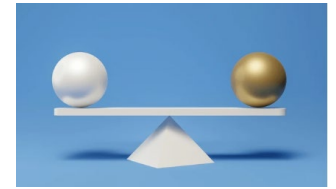




PPA Insights

Pivot Points

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In finance, there are many terms that we speak of in **pairs** but are actually **opposites**. For example, bull/bear, long/short, buy/sell, active/passive, debit/credit, forward looking/backward looking, risk-on/risk-off, conservative/aggressive, inflation/deflation, and the classic one: stock/bond. These *pairs* form a *range* by which investors take a position, or a mindset, i.e. decide where they stand. It is this dynamic that creates a market, essentially a *price*. In other words, an equilibrium.

Now “equilibrium” in this sense does not necessarily have to be a price. It can be mindset too. But equilibrium in the financial markets is basically a perfect world situation and is usually hard to come by when various opinions and outlooks don’t necessarily line up. This is why prices (and mindsets) change daily. But the point is there is **change** in markets. And, in a way, you could think of that change as happening around a “**pivot point**”. Just like a see-saw goes up and down around a fulcrum. This concept is a perfect analogy for what we saw happen at the recent symposium of central bankers in Jackson Hole, WY on August 21-23. And a good segue to highlight a few *Pivot Points*.

Point #1: At Jackson Hole, Fed Chair Jerome Powell “**pivoted**” away from his usual neutral self to give us his clearest message yet about interest rates. He said: “with policy in restrictive territory, the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance.” This was a “**dovish pivot**” as we say in the business because Powell has generally been down on inflation and interest rates for a while now (i.e. hawkish”, another pair we use in finance: hawkish/dovish). But that message has changed, and now he has **left the door open to future rate cuts**, perhaps as early as September.

Point #2: Powell also said that “risks appear to be shifting” which may indicate **yet another pivot** from the Fed’s focus on **inflation** to the **jobs market** now (a “**policy pivot**”). To frame this out (again using the pairs analogy), the Fed has two mandates: full employment (jobs) and stable prices (inflation). In a way, these are “pivot points” in and of themselves. Because in a healthy economy, rates and jobs should be in equilibrium where steady and low inflation helps people and companies plan for future spending (wages, goods, and services) and promotes jobs for all. But these can sometimes fall out of balance. And with inflation starting to run low now (not at the Fed’s 2% target but it has been low) but **jobs** now starting to show some softness, Powell and company might now shift (pivot) their focus to the jobs market.

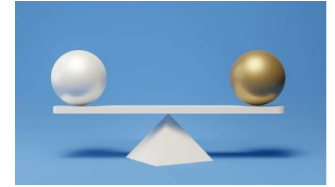
It is important to note, however, that that does not mean the economy is falling apart at the moment. Quite the contrary as we have seen signs of **life** and **resilience** in the economy all year long. And even though we have seen some softening jobs data there isn’t enough data yet to support a weakening labor market. Case in point, **jobless claims** released on August 28 came down so there might be a case to be made that the labor market is not as bad as it seems. On top of that, the latest **retail sales** report that came out August 15 continues to show consumers are reacting well to tax changes and tariffs. Recent **earnings reports** from major retailers are also



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pointing to consumers that continue to spend, especially on value and discount goods, despite uncertainties around tariffs and the economy. But the point is that Powell pivoted and now the Fed – **as a whole** – may do the same thing on the premise of jobs (growth) over price (inflation).

Point #3: This all leads us to another set of **pairs** that are routinely used in the business which are also synonymous with the Fed: **preemptive and reactionary**. Where “preemptive” is forward looking or **proactive** and “reactionary” is backward looking or **data dependent**. Which the Fed has usually been, especially coming out of the Covid crisis. But this may change to a Fed that is more preemptive than reactionary. Which leads us to another “pivot point” that could be taking shape here. Two schools of thought emerge:

- a) **Reactionary:** Will the Fed continue its run of waiting for data to come in and decide what to do with rates after it comes in?

The Fed could simply play a **wait and see** approach here as the data comes in. This would simply be a repeat of past Fed decision cycles where the data dictates the future. In that case, with inflation running low, it may focus on the jobs data more. And if the labor market shows repeated signs of weakness (higher jobless claims, lower payroll numbers, higher unemployment rates) then that could lead to a **series of rate cuts** at future Fed meetings. For example, 25, 25, 25 basis points (0.25%) perhaps in September, December and early 2026. The reasoning there is simply that inflation is cooling, but the labor market would be weakening too. Now **tariffs** might throw a **curve ball** into the equation, but even if tariffs push prices higher, that is a *short-term/one-time effect* on prices, not a continuous year over year price change causing inflation to continuously go higher. And with inflation running low to begin with, any hike in prices due to tariffs may offset future rate cuts and hold inflation steady and low. So, again this would lead a “data dependent” Fed down the jobs path.

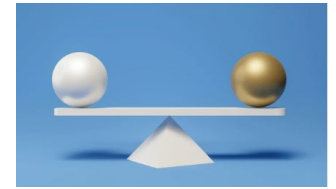
- b) **Preemptive:** Could the Fed shift to a **proactive** mindset and do an “insurance cut” or perhaps a set of insurance cuts?

Speaking of tariffs throwing us a curveball, could this next possible cut (or cuts) simply be an “**insurance cut**”? Similar to baseball where a team who is already winning adds an extra “insurance run” to secure the win. The Fed may end up doing something similar here. To avoid any *future slowdown* in the economy. Which, arguably, is a **plausible scenario** given the softening jobs data we have seen lately. Not to mention the tariff uncertainty that could throw a wrench in prices going forward. But again, if we take tariffs at face value and assume they will cause a *one-time price hike*, an “insurance” cut at this point would help offset that future hike in prices coming from the tariffs and stave off any potential slowdown if rates were higher (without a cut).



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But, the point here is if we look at where we started the year to where we are now, the economy has been showing signs of **life** and **resilience** on many fronts. For example, all the reasons mentioned above in Point #2, but also stable wage and personal savings growth greater than inflation, a rebound in GDP (Gross Domestic Product) from first to second quarter, pretty good retail sales results, and a jobs market that is not completely falling apart. So, the Fed could be taking the approach that the economy is in a generally stable position, accepting there may be a short-term blip in the radar due to tariffs, but an “insurance cut” may be in the cards to help soften the blow, keep economic momentum going, and most importantly **prevent any future downside risks**. This would simply be a **preemptive move** to help prevent a future slowdown in the economy.

Conclusion: The next round of economic data scheduled to come out over the next several weeks will be a **very important round of data**. It will help shape the narrative for what could happen next with rates in September. The **jobs report on September 5th** will be especially important because if unemployment goes up and payrolls come down, that would give the Fed reason to shift focus to jobs over inflation and possibly cut rates (as a data dependent Fed). But if inflation is down and jobs post healthier numbers, it may lend credence to a hold or even a possible insurance cut.

Here is what we are looking at on the data front before the next Fed meeting September 16-17:

- **GDP:** Revised second quarter GDP was released on Thursday August 28 and showed a strong result at 3.3%. This may cause the Fed to rethink the economy is in pretty good shape. BUT there are expectations of a slowdown due to tariffs. The question is how much of a slowdown from here, because starting at a 3.3% clip is pretty good. The Fed will have to weigh that, but that is a good example of a possible insurance cut scenario.
- **Inflation:**
 - July PCE (Personal Consumption Expenditures): Friday August 29.
 - August CPI (Consumer Price Index): Thursday September 11.If inflation comes in hotter than expected, the Fed may keep rates where they are.
- **Jobs:** The Jobs Report - unemployment rate and payrolls: Friday September 5.
This is by far the most important report before the next Fed meeting September 16-17.

Certainly, a lot to consider over the next few weeks. It seems like any one of these “**pivot points**” could realistically play out here. And that is where the discussion begins. Which is what the investment team here at PPA continues to do.

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.

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.

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.

Deflation is a sustained, widespread decrease in the general price level of goods and services in an economy, often a sign of a weakening economy.

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 jobs report is the Bureau of Labor Statistics' monthly Employment Situation Summary, released on the first Friday of each month, providing critical U.S. economic data including the unemployment rate, total job additions, and changes in hourly wages and hours worked, derived from separate household and business surveys. It offers a broad view of the labor market and is a significant indicator for investors and economists.

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.

In the jobs report, "payrolls" refers to the nonfarm payroll employment, a key economic indicator that measures the number of jobs added or lost in the U.S. economy each month, excluding farm workers, private household employees, and active military personnel. This figure provides insights into the health and growth of the economy, as increased payrolls suggest businesses are expanding and hiring, which boosts consumer income and spending.

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 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.

An active investor is someone who buys stocks or other investments regularly. These investors search for and buy investments that are performing or that they believe will perform. If they hold stocks that are not living up to their standards, they sell them.

A passive investor rarely buys individual investments, preferring to hold an investment over a long period or purchase shares of a mutual or exchange-traded fund. These investors tend to rely on fund managers to ensure the investments held in the funds are performing and expect them to replace declining holdings. Fund managers can be active or passive investors.

In a bull market, asset prices are rising and investor sentiment is optimistic, while a bear market is defined by falling prices and widespread pessimism. The names for these opposing market trends are thought to be inspired by the way the animals attack: a bull thrusts its horns up, and a bear swipes its paws down.

In finance, "long" and "short" describe the direction an investor expects a security's price to move, which in turn determines how they engage with that security. A long position is the more traditional approach, betting that a price will rise, while a short position is a bet that a price will fall.

In finance, a "debit" increases an asset or expense account and decreases liability, equity, or revenue accounts, while a "credit" does the opposite by increasing revenue, equity, or liability accounts and decreasing assets and expenses. In banking, a debit card withdraws funds directly from your account, whereas a credit card allows you to borrow money and pay it back later.