PPA Insights

Market Monday: Looking Under the Hood
Market Update and Strategy Call | Episode 18

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Week of: July 21, 2025

The PPA investment team met again on **Monday July 21** for our weekly "Market Monday" call. We talked about the latest **inflation** and **retail sales** results for June as well as how **second quarter earnings** season is beginning to shape out.

On **inflation**, the Consumer Price Index (CPI) report showed a slight increase from last month. It posted a 2.7% year over year increase for June (it was 2.4% in May). This was in line with expectations, <u>but</u> the report did show some initial signs of tariff induced inflation. For example, core goods prices are starting to ramp up. In particular, if we <u>*exclude autos*</u> from core goods, prices went up 3.6%. Apparel and furnishings, two tariff sensitive industries in that subset, showed notable increases. This is something the group agreed we should keep an eye on.

On the other hand, **retail sales** turned the tables last month by posting a nice positive +0.6% monthly gain, compared to last month's negative -0.9% decline. That is a +1.5% swing which simply shows that Americans are still willing to spend despite continued tariff uncertainty and certain prices starting to ramp up. Particularly, if they see a **good deal**. Recent declines in jobless claims may be contributing, or people just trying to beat anticipated price hikes, but in general, this was a decent report that pointed to continued signs of strength in the economy.

The team also talked about the beginning of **second quarter earnings season.** The big banks led the way with a nice round of results. Even Jamie Dimon (CEO of JP Morgan Bank) said the economy was "resilient". Banks might be something to watch for in this environment as regulations potentially loosen out.

The latest inflation and retail data showed a mixed bag so, as investors, it is important to take a closer look at everything these days. Almost like **"Looking Under the Hood"** for clues and trends that could shape the economy and markets going forward. It also appears the consumer is doing the same thing as they shop for **better deals**. This might also be a sign of things to come from a <u>*company*</u> perspective as well, as everyone from the consumer on up is sharpening their pencils these days. **It's strategic.** The team discussed that and more on our July 21 call.

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

Quick Recap

Lee discussed the current market situation, highlighting both positive economic indicators and potential challenges from tariffs and economic uncertainties, while emphasizing the importance of strategic investing. From not only a long-term perspective but a "look under the hood" mentality. The discussion covered various market trends including sector performance, currency dynamics, and emerging technologies, with Lee noting upcoming economic indicators and earnings reports that would provide further insights.

Next Steps

- Continue monitoring and analyzing earnings reports in the coming weeks.
- Track the impact of tariffs on inflation and consumer spending.
- Follow up on the Leading Economic Indicators report released Monday July 21.
- Stay updated on the August 1st tariff deadline and related developments.
- Monitor the Fed's decisions on potential rate cuts in September and December.
- Keep track of employment growth trends, particularly the expected slowdown to 25k growth in jobs per month, a historically low number.
- Assemble new research on the dollar into a new note for the PPA website.
- Analyze the impact of digital currency legislation on the banking and financial industry.
- Assess investment opportunities in Artificial Intelligence, data centers, and emerging technologies like chatbot integrations (a computer program designed to simulate conversation with humans, typically through text or voice).

Market Strategy Amid Economic Uncertainties

Lee discussed the current market situation, describing it as a "strategic summer". Where investors need to be cautious due to potential tariffs and economic uncertainties. He noted that while the economy shows resilience, factors like immigration restrictions and AI (Artificial Intelligence) could impact job markets. Lee mentioned positive economic indicators such as lower jobless claims, improved consumer sentiment, and retail sales, but also pointed out early signs of tariff pass-through in inflation data. He looked forward to upcoming earnings reports from major tech companies which could provide more insights into market trends and could possible move the needle.

Market Performance and Strategic Investing

Lee discussed the current market performance, noting that while year-to-date returns are positive, strategic investing remains important. He highlighted the recovery in the Nasdaq and S&P indices since the April lows, each posting all-time highs recently. He also commented on the outperformance of the utilities and industrials sectors. Lee mentioned that, according to FactSet, earnings projections have been revised downwards, but still remain favorable, with the Mag 7 companies expected to contribute significantly to earnings growth going forward. He also noted that healthcare is projected to be the highest-performing sector, while industrials are expected to show moderate growth. Lee advised staying invested in top-performing companies and sectors and to maintain a strategic approach to investing.

CPI Inflation, Economic Outlook and Investment Strategy

Lee discussed the current economic situation, highlighting signs of tariff pass-throughs and a flattening consumer spending trajectory. Highlighting the recent Consumer Price Index Report showed signs of tariff price hikes in certain areas like apparel and furnishings. This has caused the “core goods” group to begin ramping up. Specifically, “core goods excluding autos” which posted a +3.6% year over year result, the fastest pace in over two years (See Figure 2).

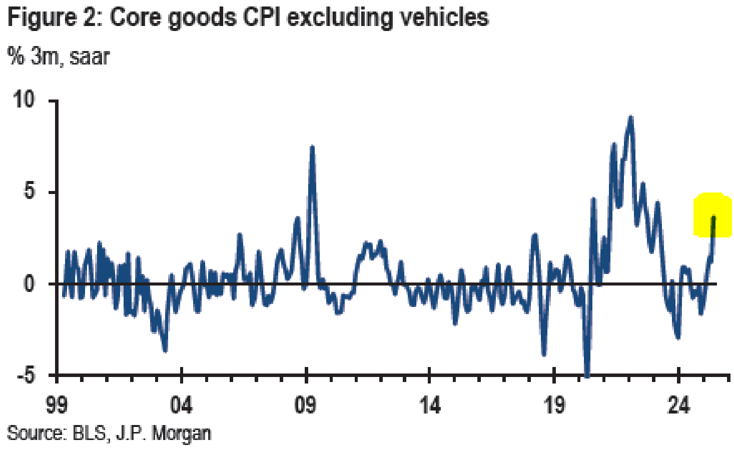

Figure 2 Core goods ex-autos.

Lee also predicted a potential Fed rate cut in December, with a possible cut in September, however the jobs market will be the tell-tale on whether or not a cut will happen. Because right now, the jobs market is in a "no hire no fire" mode where we have been seeing jobless claims on a steady decline ("no fire") at the same time continuing claims are on a steady rise ("no hire"). Lee emphasized staying defensive in investments due to anticipated economic challenges in the fall as tariffs may cause people to think twice about spending. The team agreed with this approach, noting that defensive strategies remain favorable.

US Dollar's Current and Future Trends

Lee discussed the current state and future of the US dollar, noting its 8.6% decrease since the beginning of the year but highlighting a 22.6% increase since 2005. He explained that a weaker dollar increases demand for US dollars when converting foreign currencies, potentially affecting importers paying tariffs. Lee also mentioned that yields are likely to remain higher for longer, and foreign investors are hedging their positions by going short on the dollar to balance their long investments. He concluded that despite these factors, the dollar could remain in a stable range of 90 to 100, driven by a combination of increased demand for dollars and government treasury issuance (as the government may replenish their checking account with treasuries on the increase in debt ceiling limit through the new tax bill).

Banking, Digital Currency and Economic Outlook

In light of bank earnings kicking off second quarter earnings season, Lee discussed the challenges and opportunities in the digital currency and banking landscape following recent legislation, emphasizing it may be difficult for different systems of currency exchange to make an impact on the banking system. Especially if the revamped program of stress testing continues to provide confidence in the banking system as a whole. But it is important to evaluate new ideas in the digital currency arena especially if niche markets are forming to possibly shift consumer patterns and behavior. Lee also touched on the impact of AI and data centers on security and the evolving investment landscape, including integration of chatbots. Lee highlighted upcoming economic indicators and earnings reports for the week, urging attendees to prepare for a busy schedule.

Week of: July 21, 2025

Latest 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. Buy into 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.

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

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

4. 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.

5. *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.

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

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

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

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

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

11. *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.

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

13. Product liability in future AI controlled technology as AI products begin to shift risk from humans to machines. For example, when a self-driving car gets into an accident.

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

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

16. 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.