INVESTMENT PERSPECTIVES

JULY 2025

Key Takeaways —

- The robotics revolution and your portfolio.
- Causes and consequences of too much Federal Debt.
- Will June's fireworks outshine July's?

YOU GET A ROBOT

Mark Luschini, Chief Investment Strategist

In an infamous 2004 episode of the Oprah Winfrey Show, Oprah, notorious for in-show giveaways, had one in store that became a source of memes and parodies that are still played today. Oprah had planted keys in boxes for the audience members, and when she asked them to open the box, the convulsive reaction was palpable as the car keys inside made obvious the incredible surprise. Oprah paced the stage, taking in the excitement, and repeatedly pointed and said to everyone there, "You get a car, you get a car, you get a car...everybody gets a car!" Well, I'm not sure everybody is going to get a robot, but they are proliferating, and we view their development and broadening deployment as a compelling long-term investment theme.

The burgeoning revival of U.S. manufacturing is constrained by labor shortages and skill mismatches, which can be partially addressed by robotization and automation of the factory floor. As it stands today, the U.S. has one of the lowest robot density rates among developed countries worldwide. Advances in technology will make robots more capable and affordable, enabling wider adoption across various industries and enterprise sizes. While robots were once programmed for a single, repetitive task, such as car assembly lines or dispensing a fluid into a container, advancements in machine learning and generative artificial intelligence are enabling them to be far more versatile. While historically used mostly in industrial domains, the evolution of robotic technologies now makes them employable in the service industries, including healthcare, logistics, retail, and restaurants. Amazon, the gigantic e-commerce retailer, for example, utilizes more than a million robots across its global footprint. Other companies are developing humanoid robots that can operate in more human-centric environments, such as cleaning, meal preparation, and goods deliveries.

It is estimated that robot installations will continue to grow at a rapid pace. According to the International Federation of Robotics (IFR), installed units grew at a rate of 12% per year from 2018 to 2023. While installations are expected to slow from that torrid pace, the IFR forecasts a 4% annualized growth rate to 2027. The U.S. experienced a surge in robotic installations during the pandemic, catalyzed by the need to replace production due to labor shortages and the renewed vigor in reshoring; however, the trend has stalled over the past couple of years. Higher borrowing rates, an influx of lower-cost labor, and a sluggish manufacturing environment have impacted domestic robot deployment. To be sure, demand is beginning to resume today, albeit at a modest pace. The relatively underwhelming deployment of robots in the U.S. is likely to give way to a more powerful tailwind, driven by a new wave of reshoring and capable, affordable automation.

Still, the U.S. has a lot of catching up to do. As of 2023, the U.S. had fewer than 300 robots per 10,000 employees, compared to other manufacturing powerhouses such as Japan, Germany, and China, with more than 400 robots per 10,000 employees. To be fair, the U.S. has far more small and mid-sized businesses that outsource production, and the flexibility of our labor market has allowed companies to scale readily, predicated upon their level of business activity. Other factors include immigration labor in sectors such as agriculture, hospitality, and construction, as well as union resistance in specific industries, including automotive and shipping. Still, the momentum behind automation and robotic augmentation is a powerful force.

While there are a handful of U.S.-based companies that specialize in robotic design, few focus on mass-producing complete products. The U.S. imports over 50% of its manufactured robots from abroad, the majority from Europe. Tariffs and tax incentives could bring some of that to the U.S. In sum, technological advances have made robots more sophisticated and practical. As global demand for new types of robots has increased, mass manufacturing and falling component costs are making them cheaper to produce, leading to ubiquitous adoption. That combination is fuel for broader robotic deployment and, as such, presents investors with an attractive secular theme to explore. ■

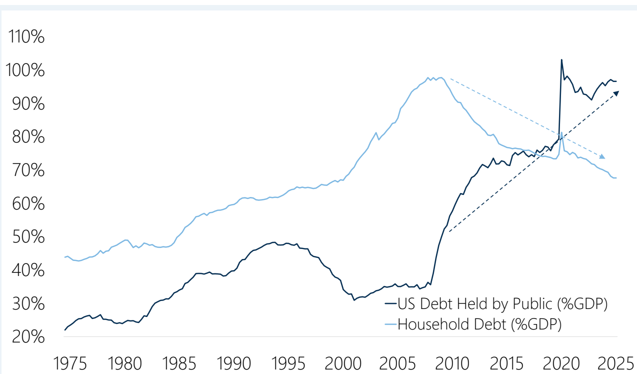
GROWING SIZE OF U.S. FEDERAL DEBT

Guy LeBas, Chief Fixed Income Strategist

Over the last several months, in these pages, periodic market notes, and [Janney's Mid-Year Update](), we have referenced the United States' growing debt load on multiple occasions. We discussed the frequent failures of austerity to reduce indebtedness, the increasing impact of supply on market pricing, and the influence on the shape of the yield curve from the U.S. Treasury Department churning out interest rate risk faster than the private sector could absorb it. Throughout these discussions, however, there is one issue that we have skirted rather studiously: how much debt is too much, and what are the consequences of too much debt? The answers are neither certain nor pleasant.

As of the end of May 2025, the U.S. Treasury reported total debt outstanding at $36 trillion. Some of this is debt that the Treasury owes to itself through various entities, such as the Social Security Trust. Excluding that portion, debt held by the public is a mere $29 trillion. Gallows' financial humor aside, these large absolute numbers fail to provide any context, and many sources use the large numbers without context as a scare tactic. Given that things cost more today than they did, say in 1980, we should expect the U.S.'s debt load to be larger. One common way to provide context is to measure indebtedness as a percentage of economic output, or GDP. On that basis, U.S. public indebtedness is now approximately 99% of GDP, the highest it has been outside of the COVID-19 pandemic. Debt is growing roughly 2% faster than GDP.

Chart 1: Household Debt Has Fallen Since 2007, Offsetting Some of Federal Debt Increase

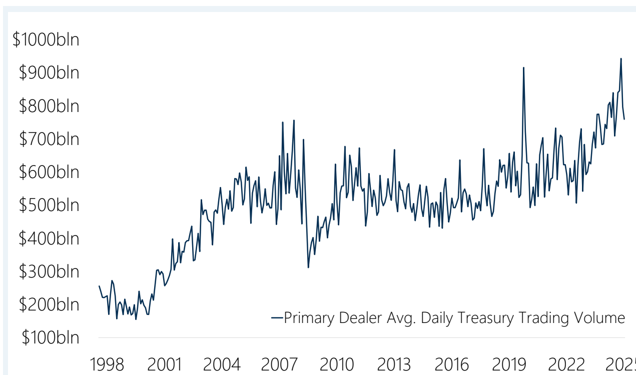


Source: Janney ISG; US Treasury Dept; Federal Reserve Board

One mitigating factor for the government's elevated debt load is that private sector indebtedness is shrinking relative to the economy after having peaked almost two decades ago. Household debt measures about 68% of the GDP today, down from 97% immediately before the Global Financial Crisis, and corporate sector debt remains essentially unchanged over the same period. In that sense, a credit optimist might describe what happened as mostly a "sectoral shift" from private to public sector debt, coupled with only a gradual increase in economy-wide indebtedness. That optimistic take fails to tell the whole story, but there is something to it.

Perhaps the biggest unknown regarding indebtedness is when it starts to matter. A widely discredited and error-plagued (but still, for some reason cited) [2010 paper on the matter by Profs. Carmen Reinhart and Ken Rogoff]() claimed that debt loads exceeding 100% of GDP would lead to economic stagnation. The paper referenced historical examples; however, after correcting for blatant data errors, the analysis is completely inconclusive. Neoclassical economic theory holds that when the government issues a lot of debt, it suppresses the private sector's ability to grow through debt issuance. The aforementioned comparison of federal and private sector debt supports that theory, although it is unclear whether there are measurable economic effects. Finally, the newer Modern Monetary Theory (MMT) holds that government debt issuance leads to higher inflation outcomes. While MMT was much derided as a political ideology, the mechanical description of how a budget deficit leads to increased long-run inflation is highly compelling (and partially explains the 2021–2022 inflation episode). If that theory holds, rather than see a dramatic moment when the debt becomes a problem, the U.S. economy is likely to see somewhat higher inflation, causing nominal GDP to grow faster than debt, and thereby inflating away excess debt. Higher inflation does have corrosive economic effects, but we are talking about a 0.5% - 1.0% increase in inflation, rather than multiple percentage points.

Chart 2: Treasury Trading Volume Has Risen, But at Slower Pace than Treasuries Outstanding



Source: Janney ISG; Federal Reserve Board

The one area of more concern, however, is the "pipes" through which the $29 trillion of U.S. Treasuries travel. Over the last three months, the average daily trading volume of Treasuries handled by Primary Dealers measured $848 billion, up 79% from the same three months in 2015. Total debt, by contrast, is up 121% over that period, so a smaller portion of debt is trading each day. Some of this trend is likely natural, but hints in these data and increased intraday volatility metrics suggest that the intermediaries trading in the government bond market are either unable or unwilling to keep pace with the growing market size. Large buys or sells in interest rate products—including auctions, which are essentially a large sale from the U.S. Treasury Department—are likely to move prices more today than in the past, a trend that will probably increase in the coming years.

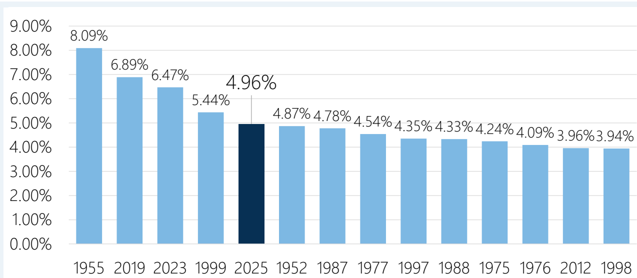
In summary, there is no "bright line" at which the $29 trillion of outstanding Treasuries becomes a problem for the U.S. economy or the global financial markets. Some of the high federal debt load is offset by lower private sector debt loads, but what really matters for the market is the size of the debt relative to the economy, which is currently growing. Our best guess for now is that slightly higher inflation will help keep the debt-to-GDP ratio in check. However, for the moment, the market should continue to expect volatile trading in the U.S. interest rate markets, particularly around big clearing events, such as U.S. Treasury auctions. ■

DID THE FIREWORKS COME EARLY?

Gregory M. Drahuschak, Market Strategist

Through the final three weeks of June, traders questioned whether the S&P 500 could set a new all-time high. That question was answered late in June, as it and other market measures reached new peaks. As July dawns, the market will be seeking an answer to a new question.

Chart 3: Best June Results for the S&P 500



Source: Janney investment Strategy Group

Momentum partly explained the market's run to new highs. Renewed thinking that the Federal Reserve might be close to lowering interest rates was a significant element, along with hope that the tariff situation might not have the degree of economic drag once feared. All the while, earnings expectations continued to decline as the consensus earnings estimate for 2025 and 2026 S&P 500 earnings fell. This, combined with the upturn in stock prices, gave the equity market a rich valuation. Despite this, the S&P 500 posted its fifth-best June result in the last 76 years and experienced the most rapid recovery ever following a 15% or greater correction.

July, of course, still will have to contend with tariff news and the outcome of the administration's major fiscal bill. However, by the middle of July, second-quarter earnings reports could begin to command the most attention.

A turn in earnings expectations could go a long way toward easing the market's valuation concerns and, in turn, extend the market's increase from the intraday low on April 7 to the intraday high reached on June 30. The S&P 500 propelled upwards nearly 28% (nearly 21 times the 2026 earnings estimate) and almost 24 times the expectations for 2025.

As usual, banks will be the initial focus. On Tuesday and Wednesday, July 15 and 16, BNY Mellon (BK), Citigroup (C), JPMorgan Chase (JPM), State Street (STT), Wells Fargo (WFC), Bank of America (BAC), Citizens Financial Group (CFG), Commerce Bancshares (CBSH), First Horizon (FHN), Goldman Sachs (GS), M&T Bank (MTB), Morgan Stanley (MS), and PNC Financial Services Group (PNC) are scheduled to report results. In aggregate, these firms might exert a disproportionate market impact, as expectations are high for banks to deliver solid results. Failing to match the elevated earnings prospects could cast doubt on the rest of the quarterly results, particularly now that a discernible shift in overall expectations has developed. The 22 largest U.S. banks all passed their recent stress test requirements, which could allow many of them to boost dividends or announce stock buybacks. The stress tests were rigorous as the 22 banks subject to the test this year had to show sufficient capital to absorb $550 billion in losses and continue lending to households and businesses under stressful conditions. The 2025 tests were modestly less demanding than those in 2024 as the 2025 version included a smaller increase in the unemployment rate (5.9 percentage points) compared with the 2024 theoretical situation (6.3 percentage points).

July is typically the best summer month for stocks, as the S&P 500 has ended July higher in 46 of the previous 76 years, resulting in the fourth-best monthly average S&P 500 result. However, July has been the best month for equities over the most recent 20 years.

The S&P 500's June outperformance could prompt thinking that underperforming in July is a logical expectation. In the eleven instances when the S&P 500 gained 4% or more in June, it ended July higher six times for an average 0.99% gain versus its all-time average for the month of 1.33%. However, there is significant historical precedent to suggest that the recent move higher may eventually lead to substantial gains over the ensuing 12 months.

Seasonal factors become less favorable after July. The S&P 500 on average ends August with a modest loss, and September frequently produces the market's worst monthly result. October often sets a low for the period before the overwhelmingly positive biases in the last part of the year lead the market higher toward New Year's.

Nonetheless, the coming earnings season is likely to be the primary fundamental issue that determines the market's intermediate-term direction. Stay in touch with your Janney Financial Advisor, who will provide continuous updates on the second-quarter earnings report period.

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