

# Month-End Summary – August 2025

## Market Update

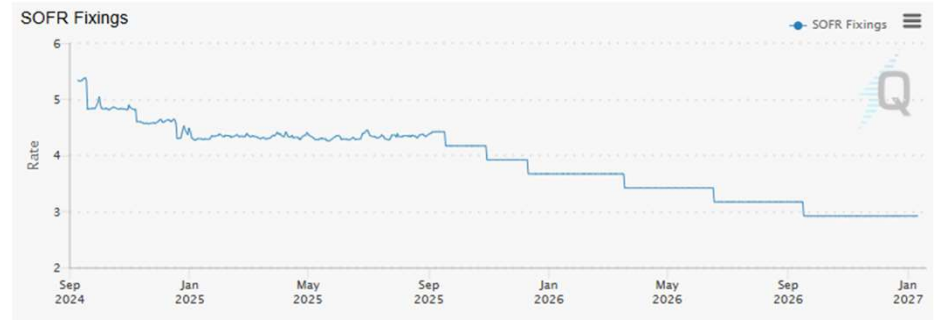
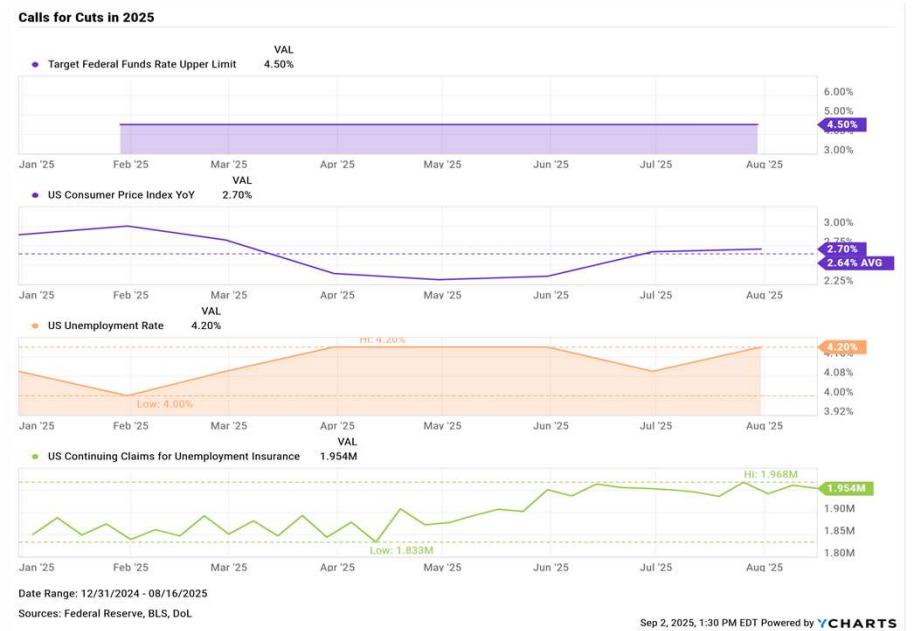
- **S&P 500 and Nasdaq Monthly Performance:**
  - U.S. equities rallied broadly in August, with the S&P 500 up approximately **1.9%**, and the Nasdaq gaining **1.6%**, helped by mega-cap tech and AI leadership
  - Notably, the Dow outpaced with a **3.2%** rise, and the Russell 2000 outperformed all with strong small-cap momentum
  - Breadth improved relative to July, as value and equal-weight indices participated more evenly in the rally, which is an expected scenario due to current valuations
- **Key Drivers of Market Volatility:**
  - **Escalating Tariff Pressures and Trade Fragmentation**  
August saw renewed escalation in trade tensions, including imposition of “reciprocal” tariffs up to 40% on a range of U.S. trading partners and the removal of long-standing exemptions, all while meaningful progress on trade de-escalation remained elusive
  - **Fed Ambiguity Amid Mixed Economic and Earnings Signals**  
Markets grappled with what some dubbed the “Trump put”, a combination of dovish rate-cut expectations rooted in weak labor reports, and countervailing concerns over overheated asset valuations and sustained inflation pressures. As earnings pushed S&P profits higher, divergence widened between mega-cap tech strength and underwhelming performance by cyclical
  - **Global Trade Slowdown and Geopolitical Realignment**  
China's export growth cooled in August, eroding demand for global supply chains and souring investor sentiment. Simultaneously, growing skepticism about globalization's status quo, highlighted by warnings of economic fragmentation and political-economic dueling, added further pressure on equities, especially sectors tied to cross-border exposure (e.g., semiconductors, metals, etc.)
- **Labor Market and Fed Policy Update:**
  - **Non-Farm Payrolls Fall Sharply, Undershooting Estimates**  
In August, U.S. non-farm payrolls increased by just **22,000 jobs**, dramatically below consensus forecasts of ~75,000. The unemployment rate ticked up to **4.3%**, the highest since 2021. Notably, June saw a net loss after revisions, and July's gains were revised modestly lower
  - **September Rate Cut Widely Priced In; Markets Question Larger Moves**  
The soft labor reading has cemented expectations that the Fed will deliver a **25 basis-point rate cut at its September 17 meeting**, with the probability now above **85–90%**, according to futures markets

## Investment Committee Update

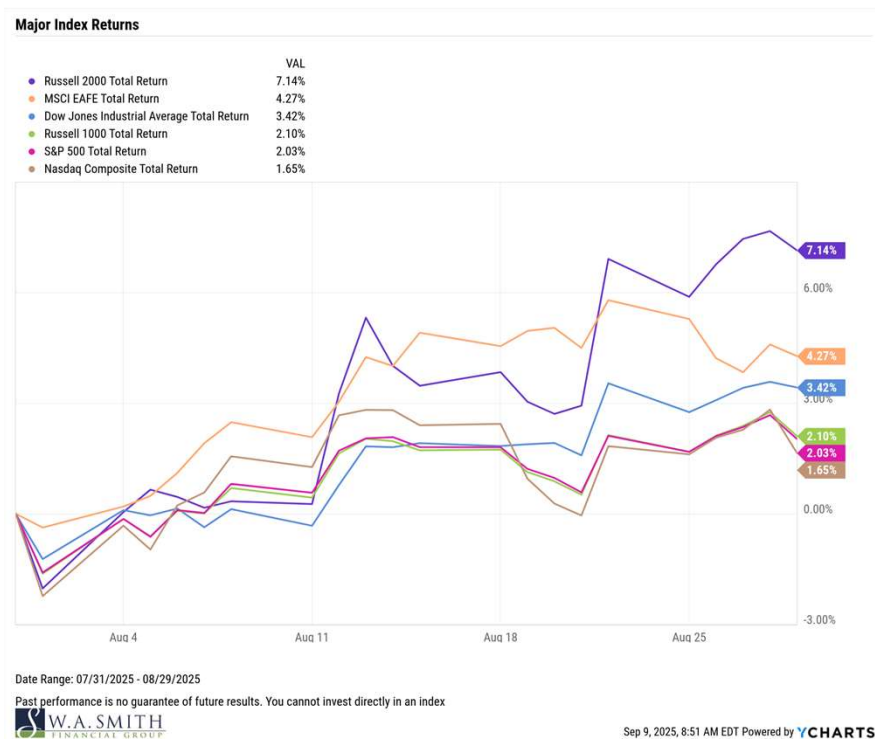
- The Investment Committee (IC) continues to monitor the overall economic and market environment as we make our way towards the end of the 3<sup>rd</sup> Quarter 2025. As always, the below bullet remains in place and is the foundation for our investment decisions
  - Investment Committee continues to actively identify possible alterations (additions/removals) to our various strategies by utilizing our **rigorous 5-step due diligence process**
- Despite recurring volatility, U.S. equity markets delivered a **strong August performance**, extending their streak into the fourth consecutive monthly gain. The **S&P 500 climbed roughly 1.9%**, the **Nasdaq rose about 1.6%**, while the **Dow surged approximately 3.2%**, powered by robust momentum in large-cap tech, AI, healthcare, and small-cap names. Despite elevated valuations, markets are continuing to show strong resilience
- **Volatility was underpinned by a combination of:**
  - **Choppy macro data**, especially a slowdown in the July jobs report (only **73,000** new payrolls and significant downward revisions);
  - **Rising trade policy risk**, leading to oscillations w/in the markets throughout the month;
  - And heightened **political interference in economic data**, spurring investor caution about market transparency
- Yet, **underlying fundamentals remained solid:**
  - **Earnings Resilience:** Over **80% of S&P 500 companies beat Q2 earnings expectations**, with particularly strong results in technology and consumer sectors. This broad outperformance underscores that corporate profitability remains intact, supporting valuations even amid macro uncertainty -> we continue to see expanding margins in multiple sectors
  - **Labor Market Stability:** While job growth has slowed, the labor market continues to show resilience. Unemployment has only inched higher, and wage growth, though moderating, remains above pre-pandemic levels
- **The Investment Committee continues to monitor the US economic and political activity and their potential impact(s) on the US/Global markets.** As you are aware, we were able to take advantage of pockets of volatility to make changes to holdings in many of our strategies from both an equity and fixed income perspective during 3Q2025 and into 4Q2025
- Expectations are for continued volatility throughout the remainder of 2025 as we navigate uncertainty in the markets, and lofty valuations in many of the equities that we monitor. That said, there are still multiple sectors w/in the markets that still provide potentially attractive valuations and have not fully participated in the recent run up in pricing

# Labor Cooling Sets Stage for Fed Easing Cycle

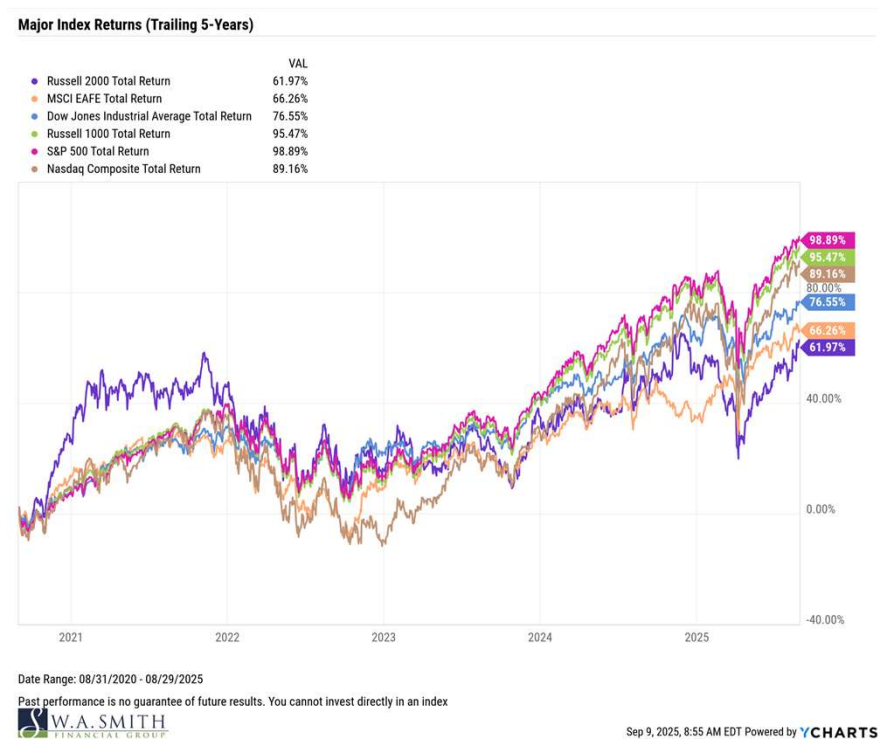
- Conditions for an Imminent Cut:** With unemployment drifting higher (**4.3% in August**), continuing claims approaching **1.95M**, and inflation stabilizing near the Fed's 2.7% YoY range, the environment is supportive of an initial **September rate cut**. The Fed has signaled greater concern about labor market cooling than inflation re-acceleration, giving cover for a first move. This is what Governor Waller has been saying over the past several months
- Projected Path of Additional Cuts:** Secured Overnight Financing Rate (SOFR) futures pricing suggests a series of cuts extending through mid-2026, with markets expecting at least 75–100 bps of easing over the next 6–9 months. By early 2026, the effective policy rate is projected closer to 3.0–3.25%, reflecting expectations of a gradual but persistent easing cycle as the Fed balances slowing growth with sticky but manageable inflation

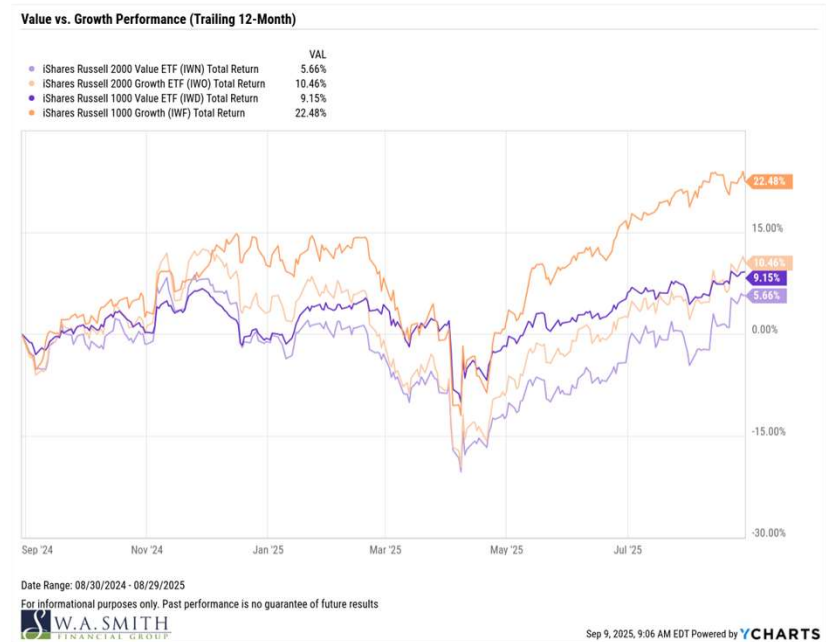
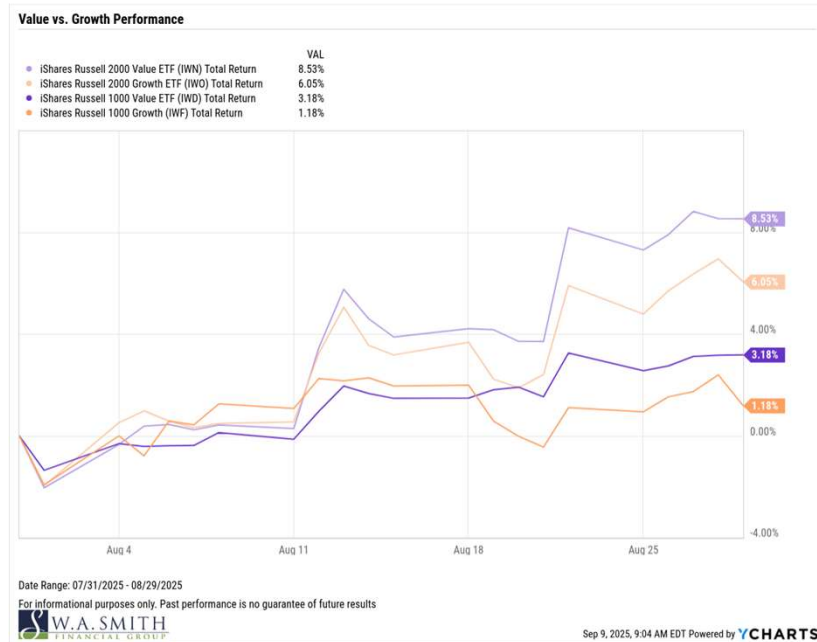


# August Rotation Boosts Small Caps, But Large Caps Remain Dominant Over 5 Years



- **August 2025 Performance:** The Russell 2000 led with a 7.1% gain, outpacing large-cap indices, while the MSCI EAFE (international developed markets) rose 4.3%. U.S. large-cap benchmarks posted smaller advances—Dow +3.2%, S&P 500 +1.9%, Nasdaq +1.6%, highlighting a broadening of market leadership into small caps and international equities after a mega-cap dominated first half of the year (aka, increased market breadth)
- **Five-Year Returns:** Over the trailing 5 years, U.S. large-cap growth remained dominant: S&P 500 nearly doubled (+98.9%), with the Russell 1000 close behind (+95.5%). The Nasdaq (+89.2%) also showed strong gains, while Russell 2000 (+62.0%) and MSCI EAFE (+66.3%) lagged, reflecting relative U.S. leadership over international markets despite August's rotation

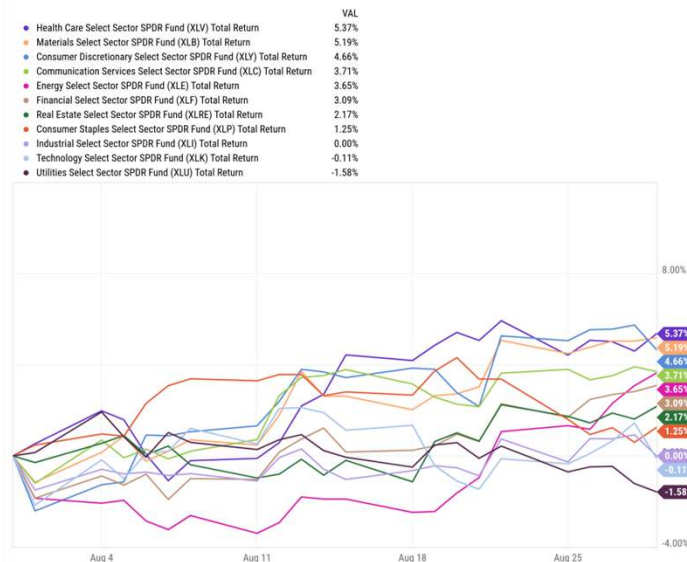




## A Tale of Two Horizons: Value Now, Growth Over Time

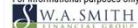
- Value led the way:** Value significantly outperformed growth across the board. Small-cap value (IWN) led with +8.5%, followed by small-cap growth (IWO) at +6.1%, while large-cap growth (IWF) lagged at just +1.2%. This shift reflects investor rotation toward value and cyclicals, with quality large-cap names holding steady but under pressure compared to higher-beta small caps. This has led to one of the key themes that we are seeing -> a potential move into relatively “under-valued” names and breadth expansion
- Trailing 12-Months:** Growth still dominated over the longer horizon, led by large-cap growth (IWF) with +22.5%, while small-cap growth (+10.5%) and large-cap value (+9.2%) posted solid returns. Small-cap value (+5.7%) trailed, highlighting that quality growth and larger-cap exposures provided more consistent leadership through volatility, while value strength has been more cyclical and shorter-term in nature -> key takeaway, quality still matters and will remain a primary focus

#### Sector Movement



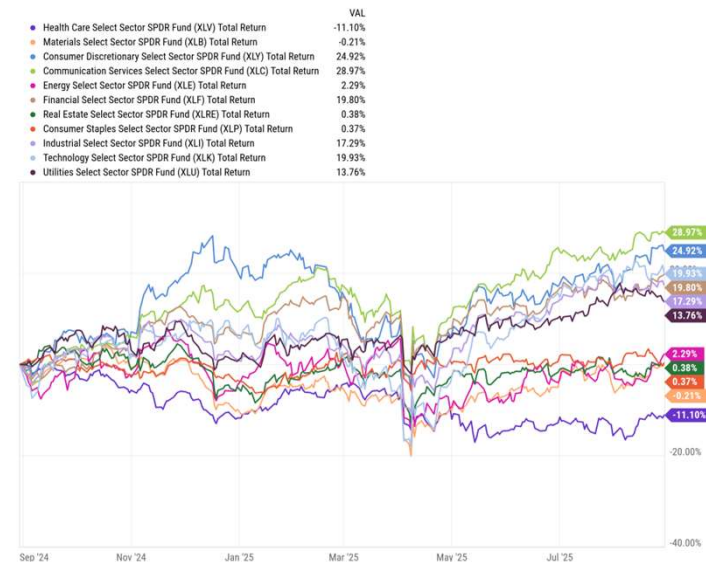
Date Range: 07/31/2025 - 08/29/2025

For informational purposes only. Past performance is no guarantee of future results



Sep 9, 2025, 9:19 AM EDT Powered by YCHARTS

#### Sector Movement



Date Range: 08/30/2024 - 08/29/2025

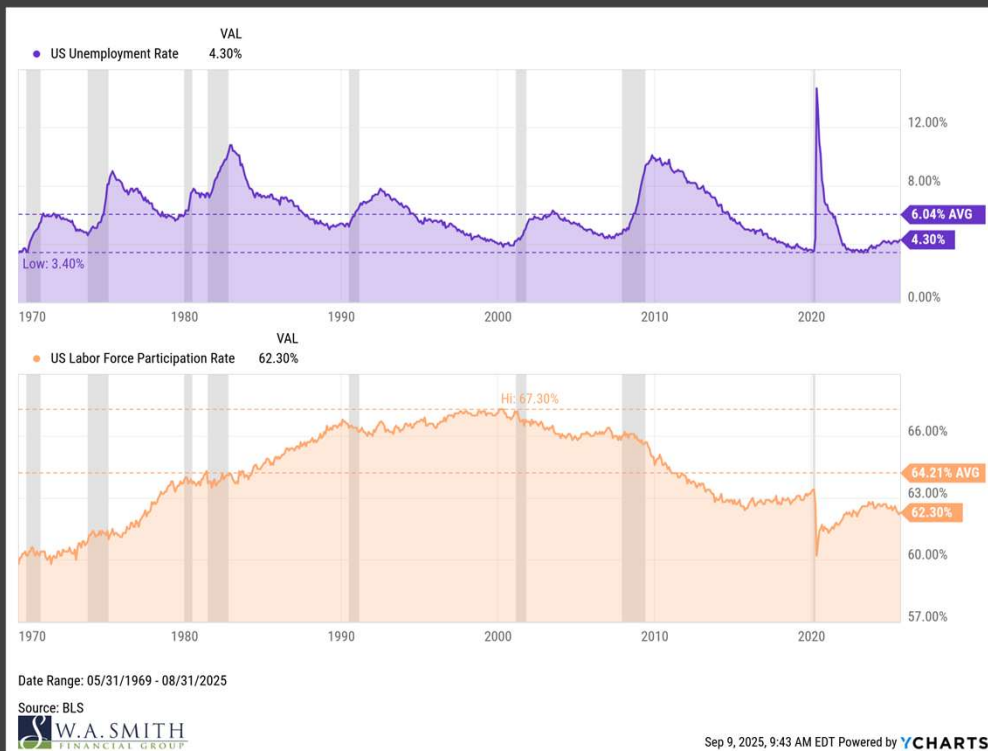
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## August's Rotations Potentially Highlight Value of Diversification

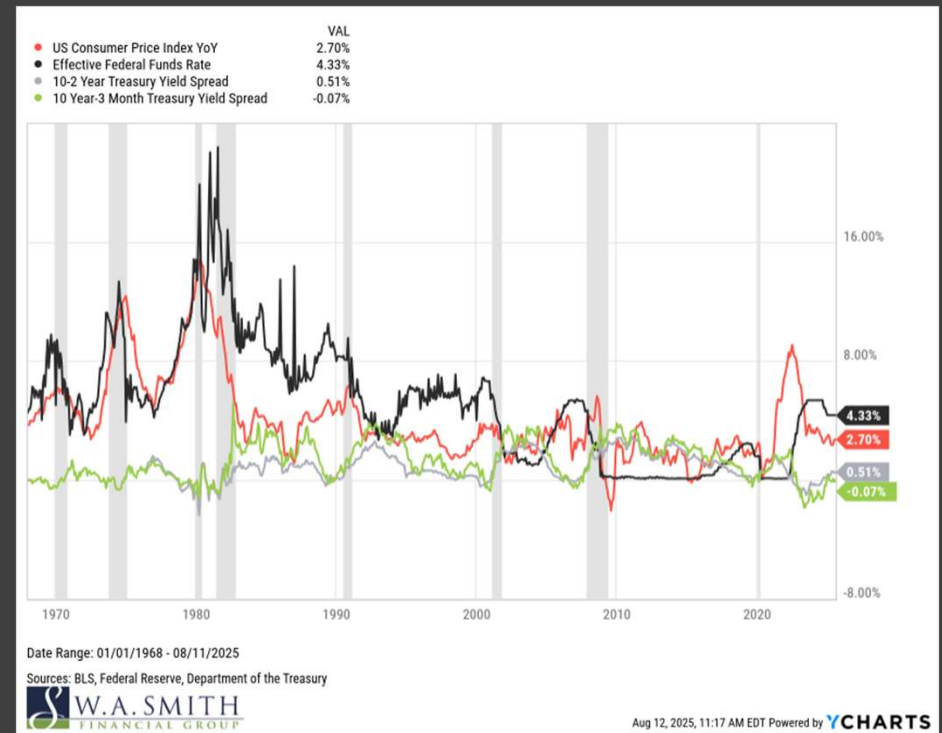
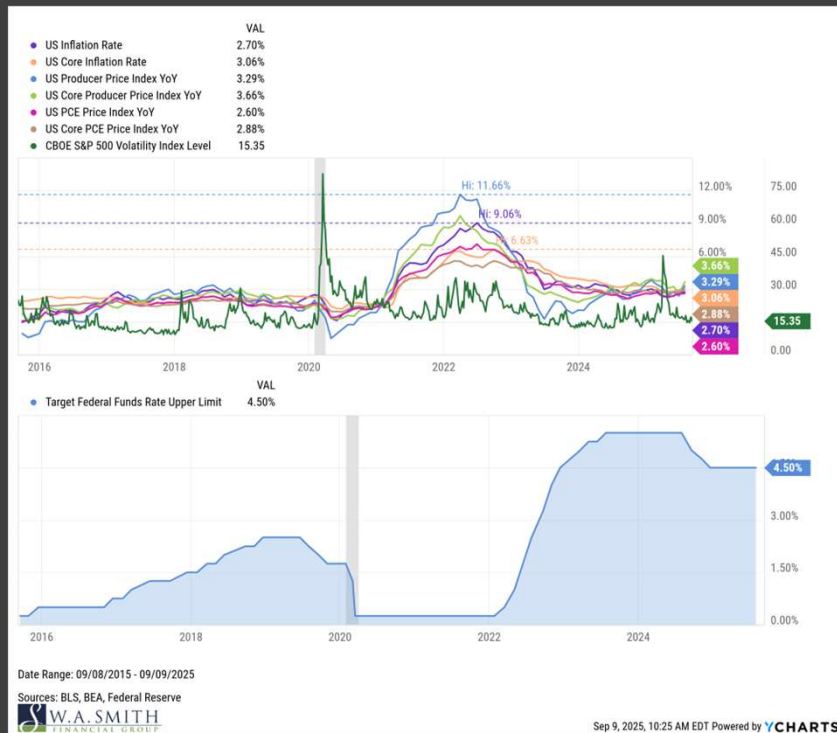
- August 2025 (Past Month):** Sector leadership rotated toward defensives and cyclical, with Health Care (+5.4%), Materials (+5.2%), and Consumer Discretionary (+4.7%) leading performance. Gains reflected market positioning ahead of expected Fed rate cuts and stronger demand signals for healthcare and materials, while Utilities (-1.6%) and Technology (-0.1%) lagged as investors trimmed positions in rate-sensitive and previously extended areas
- Trailing 12-Months:** Over the past year, Communication Services (+29.0%), Consumer Discretionary (+24.9%), and Technology (+19.9%) delivered the largest returns, driven by strong earnings, AI-related growth, and consumer resilience. Conversely, Health Care (-11.1%) lagged on policy and reimbursement pressures. The strength in growth-oriented sectors coincided with moderating inflation, resilient consumer spending, and anticipation of Fed easing, which boosted valuations and risk sentiment



## Continued Weakness In Employment Data: Rate Cuts Are Likely Coming

- **Labor Market Weakness Emerging:** The **August Non-Farm Payrolls** rose by just **+22,000**, well below expectations, signaling a significant slowdown in hiring momentum. This confirms that job creation has stalled since the spring
- **Unemployment Uptick:** The **U.S. unemployment rate** increased to **4.3%**, up from 3.9% earlier this year and above its cycle lows. While still below the long-term average (6.0%), the move higher reflects both slower hiring and rising labor market slack
- **Labor Force Stability with Wage Moderation:** The **labor force participation rate** held at **62.3%**, below its historical average, while real average hourly earnings continue to trend near \$11.3, suggesting wages are stabilizing. Together, this indicates cooling conditions but not yet a collapse in labor demand
- **Recipe for a Rate Cut:** When this information is aggregated, we are likely to see a series of rate cuts over the upcoming FOMC meetings, barring a significant uptick in the inflationary data





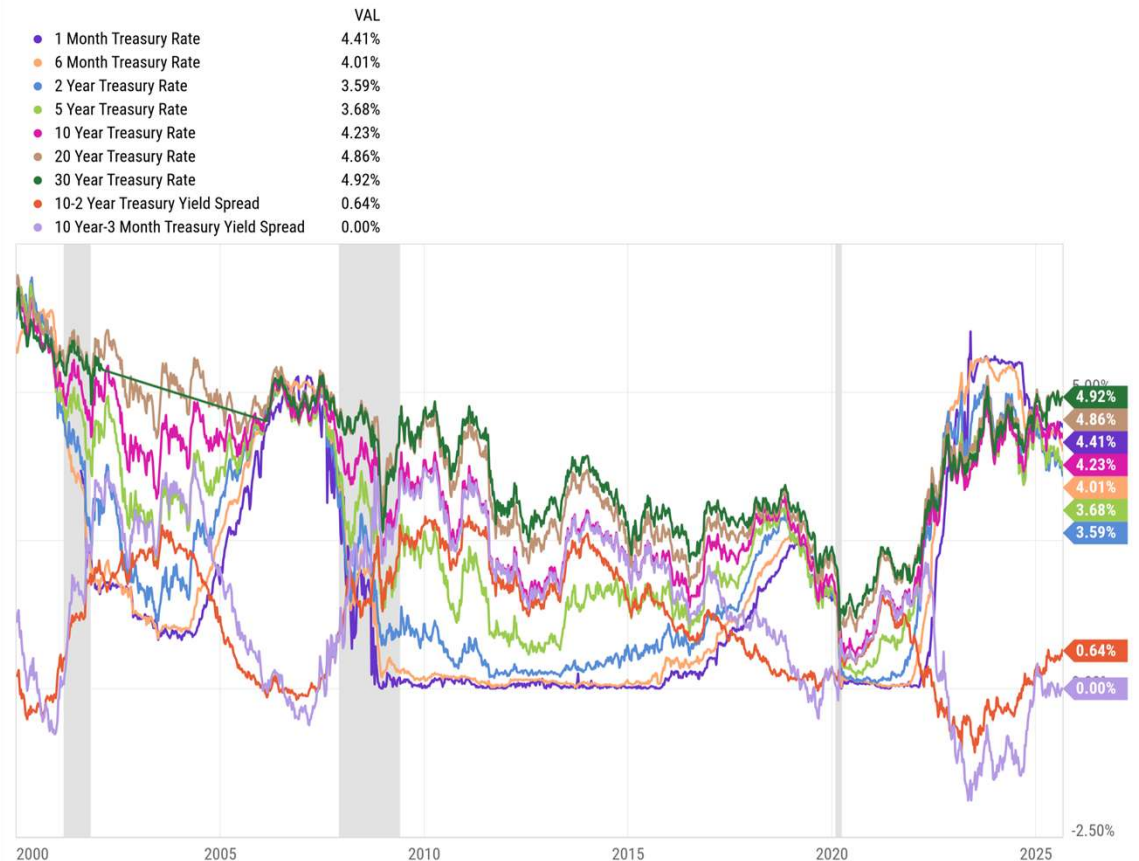
## Cooling Inflation, Shifting Yield Curves: Markets Position for Fed Cuts

- **Inflation Cooling but Still Elevated:** Headline CPI slowed to **2.7% YoY**, with core inflation holding at **3.1%**, showing progress toward the Fed's 2% target but not fully resolved. Other gauges such as PCE (2.9%) and PPI (3.3%) reflect a mixed but gradually moderating inflation backdrop
- **Fed Policy Still Restrictive:** With the **federal funds rate at 4.50%**, policy remains well above current inflation, implying tight real rates. This suggests the Fed has room to cut if growth and employment continue to soften, aligning with market expectations for easing in late 2025
- As noted on the previous slide, the Non-Farm Payrolls data along w/ the recently released inflationary data in the form of CPI and PPI, we see a situation where the likelihood of a series of rate cuts throughout the remainder of 2025 and early 2026 is increasing by the day, and this is evidenced by the recent data on the CME FedWatch Tool

# Yield Curve Shifts Potentially Point Toward Easing Financial Conditions

- **Flattening with Partial Steepening:** The **2s/10s Treasury spread** has moved into **positive territory (+0.64%)**, while the **10s/3m spread** has **normalized to 0.00%** after a prolonged inversion. This suggests the bond market is beginning to price in Fed easing while still reflecting a cautious growth outlook
- **Front-End Anchored by Policy:** Short-term yields (1–2-year Treasuries at ~3.6–4.4%) remain elevated but have drifted lower in anticipation of Fed rate cuts in September and beyond. The front end of the curve will likely decline further if the FOMC initiates an easing cycle
- **Long-End Stability:** Longer-dated maturities (20–30 years near 4.9%) have held relatively steady, reflecting structural inflation concerns and ongoing Treasury issuance. This stability suggests the steepening has been driven more by falling short rates than rising long rates
- **Policy Outlook and Curve Shape:** If the Fed follows through with rate cuts, the **front end will likely move lower**, steepening the curve further. A steeper curve would potentially ease financial conditions, support bank lending margins, and signal confidence in a soft landing, but persistent inflation could limit the depth of the steepening

US Treasury Yield Curve



Date Range: 12/31/1999 - 08/29/2025

Source: Department of the Treasury  
W.A. SMITH  
FINANCIAL GROUP

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## New Timeseries Analysis\_CN

Data as of: Sept. 9, 2025

Date Range: 12/30/2022 to 09/09/2025

Frequency: Monthly

Aggregation: End of Period (default)

Fill Method: No Fill

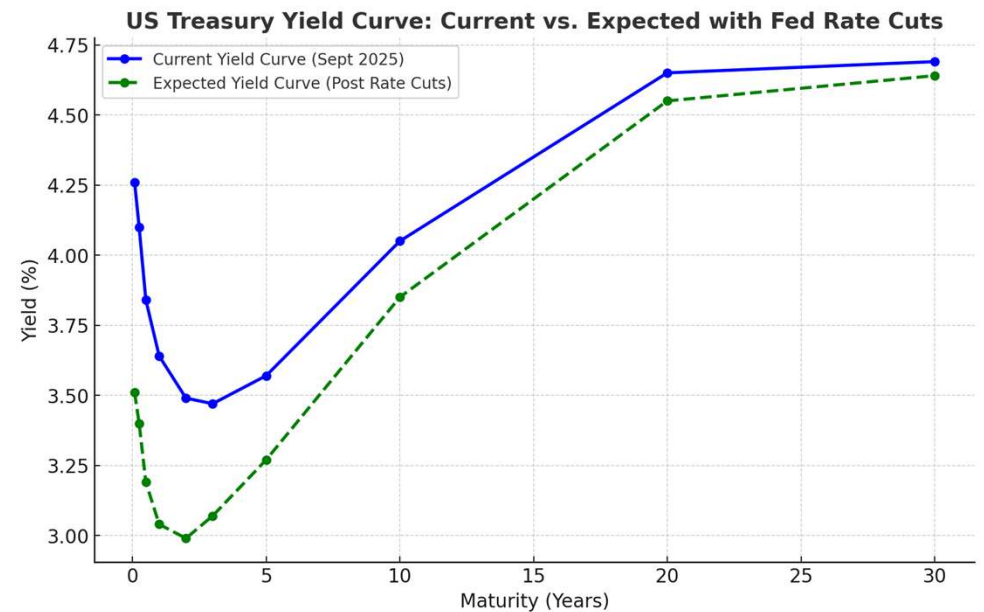
| Symbol    | Name                    | Metrics | Sep 30 '25 | Aug 31 '25 | Jul 31 '25 | Jun 30 '25 | May 31 '25 | Apr 30 '25 | Mar 31 '25 | Feb 28 '25 |
|-----------|-------------------------|---------|------------|------------|------------|------------|------------|------------|------------|------------|
| I:10YTCMR | 10 Year Treasury Rate   |         | 4.05%      | 4.23%      | 4.37%      | 4.24%      | 4.41%      | 4.17%      | 4.23%      | 4.24%      |
| I:1MTCMR  | 1 Month Treasury Rat... |         | 4.26%      | 4.41%      | 4.49%      | 4.28%      | 4.33%      | 4.35%      | 4.38%      | 4.38%      |
| I:1YTCMR  | 1 Year Treasury Rate    |         | 3.64%      | 3.83%      | 4.10%      | 3.96%      | 4.11%      | 3.85%      | 4.03%      | 4.08%      |
| I:20YTCMR | 20 Year Treasury Rate   |         | 4.65%      | 4.86%      | 4.89%      | 4.79%      | 4.93%      | 4.68%      | 4.62%      | 4.55%      |
| I:2YTCMR  | 2 Year Treasury Rate    |         | 3.49%      | 3.59%      | 3.94%      | 3.72%      | 3.89%      | 3.60%      | 3.89%      | 3.99%      |
| I:30YTCMR | 30 Year Treasury Rate   |         | 4.69%      | 4.92%      | 4.89%      | 4.78%      | 4.92%      | 4.66%      | 4.59%      | 4.51%      |
| I:3MTCMR  | 3 Month Treasury Rat... |         | 4.10%      | 4.23%      | 4.41%      | 4.41%      | 4.36%      | 4.31%      | 4.32%      | 4.32%      |
| I:3YTCMR  | 3 Year Treasury Rate    |         | 3.47%      | 3.58%      | 3.89%      | 3.68%      | 3.87%      | 3.58%      | 3.89%      | 3.99%      |
| I:5YTCMR  | 5 Year Treasury Rate    |         | 3.57%      | 3.68%      | 3.96%      | 3.79%      | 3.96%      | 3.72%      | 3.96%      | 4.03%      |
| I:6MTCMR  | 6 Month Treasury Rat... |         | 3.84%      | 4.01%      | 4.31%      | 4.29%      | 4.36%      | 4.19%      | 4.23%      | 4.25%      |

## Steepening Curve, Slower Labor Growth, Moderating Inflation...Pointing To A Rate Cut Initiative

- **Cooling Labor Market and Inflation Moderation Support Easing Bias:** August's Non-Farm Payrolls showed a modest gain of just +22,000 jobs with the unemployment rate rising to 4.3%, signaling further labor market cooling. Coupled with inflation stabilizing around 2.7% Y/Y CPI and 2.6% PCE, the Fed now has more cover to begin an easing cycle, with markets pricing in a strong probability of a September rate cut
- **Yield Curve and Treasury Market Implications:** Treasury rates have drifted lower on the short end (2-year at 3.49% vs. 3.94% in July), while the 10-year fell to 4.05% from 4.23%. This reflects increased conviction of Fed easing. If the FOMC cuts as expected, further steepening of the 2s/10s spread (now +0.64%) is likely, easing financial conditions and supporting credit-sensitive sectors such as housing, autos, and refinancing activity

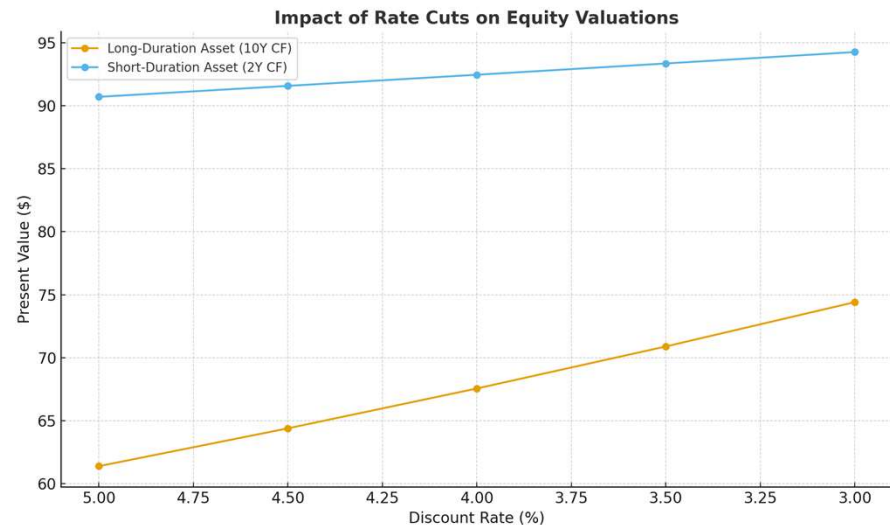
# How Fed Policy Shifts Could Reshape the Curve

- **Current vs. Post-Cut Curve:** The current curve (Sept 2025) remains moderately upward sloping beyond 2 years, with front-end yields still elevated. After a potential 75 bps rate cut cycle, the curve would likely steepen, with the 1M–2Y segment shifting down more sharply relative to the 10Y–30Y
  - *Please note that this is a hypothetical chart that shows what may happen in the event of a series of 25 bp rate cuts to end the year*
- **Impact of Cuts:** Rate cuts would compress short-term yields the most (front-end down ~60–75 bps), while the long end of the curve may decline more modestly (~10–20 bps), reflecting expectations for easing but anchored inflation expectations
- **Spread Dynamics:** The 2s/10s and 3M/10Y spreads would likely normalize, moving away from 0 in the positive direction, signaling a potential shift away from the deeply inverted curve environment we've seen for much of 2024–2025
- But what does this mean in the real world, let us look at a few examples on the next page w/ a focus on the impact of lower rates on equity valuations...



# Duration Sensitivity: Long-Term Assets Benefit Most from Falling Rates

- **Equities & Valuations:** Lower rates generally support higher equity valuations by reducing discount rates in models like discounted cash flow (DCF). This particularly benefits long-duration assets such as growth and technology stocks, where future earnings make up a larger portion of intrinsic value (please see the chart to the right)
  - **Key Takeaway:** *Rate cuts have a disproportionately positive effect on the valuations of long-duration assets, such as growth and technology equities, because their future cash flows are discounted at a lower rate—meaning their present value rises much more sharply than that of shorter-duration assets*
- **Fixed Income & Refinancing:** Declining rates will likely push bond prices higher, especially in intermediate-to-long duration Treasuries and investment-grade corporates. Companies and households may seize the opportunity to refinance existing debt at lower borrowing costs, improving cash flow and credit quality
- **Housing & Consumer Loans:** Rate cuts should ease mortgage rates, potentially reinvigorating housing demand and affordability. Likewise, consumer credit (auto loans, personal loans, credit cards) could see improved borrowing conditions, though lending standards may remain cautious if the economy slows further
- **Economic Growth Outlook:** Easing policy could provide a tailwind to forecasts by lowering financing costs for both businesses and consumers. However, if cuts are interpreted as reactive to weakening labor markets or persistent disinflation, they may signal caution about underlying economic momentum



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# Additional Disclosure Information

- Index - An index is an unmanaged portfolio of specific securities, the performance of which is often used as a benchmark in judging the relative performance of certain asset classes. Investors cannot invest directly in an index. An index does not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown.
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- **S&P 500** – measures the performance of 500 widely held stocks in US equity market. Standard and Poors chooses member companies for the index based on market size, liquidity and industry group representation. Included are the stocks of industrial, financial, utility, and transportation companies. Since mid-1989, this composition has been more flexible and the number of issues in each sector has varied. It is market-capitalization weighted.
- **NASDAQ Composite Index** – a market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.
- **Russell 1000** – The index measures the performance of the large-cap segment of the US equity securities. It is a subset of the Russell 3000 index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership.
- **Dow Jones Industrial Average Price Return Index** – a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry.
- **Russell 2000 Index** – measures the performance of the small-cap segment of the U.S. equity universe.
- **MSCI EAFE Index** – a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. It is maintained by MSCI, Inc., a provider of investment decision support tools; the EAFE acronym stands for Europe, Australasia and Far East.