.33	-0.51	-4.03	0.00	-3.58
Apparel & Accessories & Luxury Goods	0.10	1.80	-11.28	-0.71	-16.15
Auto Parts & Equipment	0.03	0.42	2.85	14.19	7.70
Automobile Manufacturers	2.14	1.24	-3.50	23.54	-17.80
Automobile Retail	0.27	-0.74	-4.82	-8.14	8.15
Broadline Retail	4.39	2.04	7.93	14.03	-0.74
Casinos & Gaming	0.10	3.62	6.47	12.92	-8.16
Computer & Electronics Retail	0.03	0.99	-2.13	-7.04	-20.25
Consumer Electronics	0.07	3.45	2.27	-5.52	-0.54
Distributors	0.07	1.17	-5.35	-5.92	-3.55
Footwear	0.17	4.34	3.60	-2.84	-25.64
Home Furnishings	0.01	5.46	2.22	-9.48	-13.25
Home Improvement Retail	0.91	4.79	0.18	-1.97	-7.56
Homebuilding	0.20	5.16	5.44	-0.68	-8.81
Hotels, Resorts & Cruise Lines	0.97	5.70	8.14	20.00	7.45
Leisure Products	0.02	6.44	9.84	17.59	29.33
Restaurants	1.05	1.56	0.93	-0.64	2.97
Other Specialty Retail	0.09	-1.67	7.69	5.36	0.76
Consumer Staples	**6.19**	**0.30**	**-1.52**	**-0.58**	**3.97**
Agricultural Products	0.07	-2.22	9.18	9.81	5.46
Brewers	0.02	-3.22	-12.54	-22.39	-17.59
Distillers & Vintners	0.07	1.03	-14.35	-14.01	-27.68
Drug Retail	0.02	-0.09	1.88	1.88	21.97
Food Distributors	0.07	0.76	4.28	-0.68	-2.52
Food Retail	0.09	8.79	3.92	5.30	16.57
Household Products	0.98	0.03	-5.00	-7.90	-5.92
Packaged Foods & Meats	0.54	0.28	-0.12	-7.74	-4.31
Personal Products	0.11	0.91	-2.37	-3.99	0.85
Soft Drinks	1.09	-0.20	-2.04	-6.56	0.58
Tobacco	0.71	-1.10	0.59	9.19	38.00
Energy	**3.09**	**-1.95**	**5.51**	**-8.31**	**0.22**
Integrated Oil & Gas	1.44	-2.82	6.35	-9.79	0.74
Oil & Gas Equipment & Services	0.19	-4.51	2.44	-16.78	-12.44
Oil & Gas Exploration & Production	0.75	-2.89	4.93	-9.10	-1.33
Oil & Gas Refining & Marketing & Transportation	0.27	-1.80	5.97	5.09	12.29
Oil & Gas Storage & Transportation	0.43	4.06	4.82	-5.14	0.59
Financials	**13.87**	**3.38**	**3.68**	**3.89**	**7.12**
Asset Management & Custody Banks	1.12	5.36	7.64	9.87	-2.83

Consumer Finance	0.71	5.90	11.49	18.21	10.23
Diversified Banks	3.32	5.89	10.54	14.79	13.93
Financial Exchanges & Data	1.26	4.21	4.44	6.84	12.10
Insurance Brokers	0.62	0.76	-3.99	-10.54	3.18
Investment Banking & Brokerage	1.18	4.61	9.51	19.83	16.10
Life & Health Insurance	0.33	2.00	2.91	-4.43	-2.33
Multi-Sector Holdings	1.22	-0.02	-3.66	-8.93	7.01
Property & Casualty Insurance	1.11	0.15	-2.45	-4.88	5.93
Regional Banks	0.28	6.53	8.88	6.63	0.24
Reinsurance	0.03	1.95	1.03	-6.58	-6.36
Transaction & Payment Processing	2.53	2.07	-1.18	-2.53	2.03
Health Care	**9.53**	**1.17**	**3.26**	**-8.04**	**-2.45**
Biotechnology	1.55	-0.38	0.86	-9.45	3.41
Health Care Distributors	0.37	-0.31	2.56	9.55	29.46
Health Care Equipment	2.20	2.71	2.04	2.20	7.65
Health Care Facilities	0.19	0.66	-0.41	7.04	21.45
Health Care Services	0.43	2.48	7.18	1.40	27.85
Health Care Supplies	0.08	2.15	-0.31	-2.86	-11.20
Life Sciences Tools & Services	0.85	4.03	7.51	-8.37	-16.40
Managed Health Care	0.81	-1.42	1.47	-34.15	-30.45
Pharmaceuticals	3.06	0.82	4.72	-7.61	-3.62
Industrials	**8.60**	**2.47**	**3.40**	**10.88**	**10.29**
Aerospace & Defense	2.17	2.29	5.04	15.39	23.26
Agricultural & Farm Machinery	0.26	-3.13	-0.30	8.35	20.02
Air Freight & Logistics	0.29	0.39	3.23	-8.51	-18.03
Building Products	0.55	2.80	2.85	17.53	10.77
Cargo Ground Transportation	0.09	3.15	0.86	-2.82	-10.86
Construction & Engineering	0.11	5.28	13.15	49.29	20.07
Construction Machinery & Heavy Trucks	0.58	5.02	7.35	10.36	1.24
Data Processing & Outsourced Services	0.05	0.58	0.93	-1.36	5.79
Diversified Support Svcs	0.25	0.27	-4.38	-1.84	4.36
Electrical Components & Equipment	0.60	3.17	7.93	21.83	4.68
Environmental & Facilities Services	0.41	-1.25	-3.08	0.08	13.35
Heavy Electrical Equipment	0.26	3.39	9.13	66.01	54.08
Human Resource & Employment Services	0.37	-2.62	-6.97	-2.84	1.42
Industrial Conglomerates	0.43	3.35	2.02	5.35	5.59
Industrial Machinery	0.72	3.62	3.40	3.56	0.29
Passenger Airlines	0.14	3.01	2.70	7.14	-16.54
Railroads	0.48	2.24	4.55	2.43	2.42
Research & Consulting Svcs	0.21	1.26	-1.01	6.23	5.17
Trading Companies & Distributors	0.27	1.02	0.72	9.03	5.13
Information Technology	**32.91**	**4.27**	**11.12**	**22.18**	**6.55**
Application Software	2.67	2.87	3.51	17.21	7.21
Communications Equipment	0.94	5.84	7.68	12.08	5.23
Electronic Components	0.30	3.41	11.65	37.11	30.29
Electronic Equipment & Instruments	0.16	4.00	5.03	8.36	-0.26
Electronic Manufacturing Services	0.14	3.84	13.66	29.70	26.70
Internet Software & Services	0.12	0.69	0.08	3.15	1.71
IT Consulting & Services	1.01	0.33	3.66	5.88	4.42
Semiconductor Equipment	0.77	5.20	18.12	28.06	22.37
Semiconductors	11.62	6.58	18.23	41.50	15.36
Systems Software	9.14	3.28	11.38	32.84	17.67
Technology Distributors	0.04	4.28	-2.68	10.62	1.86
Technology Hardware, Storage & Peripherals	6.00	2.46	3.39	-7.89	-18.45
Materials	**1.89**	**1.62**	**2.79**	**2.48**	**4.84**
Commodity Chemicals	0.07	-2.88	-0.68	-20.03	-27.89
Construction Materials	0.13	-0.06	-3.97	11.57	2.20
Copper	0.12	7.96	13.94	17.43	16.75
Fertilizers & Agricultural Chemicals	0.14	-2.34	5.43	19.38	24.31
Gold	0.12	1.59	10.33	22.59	59.02
Industrial Gases	0.53	1.59	2.01	-1.11	7.68
Metal & Glass Containers	0.03	2.08	10.10	9.45	3.37

Paper Packaging	0.19	1.04	-0.98	-6.92	-13.58
Specialty Chemicals	0.47	2.56	-0.19	-1.58	-2.00
Steel	0.09	2.58	14.04	7.23	13.16
Real Estate	**2.04**	**-1.29**	**1.14**	**-2.05**	**0.62**
Data Center REITs	0.24	-11.25	-8.04	1.20	-14.65
Health Care REITs	0.29	0.88	2.62	-4.58	9.85
Hotel & Resort REITs	0.02	-0.13	6.87	10.56	-10.33
Industrial REITs	0.18	-0.66	0.33	-6.62	-1.25
Multi-Family Residential REITs	0.00	-0.87	1.73	-7.14	-4.56
Office REITs	0.02	-5.51	4.88	0.85	-8.87
Real Estate Service	0.14	2.98	12.21	4.33	8.93
Retail REITs	0.26	0.49	2.39	-2.43	-2.75
Self-Storage REITs	0.15	-0.67	-1.67	-2.91	-3.24
Single-Family Residential REITs	0.15	-0.67	-1.67	-2.91	-3.24
Telecom Tower REITs	0.32	0.96	1.71	-0.33	15.63
Timber REITs	0.04	1.35	4.32	-10.11	-6.50
Utilities	**2.35**	**1.35**	**0.52**	**2.82**	**7.05**
Electric Utilities	1.51	1.51	0.26	2.71	7.10
Gas Utilities	0.05	0.35	-2.77	-1.07	9.81
Independent Power Producers & Energy Traders	0.14	4.86	18.97	48.54	29.27
Water Utilities	0.05	-1.90	-3.61	-6.17	11.19
Multi-Utilities	0.61	0.56	-1.70	-2.66	2.43

*Current Weight is market cap based, based on calculations by William Blair Intl. Ltd.

IMPORTANT DISCLOSURES

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DOW JONES: 42982.40
S&P 500: 6092.16
NASDAQ: 19912.50

Additional information is available upon request.

Current Rating Distribution (as of June 27, 2025):

Coverage Universe	Percent	Inv. Banking Relationships *	Percent
Outperform (Buy)	71	Outperform (Buy)	11
Market Perform (Hold)	28	Market Perform (Hold)	2
Underperform (Sell)	1	Underperform (Sell)	0

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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