Market & Legal Update

August 2025

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MARKET UPDATE | Strong Earnings Growth Propels Markets to New Highs

U.S. equity markets set record highs during the month with technology and communication services sectors leading the way, as earnings for Q2 2025 largely exceeded analysts' expectations. The S&P 500 was on track for its third consecutive quarter of double-digit earnings growth. Additionally, the fed funds futures point to the Federal Reserve making their first rate cut of 2025 at the next Federal Open Market Committee (FOMC) meeting. The anticipated meeting between President Trump and Putin on August 15 regarding the Russia/Ukraine war did not result in an agreement although both sides said it was productive. The S&P 500 posted its fourth consecutive monthly gain, up 2.0%, while small cap stocks measured by the Russell 2000 Index gained 7.1%, their best month since November 2020 when they returned 15.6%. International stocks continued to outpace U.S. stocks with the EAFE index up 4.3% for the month and nearly 23% YTD. Longer-term bond yields such as the 10-Year treasury have been relatively flat for several months despite the likelihood the Fed could cut the Fed funds rates in September.

Market Return Indexes	Aug 2025	YTD 2025	2024
Dow Jones Industrial Average	3.4%	8.3%	15.0%
S&P 500	2.0%	10.8%	25.0%
NASDAQ (price change)	1.6%	11.1%	28.6%
MSCI Eur. Australasia Far East (EAFE)	4.3%	22.8%	3.8%
MSCI Emerging Markets	1.3%	19.0%	7.5%
Bloomberg High Yield	1.3%	6.4%	8.2%
Bloomberg U.S. Aggregate Bond	1.2%	5.0%	1.3%
Yield Data (Month End)	**Aug 2025**	**July 2025**	**June 2025**
U.S. 10-Year Treasury Yield	4.32%	4.37%	4.24%

More than 80% of the S&P 500 companies reported for the quarter ending June 30 exceeded analysts' expectations for earnings growth. The 80% earnings surprise exceeded the five-year average, with overall earnings growth of about 12%, nearly double the prior estimates. While earnings growth tends to be backward looking, forward-looking guidance provided by S&P 500 companies was upbeat and aligned with or exceeded analysts' expectations, that aided in pushing markets higher during the month. Many companies refrained from providing forward-looking guidance for Q1 results due to the uncertainty of the tariffs that were announced on April 2. However, trade deals were reached last month with the UK, European Union, Japan and Korea, while other agreements need to be made with other large U.S. trading partners such as China, Mexico, Canada and India.

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The markets via Fed Fund futures were anticipating the Fed to make the first rate cut of 2025 at the next FOMC meeting to be held between September 16-17. While inflation has not reached the Fed's target of 2%, the latest Consumer Price Index (CPI) for July showed lower than expected inflation with an increase of 0.2% in July and 2.7% on a yearly basis compared to the 2.8% forecasted. Markets reacted positively with strong gains following the announcement in mid-August as the CPI report showed that tariffs so far had a modest impact on inflation. Traders also increased their bets that the Fed would start reducing rates again in September, with Fed funds futures rising as high as 90% of the likelihood of a rate cut. However, Core Personal Consumption Expenditures (PCE), another key measure of inflation that the Fed focuses on was reported on the last business day of August and while it met forecasts of 2.9% for July (year-over-year), it was higher than June's figure of 2.8%. The inflation report sent the markets lower on the last day of the month (NASDAQ was down 1.2%, its worst daily drop since April 3) since it could complicate the Fed's decision to cut rates.

The Fed also closely watches the unemployment figures since it has a dual mandate of full employment and stable prices (inflation figures). The unemployment figures for July appeared fine on the surface at 4.2%, close to the Fed's target of 4%. However, the Bureau of Labor statistics restated the prior two months with only 33,000 jobs added against the 291,000 jobs previously reported. This caused the markets to decline on the day of the announcement as investors grew nervous about the economy slowing. However, it also increased the odds that the Fed could cut rates in September. Additionally, the stronger than expected 3% annualized growth reported in August for Q2 (and revised upward to 3.3% at the end of the month) eased recession fears and contributed to the markets rallying. Rate cuts are generally positive for stocks provided they are not initiated due to weakness in the economy.

July's 4.2% unemployment looked solid, but sharply revised job growth spooked markets and raised recession fears

With regards to the Russian/Ukraine war that has lasted over 3 years, President Trump appeared less certain about a peace agreement between Russia and the Ukraine. A summit between the Russian President and Ukrainian President Zelenskyy along with President Trump would not likely occur until a peace proposal was ironed out. The Kremlin had presented a peace proposal that included ceding the Donetsk region to Russia, but that would not likely be welcomed by the Ukraine.

For the month ahead in September, the markets will closely watch whether the Fed cuts interest rates by at least 25 basis points at the FOMC meeting. The Fed will have unemployment (announced Sep 5) and CPI figures (Sep 11) for August to support their decision. Any weakness in the labor market or steady decline in inflation figures would help support a rate cut whereas if inflation unexpectedly rises significantly, it could cause the Fed to pivot from cutting rates. Additionally, the markets hope to overcome the "September Effect" in which the average return over the last 50 years for the S&P 500 has been about –0.5%, the only negative month. While there is no single cause, several factors may contribute to the September Effect including behavioral factors such as post-vacation stock selling and institutional portfolio rebalancing at the quarter-end. Last September, the S&P 500 was up 1.8% but in 2023 and 2022 it was down 4.9% and 9.3%, respectively. Remember, past performance is not indicative of future results, and it is best to continuously review your investment strategy, risk tolerance, and time horizon required to meet your financial goals.

On July 4, 2025, President Trump signed into law the One Big Beautiful Bill Act (OBBBA), addressing many of his domestic policy goals. While this legislation does not include any provisions related to retirement plans, and does not change or eliminate the tax exclusions for employer-sponsored retirement plans or health insurance, there are some notable provisions directly impacting employee benefits.

A summary of key provisions from OBBBA that directly impact employer-sponsored plans is provided below:

1 Telehealth and Direct Primary Care Permitted Before HDHP Deductible

Certain coverage types will no longer disqualify individuals enrolled in high- deductible health plans (HDHPs) from contributing to or receiving contributions to a Health Savings Account (HSA).

Telehealth:

- Beginning with plan years after December 31, 2024, HDHPs can offer telehealth and remote care services at no or reduced cost without affecting HSA eligibility.
- This change applies retroactively. Employers who provided telehealth services at reduced or no cost in 2025 won't need to adjust tax treatments for HSA contributions made earlier this year.

Direct Primary Care (DPC):

- Beginning January 1, 2026, HDHP participants can have DPC coverage and remain eligible for HSA contributions.
- DPC arrangements must:
  - Offer only primary care services by primary care practitioners.
  - Charge monthly fees no greater than $150 for individuals and $300 for families, adjusted annually for inflation.
- Excluded from primary care definition:
  - Procedures requiring anesthesia.
  - Prescription drugs (excluding vaccines).
  - Lab services not commonly provided in ambulatory primary care settings.
- Participants can use HSAs to pay DPC fees within the established monthly limits.

2 Increase in Dependent Care Assistance Program (DCAP) Limits

- Starting in tax years after December 31, 2025, the reimbursement limit for DCAPs increases from $5,000 to $7,500 annually ($3,750 for married individuals filing separately).
- The limit remains unindexed for inflation and subject to nondiscrimination testing.
- Employers should consider potential impacts on nondiscrimination testing if highly compensated employees disproportionately utilize this increased limit.

3 Permanent Changes to Qualified Education Assistance Plans

- Employers may provide up to $5,250 annually towards employee educational assistance, excluding these amounts from an employee's taxable income.
- Educational assistance covers employee education expenses including qualified education loan principal and interest payments.
- The student loan provision, previously expiring at the end of 2025, is now permanent.
- The $5,250 cap will also be adjusted annually for inflation moving forward.

4 Establishment of Trump Accounts and Employer Contributions

- Effective for tax years after December 31, 2025, a new savings account for minors called "Trump Accounts" may be established.
- Subject to various rules, including:
  - Established exclusively for the benefit of individuals under age 18.
  - Annual contribution limit of $5,000 (indexed for inflation).
  - Funds generally cannot be distributed until the beneficiary turns 18.
- Employers may contribute up to $2,500 annually (indexed for inflation) to an employee's or an employee's dependent's Trump Account on a tax favored basis.
- Requires a separate, written plan document and must comply with nondiscrimination rules similar to DCAPs.

5 Expansion of Excise Tax on Tax Exempt Organizations for Compensation over $1M

- Currently, under Internal Revenue Code Section 4960, tax exempt organizations that pay a *Covered Employee* compensation over $1,000,000 in a given year are subject to a 21% excise tax.
- Before OBBBA, *Covered Employees* are only the top 5 highest paid current or former employees.
- Under OBBBA, effective in 2026, the definition of *Covered Employee* will be considered any current or former employee who worked for the organization any time after December 31, 2016.

Important note: Compensation under Code Section 4960 includes wages subject to income tax withholding as well as compensation in a 457(f) plan which is not paid but is considered includable compensation to the extent it is considered vested under Internal Revenue Code Section 457(f).

6 Employer Next Steps

Employers should review the relevant benefit-related provisions of OBBBA and consider:

- Offering free or reduced-cost telehealth or remote care services in HDHP/HSA plans.
- Implementing a DPC arrangement alongside an HDHP/HSA plan.
- Increasing the DCAP limit to $7,500 beginning in 2026.
- Leveraging other tax-favored programs, such as:
  - Qualified education assistance programs, now permanently covering student loan repayments.
  - Contributions to employee or dependent Trump Accounts for future investments.
  - Tax exempt organizations should review current compensation structures to determine excise tax exposure.

Retirement Resources for You

USI Consulting Group's team of experts is happy to assist employers with all retirement plan compliance matters and changes in the market, including those discussed here, to help you mitigate risk and financial impact to your organization.

To learn more, please contact your local USICG representative, visit our Contact Us page or reach out to us at information@usicg.com.

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An index is a measure of value changes in a representative grouping of stocks, bonds, or other securities. Indexes are used primarily for comparative performance measurement and as a gauge of movements in financial markets. You can not invest directly in an index and, for comparative purposes; they do not reflect the effect of the various fees inherent in actual investment vehicles.

The S&P 500 Index is a market value weighted index showing the change in the aggregate market value of 500 U.S. stocks. It is a commonly used measure of stock market total return performance.

The Dow Jones Industrial Average is a price weighted index comprised of 30 actively traded blue chip stocks; primarily industrial companies, but including some service oriented firms.

The NASDAQ Composite Index is a market-value weighted index that measures all domestic and non-U.S. based securities listed on the NASDAQ Stock Market.

Gross Domestic Product (GDP) is the market value of the goods and services produced by labor and property in the U.S. It is comprised of consumer and government purchases, net exports of goods and services, and private domestic investments. The Commerce Department releases figures for GDP on a quarterly basis. Inflation adjusted GDP (or real GDP) is used to measure growth of the U.S. economy.

The MSCI Europe and Australasia, Far East Equity Index (EAFE) is a market capitalization weighted unmanaged index developed by Morgan Stanley Capital International to measure approximately 1,100 securities in 21 major overseas stock markets. It is a commonly used measure for foreign stock market performance.

The Barclays Capital U.S. Aggregate Index covers the U.S. Dollar denominated investment grade, fixed-rate, taxable bond market of SEC-registered securities.

The Barclays Capital U.S. Corporate High Yield Index covers the U.S. Dollar denominated, non-investment grade, fixed income, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's Fitch, and S&P is Ba1/BB+/BB+ or below.

The MSCI Emerging Markets Index (EM) is a free-float-adjusted market-capitalization index developed by Morgan Stanley Capital International. It is designed to measure the equity market performance of 26 emerging market countries.

The 10 Year Treasury Yield is the interest rate the U.S. government pays to borrow money for a 10-year period. In addition to influencing how much the government pays to borrow over this time-frame, the 10-year Treasury Yields also determines how much investors earn by investing in this debt and it is a good indicator of investor sentiment.

The higher the yield, the better the economic outlook.

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