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Market Commentary

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Foreword

Since this is our first weekly commentary, we thought we'd share with you what we are trying to achieve in writing this newsletter. Our goal is primarily to share our ideas and perspectives on the financial markets, US and Global economics and politics. No topic is off limits, and we will try to cover as much as we can. We are also aiming to provide insight into current events and will specifically be talking about important events from the week prior and upcoming weeks in detail. Each week we will both write commentary about a current issue. We are excited to engage with readers so please write to us at our emails.

This past week

Market Euphoria continues, pushing the S&P 500 to rise each days this week, as the market approaches new highs of 6400. (Source)

Trade Deals Announced with both the European Union and Japan under similar conditions, entailing 15 percent tariffs on both European and Japanese imports and the establishment of a \$550B fund set to be managed at the Trump Administration's discretion. As well as an EU commitment to buy billions of US goods and military equipment (source)

A Surge in Crypto comes as last week Trump pushed through the Genius act and is awaiting senate approval for his Clarity act. These are seen as huge positives for the crypto space and stable coins.

Trump was on the move visiting both the Fed as well as scotland. Both trips were largely in the news cycle but what's clear is that Trump hates both windmills and high interest rates.

Major World Indexes						
Ticker	Name	Chart (10 years)	Chart (1 year)	Price	1 mo %Δ	1 yr %Δ
.INX	S&P 500			6388.64	3.37%	14.48%
.DJI	Dow Jones Industrial Average			44901.92	2.41%	9.71%
.IXIC	Nasdaq Composite			21108.32	3.96%	17.71%
DAX	Global X DAX Germany ETF			45.45	1.36%	28.93%
UKX	FTSE 100 Index			9120.31	3.52%	9.08%
NI225	Nikkei 225			41148.07	2.42%	6.51%
SENSEX	BSE SENSEX			81463.09	-3.19%	0.13%
Gold and Bitcoin						
NYSEARCA :GLD	SPDR Gold Trust			307.4	2.01%	28.33%
FBTC	Fidelity Advantage Bitcoin ETF			52.77	8.45%	41.52%
Ten Year Treasury Yield						
4.386						

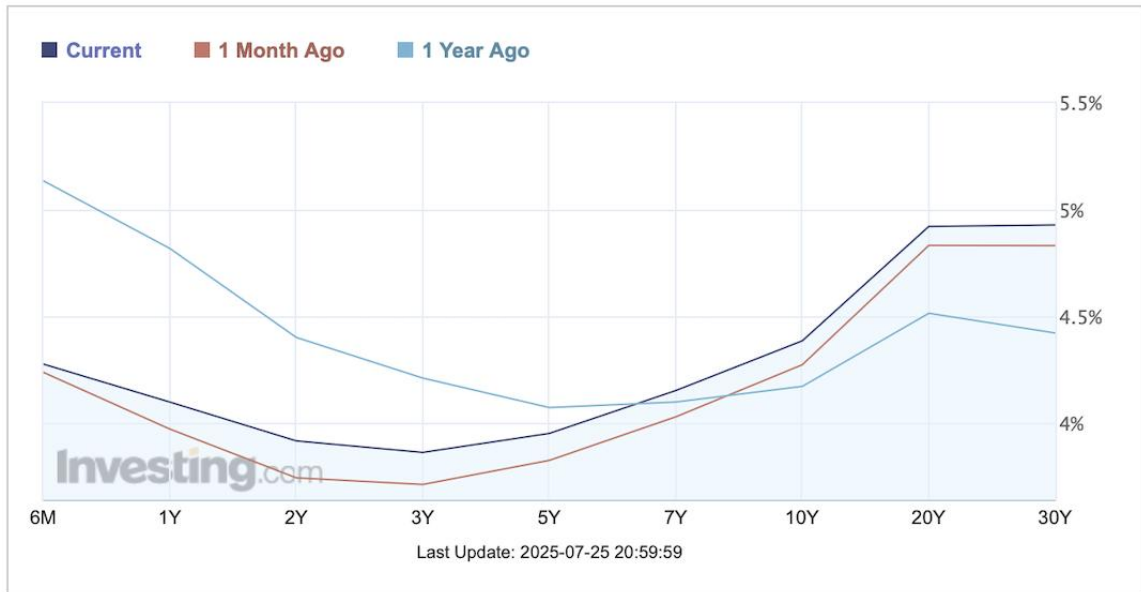
Market Reaction

Global markets have outperformed this week with most major indexes in the green, 10-year yields are down, and both gold and bitcoin are up. We have also seen a resurgence of meme stocks over the past few weeks; Krispy Kreme is up 41% this week and most recently American Eagle Outfitters (AEO) is up 16% this week on the back of a very successful marketing campaign with Sydney Sweeney. Additionally, Tesla had a bad quarter but is only down 5.5% from its pre-earnings price. While many of these are positives, a prudent investor may be weary of the frothiness and seeming overexcitement.

Increasing Term Premia

United States »

Yield Curve



Picture taken from [Investing.com](https://www.investing.com)

As the above graphs shows, the steepening of the yield curve (think about the percentage difference between high-duration and low-duration bonds) evidences an increasing premia for high-duration treasury bonds. In terms of the low-end of the curve, short maturities have benefited from lower inflation numbers and the possibility of future Federal Reserve cuts to the funds rate. The future path of the yield curve, nevertheless, remains quite uncertain despite anchored inflation expectations; on one hand, tariffs may postpone significant interest rate cuts while the persistent high fiscal deficits may increase inflation, forcing the Federal Reserve to keep rates high for longer.

Tariffs Are Not the Sole Reason Keeping Rates High

by Marcos Cuartas Jaramillo

Having the stock market rally since liberation day and approaching new highs for the last two weeks, along with some policy guidance from the Trump administration regarding trade deals, I think I will focus on this opening newsletter in trying to give some of my thoughts about tariffs, particularly regarding inflation and economic growth, and consequently, capital markets.

The idea that tariffs, especially for the United States, ought to be inflationary bears a frantic debate among economists; there are indeed negative welfare effects resulting from tariffs, like some economic research has shown - [JSTOR article about Trump tariffs during first term](#) - however, other economists have also pointed out that exporters may internalize some of the tariffs costs, either by reducing prices or because exporting nations' currencies may depreciate against the dollar - offsetting tariffs - [Stephen Mira's article regarding the administration views toward tariffs](#).

There are two very important notions that have to be taken into consideration to understand why the increase in prices, because of higher US tariffs, can be offset, first, by exporters lowering their prices, and second, by exporting nations' currencies depreciating against the dollar. The United States is arguably the sole major economy with a significant negative account deficit; most developed economies rely on exporting goods to the United States, meaning that the US has leverage – buyer power – over these countries. Similarly, exporting companies looking to maintain their market share in the United States may be willing to absorb the higher costs induced by tariffs by lowering prices. Most commonly, though, and experienced during the first Trump administration, is that exporting nations' currencies tend to depreciate against the dollar when facing US tariffs, thus offsetting the tariffs' effect in higher prices.

A rise in US tariffs forces the dollar to appreciate because export-dependent countries, facing a reduction of dollars due to lower exports, continue bidding for dollars, thus increasing the dollar value. Certainly, the demand for any currency is not determined solely by the trade account, but also, because of capital flows, and this year, so far, portfolio investments to the United States have decreased, resulting in a significant depreciation of the US dollar. Nevertheless, even a reduction in the dollar price, and thus, a lower purchasing power of US consumers for imported goods, may, similarly, not be significantly inflationary.

If tariffs are not inflationary as some argue, the Federal Reserve should then be able to cut the funds rate, and certainly, the view that I tend to agree the most with is Federal Reserve Board Member Christopher Waller who points out that tariffs may induce a one-time jump in the price level - greater inflation - while later accompanied with a disinflation period

under an elevated price level environment ([Waller's speech June 2025](#)). Waller's view is also shared by renowned economist John Cochrane, who similarly argues that tariffs won't lead to a permanent increase in the inflation rate; instead, tariffs, much like a supply shock, would increase the price level while acting in the long run in a deflationary way, as any other tax ([Cochrane's article on tariffs and relative prices](#)). Cochrane stresses the significance of relative prices, implying that, despite some low elasticities of demand that may initially increase inflation, in the absence of expansionary fiscal or monetary policy, imported goods will become more expensive relative to domestic prices, changing consumption patterns without creating further inflation.

The idea that increasing tariffs yields a one-time increase in the price level, while decreasing the long-run inflation rate, is based on sound economic theory; however, that does not imply that the Federal Reserve is going to have room to reduce interest rates. Inflation, as economic theory dictates, has fiscal and monetary connotations, requiring the fiscal authority to reduce the fiscal deficit to lower interest rates. The major impediment, then, for a lower fed funds rate rests on today's elevated fiscal deficit and the inability of Congress, as seen through the recent legislation package, to reduce fiscal spending.

In conclusion, tariffs are not going to be as inflationary as envisioned; however, tariffs continue to cause economic distortions and are averse to business, reducing potential GDP growth. The path of future interest rates, hence, seems more dependent on fiscal policy, rather than tariffs or the economy in particular. Based on that, the low-end of the yield curve may continue seeing gains while high-duration bonds may experience further yield steepening and loss in value. The equity market, although expensive in historical terms, may continue enjoying gains led by large-cap technological companies - Mag Seven and others - and some financial institutions, as well as companies in sectors more able to pass price increases to consumers. The uncertainty and greater costs induced by tariffs are, nevertheless, negative to business, posing challenges to stable and healthy economic growth - regime uncertainty is indeed widespread.

Populism on the Rise

by Michael Hyde

I will first state the obvious: Mamdani would be a complete disaster for New York. As a bastion of capitalism, and capital of finance and free markets, installing a communist as mayor would make both it and the US a laughingstock as well as potentially marking a decline for the great city. I currently give a Mamdani win somewhere between 60-65% and Polymarket says 73% - but even just his nomination speaks volumes. We must not make the same mistake democrats made after their 2016 presidential election loss and blame extraneous circumstances. Instead let's take a comprehensive view of why he won and what that means more broadly for American politics.

While Mamdani's victory is an outlier, we are seeing populist lawmakers like him pop up more and more. In Minnesota, Omar Fateh, a staunch socialist and populist, just clinched the Democratic Party endorsement, Donald Trump – the biggest populist of all – has won two presidential elections and AOC is being spoken about as a legitimate candidate for president. It seems to me that the overarching issues of our country are drastically changing. It has shifted from being about taxes and regulation to the establishment versus the working class. In the Obama vs Romney election, both parties can be viewed, at least by today's standards, as establishment. They were for the status quo, each promising more of what their parties already stood for. When Trump won in 2016, he campaigned on raising up the common people, stopping illegal immigration to preserve American jobs, and draining the swamp in Washington - clearly anti establishment.

Mamdani is the same in his populist approach. He has made big promises to help the common people: rent controls, state run grocery stores and raising taxes on the wealthy. Leaving aside for now how effective these strategies would be, these are all staunchly anti-establishment ideas. But since we are comparing Trump and Mamdani, let's decide how effective Trump has been in doing what his voters elected him to do. His first and second terms have seen big growth in the S&P on the back of large amounts of government spending, he has ushered in huge tax cuts for the wealthy and cut Obama care for many people, all while raising the deficit. He has not helped the common people he was elected by, in fact he has been a boon for the very establishment he was installed to overthrow.

I think in one regard Mamdani seems different though, from what I can tell he actually wants to help his constituents. His genuineness comes across when he speaks and even though it is clear to me and every rational thinker that his policies are bogus and will ultimately fail. Briefly touching on his policies, he has many holes. For one, he does not have as much autonomy, and will need approval for many of his plans from Governor Kathy Hochul. Rent control is a fantastic way to end up with a supply shortage and a housing crisis and I don't even want to start with government run grocery stores (has the government ever ran a business efficiently?!). Regardless of whether he is elected or not, whether he succeeds or not, it is clear that America is changing and populism is on the rise. People want change and they want radical ideas. How far this goes, only time will tell.

Next Week

Next week, we will be paying close attention to low-duration treasury bill auctions, trying to see the appetite for US debt, and thus, the dollar. Later in the week, on Wednesday, important US economic indicators will be available, including PCE and GDP numbers for the second quarter; we will be monitoring those inflation and growth numbers closely to see how Trump's economic policies are influencing the US economy. We are also looking forward to the Fed decision. Finally, other major economies, particularly Japan, China, Australia, and Germany, will be releasing critical economic metrics regarding employment, inflation, GDP growth, and bank lending.

About the Authors

My name is Marcos Cuartas Jaramillo; I graduated from the University of Miami with degrees in economics, finance, and history, and a minor in mathematics. For the next year, I will be pursuing a master's in economics at Tufts University, and apart from writing this newsletter with Michael Hyde, I have my own [Substack](#). You can find me writing and reading about economics, finance, and current events; feel free to contact me at marcos.golf1@hotmail.com.

I am Michael Hyde, a graduate from the University of Miami Herbert Business school. I studied finance and next year I will be pursuing a Masters in Finance at Imperial College London. I'm interested in economics, politics as well as equities. Please write to me at michaeljhyde12@gmail.com.