

➤ Market and Economic Update – July 2025



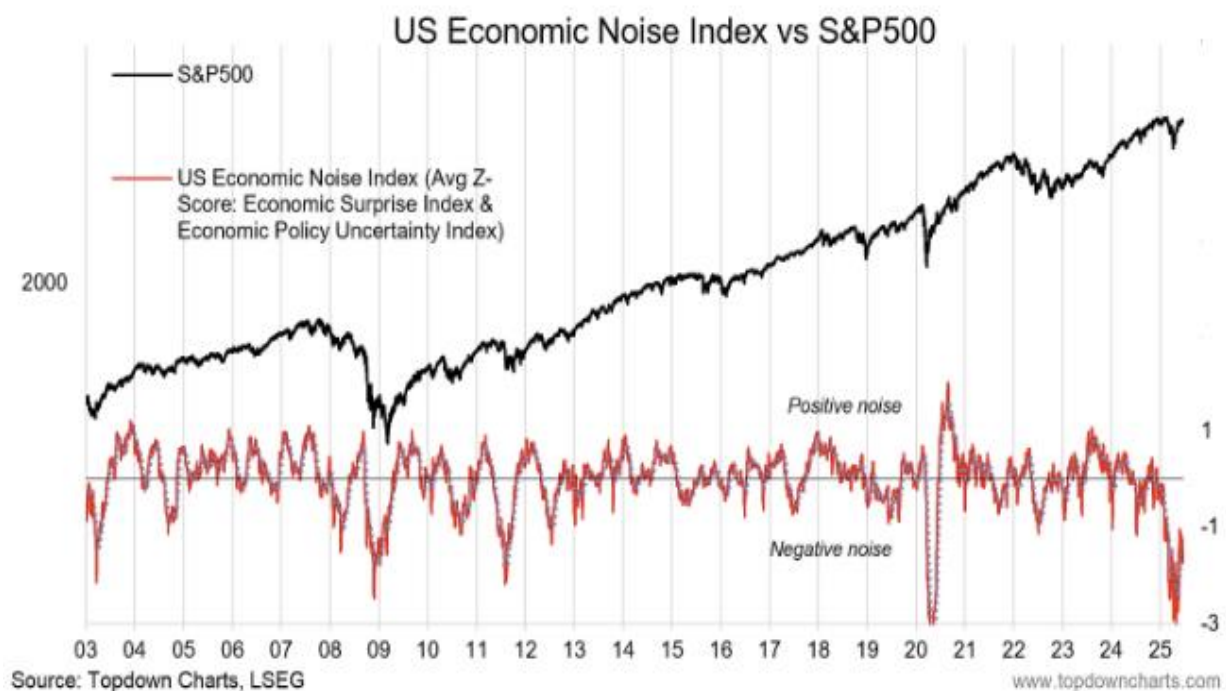
Peter Flannery CFP, FA

'If past history was all there was to the game, the richest people would be librarians.'

– Warren Buffett

The Markets

Noise vs Growth



The graph above shows the ongoing rise of the US share market (the S&P 500) despite varying levels of market news, activity, negative sentiment, and uncertainty.

There has been a lot of 'noise' recently. As the graph above confirms, levels of uncertainty have been at very high levels compared to most other times, going back to 2003.

The higher levels of negative sentiment coincide with declines in trading prices, as per the above graph.

Looking longer term we can see that, regardless of the short-term noise and negative market sentiment, the US share market index continues to move in an upward direction.

The VIX Index

Market Summary > VIX

16.38

-11.30 (-40.82%) ↓ past 5 years

3 Jul, 12:15 pm GMT-5 • Disclaimer



The graph above tracks the level of US share market volatility.

Note the 4th of April to the right of the graph above. As you know, market sentiment drives trading prices up and down. It is particularly noticeable day to day.

If you still see volatility as 'a bad thing', then you will have possibly been feeling uncomfortable since the beginning of April this year.

Meanwhile, businesses continue to deliver their goods and services to their customers, life goes on, business as usual.

How Stocks Respond After Major Geopolitical Events

S&P 500 Index Performance Following Past Market Shocks

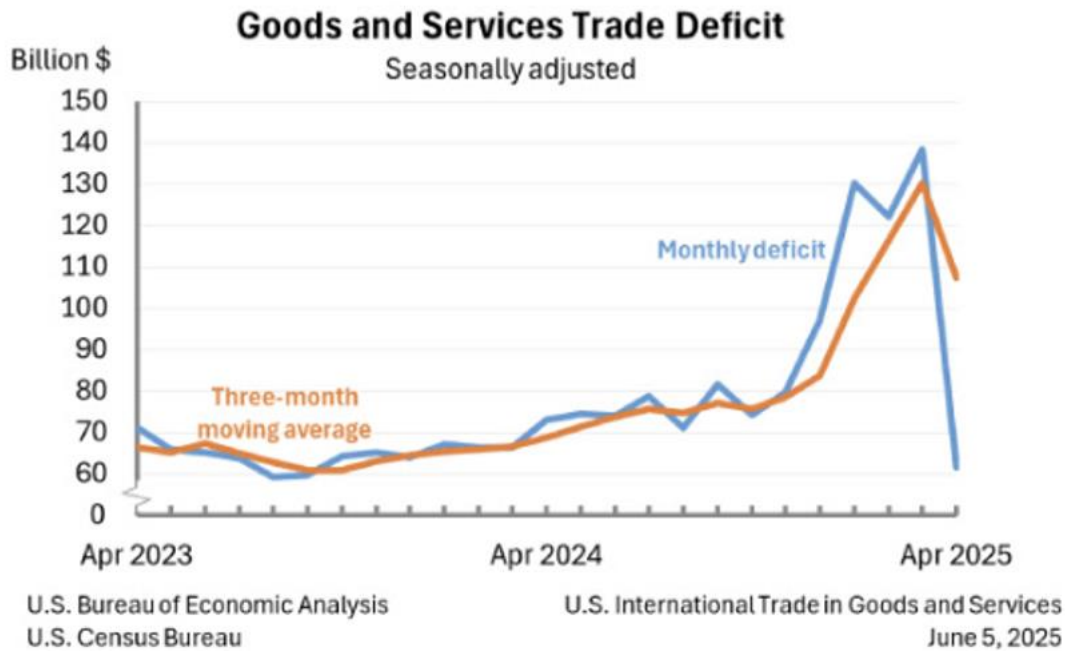
Market Shock Event	Event Date	1 Month	3 Months	1 Year
Boston Marathon Bombing	4/15/2013	6.3%	8.4%	17.9%
Russia Annexed Crimea	2/20/2014	1.5%	2.6%	14.7%
BREXIT	6/24/2016	6.5%	6.2%	19.7%
Bombing of Syria	4/7/2017	1.8%	3.1%	12.8%
North Korea Missile Crisis	7/28/2017	-1.1%	3.6%	13.4%
Saudi Aramco Drone Strike	9/14/2019	-1.4%	5.4%	12.5%
Iranian General Killed in Airstrike	1/3/2020	1.9%	-23.1%	14.4%
U.S. Pulls Out of Afghanistan	8/30/2021	-3.7%	2.8%	-12.0%
Russia Invades Ukraine	2/24/2022	5.9%	-7.2%	-7.1%
Hamas Attacks Israel	10/7/2023	1.3%	10.6%	33.5%
Average		1.9%	1.2%	12.0%
Median		1.7%	3.4%	13.9%
% Higher		70%	80%	80%

Image Source: Zacks Investment Research

The table above shows how the US share market (The S&P 500 index) moves 1 month, 3 month's and 1 year after specific events.

The event is one aspect of the volatility. The markets' reaction is another. The popular media 'noise' can also amplify the drama around an event.

Donald Trump seems to be responsible for a lot.

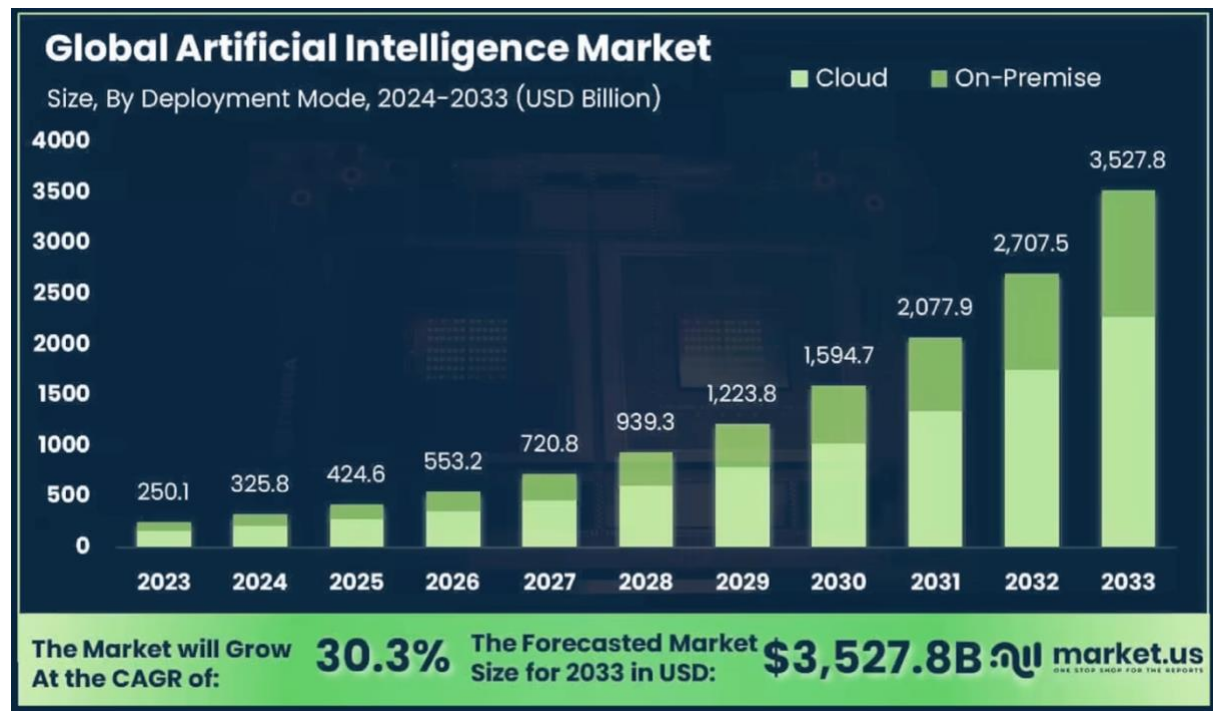


The graph above shows the sharp reversal in the US monthly good and services trade deficit.

It has become fashionable to blame Donald Trump for almost everything. Sure, he is odd. Surprisingly though, the US trade deficit has declined, likely as a result of Donald Trump's trade initiatives.

On a related but different matter, US debt levels continue to rise and are at elevated levels. Not ideal, although America has a number of options to manage debt in the short to medium term and for us as investors, not a concern currently or in the foreseeable future.

The AI opportunity still looks promising



The above graph shows the projected growth in the global artificial intelligence market – 30.3% compounding annual growth.

As business investors, we focus on long-term growth rather than speculation. We are more comfortable investing in the reliable growth of a business, possibly one that is in the AI space.

Let's keep in mind that the market is all over certain AI stocks. That means some stocks, whilst looking very promising, can mean trouble for investors should something unforeseen change, causing the market to sell and run away. The more popular the stock, the more overvalued the stock price, the further to fall if something changes.

Still the AI opportunity remains promising and some businesses in that space are worth investing in. The opportunity may morph over the next few years which might mean changing investing opportunity.

Driving 'the fourth industrial revolution'

Foundational Companies: The likes of Nvidia, Alphabet and Meta might be considered foundational companies engaged in the first phase of the AI revolution. They build the chips, data centres and foundation models that the AI infrastructure could be built on top of.

AI Infrastructure Companies: The AI infrastructure companies (e.g. Amazon web services, Microsoft Azure, Beeks Cloud Group) make the software and hardware platforms around artificial intelligence (AI) for businesses and consumers. They build data pipelines and customised automations so that their customers can automate AI in their businesses.

Palantir, for example, is a company that builds ontology (in simple terms, from a business perspective, the relationship between different types of assets and resources and how they can be better organised, utilised and leveraged). It looks very promising but with a P/E ratio of ca. 400 (12 is good!) also looks expensive.

AI Agents and Robots: This is the theoretical third stage if the 'AI revolution'. AI agents are being developed now and are both physical and digital. WAYMO (driverless cars) owned by Alphabet and Tesla (robotics) are two examples.

The point here is that AI advances may help underpin growth in the future for investors and create opportunity.

Market Conditions

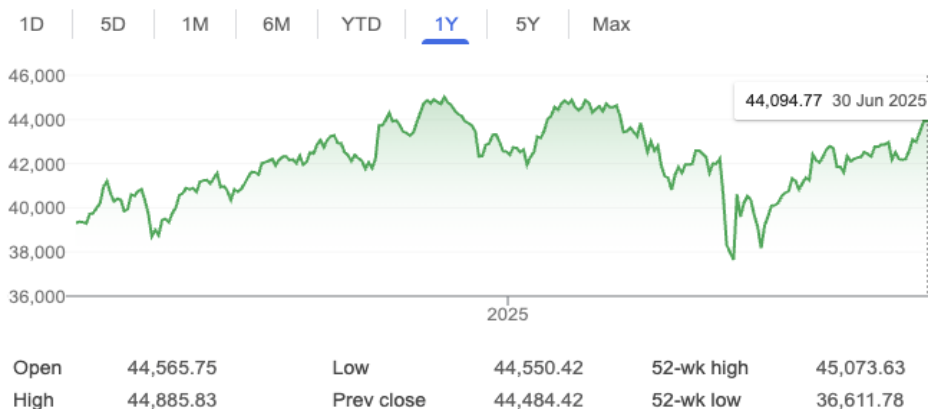
The US Share Market (Dow Jones) July 2024 – June 2025

Market Summary > Dow Jones Industrial Average

44,828.53

+5,520.53 (14.04%) ↑ past year

3 Jul, 1:43 pm GMT-4 • Disclaimer



The above graph tracks the movement in the Dow Jones over the last 12 months

The all-time high of 45,014 was reached on 4 December 2024. By the end of December, the Dow Jones Industrial Index had drifted back to 42,544 and currently sits at 44,828 (as of 03/07/2025).

The middle East flare up overtook Tariffs to create ongoing uncertainty, although the last month has seen things settle a bit and the US market rise – see above Dow Jones Graph.

The US Share Market (Nasdaq) June 2024 – May 2025

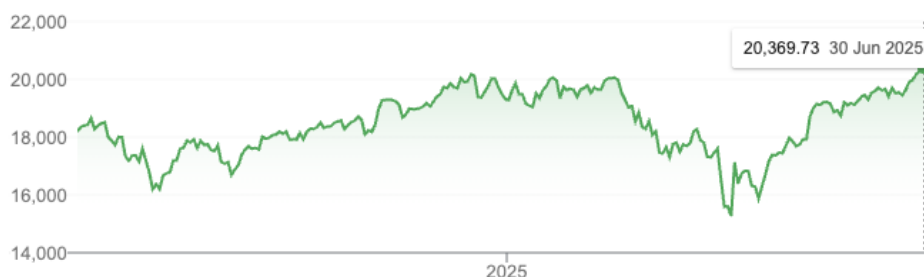
Market Summary > Nasdaq Composite

20,601.10

+2,412.80 (13.27%) ↑ past year

3 Jul, 2:15 pm GMT-4 • Disclaimer

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



Open	20,497.66	Low	20,480.22	52-wk high	20,624.51
High	20,624.51	Prev close	20,393.13	52-wk low	14,784.03

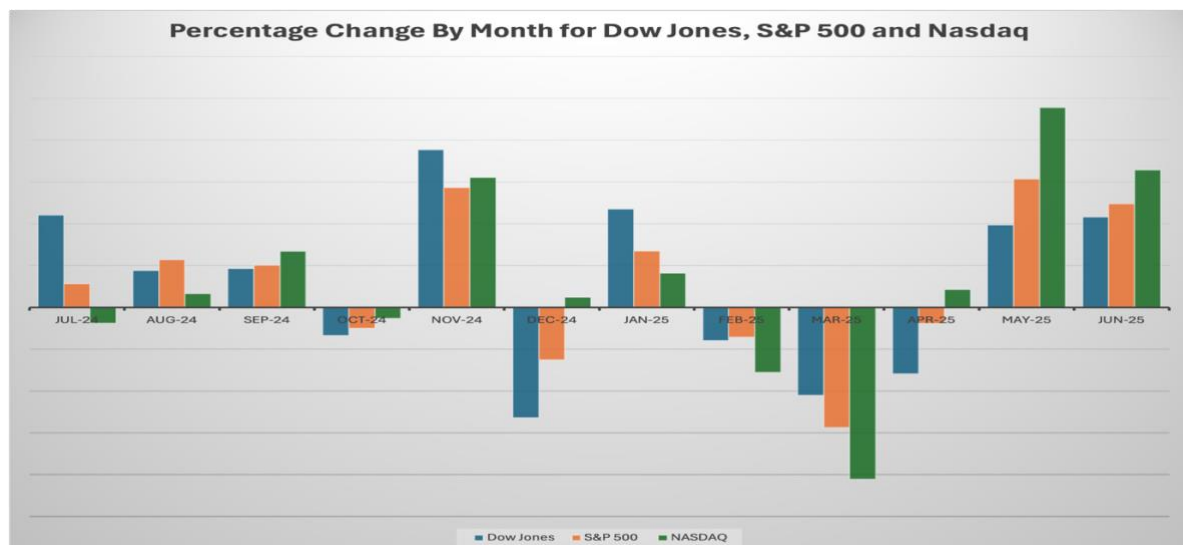
The above graph tracks the movement in the Nasdaq over the last 12 months.

Share Market Index Movement – USA

Volatility over June 2025

This was how it went for the 6th month of 2025:

- The Dow Jones finished the month up by 4.32%
- The S&P 500 up by 4.96%
- The Nasdaq up by 6.57%

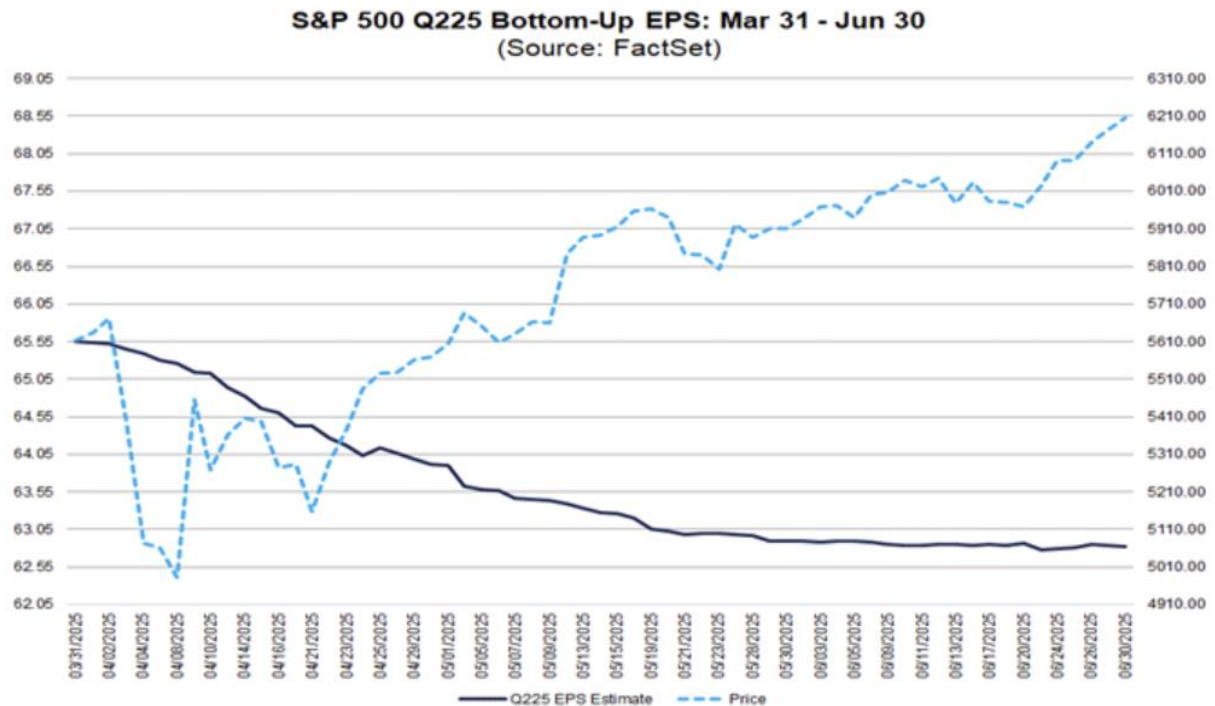


The graph above tracks market mood and the resulting movement across the Dow Jones, the S&P 500 and the Nasdaq.

Two head winds

On one side, we see opportunity through AI-driven innovation.

On the other, elevated trading prices and the risk of stagflation present potential challenges.



The above graph compares earnings against trading prices.

The above graph illustrates the widening gap between the profits generated by companies and trading prices. This is OK until it isn't. When markets invest heavily into an idea that is disrupted, elevated trading prices have a long way to fall.

Investing in quality businesses helps mitigate that problem, giving us the option of averaging down the expensive trading price.

Possible **Stagflation** is on my radar because, whilst it still appears unlikely, the impact can be significant for investors (and almost everyone else as well).

We have softening economic growth in America, stubborn inflation with the tariff data yet to flow through to the broader inflation readings, and therefore the possibility of an interest rate increase. Whilst unemployment remains stable, the risk of stagflation is worth watching. No point in sleepwalking right into it!

Where to Next?

In simple terms, if we removed Middle East friction, tariffs settle down and stagflation stays away, the pathway ahead looks reasonably clear for now.

Markets are generally expensive. Careful investment selection is important and perhaps some patience as we look for quality investments at a reasonable price.

We can still allocate some cash to growth, but with trading prices elevated it looks prudent to still 'keep some powder dry', so to speak.

The Global Economy



The Topsy Turvy Geopolitical World

On June 21, the United States undertook a series of coordinated strikes on Iranian nuclear facilities.

This came off the back of a marked escalation between Iran and Israel after targeted Israeli strikes on Iranian nuclear facilities and military personnel associated with Iran's nuclear program.

The entry of the US into this conflict had the potential to really set things spiralling in the Middle East.

Thankfully, tensions eased quickly after retaliatory Iranian strikes on US bases in Qatar and Iraq.

However, we can't be sure that this spells the end of the trouble. Peace certainly has *not* arrived in the Middle East.

The immediate talking points for New Zealand included discussions on whether World War III was nigh and what impact this increased military activity would mean for the price of oil.

Of course, oil is a key input cost for businesses, factoring heavily into business operating costs. Rises in these costs lead to increases in prices overall, as evidenced through increased shipping costs through the COVID period, which were a crucial factor in the inflation of that time.

The Iranians control the Strait of Hormuz, through which roughly 20% of all global oil travels through. Had the Iranians decided to close this crucial shipping passage, the price of oil would have increased markedly.

This wasn't to be the case, however. The price of oil fell precipitously on the back of positive ceasefire news between Iran and Israel.



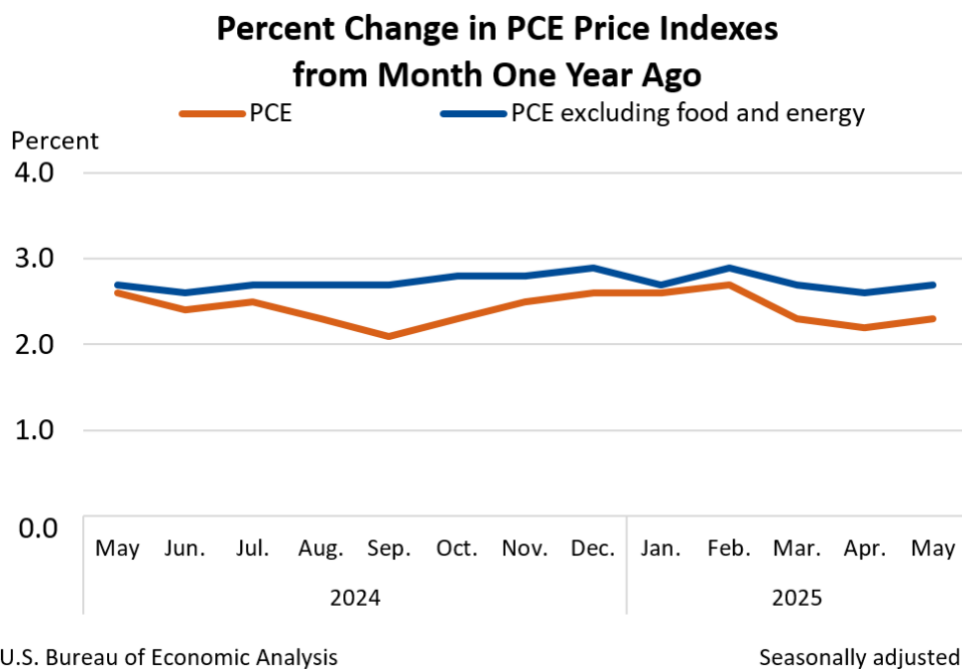
The graph above shows the price of Brent Crude Oil, a key price metric for the oil market, over the past year.

The situation in the Middle East continues to remain uncertain. This uncertainty typifies the feeling in the global economy at the moment.

With that, let's begin our monthly tour of the global economy.

United States

The Fed maintained their interest rate settings in the face of heightened economic uncertainty – much to the ire of President Donald Trump.



The graph above shows the PCE price index (and PCE excluding volatile food and energy) from May 2024 to May 2025.

It should be noted that personal core expenditure (PCE) inflation – the Feds preferred inflation metric – remains below 3%. PCE data for May 2025 indicates that the PCE price index rose by 0.1% between April and May 2025.

The US labour market also outperformed expectations, adding 147000 jobs in June. This surpasses the 144000 jobs added in May.

These are very interesting results, given that the impact of the 'liberation day' tariffs has failed to materialise as expected. This'll be something to keep an eye on over the next few months.

China

Data shows that prices in China have weakened further. You will know this as deflation. Both the consumer and producer price indexes (the CPI and PPI) declined by 0.1% and 2.5%, respectively.



Source: LSEG Datastream

Kripa Jayaram • April 10, 2025 | REUTERS

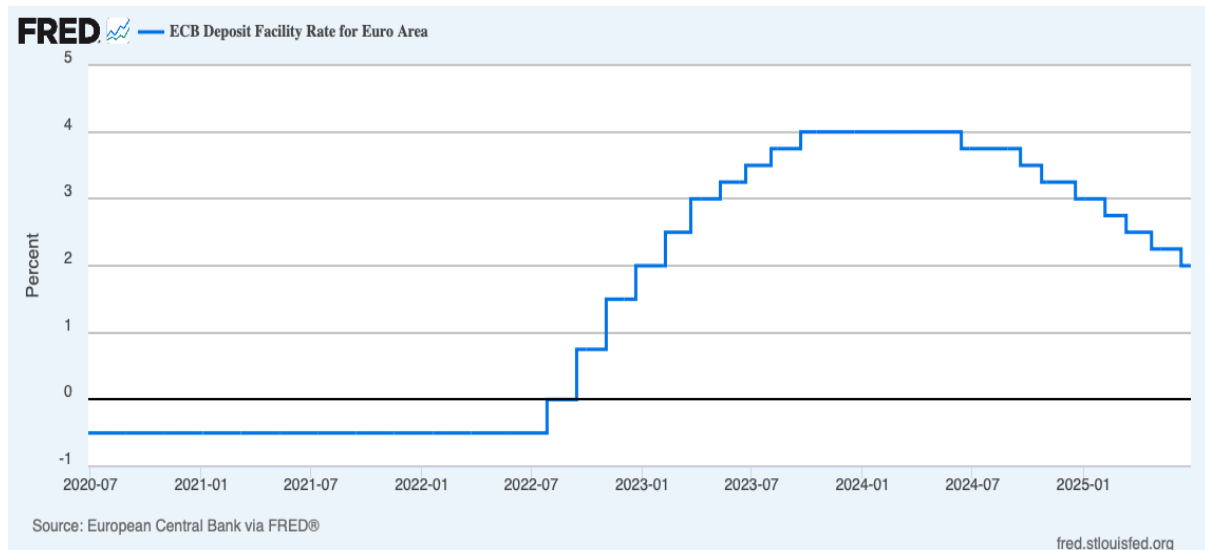
The line chart shows China's consumer index and producer price index.

The graph above shows both the consumer and producer price indexes from 2017 to the present day.

As reported by Reuters, Julian Evans-Pritchard, head of China economics at Capital Economics, noted that 'Deflationary pressures persisted last month and will almost certainly deepen over the coming quarters as it becomes more difficult for Chinese firms to export their excess supply'.

Euro Area

The European Central Bank (ECB) continued to lower their key interest rates, lowering them by 25 basis points (or 0.25%). Their key interest rate – the deposit facility – is now at 2%.

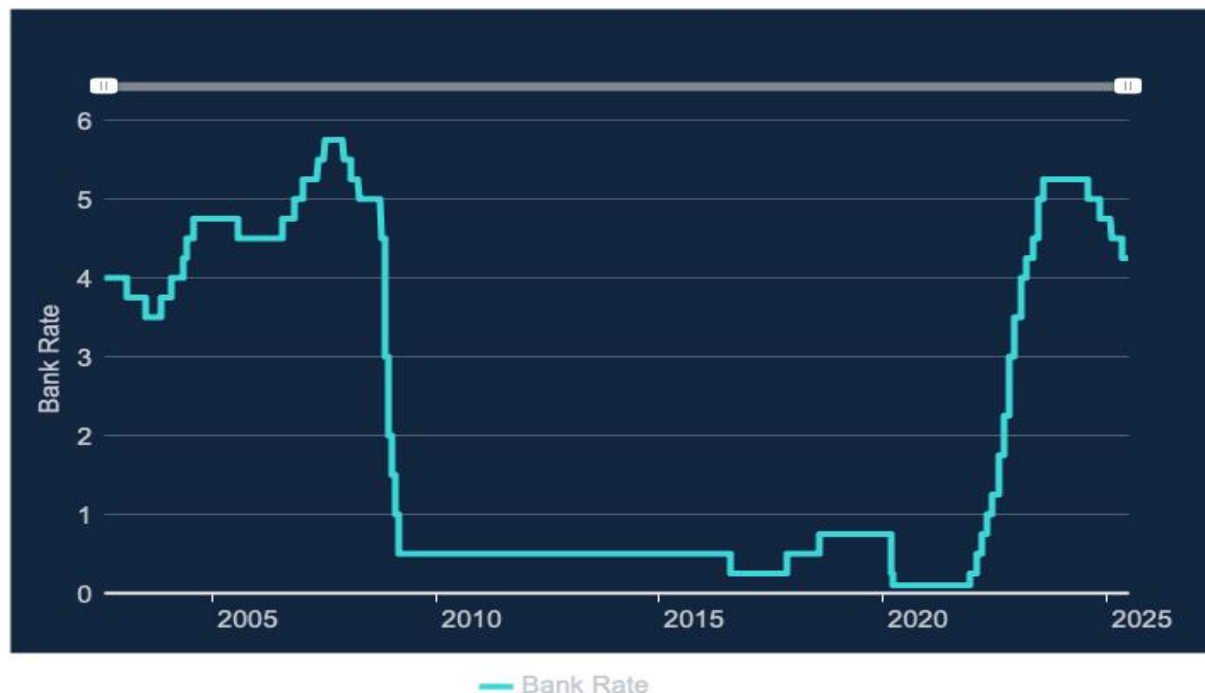


The graph above shows the ECB's deposit facility rate from July 2020 to July 2025.

The ECB noted in their monetary policy statement that 'inflation is currently at around our two per cent medium-term target. In the baseline of the new Eurosystem staff projections, headline inflation is set to average 2.0 per cent in 2025, 1.6 per cent in 2026 and 2.0 per cent in 2027'.

United Kingdom

The Bank of England kept their interest rate steady by a vote of six to four. However, turbulent times look likely for the UK. The UK experienced the largest PAYE payroll decline since 2020.



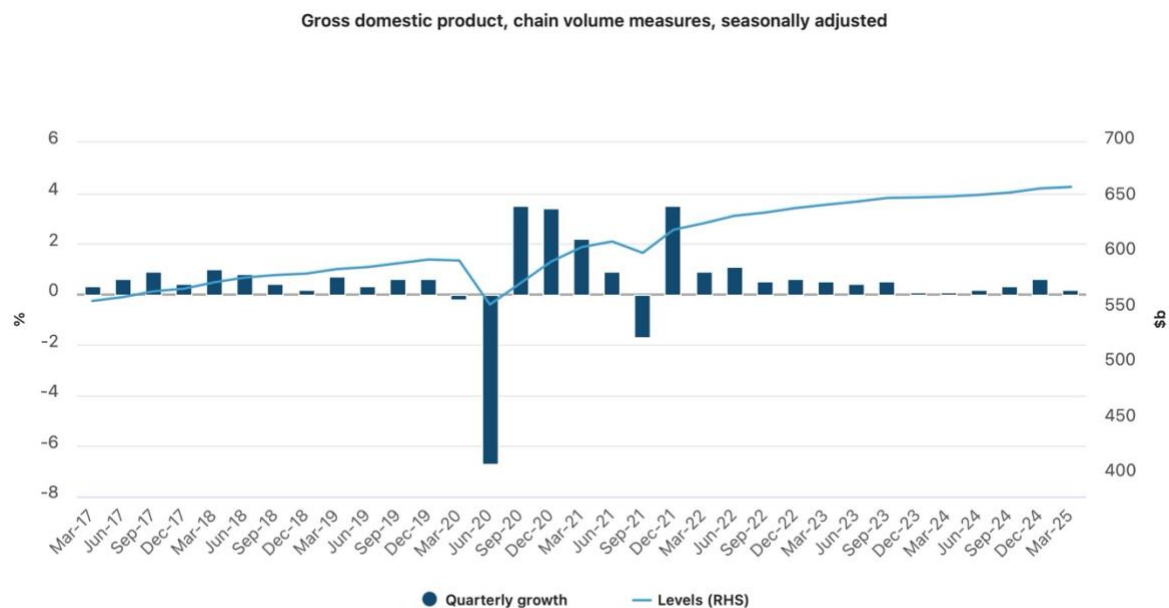
The graph above shows the Bank Rate (the Bank of England's official interest rate).

There also may be a political spat brewing between UK PM Keir Starmer and Chancellor Rachel Reeves, with the PM reneging on some welfare promises which have left a supposed 'fiscal black hole' (remember no such thing exists).

Nonetheless, the political uncertainty has weighed heavily on financial markets, so it will be interesting to see how this plays out over the coming weeks.

Australia

Australian GDP rose by 0.2 in Q1 2025. While there were increases of 0.4% and 0.7% in household spending and private investment respectively, there was a 2% decline in public (i.e., government) investment.



The graph above shows quarterly GDP movements and the total dollar level of Australian GDP (on the right-hand axis).

Regarding public investment, the Australian Bureau of Statistics (ABS) noted that 'investment by public corporations drove the fall this quarter following record levels of investment in the December quarter. Energy, telecommunications, rail and road project completions and delays drove the decline'.

Moreover, spending on essentials like rent and food were cited as contributing factors to the 0.4% increase in household spending. Not exactly grounds for a great deal of economic excitement.

New Zealand

New Zealand GDP rose by 0.8% in the first quarter of 2025. This rise was on the back of production and business related services. Note however that this growth (from Q1 2024 to Q1 2025) represents a -1.1% annual decline.

Updated

19 June 2025

Next update

18 September 2025

Quarterly growth

0.8%

March 2025 quarter

Annual growth

-1.1%

March 2025 year

Size of the economy in current prices

\$430 billion

March 2025 year

GRAPH

TABLE

Gross domestic product, quarterly and annual growth rates, chain-volume, December 2018–March 2025



Seasonally adjusted chain-volume quarterly growth.

Stats NZ

The graph and figures above, from Stats NZ, show annual and quarterly GDP changes in New Zealand between Q4 2018 and Q1 2025.

With global uncertainty, fiscal 'consolidation', and a non-governmental sector unwilling to fill the spending gap, this may as good as it gets for GDP growth going forward.

Conclusion

Uncertainty abounds in the global economy. While interest rates continue to decline (as expected), other geopolitical and political factors are emerging daily it seems. Inflation remains a bit stubborn.

July could be an interesting month for the global economy. But then again, all months are to an extent, aren't they?

Until next month!



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