

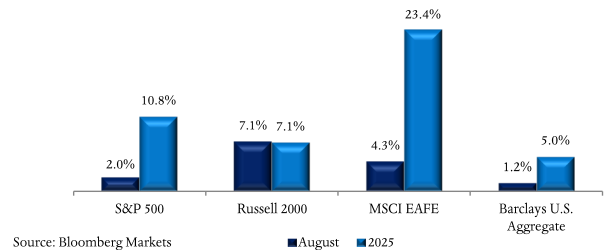


## MARKETS

Financial markets posted another strong month in August, fueled by strong corporate earnings, resilient consumer behavior, and dovish signals from Fed Chair Powell. The S&P 500 index (+2.0% in August; +10.8% ytd) extended its multi-month winning streak, achieving fresh record highs along the way. Second quarter earnings for the benchmark ended well above initial forecasts, growing near 12% year-over-year. The Russell 2000 index surged +7.1% for the month (+7.1% ytd), its best performance since November 2024, signaling renewed strength in small-cap stocks. Improved breadth was further highlighted by the equal-weight S&P 500 index which outperforming its capitalization-weighted counterpart. Overseas equities in the MSCI EAFE index added +4.3% in August, bringing year-to-date returns to a stellar +23.4%. Asian stocks posted particularly strong gains, with the Shanghai composite leaping +8.1% during the month (+17.6% ytd), reaching a 10-year high, as investors rotated domestic savings into equities amid meager local bond yields. Japanese stocks in the Nikkei 225 index rose +4.1% (+8.3% ytd) buoyed by a weaker yen and resilient corporate earnings.

The US Treasury yield curve steepened as investors began pricing in a greater chance of a September interest rate cut by the Federal Reserve. The 10-year yield fell 13 bps to close the month at 4.23%. In this context, the Bloomberg US Aggregate bond index appreciated +1.2% in August (+5.0% ytd).

The S&P GSCI commodity index declined -0.8% in August (+0.0% ytd) driven by weakness in energy, while other components gained. WTI crude oil dropped -7.6% during the month (-10.8% ytd) after the International Energy Agency lowered its forecast for demand, amid rising inventories. To the upside, gold broke above \$3,500/oz (+4.8% in August; +31.7% ytd) amid expecta-



tions of an imminent US interest rate cut and concerns over political pressure on the Federal Reserve.

## GEOPOLITICS

A summit between President Trump and Russian President Putin, on August 15th, concluded without a formal agreement on Ukraine. President Trump's suggestion that Ukraine should cede territory was denounced by Kyiv as a violation of its sovereignty. This unilateral proposal also sparked alarm among European allies, who viewed it as a fracture of the Western coalition which undermines their collective security strategy.

With regard to trade, the Trump administration's unpredictability continued. A tariff truce with China was extended for 90 days, new tariff investigations were initiated, and punitive 50% tariffs were imposed on India, for purchasing Russian oil, as well as Brazil, justifying the move not on economic grounds, but as a direct retaliation for what it termed the "politically motivated persecution" of former President Jair Bolsonaro.

Domestically, the Trump administration utilized executive actions to directly influence financial, technology and security policy. An executive order expanded 401(k) investment options to include alternative assets such as private equity and hedge funds. The administration also advanced its technology agenda, accelerating AI procurement and signaling support for stablecoins over a central bank digital currency, all while the looming threat of a September government shutdown added

fiscal uncertainty. President Trump further declared a “crime emergency” in Washington D.C., authorizing the deployment of the National Guard, and federalizing the local police force, to conduct street patrols and secure federal landmarks.

## US

The US economy showed a healthy 3.3% recovery in second quarter GDP, following a 0.5% decline in the first quarter. However, both sets of data were distorted by tariff-related swings in international trade and inventories. Given this anomaly, economists have been tracking final sales to domestic purchasers, which showed a steady 1.5% and 1.6% growth in the first two quarters, respectively. Consumption, construction and government spending softened, offset by a surge in capital spending on equipment and software, much of it to power the Artificial Intelligence boom.

The labor market has been on a softening trend over the past several months, highlighted by a revised loss of 13,000 jobs in June. This was corroborated by the August employment report which showed that hiring continued to be challenged (22,000 job additions led to an increase in the unemployment rate to 4.3%, while wage gains decelerated to 3.7% from 3.9%).

On the inflation front, the Personal Consumption Expenditures price index (PCE), the gauge the Federal Reserve uses for its 2% target rate, rose 0.2% on a sequential monthly basis, keeping the annual rate at 2.6%. However, the core PCE, which excludes volatile food and energy prices, accelerated to 2.9% from 2.8%.

Overshadowed by politically motivated calls from the Trump administration to lower interest rates, Fed Governor Waller and Chairman Powell signaled a dovish monetary policy shift, pointing to a deteriorating jobs market and limited inflation pressures.

Overall, economic uncertainty, driven by political and tariff actions, coupled with resurgent inflation, has led to a lower level of economic growth and tepid consumer confidence.

**August 2025 Economic Statistics**

	Aug-25	Dec-24	Dec-23
Federal Funds Target Rate	4.25 - 4.50%	4.25 - 4.50%	5.25 - 5.50%
Consumer Confidence Index	97.4	104.7	110.7
Manufacturing PMI Index	48.7%	49.3%	47.4%
Unemployment Rate	4.3%	4.2%	3.7%
JPY / USD	147.02	157.18	141.06
USD / EUR	1.1684	1.0353	1.1036
Gold / oz.	\$3,446.75	\$2,623.81	\$2,062.59
Oil (WTI) / bbl	\$64.01	\$71.72	\$71.65

Sources: see disclosure \*

## EUROPE

The Euro area delivered a positive economic surprise in August as the region’s PMI rose to 51.1, the highest since May 2024, with manufacturing output expanding for the first time in three years. Service sector growth eased but remained in expansion territory at 50.7. New orders improved and hiring increased, suggesting that the region is shaking off its recent malaise. The headline annual inflation rate remained unchanged at 2% in July. Although the figures were in line with the ECB’s projections, persistent services inflation and the threat of US tariffs led markets to expect the central bank to delay further easing until at least December.

The UK’s economy remained the most challenged in the region. Inflation advanced to 3.8% in July, its highest since early 2024, driven by rising prices for everyday items. Food inflation saw its steepest increase in 18 months, further straining household budgets. Services inflation climbed to 5.0%, and the Bank of England (BoE) warned that price pressures would persist well into 2027, with wage growth near 5.0% and an employer payroll tax increase adding to cost pressures. As a result, expectations for the next BoE cut have been pushed out to March 2026, reflecting skepticism that inflation will quickly reverse course.

## ASIA

The Chinese economy remains fragile notwithstanding government efforts to support it. Confronted by depressed export orders from US tariffs and weak domestic demand, the local economy is exhibiting notable

strain. Factories are cutting costs through reduced overtime and increased use of temporary labor, contributing to underemployment, a “hidden” deflationary force. This is compounded by stagnant consumer prices, a 3.6% decline in the producer price index, and slowing industrial output growth. Furthermore, youth unemployment for those aged 16-24 has surged to 17.8%. In response, Beijing expanded stimulus measures, including consumer subsidies and an easing of credit conditions in the property sector, where state-owned enterprises are being encouraged to buy unsold housing. Despite these efforts, a notable divergence between market optimism and weak underlying consumer and business demand highlights the significant challenge policymakers face in steering the economy toward a sustainable recovery.

The Japanese economy returned to growth in the second quarter and the latest reading of consumer price inflation, excluding fresh food, decelerated to 3.1% from 3.3%, marking the lowest reading since November 2024. This led the Bank of Japan to comment that such conditions warranted monetary policy tightening and that an interest rate increase to 0.75% could materialize shortly.

## OUTLOOK

2025 is shaping up to be another great year for investors. Through the end of August, the S&P 500 has returned +10.8% while the US Aggregate Bond Index has risen +5.0%, combining to provide a total return of +8.5% from a simple 60/40 portfolio. This follows gains of +18.0% and +15.5% from the same portfolio over the prior two years. With trailing returns stemming mostly from equities, this excellent performance has left investors holding shares with stretched valuations. The S&P 500 index currently trades at a forward P/E ratio of 22.4, 1.6 standard deviations above its 30-year average. Breaking down the two most scrutinized cohorts, the top 10 stocks, by market capitalization, account for almost 40% of the index and trade at a forward P/E ratio of 29.8, compared to 20.6 for the rest. This compares with overseas stock index P/E ratios which are in the mid-teens, on average. Looking ahead, we see risks including unresolved trade

tensions, potential consumer strain (affected by slack hiring and accelerating inflation) as well as questions surrounding the ROI of AI-driven capital expenditures.

With regard to US monetary policy, if the Federal Reserve committee is correct in estimating the long-run equilibrium interest rate to be 3.00% (adjusted for inflation) then today’s range of 4.25%-4.50% is restrictive and some relaxation is warranted over the coming year. Yet the Fed is in a predicament, the short-term sluggishness of the economy argues for early easing of interest rates. On the other hand, employment will be constrained by lack of labor supply, while fiscal stimulus continues, both of which are likely to keep inflation well above target, making a reasonable case for standing firm. Coupled with intense political pressure from the Trump administration, an interest rate cut later this month is likely the start of a series that could lead Fed Funds near 3.0% by next summer. While we don’t consider the bond market is currently offering sufficient return for taking duration risk, income generation is respectable, especially in high-yielding credit.

Given the disconnect between a slowing and uncertain US economy and the torrid bull market in large-cap stocks, we continue to recommend international equity and alternative asset diversification. Precious metal mining equities have produced outstanding returns since our initial recommendation, and we expect more to come as associated metals rise against fiat currencies. In the short-term, some digestion of recent gains is warranted, but we would be opportunistic buyers on weakness. Software equities have been out of favor of late, on account of the possibility of disruption by AI. This offers an attractive entry point for select investments in the sector, with the added potential for shareholder activism to act as a catalyst. We have also identified unique private equity and credit funds focused on the cybersecurity, healthcare, education and natural resource sectors. Lastly, our proprietary efforts to source direct investments are gaining traction, with several compelling small and middle market prospects. We will be discussing some of these opportunities during our NY Investor Breakfast on September 30th.

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\*Sources: Reuters, Bloomberg, Bureau of Labor Statistics, Conference Board, Federal Reserve, Institute for Supply Management, MSCI, Russell, Standard & Poor’s, Financial Times and the Wall Street Journal.