PPA Insights

Market Monday: Summits and Symposiums
Market Update and Strategy Call | Episode 20

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The PPA investment team met again on **Monday, August 18**, as part of a **"Summit and Symposium"** week in the markets. We had a nice "Summit and Symposium" discussion of our own on a variety of economic and market topics and how that relates to our investment models and the portfolio management process.

On the **data front**, we talked about the economic symposium in Jackson Hole, WY August 21-23, the Trump/Putin summit in Alaska on August 15, the latest retail and wholesale inflation reports released August 12 and 14 , and how second quarter earnings are shaping out which have actually been very well with over 90% of S&P 500 companies reporting at a **projected 11.8% growth** rate for second quarter 2025 (per FactSet).

We also talked about some **new trade ideas** in the models between two new healthcare/pharma stocks in the balanced to aggressive models and an "option overlay" idea (see further explanation and definition in body and disclosures of this note) on an Exchange Traded Fund (ETF) that tracks the Emerging Markets space to help add a little yield/income to the income models.

One thing we continue to chat about is how the market **continues to trade higher**, even in the midst of a still uncertain backdrop between tariffs, inflation and now signs of softer jobs data. Well, on Friday August 22, we got a little clarity from Fed chair Jerome Powell during a speech in Jackson Hole, WY when he **opened the door for a possible rate** cut at the next Fed meeting September 16-17. We are still about three weeks away, and a lot can happen before then, but Powell's message was certainly a good thing for the market as we saw all major indices rally.

Also keep in mind how **earnings** have been quietly reporting positive results all year, with many S&P 500 companies reporting stronger than expected revenues and earnings results. In the second quarter alone, we have seen **81% upside surprise** on both revenue and earnings. Even future projections look good with **double digit earnings growth projected** for 2025 (10.3%) and 2026 (13.3%), per FactSet. This is something we should not lose sight of as earnings are a big catalyst to market performance.

And finally, speaking of market performance, one last thing to keep in mind here is that the **S&P 500 is up about 30%** since the **April 8 lows** and we do continue to trade at all-time highs. So, we believe s**ome periods of volatility** are likely to be expected in the weeks ahead. This also comes as we move towards the choppier months of **September and Octobe**r. Add to the equation that we may be entering a new interest rate environment and that all points to a **cautiously optimistic** outlook that we currently have here at PPA. So, although the summer fun is coming to an end, the fun continues here in the investment world.

We hope you enjoy reading about our latest call. Thank you!

Quick Recap

The team discussed current market trends, including the Russia-Ukraine conflict, Federal Reserve rate cuts, and various investment opportunities across global regions. They explored the impact of AI on the labor market and discussed potential investments in healthcare and pharmaceutical companies, while also considering trading restrictions and account adjustments for specific investment models. The conversation ended with a discussion on dividend reinvestment strategies and stock investments, focusing on dividend yields and price-to-earnings ratios for various companies.

Next Steps

- Execute healthcare swap trades, in exchange for retail and energy stock holdings.
- Swap India exposure but stay in Emerging Markets space with an income ETF idea.
- Use ultra-short and short-term positions for new investments as well.
- Explore shifting some short-term investments to longer-term treasury investments.
- Consider rebalancing by taking some profits from utilities sector investments.
- Evaluate potential investments in Brazil and Mexico markets.
- Explore US dollar bullish ETF as a potential exchange for bond space investments.
- Research potential opportunities in the used car market.
- Review upcoming Leading Indicators and Flash PMIs (Purchasing Managers Index).
- Continue working on dividend reinvestment settings.
- Monitor healthcare industry regarding potential legal issues with Medicare violations.

Trump-Putin Meeting and Yield Curve Shape Trends

The group discussed the ongoing Russia-Ukraine conflict and the upcoming meeting between Trump and Putin, with Lee expressing cautious optimism about a potential ceasefire while others remained skeptical about any ceasefire in the works. They also discussed market trends, particularly the rise in long-term treasury yields, with Lee explaining that higher long-term yields were likely to persist due to the current U-shaped yield curve {the yield curve is a graph that plots the yields of similar debt securities, like U.S. Treasury bonds, against their different maturity dates. Its shape reflects investors' collective expectations for future economic conditions, such as growth, inflation, and interest rates. A normal, upward-sloping curve indicates economic expansion and low inflation, while an inverted, downward-sloping curve suggests a potential economic recession}. In this case, a **U-shaped curve** indicates short-term rates are just as high as longer-term rates. This is not normal but should be corrected as shorter term rates begin to come down when/if the Fed cuts.

Investment Strategy and Possible Rate Cuts Amid Market Uncertainty

The group discussed current market conditions, focusing on the potential for a Federal Reserve rate cut in September and the U-shaped yield curve. They discussed shifting investments to longer-term bonds, given the higher long-term interest rates and how similar trades were already made in the models. Lee also highlighted the strong earnings growth in the S&P 500, projecting double-digit growth for the third consecutive quarter. The group also discussed taking profits from overvalued sectors like utilities and potentially reallocating to other areas like financials and commodities. Financials in particular as short term rates come down, the “net interest spread’ will go up which is good for banks. The group also talked about the elevated Price to Earnings ratio (P/E) of the S&P

500 at 22x, which could remain at that level if earnings continue to grow as projected. Lee concluded by discussing the rising probability of a Fed rate cut in September, now at 83%.

Global Economic Performance and Outlook

Lee discussed the year-to-date performance of various global regions, noting that Korea, Mexico, China, and Brazil were leading the pack, while India was at the bottom. The group talked about exploring opportunities in these regions, particularly Brazil or Mexico, and mentioned potential negotiations regarding tariffs. It was also agreed to shift exposure out of India.

Economic Info and Data

Lee reviewed the economic calendar, highlighting key events like Jackson Hole, speeches by Fed Vice Chair Bowman and Fed Governor Waller during the week of August 18, along with the release of Flash PMIs for August (which looked good) and leading economic indicators (which fell slightly in July and triggered a recession warning). But Lee noted that the bulk of the leading indicator results were driven by average consumer expectations which have been down a lot this year. He also pointed out there is a divergence developing between leading and coincident results which may now be starting to skew the leading indicator results. So, while some recession signals were present in the leading indicators, overall coincident and cyclical data does not suggest an imminent recession.

Federal Reserve Rate Cut Impact

The group discussed the potential impact of a quarter-point rate cut by the Federal Reserve on the market, agreeing that it might be seen as a "yawn event" as the move was already priced in. They explored the broader economic factors influencing the job market, including the effects of AI on job efficiency, the retirement of baby boomers, and the challenges faced by recent college graduates in finding employment. They also touched on demographic trends, such as a shrinking population and later retirement ages, which they saw as contributing to rising wage growth.

AI's Impact on Labor and Economy

Discussion continued on the impact of AI on the labor market, noting that while AI cannot currently perform all tasks like agriculture or construction, it is gradually changing job roles and efficiency. Colleagues shared insights about a self-driving taxi company who is testing in Philadelphia and the potential effects on other driver assisted transport services for taxi service, while Lee emphasized there is still work to be done on that front as far as approvals and even liability coverage for machines who will be potentially making human decisions.

Healthcare and Pharma Company Investment Strategy Discussion

New ideas in pharma and healthcare were discussed as a possible new buy in the balanced to aggressive models. In particular, the team focused on a few select companies whose stock has significantly decreased in value but sees potential for a comeback due to favorable government policies, a recent approval for liver disease treatment, and a discounted flagship weight loss drug. The group discussed and agreed to consider adding these stocks to the models, despite concerns about potential side effects and regulatory issues.

“Option Overlay” Income Idea in Emerging Markets

The team also briefly touched on other investment opportunities, including an “option overlay” on an Exchange Traded Fund (ETF) that tracks the MSCI EAFE Index for income generation as a strategy to invest in regions that may do well as the dollar continues to see pressure. An “option overlay” is an investment strategy where options contracts (calls or puts) are used on an existing portfolio or asset (an ETF that tracks the MSCI EAFE Index in this case) to adjust its risk and return profile, often to generate income, manage risk, or create defined outcomes, rather than as a standalone strategy.

Investment Opportunities Outside of India, Automobiles, and Market Risks

The group continued discussion on the option overlay idea as a potential swap of an investment for India, noting that while India has long-term potential, it may not be the best immediate investment due to geopolitical risks, new 50% tariffs, and social factors like the caste system (the “caste system” in India is a social hierarchy with roots in ancient India, dividing people into hereditary groups with varying levels of social status, power, and privilege).

The team also explored the used car market as another possible investment opportunity, considering companies in the auto parts and used car space but found most to be overvalued. Colleagues suggested looking for other undervalued companies in the auto sector and checking with our stock research providers in our research collaboration network.

Account Trading Restrictions and Protected Cash Adjustments

The group discussed trading restrictions and account adjustments. They agreed to lift protected cash restrictions on all accounts to better enable trading and rebalancing, as long as periodic distributions are established on accounts who had protected cash set up.

Client Dividend Reinvestment Strategy Discussion

The group also discussed dividend reinvestment strategies for client accounts. They agreed to reinvest dividends for most clients, particularly those in retirement who do not need the income for required distributions, but to allow cash dividends for certain aggressive investments (to lock in the yield as a return component and reinvest when the investment/stock is down) or when clients do need the income. Colleagues agreed to have specific positions set to not reinvest dividends to generate cash when needed for client accounts. They also discussed identifying which clients require income, and to make sure dividends for those clients go straight to cash.

Telecom, Utility, and Package Delivery Stock Investment Strategy Discussion

The group discussed other stock investments, focusing on dividend yields and price-to-earnings ratios. They agreed that certain telecom stocks appear high, while some electrical/utility companies offered a better value with a higher dividend. These types of stocks that offer a nice dividend are a nice addition to the models, as they provide a baseline return with the dividend. Colleagues also expressed interest in package delivery companies due to their low price, higher dividends, and potential for a holiday season rebound. Lee agreed to take a closer look at these ideas.

Investment Ideas

Listed here our latest summary of investment ideas that we have discussed on the weekly calls. An **asterisk (*)** indicates we have already traded the idea to the investment models. Other ideas are being worked in accordingly.

1. *Undervalued pharma and healthcare stocks.

2. *Option overlay on ETF that tracks the MSCI Emerging Market Index.

3. Package delivery and transport companies that offer a high dividend as we approach the holiday season.

4. Brazil and Mexico exposure.

5. The U.S dollar on continued dollar weakness, but with the expectation it might turn as tariff deals finalize and clarity on global trade policy gets better.

6. Possible shift back to U.S. large caps in light of tariff deals coming to completion.

7. High yield bonds after credit spreads widen back to historical levels.

8. Canada stocks and/or ETFs, as they have now removed the digital services tax which might pave the way to a tariff agreement with the U.S.

9. *International and Emerging Markets as the dollar remains low. Focus on Europe*, Germany, and India*. Europe has gone through a rate cutting cycle and Germany has revamped their fiscal budget. India's manufacturing has been growing and may likely be tariff friendly as 60-70% of India's economy is driven by domestic consumption, not foreign imports that get taxed.

10. International hedged equity, as a pair with our overweight position in international. This may help offset possible volatility in the region from tariff uncertainty.

11. *Long term bonds as longer term rates creep up towards the 5% range.

12. *U.S. Small Caps as they tend to do more business in the U.S. and may not be impacted as much from tariffs.

13. Real Estate (REITs), as mortgage rates are expected to come down to 5% longer term.

14. Property & Casualty Insurance, a tariff neutral business model.

15. *Gold and other precious metals, including miners for broad commodity exposure and defense, especially as the dollar remains weak. Gold is a "safe haven" asset in that regard.

16. *Defensive sectors like Healthcare, Utilities and Staples as tariff uncertainty continues.

17. Product liability in future AI controlled technology as AI products begin to shift risk from humans to machines.

18. *Discount retailers, as the consumer may be shifting their spending patterns to lower priced options with tariff inflation on the horizon.

19. *Big Tech, as capital spending and research on AI continues at a record pace.

20. Used cars, parts, and rentals as tariffs target new cars. New auto sales have been trending down as tariffs hit the industry. For example, new passenger cars are down 12.8% over the last 12 months. This may present an opportunity for used cars and/or parts too.

Thank you for reading!

Sincerely,

Lee

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A diversified portfolio does not assure a profit or protect against loss in a declining market.

Rebalancing may be a taxable event. Before you take any specific action, be sure to consult with your tax professional.

The prices of small and mid-cap stocks are generally more volatile than large cap stocks. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

The return and principal value of bonds fluctuate with changes in market conditions. If bonds are not held to maturity, they may be worth more or less than their original value.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings. Precious metal investing involves greater fluctuation and potential for loss.

Cetera does not offer direct investments in gold (commodities). Commodities are volatile investments and may not be suitable for all investors.

Investors cannot invest directly in indexes. The performance of any index is not indicative of the performance of any investment and does not take into account the effects of inflation and the fees and expenses associated with investing.

The Dow Jones Industrial Average (DJIA), Dow Jones, or simply the Dow, is a stock market index of 30 prominent companies listed on stock exchanges in the United States. It is one of the oldest and most commonly followed equity indices and is price-weighted, unlike other common indexes such as the Nasdaq Composite or S&P 500, which use market capitalization.

The S&P 500 Index is a market capitalization-weighted index established by S&P Global ratings. It is composed of the 500 most widely held stocks whose assets and/or revenues are based in the US; it's often used as a proxy for the U.S. stock market.

The Nasdaq Composite Index is a market capitalization-weighted index of more than 2,500 stocks listed on the Nasdaq stock exchange. It is a broad index that is heavily weighted toward the technology sector. The index is composed of both domestic and international companies.

The Russell 2000 Index is a market index composed of 2,000 small-cap companies. The index is frequently used as a benchmark for measuring the performance of small-cap companies.

The MSCI EAFE Index is 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.

The MSCI Emerging Markets Index is a broad benchmark that measures the performance of equity markets in rapidly growing economies around the world, otherwise known as "Emerging Markets". It captures large and mid-cap representation across Emerging Markets countries.

Market capitalization, sometimes referred to as "market cap", is the total value of a publicly traded company's outstanding common shares owned by stockholders. Market capitalization is the market price per common share multiplied by the number of common shares outstanding.

A US treasury bond is a type of debt security issued by the US government to investors who essentially lend money to the government, and in return, the government agrees to repay the loan with interest at a predetermined rate and date, otherwise known as the "yield". These bonds are typically used by governments to finance public spending and infrastructure projects.

Inflation is the rate of increase in prices over time across the general level of goods and services in an economy, leading to a decrease in the purchasing power of money.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by consumers for a representative basket of consumer goods and services.

The Personal Consumption Expenditures (PCE) Price Index is a key measure of inflation used by the Federal Reserve, tracking changes in the prices of goods and services purchased by U.S. households and nonprofit institutions.

Gross Domestic Product (GDP) is the total monetary value of all finished goods and services produced within a country's borders during a specific period, typically a year.

A tariff is a tax imposed by a government on imported goods. It's essentially a tax on goods entering a country from abroad, paid by the importer to the government receiving the goods.

The Purchasing Managers' Index (PMI) is a monthly survey of purchasing managers in the manufacturing and services sectors, providing a snapshot of current and future economic conditions. It is a forward-looking indicator that helps assess the health of an economy.

Jobless claims, also known as unemployment insurance claims, are a measure of how many people file for unemployment benefits. They are an important indicator of the health of the labor market and the overall economy. There are two main types of jobless claims: initial claims, which represent new claims, and continuing claims, which represent those who are already receiving benefits.

The **unemployment rate** is the share of the **labor force** without work. The labor force are those people who are either *actively working* or *actively seeking a job*. It is different than the entire working age population.

The **participation rate** is the percentage of the **population** that is either employed or actively seeking employment (the labor force). It indicates the proportion of working-age individuals who are actively involved in the labor market.

Consumer confidence is an economic indicator that gauges how optimistic consumers are about the overall economy and their personal financial situations.

Retail sales refer to the sale of goods and services directly to consumers for their personal use. Retail sales is different from *wholesale sales*, which involve selling goods to businesses for further distribution or resale.

The effective tariff rate is a measure of the actual tax burden on imported goods, taking into account all tariffs, including those on inputs, and considering trade preferences like free trade agreements.

The personal savings rate is the percentage of people's disposable personal income that they save, after paying taxes and spending money. It is after-tax income that individuals have left to save.

A hedged equity strategy is an investment approach that combines traditional equity investments with hedging techniques that use options to reduce risk and volatility while still participating in potential market gains. It aims to protect against downside risk while potentially capturing upside, albeit limited upside as well.

A Real Estate Investment Trust (REIT) is a company that owns, operates, or finances income-producing real estate. It's like a mutual fund for real estate, offering investors the ability to participate in real estate without directly owning and managing properties. REITs can be a source of steady income through dividends and can also offer long-term capital appreciation.

Mutual funds are offered through prospectus only. Investors should consider the investment objectives, risks and charges and expenses of the fund carefully before investing. The prospectus contains this and other information about the funds. Contact the issuing company to obtain a prospectus which should be read carefully before investing or sending money.

Wage inflation refers to the general increase in the amount of money people earn over time, typically expressed as a percentage. It's a key economic indicator, reflecting changes in the cost of labor and its impact on purchasing power and living standards.

An “option overlay” is an investment strategy where options contracts (calls or puts) are used on an existing portfolio or asset (an ETF that tracks the MSCI EAFE Index in this case) to adjust its risk and return profile, often to generate income, manage risk, or create defined outcomes, rather than as a standalone strategy.