



PPA Insights
Market Monday: “It’s Getting Cloudy”
Market Update and Strategy Call | Episode 16
Lee R. Johnson, Jr., CFA, MBA
Valor Asset Management™



Week of: July 7, 2025

Our team met again on **Monday July 7, 2025** to discuss current economic and market conditions and how that relates to our portfolio management process. We talked about the **latest June jobs report** and **Purchasing Manager Index results** for both manufacturing and services. We also discussed trade policy with the **July 9 deadline** looming, the **tax bill passing**, asset class performance for the first half of the year, and where we see opportunity heading into second half.

The team also focused on **three central themes** heading into second half 2025: 1) slower but steady growth ahead, 2) yields staying higher for longer, and 3) U.S. equities making a possible comeback.

This led the team to conclude there is opportunity ahead, but at the same time **it’s getting a little cloudy out there** at the moment as markets continue to trade higher. Not necessarily *storm clouds*, but clouds that could limit our visibility on a clear path going forward. Trade policy will certainly play an important role in clearing out those clouds as it is all about negotiating and closing deals at the moment.

We hope you enjoy this summary of our ongoing discussions. Thank you!

Quick Recap

The meeting covered a range of topics, including discussions on tariff negotiations and their potential impact on markets, and analysis of labor market trends and economic indicators. The group explored portfolio rebalancing strategies, market performance, and upcoming economic events, while also considering the potential for market volatility and the effects of tariffs on various sectors. Additionally, the team touched on recent developments with the tax bill passing, new a political party formed over the weekend and the broader implications of supply chain disruptions, emphasizing the importance of monitoring earnings reports and economic data.

Next Steps

- Add hedged equity positions to both international and domestic portfolios in the upcoming rebalance.
- Research and monitor the participation rate versus unemployment rate trends.
- Consider potential shifts from international back to US large caps in future rebalancing.
- Keep an eye on healthcare and renewable energy sectors for potential investment opportunities.
- Monitor upcoming economic indicators, in particular inflation, sentiment, and retail sales data scheduled for the week of July 14.

Tariff Negotiations and Market Outlook

The group discussed upcoming tariff negotiations, with July 9th being a significant date for potential extensions if countries show good faith in negotiations. Lee mentions that Vietnam has agreed to reduce tariffs from 46% to 20%, and similar deals are expected with other countries, like has already been worked out with the UK and China. Despite ongoing tariff discussions, the market seems to be treating the issue as less urgent, with Lee describing the current period as "rally mode." However, he cautions that it's not a full-on rally due to the need to keep tariffs and geopolitical factors in mind, even with a positive jobs report from the previous week.

Labor Market Trends and Participation

Lee discusses recent trends in the labor market, focusing on the participation rate and unemployment rate. He explains that while the unemployment rate has come down, the participation rate has also declined, indicating potential cooling in the job market (see **Figure 1, orange line**). This is a subtle yet important difference between the two metrics because the unemployment rate does not account for people who have given up looking for a job, whereas the participation rate does. So, in a way the participation rate provides a better read on the job market. Essentially, you want *a high participation rate* and a *low unemployment rate*. The key is how many people are out of the labor force, i.e. not seeking a job, because that correlates to growth.

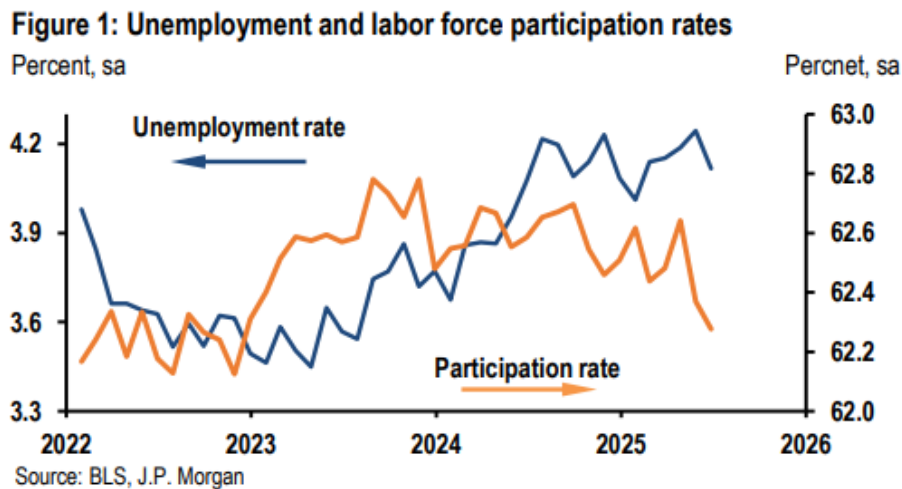


Figure 1: Job Market Signals

The team talked about that as far as how and why people are giving up looking for a job, or just deciding not to work anymore. Some of that is attributable to COVID-19, but we are 5 years removed from that, or it could simply be the impact of baby boomer retirements who have benefitted from strong markets over the years and/or demographic shifts (such as an aging population may lead to labor supply shortages). The group also discusses factors affecting the participation rate, such as early retirements, people leaving the workforce, and challenges for recent graduates entering the job market. Lee concludes by suggesting that while the job market remains resilient, there are signs of cooling, which could influence future growth and the Federal Reserve's decisions on possible rate cuts going forward (it could cause the Fed to cut sooner).

Participation, Productivity and Second Half Economic Outlook

Lee emphasized the correlation between labor force participation and productivity, which impacts GDP growth, and points out that projections for second-half GDP growth have started to come down. Lee highlighted this point with JPMorgan's analysis of private employment and GDP, suggesting potential economic slowing ahead (see Figure 2). So, despite the current rally mode, Lee advocates for a cautious, defensive approach as we being the second half of the year here.

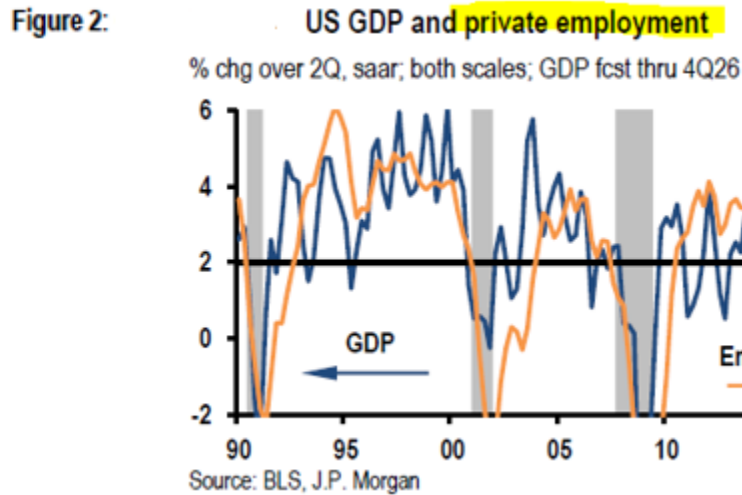


Figure 2: Private Employment vs. GDP

Market Updates and Economic Insights

Lee provided an update on first half asset class performance, noting several asset classes have rebounded nicely from the sharp drawdowns so far this year (mostly from the declines we saw in April). For example, U.S. large cap declined 18.9% and even small caps declined further by 24.5%. But both have come back nicely now, mostly on eased concerns around tariff policy. International and emerging markets have also performed well, despite their own drawdowns in the first half as well (see Figure 3). Lee emphasized that investors who stayed diversified fared well in the first half of 2025. Lee also discussed gold's resilience and how oil prices have stabilized in the aftermath of the U.S invasion of Iran.

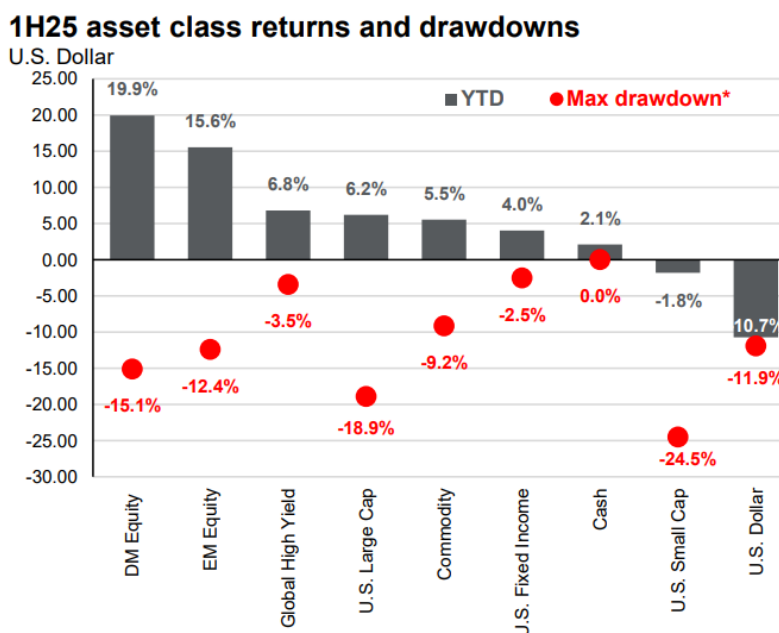


Figure 3: First Half 2025 Performance

Source: JP Morgan Weekly Market Recap, 7/7/2025; citing Bloomberg, FactSet, MSCI, NAREIT, FTSE Russell, Standard & Poor’s, J.P. Morgan Asset Management. Returns shown are total return as of June 30, 2025 unless stated otherwise. *Maximum drawdown for equities calculated using price return and reflects largest peak to trough drawdown during the year.

Business Survey Results: Clouds Forming

The team talked about on the latest PMI surveys for June (Purchasing Manager Index). Both manufacturing and services reported growth, but both pointed out price pressures due to tariffs. June manufacturing reporting **52.9** on the diffusion index (> 50 indicates growth) on a solid upturn in output as order book growth held steady. Operating conditions also improved to the greatest degree in over three years. But tariffs have pushed up input costs and output charges which managers indicated in higher expected prices going forward.

On the services side, growth also sustained in June with a **52.9** reading as well. But it lost some momentum from May which had posted 53.7, again in part due to tariffs as operating expenses and selling prices increased. Future outlook declined as well as panelists continued to signal some worries over trade and broader federal government policy. But firms were optimistic enough to add jobs at the fastest rate in five months.

A common theme with these survey results over the past several months has simply been the outlook for future prices increases, between both manufacturing and services (see **Figure 4**). This is good reason to expect tariff pass-through to the consumer and why the team thinks there may be some **clouds forming** here. Another concern is if the manufacturing sector can’t hold up the pace from the front-end loading that occurred from the inventory building we saw earlier in the year as factories and their customers in retail and wholesale markets sought to safeguard against tariff-related price rises and possible supply issues. This may all lead to some pay-back in the form of slower growth as we head into the second half of the year. Again, more reason for **clouds forming**.

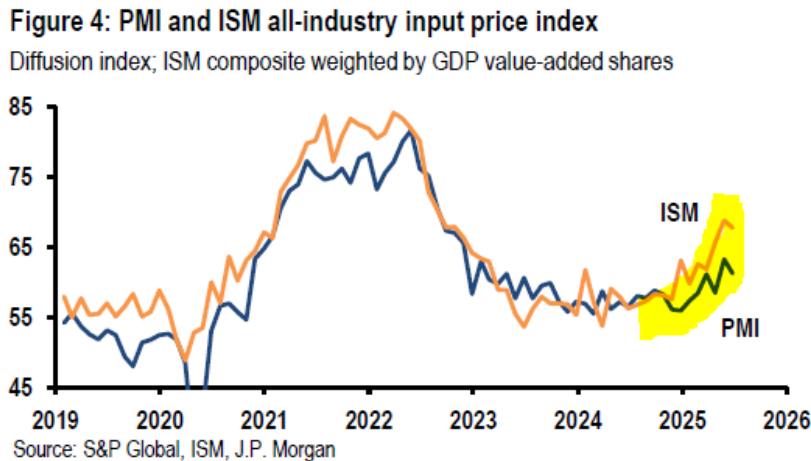


Figure 4: All-Industry Price Index

Tax Bill Passes

The team discussed the passage of the tax bill, with amendments, including changes to the SALT cap (now at \$40,000) and renewable energy provisions. But the deficit is also a concern as projections indicate it will rise as a result of the new tax bill. However, it is the hope that additional tariff revenue will relieve some of the deficit burden. Especially as U.S. tariff rates trend higher. The team talked about that as far as what could potentially be offsets in the fiscal budget.

Upcoming Events

Lee highlighted upcoming events such as Amazon Prime Day, an OPEC meeting, and the release of Fed minutes. He also mentioned a major airline is scheduled to report earnings this week and its potential impact on the transportation and hospitality sectors. Deficit data is also scheduled for release this week, which Lee suggested will be closely watched in light of the tax bill's expected impact on the deficit.

Three Themes for Second Half

Lee outlined three themes for the second half of the year: 1) slower but healthy growth, 2) potential for U.S. markets to catch up with international markets, and 3) yields staying higher for longer. The team expressed concern about a potential market pullback in late summer or early fall, based on historical patterns. The group also contemplated various catalysts that could cause a pullback, such as tariff uncertainty, but Lee mentioned plans to add hedged equity positions in both international and domestic markets as a way to counter volatility. Other potential catalysts for market movements include the Federal Reserve's decisions on interest rate cuts. The team also contemplated questions about the resilience of the market if/when tariffs take longer to flow through to the consumer, particularly on retail sectors like toys, which might affect holiday shopping.

Portfolio Rebalancing

Lee discussed the importance of rebalancing portfolios at the end of the quarter, but that this practice may be causing slight market dips as investors sell to lock in gains.

Electric Vehicle Economic Impact and Strategies

The group discusses recent developments with a major electric vehicle (EV) company, including the implications from the recently passed tax bill which will eliminate the \$7,500 federal tax credit for new electric vehicles (EVs) and the \$4,000 credit for used EVs after September 30, 2025. This change will likely lead to higher prices for electric vehicles and could slow down the adoption of EVs in the U.S., thus hurting sales. Lee commented this is certainly something to monitor not only for that particular company but the EV industry as a whole.

Final Thoughts

The conversation shifted back to the broader economic impact of tariffs and supply chain disruptions, with Lee suggesting that companies are repositioning to avoid cost pressures or pass them on to consumers. Lee also emphasized the importance of monitoring earnings reports and economic data, such as upcoming inflation numbers, consumer sentiment, and retail sales figures. He also advises the team to research the difference between unemployment rate and participation rate, stating that the latter is more significant despite receiving less media attention.

The meeting concluded with the group agreeing to continue staying **defensive** in the investment models, with **cautious optimism** and a **long-term** outlook. Everyone also agreed to keep thinking about what could move markets and how we can invest in opportunities.

Summary of Investment Ideas

Listed here is a summary of the team's favored 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. Possible shift back to U.S. large caps in light of tariff deals coming to completion.
2. High yield bonds as credit on higher yielding bonds appears to be better than usual.
3. 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.
4. *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.
5. International hedged equity, as a pair with our overweight position in international. This may help offset possible volatility in the region from tariff uncertainty.
6. *Long term bonds as longer term rates creep up towards the 5% range.
7. *U.S. Small Caps as they tend to do more business in the U.S. and may not be impacted as much from tariffs.

8. Real Estate (REITs), as mortgage rates are expected to come down to 5% longer term.
9. Property & Casualty Insurance, a tariff neutral business model.
10. *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.
11. *Defensive sectors like Healthcare, Utilities and Staples as tariff uncertainty continues.
12. Product liability in future AI controlled technology as AI products begin to shift risk from humans to machines.
13. *Discount retailers, as the consumer may be shifting their spending patterns to lower priced options with tariff inflation on the horizon.
14. *Big Tech, as capital spending and research on AI continues at a record pace.
15. 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

Lee R. Johnson, Jr., CFA, MBA
Chief Investment Officer
Professional Planning Associates, Inc.
190 North Independence Mall West, Suite 602
Philadelphia, PA 19106
www.proplanners.org

Founder and Owner
Valor Asset Management™

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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.

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