PPA Insights

Market Monday: Hopeful on the Data
Market Update and Strategy Call | Episode 23

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"Stay the Course"

Week of: September 29, 2025

The PPA investment team met again on **Monday, September 29.** We talked about current market and economic conditions and what we are expecting to see in the markets and economy in the weeks and months ahead. We have seen quite a bit of economic data lately and it seems to be shining a light of **hope** on a resilient economy as we begin the fourth quarter. However, with hope comes risk, and there are certainly some risks to consider out there in the near-term.

Speaking of risks, this week brings the possibility of a **government shutdown** on Wednesday, October 1 and another subdued **jobs report** on Friday, October 3. The prospects of a government shutdown usually bring political drama but are short-lived in the markets. The bigger news this week will be the jobs report. Hopefully it shows some improvement in the labor force. Jobless claims have been coming down since the surge we saw around Labor Day so that is a good sign. But, it will also help to see growth in payrolls. Which have been consistently coming down lately. And were a big reason why the Fed cut rates 25 basis points on September 17. So, we may see continued sluggish payroll growth, possibly in the 50,000 jobs gained range. The group spoke about that and how it could affect the **unemployment rate**, given the historical monthly breakeven point in payroll gains is *three times that* in the 153,000 range (to hold the unemployment rate steady, per an analysis done by the St. Louis Fed). We also talked about an equally important measure in the jobs market with the **participation rate**, a measure of how many people in the working force (16 and above) are actually out there looking for a job or are employed. The key, we discussed, is to have ***high participation and low unemployment*****.**

We also talked about the latest **personal income and GDP** (Gross Domestic Product) data that came in last week, which both showed encouraging signs on the economy. Second quarter 2025 GDP was raised to an impressive **3.8%** and the personal savings rate for August 2025 also came in nicely at **4.6%**. Both showed a very healthy consumer that continues to *spend and save* at a healthy rate. The Fed's preferred inflation measure, **Personal Consumption Expenditures,** or PCE, also came in relatively encouraging at **2.7%** headline and **2.9%** core, both below the Fed's latest projection of **3.0%** and **3.1%**, respectively (published on September 17). That is another good sign.

Finally, we talked about **third quarter earnings** which are coming to a close now. According to FactSet, the preliminary third quarter earnings growth on June 30 was projected at **7.3%** but now projections are forecasting **7.9%**. Looking farther out, projections from Yardeni Research are calling for **15.4%** earnings growth in **2026**. Both are good signs for corporate earnings and prospects for the market going forward.

The team discussed these topics and more on our September 29th call.

Thank you for reading and we hope you enjoy this summary of our continued discussions!

Quick Recap

The meeting began with a discussion of a $55 billion deal that will take a major gaming company private in fiscal year 2027, which begins in September 2026. The group also talked about a California ban on non-stick pans containing harmful chemicals linked to certain cancers and immune system damage. The conversation then shifted to the current state of the economy, including Gross Domestic Product (GDP) growth, a higher cost environment but with inflation remaining in check, and market performance, with Lee expressing optimism about the holiday season and both leading and coincident economic indicators. The group concluded by discussing portfolio adjustments in response to recent Fed rate cuts, exploring government involvement in companies, and examining the impact of AI and technology on productivity and labor force dynamics.

Next Steps

- Execute trades for new ideas in the oil and technology space.
- Review model percentages and update for fourth quarter rebalance.
- Review cash management and trade for clients who need distributions.

Gaming Company Deal and Nonstick Pan Ban

The group discussed a private deal for a major gaming company, which could help the company navigate challenges from competitors without public scrutiny. There are pros and cons to the deal, on one hand a financial payout to shareholders and the potential for long-term strategic freedom from public market pressures, while cons include significant debt financing, potential scrutiny over human rights and national security concerns due to deep pocketed private foreign investors, a heavy debt burden that could hinder new game investments, and the possibility of continued controversial monetization strategies. Critics also note the immense size of the deal, which may trigger regulatory pushback and could be a significant risk for the future of the company.

The group also talked about a potential ban in California on non-stick pans containing harmful chemicals, while the industry and celebrity chefs push back on debate over the safety concern. Colleagues noted that most pans use Teflon-based chemicals, a $4 billion industry, and highlighted the need for more scientific research on the health impacts of these chemicals.

Economic Growth and Consumer Perceptions

The group discussed the current state of the economy, noting strong 3.8% GDP growth in the second quarter despite consumer perceptions of weakness. Lee pointed out the Atlanta Fed GDP Now estimate at 3.9%, as of September 26, 2025. Colleagues shared personal experiences with rising costs, including an expensive haunted house outing, while Lee expressed optimism about the economic environment based on recent positive data and earnings reports. They acknowledged the lingering impact of COVID-19 and the potential for risks, but agreed that the current situation was an improvement over earlier in the year and any challenges companies might face from tariff pricing could lead to stiffer competition as margin compression is evaluated and deals come out for the consumer to choose where to buy.

Tariffs and Holiday Retail Outlook

Lee expressed optimism about the upcoming holiday season, noting that tariffs have settled down and front-loading effects may be waning. He believes retailers will offer deals to consumers, and while tariffs may slow economic growth, they are seen as a one-time price increase rather than continuous. Colleagues inquired about the government's use of tariff revenue, and Lee explained that companies decide whether to pass on the costs to consumers, potentially leading to margin compression. Lee also mentioned reduced gas prices could also help with a strapped consumer but recent geopolitical tensions between Russia and Ukraine may cause oil prices to go up (Ukraine drone attacks on Russian oil refineries and supply ports).

Economic Indicators and Market Outlook

Lee discussed the potential impact of a government shutdown and the upcoming jobs report, emphasizing the importance of payrolls, unemployment, and wage growth data. He noted that the S&P 500 is close to 7,000, just a "chip shot" away. He acknowledged this is driving valuations higher, and surmised the market is trading on future expectations of a lower interest rate environment. Lee also highlighted the Atlanta Fed's GDP Now estimate of 3.9% and the personal savings rate of 4.6%, while discussing the PCE report coming in below 3% along with wage growth (average hourly earnings), which he expects to be around 3.7-3.8%. All fairly good numbers in the context of where we stand in the current economic cycle.

Market Trends, Gold and Economic Indicators

Lee discussed the positive signs in the market, including recent economic data and the Federal Reserve's rate cut. He noted that while there are some differences of opinion among Fed officials, the overall trend suggests a potential move toward a lower interest rate environment. Lee highlighted upcoming economic releases, including the jobs report and consumer confidence data, and mentioned that gold is making all-time highs, though he expressed some uncertainty about its future value, suggesting it may take a breather, especially if the dollar starts to come back. But he also pointed out a projection from Yardeni Research shows gold at 5,000 in 2026. Lee suggested that is quite impressive if it gets there, but the fact remains that gold has been a top performer this year, after it had a strong year in 2024 as well.

Market Performance and Economic Outlook

Lee discussed market performance, noting that major indices like the S&P, Dow, Nasdaq, and Russell 2000 small caps had shown impressive positive year-to-date returns, given where we began the year with all the tariff uncertainty. He also pointed out international, and emerging markets still maintain a nice lead over domestic U.S, mostly on the fact the dollar has remained weak. Lee also pointed out that tech continues its rebound. He observed that the yield curve will being to normalize as the Fed continued to cut rates (a "normal" yield curve is when short term rates are lower than longer term rates), and bond market spreads remained at all-time lows, indicating reduced market uncertainty. Lee also highlighted strong earnings growth, with Q3 projections at 7.9%, higher than the June estimate of 7.3%, and future quarters showing even healthier growth rates, with 2026 estimated at 15.4% per Yardeni research.

Portfolio Strategy After Fed Cuts

Lee discussed portfolio adjustments in response to recent Fed rate cuts, emphasizing a continued focus on international and emerging markets equities along with small caps, which showed promise following the Fed's action. He noted a value gap between large and small/mid-cap stocks, suggesting an opportunity to increase exposure to small and mid-cap stocks during the upcoming rebalance. On the fixed income side, Lee indicated a preference for higher-yielding investments until the Fed begins actual rate cuts.

He also mentioned plans to purchase a major oil company that provides products and services for the oil and gas industry across the entire life cycle of an oil discovery. Lee also discussed a second idea to shift exposure in Japan from an already existing position in a regional exchange traded fund to a specific tech company who does chip business in Japan.

Government Investment in Certain Companies and "Golden Share" Voting Rights

The group discussed the implications of government investments in various companies, particularly the concept of "golden shares" that grant significant voting rights to a government. A golden share is designed to give a government more voting power than its economic investment would normally warrant, often involving veto power over key corporate decisions. The group discussed how this could potentially interfere with market independence, but noted that similar structures exist in other companies, suggesting it's not unprecedented. Lee expressed concern about excessive government involvement, but acknowledged that if it's limited to specific obligations, it might not be problematic.

Trump's Business Impact on Electric Vehicle Market

The group discussed President Trump's business-oriented approach to governing and its implications for the Electric Vehicle (EV) market, particularly regarding subsidies. They explored a major EV maker's potential as an investment, considering its involvement in autonomous technology and AI, as well as its subsidiaries that do space exploration.

AI and Productivity in the Workforce

Discussion shifted to the impact of Artificial Intelligence (AI) and technology on productivity and labor force dynamics. Lee highlighted how companies are becoming more productive with fewer workers due to AI and technology advancements, while others noted the role of AI in areas like quantum computing and bond trading. They also touched on the importance of considering both labor force participation and unemployment rates in economic analysis, as both factor into productivity, which then factors into GDP growth.

Breakeven Payroll Gains in the Labor Market

Speaking of the unemployment rate, Lee also mentioned that the breakeven point for unemployment rate is around 153,000 job gains per month, per an analysis done by the St. Louis Fed. Meaning if job gains come in below 153,000, that could drive the unemployment rate higher. Or if they come in higher, it could take the unemployment rate lower. This is something to keep an eye on.

GDP Growth = Labor Force Growth + Productivity

Lee also highlighted the importance of understanding how GDP growth is driven by two factors: *labor force growth* and *productivity*. He pointed out that even though labor force growth has been sluggish lately, we have seen strong GDP numbers with the latest revised second quarter GDP coming in at 3.8%. This suggests productivity has held up GDP growth in the economy lately, a welcome sign for future GDP growth prospects. Because if labor force growth comes back, we are already starting at a healthy productivity number which may translate to healthy GDP growth going forward. This is something to monitor on future jobs reports, especially on productivity and payroll results.

Summary of Ideas

Listed here is our latest summary of ideas that we have discussed on our calls.

1. Undervalued pharma and healthcare companies.

2. Strategies that track the MSCI Emerging Market Index.

3. Package delivery and transport companies as we approach the holiday season, including the end of the $800 de minimis package exemption.

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. Canadian companies, 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. This may help offset possible volatility in the international 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 as the long end of the yield curve shifts lower to normalize.

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 viewed as 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 impact prices on new cars. New auto sales have been trending down as tariffs hit the industry. This may present an opportunity for used cars and/or parts too.

Thank you for reading!

Sincerely,

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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.

Coincident indicators are economic metrics that fluctuate in roughly the same direction and at the same time as the overall economy, providing a snapshot of its current health. Unlike leading indicators that predict future trends, or lagging indicators that confirm past shifts, coincident indicators offer real-time information about the current phase of the business cycle.

Leading indicators are measurable variables that change before overall economic or organizational trends, providing insights into future outcomes and enabling proactive decision-making. Common examples include the stock market, new building permits, and consumer confidence surveys, which can signal shifts in the economy. They differ from lagging indicators, which report on past events.

Productivity is a measure of the rate at which useful work is done, calculated as output divided by input. It can refer to the efficiency of a person, company, or even a country in converting resources into goods and services. High productivity is crucial for economic growth, higher wages, and improved living standards, as it allows for more output without proportionally increasing costs or resource usage.