



September 3, 2025

Dear Valued Investor,

As summer winds down, the financial world remains focused primarily on the Federal Reserve (Fed). At last month's Jackson Hole Economic Symposium, Fed Chair Jerome Powell signaled the Fed seems ready to cut interest rates later this month amid a slowing labor market and inflation risks poised to recede. Markets responded to the Fed's message with a small cap-led rally and lower Treasury yields. The 10-year Treasury yield stands a good chance of staying in its current range, despite intensifying political pressure on the central bank. Containing long-term interest rates is critical as interest costs for the federal government continue to rise.

The latest inflation data for July matched expectations, but the slight increase in the year-over-year core personal consumption expenditures (PCE) deflator — the Fed's preferred inflation metric — from 2.8% in June to 2.9% in July reminded us that there is still work to be done on inflation. Tariffs won't make that work any easier as they flow through with a lag, their legality notwithstanding.

At the same time, the Fed and markets agree that recession risks remain low and that corporate America is in excellent health. Second quarter gross domestic product (GDP) was revised higher to 3.3% annualized, a solid jumping off point for the second half. Fiscal policy stimulus coming in 2026 will likely offset tariff hits to the economy, creating a favorable backdrop. As markets are forward-looking, this setup can help stocks hold recent gains and mitigate potential market declines in case volatility picks up.

Meanwhile, corporate earnings continue to impress. The "Magnificent Seven" tech giants delivered nearly 30% earnings growth in the second quarter and increased capital investment plans. Capital investment in artificial intelligence (AI) could approach \$500 billion next year, and potentially hit \$3 to \$4 trillion by 2030, according to NVIDIA CEO Jensen Huang. This investment bolsters the earnings growth outlook for the tech sector and, more broadly, could bring sizable productivity gains to corporate America. Growth stocks should continue to do well.

Risks may be manageable, but we feel obligated to point out that September has historically been the worst month for the stock market. While this month could live up to its reputation as a soft patch for stocks (the average S&P 500 September price change is -0.7% since 1950), history tells us that when the broader market is trending higher into the month, seasonal weakness is less of a factor. There is also some risk that markets don't like the forthcoming effects of tariffs, especially with stock valuations elevated.

As we navigate these crosscurrents, we encourage investors to remain diversified and consider adding equities on potential dips. Monetary and trade policy shifts, political dynamics, and corporate earnings strength present both opportunities and risks. We remain committed to guiding you through these complexities with as much clarity and confidence as possible.

Thank you for your continued trust.

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All data is provided as of September 3, 2025.

All index data from FactSet.

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