



PPA Insights
Market Monday: “Rally Mode”
Market Update and Strategy Call | Episode 15
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Week of: June 30, 2025

On **Monday June 30**, our team met to discuss current economic and market conditions and how that relates to our portfolio management process. We talked about current economic conditions, first half 2025 market performance, and the outlook for the second half of the year.

Although we’ve seen a strong rebound in the markets since the April 2nd lows (the S&P 500 is up 24% and the Nasdaq is up 33%), our mindset at the moment remains one of **cautious optimism**. This is because there are still many unknowns lurking out there, such as tariff uncertainty, geopolitical tensions, the Fed’s path for interest rates going forward, how second half earnings will look, and how the tax bill will affect the economy if passed.

Yet, it seems as if the market has **accepted these uncertainties** for now, almost as if it is comfortable with the current state of unknown. And as a result, is in **“Rally Mode”**. This is all fine and good, but the team discussed how to prepare for a possible break in the action and contemplated what could cause the market to turn. This is the **conundrum** of a classic rally scenario, where the market typically trades up after a sharp decline only to give it back. The question is, will that actually happen? And if it does what should we do about it? The team discussed that and more on this week’s call.

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

Quick Recap

The group analyzed economic indicators, market trends, and sector performance, with a focus on energy and high-yield investments. They concluded by reviewing portfolio updates, trades, and upcoming meetings, while discussing potential market reactions to economic policies and geopolitical developments.

Next Steps

- Update portfolio percentages in preparation for rebalancing.
- Research high-yield bond options as a potential new investment idea.
- Look into why financial sector projections are lower.
- Investigate potential investment opportunities in China due to eased tech restrictions.

Market Rally and Bond Signals

Lee talked about how the markets had a good week and briefly touched on the recent U.S. attack on Iran, noting that it didn't lead to significant retaliation or pressure on the markets. In fact, the market had a nice rally last week making fresh all-time highs with both the S&P 500 and tech-heavy Nasdaq up 5.65% and 5.34% respectively year to date. Lee also pointed out the U.S. markets still trail international and emerging market equities, which are up 20% and 16% this year on the MSCI EAFE and MSCI Emerging Markets indices respectively. This is mostly on the heels of a weak U.S. dollar and continued uncertainty around U.S. trade policies. But it is nice to see the U.S. markets staging a comeback.

Lee also discussed how the recent market rally can be attributed to geopolitical tensions easing, despite ongoing trade policy uncertainties. It seems as if the worst of the trade shock is over as negotiations continue and deals come to fruition. He also noted that even though the Fed's cautious stance continues, the market is essentially looking ahead to eventual rate cuts, another possible catalyst for the recent rally. And even though the Fed did not cut rates at its recent June meeting, it continues to inject relief into the economy by holding the pace of quantitative tightening at a cap of \$5 billion per month on Treasury bonds, which it started on April 1, 2025 when the prior cap was at \$25 billion (it was \$60 billion last June 2024). The tech sector is also starting to heat up, which is also providing momentum to the recent rally, fueled by better-than-expected earnings and continued enthusiasm over artificial intelligence.

Lee also pointed out a bond spread analysis he does to compare high yield bonds to investment grade bonds which shows the bond market is currently signaling a less risky outlook at the moment (see Figure 1). This helps frame out the current market rally may have some legs to stand on. Especially if the bond market is signaling less risk.

Lee also suggested a shift towards longer-term treasuries and potentially high-yield bonds, given their current attractive yields and the bond market's positive signals. The team agreed with this strategy, emphasizing the potential for less credit risk in high-yield bonds at the moment. Lee mentioned considering a potential trade involving gold and high-yield investments, noting that the market seems to be in a "relax and recharge" mood as summer approaches.

The combination of bond market signals, and current equity rally mode bodes well as we begin the third quarter. Nonetheless, if the market turns or if we start to see added volatility, we could use those pullbacks as buying opportunities.

Tax Bill Progress and Market Insights

The team discussed how the tax bill is in the final stages of Senate debate and not quite yet on President Trump's desk. It needs to go through the Senate and be reconciled with the House bill before a final vote. However, a key procedural vote over the weekend narrowly advanced the bill through the Senate during a marathon session. Lawmakers voted 51-49 to open debate on the 940-page bill. The next step is to debate it and then have a final vote, with the hopes everything is done by the self-imposed deadline of Friday, July 4th.

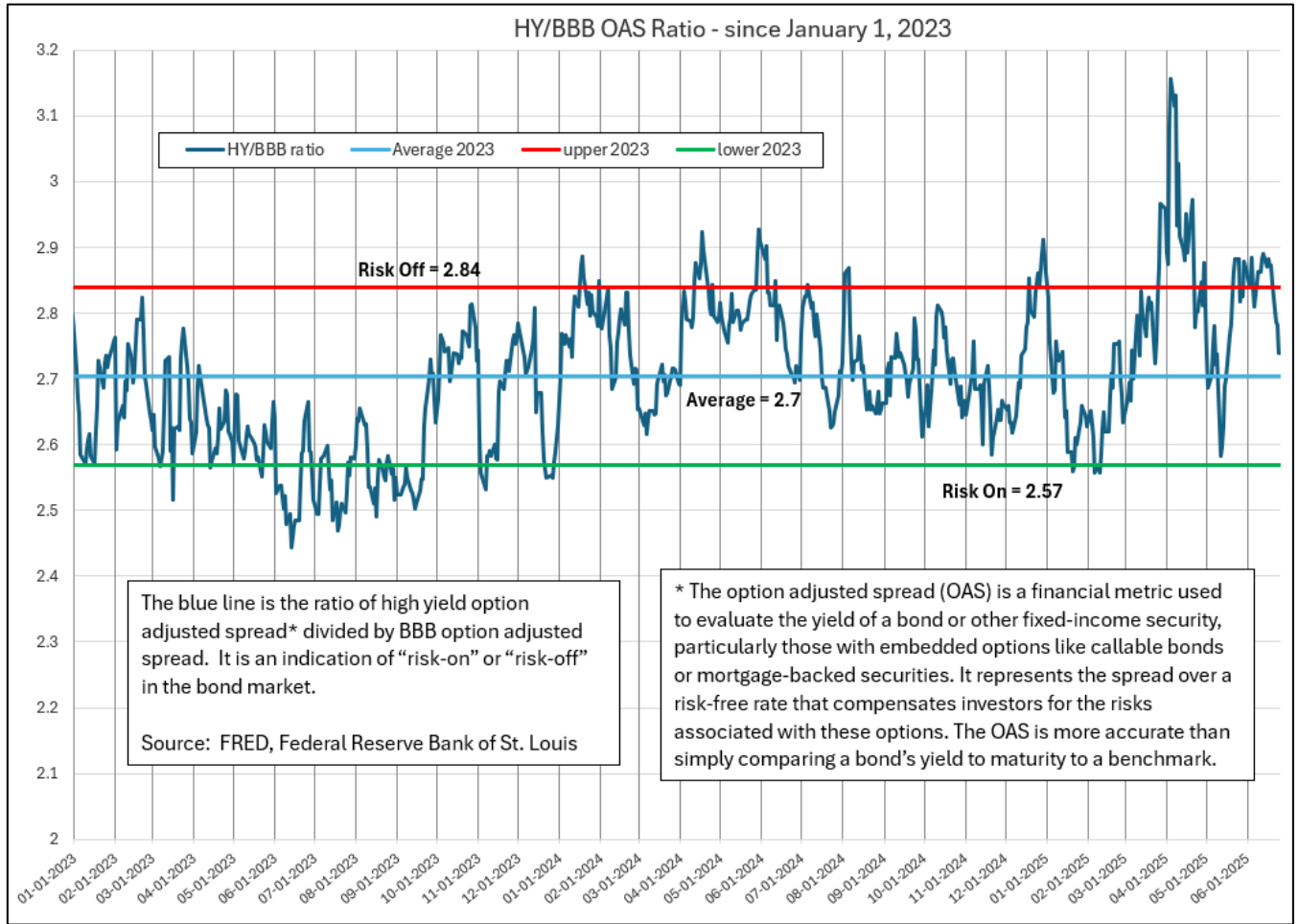


Figure 1: Bond Market Signals

Economic Indicators and Interest Rates

Lee discussed economic indicators and their implications for the economy. He noted that GDP growth (Gross Domestic Product) for the first quarter was revised down from -0.2% to -0.5% (the third revision), indicating the U.S economy, and the consumer, slowed down more than previously thought in 1Q. This could also point to a little slower consumption in the second quarter, however current GDP projections for 2Q show 2.9% growth, but have been coming down. Speaking of consumption, Lee also pointed out declines in both disposable income and monthly spending on the latest PCE report for May. However, the personal savings rate at 4.5% still shows a resilient consumer.

On the manufacturing front, PMIs (Purchasing Managers Index) have shown surprising resilience lately as the latest flash composite index held steady at 52.0 between May and June. Noteworthy is the flash output index rose to 51.5 and while that is still low compared to where we were at the beginning of the year, the backlog index has now increased to its highest level in three years (see Figure 2, orange line).

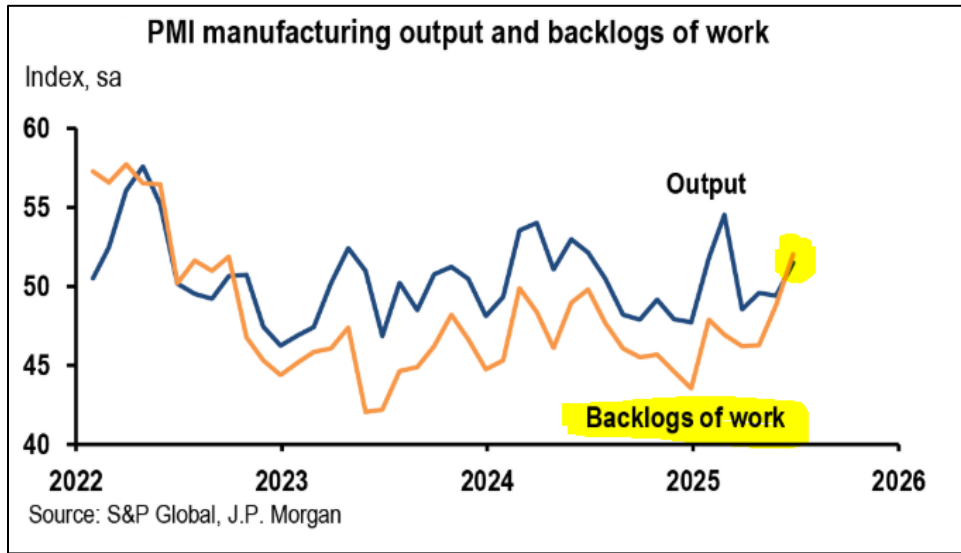


Figure 2: Manufacturing Backlog and Output

On the Fed front, Lee highlighted that the Fed would likely keep interest rates on hold for an extended period to assess the economy's resilience and the duration of current inflation. This was also evident in the latest summary of economic projections released on June 18, 2025 which included a revised “dot plot” that showed Fed officials anticipate two rate cuts by the end of 2025 however there was a notable shift in sentiment with more officials projecting fewer or no rate cuts in the coming years. Most likely due to the impact of expected tariff inflation. Lee also touched on the impact of tariffs on goods, pointing out that goods make up only about 30% of the economy (versus services at 70%), so the impact of tariffs may not be as bad as people think. There may also be other potential offsets to tariff inflation such as declining energy prices and companies diversifying supply chains to help mitigate price increases.

Earnings, Sector Performance and Analyst Projections

Lee presented an analysis of current projected buy, sell and hold ratings for third quarter earnings, noting that energy tops the list of buy ratings, followed by communication services, information technology, healthcare and real estate. All of which we hold positions in. The team questioned the low projections for financial services firms, suggesting it might be specific to banks and interest rates eventually coming down. Lee also mentioned that the projected 9% increase in the S&P 500 over the next 12 months but that it has come down from 29% in April. He also highlighted the U.S.'s energy independence, which could be a contributor to the positive projections for the energy sector.

Labor Market Trends and Interest Rates

Lee pointed out that the next jobs report is due out this week. That will give us more insights into the labor market which has been showing some signs of cooling lately. Especially in continuing claims and private sector employment. Both could trigger the unemployment rate to rise to 4.3-4.4% (it currently stands at 4.2%). Lee noted that the Fed might view this as a reason to cut rates due to slowing job growth. Initial claims will also be important to watch but seasonal spikes in

July/August are important to keep in mind, because they have been a normal pattern over the past two years. Regardless, deteriorating signals from the labor market in continuing claims and private payrolls may be enough for the unemployment rate to tick up. And the Fed to consider cutting rates sooner. We shall see.

Sailing Analogy and Canada

Colleagues compared the current market situation to a sailboat making slow progress against moderate winds, suggesting that a potential Fed rate cut and the passage of a bill would likely be viewed positively.

The team also briefly discussed Canada's decision to cut their digital services tax, a move to help keep tariff negotiations with the U.S moving along. This could be another positive catalyst for the market and economy, and another idea for investing in the Canadian market/economy. The team agreed to look into that further.

Investment Ideas Recap

Listed here are our favored investment ideas. An asterisk (*) indicates we have already traded the idea to the investment models. Other ideas are being worked in accordingly.

1. High yield bonds as credit on higher yielding bonds appears to be better than usual.
2. 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.
3. *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.
4. International hedged equity, as a pair with our overweight position in international. This may help offset possible volatility in the region from tariff uncertainty.
5. *Long term bonds as longer term rates creep up towards the 5% range.
6. *U.S. Small Caps as they tend to do more business in the U.S. and may not be impacted as much from tariffs.
7. Real Estate (REITs), as mortgage rates are expected to come down to 5% longer term.
8. Property & Casualty Insurance, a tariff neutral business model.
9. *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.
10. *Defensive sectors like Healthcare, Utilities and Staples as tariff uncertainty continues.

11. Product liability in future AI controlled technology as AI products begin to shift risk from humans to machines.
12. *Discount retailers, as the consumer may be shifting their spending patterns to lower priced options with tariff inflation on the horizon.
13. *Big Tech, as capital spending and research on AI continues at a record pace.
14. 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.

Final Thoughts

The meeting concluded with the group agreeing to a **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.

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.

High-Yield Bonds (also known as "junk bonds") are a type of corporate debt security that offers investors higher interest rates than investment-grade bonds. This higher yield is due to their lower credit ratings, which indicate a greater risk of default on interest or principal payments.

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 are filing 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 claimants for benefits, and continuing claims, which represent those who are already receiving benefits.

Consumer confidence is an economic indicator that gauges how optimistic consumers are about the overall economy and their personal financial situations. It essentially measures how consumers feel about their financial prospects, which can greatly influence their spending habits. If consumers are optimistic, they're more likely to spend, boosting economic growth. Conversely, if they're pessimistic, they may cut back on spending, potentially slowing down economic growth.

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. It reflects the overall average tariff rate after accounting for how businesses and consumers react to those tariffs.

“Big Tech”, also referred to as the “Mag 7”, or the “Tech Giants”, is a collective term for the largest and most influential technology companies in the world.

The personal savings rate is the percentage of people's disposable personal income that they save, after paying taxes and spending money. In simpler terms, it's the portion of 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 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 laddered investment approach involves spreading investments across various maturity dates, creating a series of rungs on a ladder. Each rung represents a bond or other fixed-income security maturing at a different time, typically in regular intervals. This strategy aims to reduce interest rate risk and provide a more predictable income stream.

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.

Option-Adjusted Spread (OAS) is a financial metric used to evaluate the true yield of a bond or other fixed-income security that includes embedded options, like callable or puttable bonds. It represents the spread over a risk-free rate that compensates investors for the risk associated with these options and any other risks inherent in the security.

The "Fed dot plot" is a chart published by the Federal Reserve (specifically the Federal Open Market Committee or FOMC) that visually represents each participant's individual projection for the federal funds rate at the end of the year. It's a key tool for understanding the range of opinions among policymakers regarding the future direction of interest rates.