



*PPA Insights*  
**Market Monday: Falling Into Place**  
**Market Update and Strategy Call | Episode 19**  
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**Valor Asset Management™**



**Week of: July 28, 2025**

The PPA investment team met on **Monday, July 28** to discuss another round of economic and market data and how that relates to our portfolio management process. We had plenty to talk about as there has been quite a bit of information on the markets and economy lately. Markets continue to make **all-time highs** in the midst of all this data as well. It has also been very hot here in the Philadelphia area, pretty much in lockstep with the markets. So, it is almost like a **heat wave** in markets at the moment. Both literally and figuratively! But even in the midst of the uncomfortable temperatures (market highs), it seems like things are starting to “**Fall Into Place**”. This from all of economic and market data that has come out recently which is helping shape the market narrative going forward. That is key at the moment: if a narrative can form, then uncertainty goes away.

The **Flash PMIs** for June that came out on Thursday July 24 are one example of the new data. They showed improvement in the services sector of the economy but a slowdown in manufacturing. Housing data also came out which continues to show a sluggish housing market. The **Leading Economic Indicators** also came out on July 21 which flashed a recession signal. But that data has been driven by **sentiment** a lot lately, or “soft” data. Whereas “hard” economic data appears to contradict. So, it does not seem like a recession is imminent.

We have also seen two new reports on **inflation** now, both of which are starting to show signs of price increases on imported goods (due to tariffs). But, we continue to see a resilient economy, as evidenced by the first release of **Q2-25 Gross Domestic Product (GDP)** on July 30 that posted a respectable 3.0% growth for the quarter. Add to the equation some very good **second quarter earnings** reports from the banking and technology sectors, along with a “quite solid” labor market (according to Jerome Powell, the Fed Chair), and this all continues to point to a resilient economy.

**Tariff negotiations** continue and deals are rapidly closing before the **August 1 deadline**. But it is pretty clear that tariff rates will be much higher than they have been in a very long time. As a result, imports on goods to the U.S. will simply cost U.S. companies more. This will eventually flow through to the consumer. How much and when is the question, but higher prices will most likely cause a **growth slowdown** in the U.S., possibly as early as third quarter 2025. We should be prepared for this, which the team discussed on the call, as far as how to best position the investment models. *However*, a potential plus to tariffs is the federal fiscal budget which was interesting to see the U.S. report a **budget surplus in June** (inflows minus outflows) for the first time since 2017. This was attributed, in part, to higher tariff revenues in the month at **\$27 Billion**. Perhaps as tariff deals close and global trade stabilizes at the new, higher tariff rates, the government’s budget may now begin to see a boost from tariff revenues. That would be a big plus.

The best way to deal with a **heat wave** is to take it slow, drink a lot of water and be sensible about your daily routine. It seems like the markets, the economy and trade policy/negotiations are doing just that this summer. Hopefully things will settle down as we get into the cooler months, and uncertainty will follow suit and cool down too. So that maybe, just maybe, things will “**Fall Into Place**”.

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

## Quick Recap

This week, the team discussed a wide array of topics, ranging from current market and economic trends to options clients have for retirement and catch-up contributions, specifically in Roth Individual Retirement Accounts (IRAs). The team also discussed a new schedule for the bi-weekly Market Monday calls and various client-focused sessions, including quarterly CPA (Certified Public Accountant) meetings to help provide professional education. But the bulk of the discussion focused on current market trends, economic indicators, and how wage inflation may be another reason why the Fed is holding rates steady (on top of tariff uncertainty).

## Next Steps

- Monitor upcoming earnings reports from Big Tech and energy companies.
- Track new economic data releases scheduled for the week, including the jobs report, Personal Consumption Expenditures, second quarter GDP and payroll data.
- Assess the impact of wage inflation on the jobs market and Fed rate decisions.
- Analyze housing market data including June new and existing home sales.
- Research liquid alternatives as a new investment idea in the models.
- Monitor China trade negotiations, in particular exports on rare earth minerals to the U.S.
- Monitor and analyze the impact of the new 10-12 day deadline for a Russia/Ukraine ceasefire and possible change in oil prices and energy sector performance.
- Continue monitoring net profit margin trends and earnings projections for Q2-25, particularly focusing on healthcare and energy sectors.
- Analyze the personal savings rate data when released this week for insights into consumer behavior and economic resilience.
- Follow up on the Conference Board's consumer confidence survey results when released this week for comparison with other economic indicators.
- Investigate and provide breakdown of personal savings rate by demographic groups.
- Analyze how tariffs are being absorbed across different levels of the supply chain.
- Analyze the impact of wage inflation on persistently high inflation and Fed reaction.
- Track changes in consumer behavior and spending patterns as economic indicators suggest slowing growth.
- Monitor implementation of new EU trade deal starting August 1st, particularly focusing on the outlook on 15% tariff rates and \$750B in EU energy purchase commitments.
- Track Mexico/Canada trade negotiations as they move from USMCA (U.S.-Mexico-Canada Agreement) deal discussions to August 1st deadline.
- Review Japan trade deal implementation focusing on \$550B investment vehicle.
- Discuss with clients about options and possible benefits of Roth 401k contributions.
- Review Secure 2.0 Act details regarding Roth catch-up provisions

## Global Trade Deal Negotiations Update

The team discussed recent trade deals, focusing on the new European Union trade agreement, which includes a 15% tariff on US goods while offering no tariffs on US exports and commitments to purchase \$750 billion in US energy products. They also touched on ongoing negotiations with Mexico, Canada, and China, noting the complexity of these deals, particularly regarding energy tariffs and auto imports. Skepticism was expressed about Chinese investment in the U.S., highlighting the need for caution due to geopolitical tensions, and it was suggested that China might

use alternative branding strategies to bypass trade restrictions. Lee emphasized the importance of trade policy and the progress made with recent deals, while also acknowledging the significance of negotiations with Canada, India, and Mexico.

### Housing Market Shifts and Trends

The team discussed current market trends, focusing on the housing market's challenges and the impact of interest rates. It is pretty clear housing is being pushed to the limit by higher interest rates these days. Because nobody wants to buy at such high rates (see Figure 4). But another factor to consider is the flipside to that concept, where rates were so low for so long 10-20 years ago. This drove *demand* for housing up and prices followed. But now, sellers may not be as interested in giving up their current low-rate mortgage, or lowering their price, which is contributing to a sluggish market right now. Higher prices cause an *affordability* issue for buyers too, on both down payments and mortgage payments simply being higher. But the crux is even if rates do come down eventually, it may still put housing between a rock and a hard place because prices may still remain higher. Since more demand pushes prices higher. The team discussed this and agreed the housing market could now be experiencing a shift, with buyers now in the driver's seat and sellers becoming more reluctant to higher prices, leading to a potential slowdown despite lower rates. Lee also shared insights from JP Morgan on how decades of low rates have fueled exponential housing price increases, suggesting that even rate cuts may not spark an immediate market recovery.

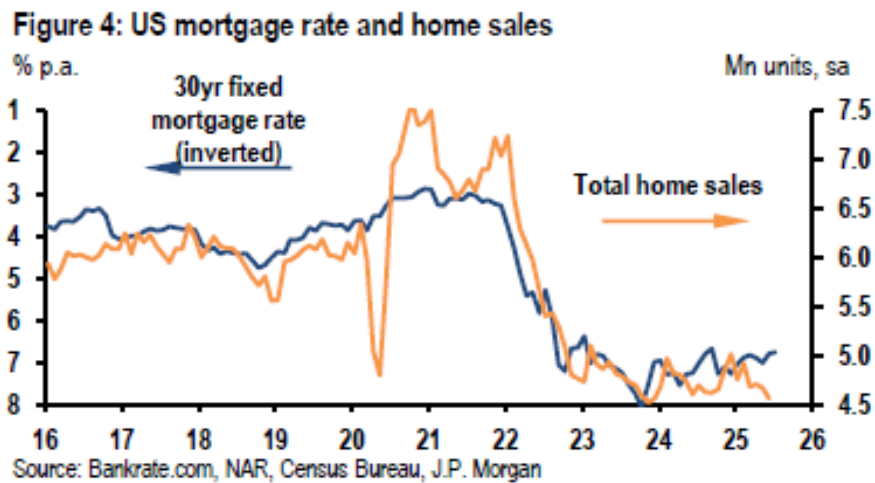


Figure 4: US Mortgage Rates & Home Sales

### Monetary Policy and Geopolitical Insights

The team discussed the differences in monetary policy between the European Central Bank (ECB) and the Federal Reserve, noting that the ECB had been more aggressive but had paused recently (see Figure 5). David attributed this to the Fed's ability to inject more cash into the system, which led to higher inflation and a longer recovery period. They also touched on Trump's announcement regarding the deadline for a ceasefire between Russia and Ukraine, which had a minor impact on the market. David expressed skepticism about the effectiveness of Trump's policy on Russia, stating that Putin does not take his words seriously.

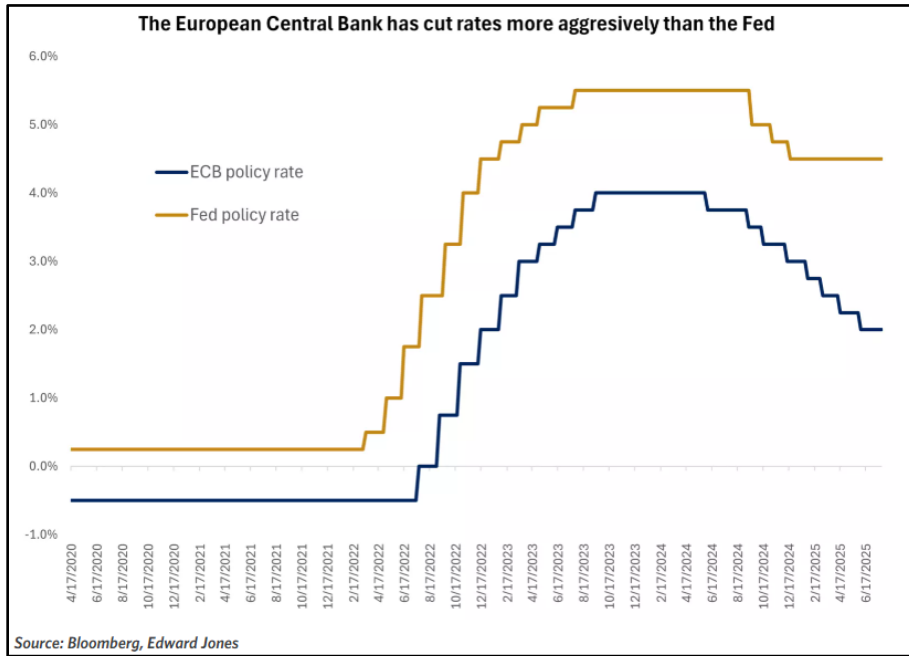


Figure 5: ECB and U.S. Federal Reserve Rates

**Economic Indicators and Recession Fears**

Lee discussed the Leading Economic Indicators and their implications, noting that a lot of the downward trend in the current cycle is due to sentiment surveys. He noted that the government reported a surplus in June (see Figure 1), the largest since 2017, and mentioned other resilient economic data. Lee expressed doubts about the Conference Board's Leading Economic Indicators, which suggested a potential recession, by comparing them with other data sources and pointing out discrepancies. He concluded that the coincident and cyclical economic data showed strength, contrary to recessionary signals (see Figures 2 and 3).

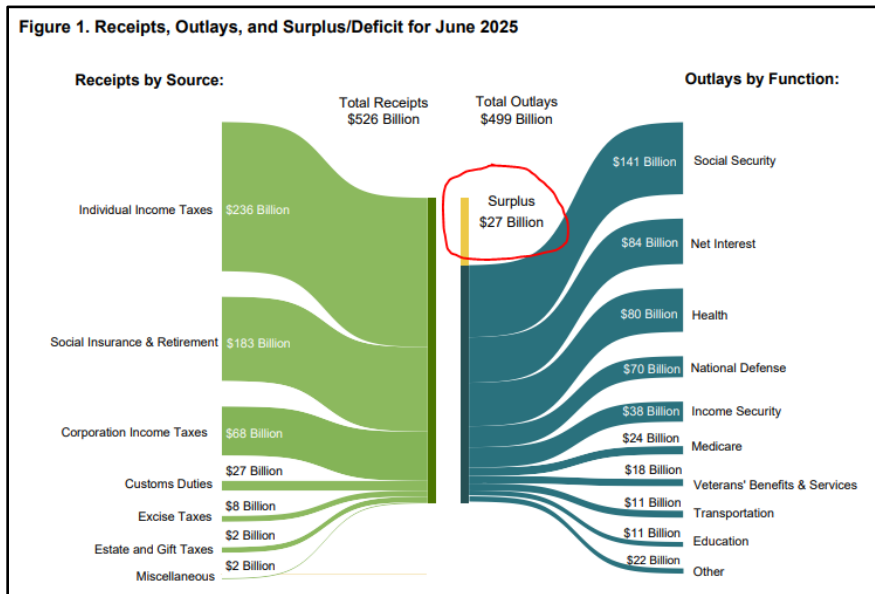


Figure 1: June 2025 Federal Budget; Source: U.S Department of the Treasury

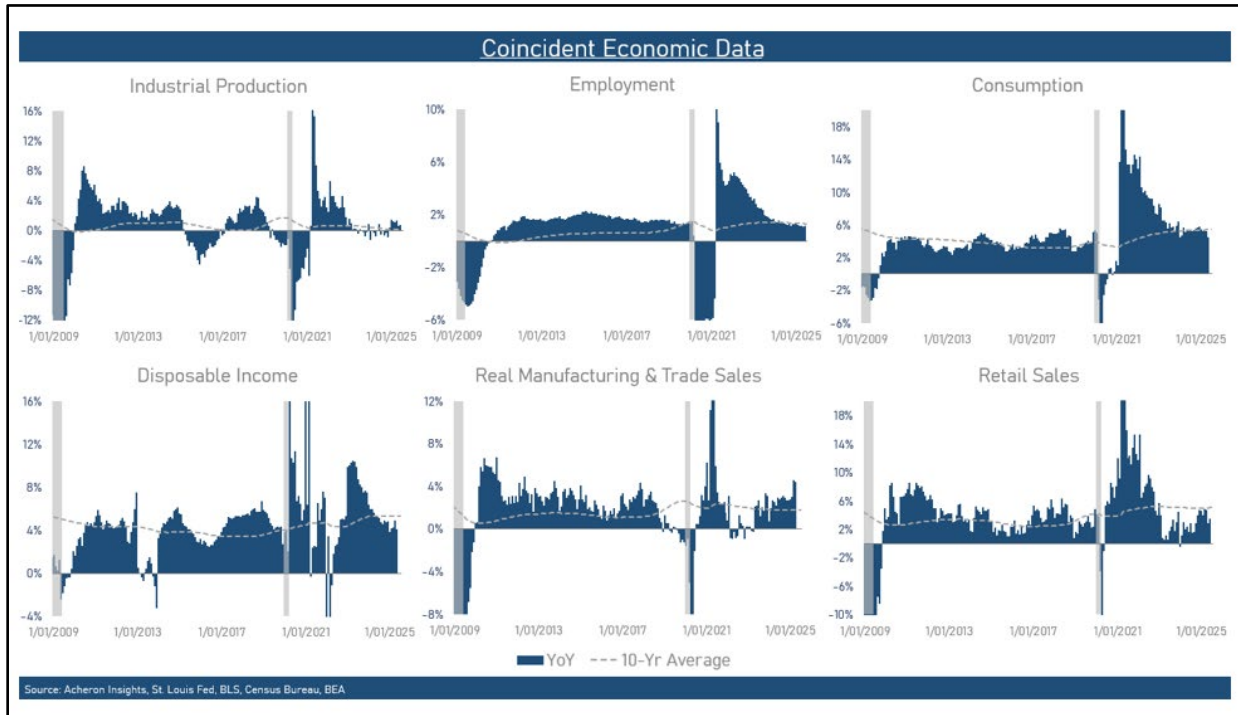
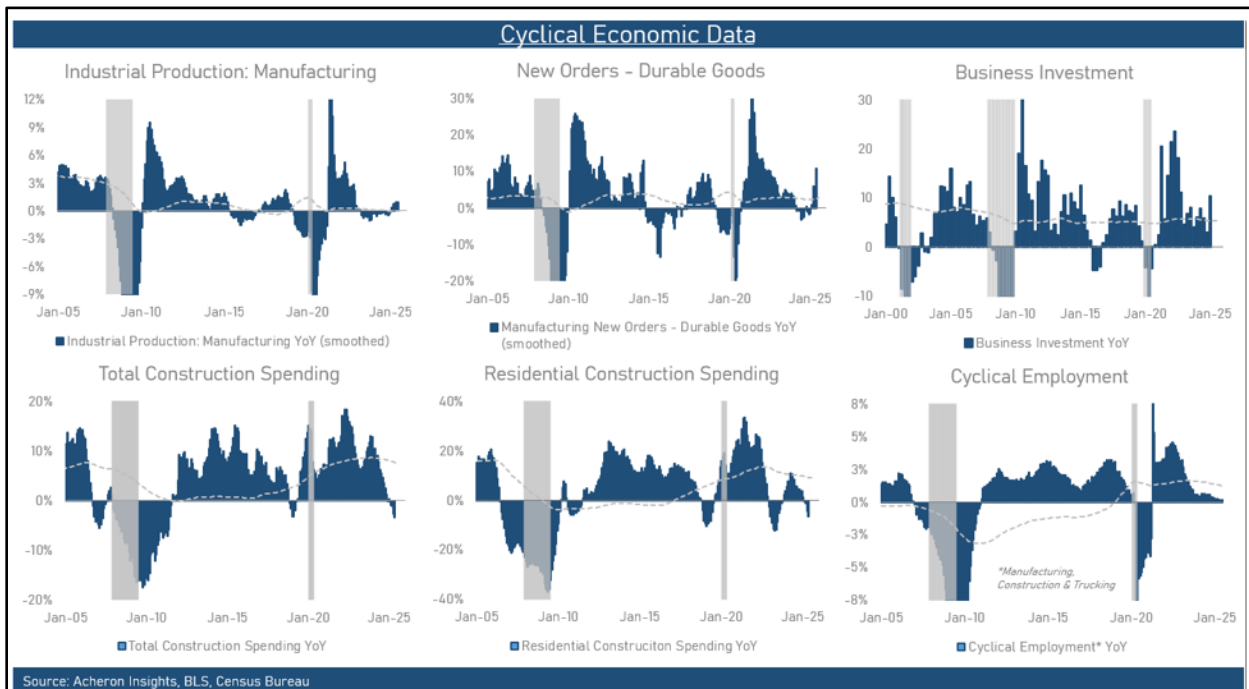


Figure 2: Coincident Data; Source: Seeking Alpha, Acheron Insights, BLS, Census Bureau.



For the US to enter a recession, we would likely need to see all these cyclical data points exhibiting negative growth (which would flow through to weakness in industrial production and retail trade), which is clearly not the case at present.

Figure 3: Cyclical Data; ; Source: Seeking Alpha, Acheron Insights, BLS, Census Bureau.

## **Earnings: Net Profit Margin Still Above 12% and Tariff Strategies for Companies**

The team discussed the positive earnings results to date, including a consistent net profit margin above 12% over the past 4-5 quarters of earnings results, with healthcare projected to lead growth and industrials potentially declining. They explored how tariffs might be distributed across the supply chain, with each entity likely absorbing a portion to minimize impact on consumers, potentially resulting in a 5% price increase that retailers and manufacturers could manage on their overall financials. It was noted that certain retailers may attempt to absorb some costs while maintaining competitive pricing, which could, in turn, possibly change the Federal Reserve's perspective on consumer impact and inflation.

## **Service Sector and Wage Inflation Challenges for Small Business**

The team discussed wage inflation, particularly in the service sector, which comprises 70% of the economy. Wage inflation can be a significant cost for small businesses, in some cases certain companies may have to come out of pocket to match competitive wages being demanded by employees right now. Ongoing recruitment challenges are also evident in the service industry, especially for white-collar positions, due to efficient job searching tools and poaching between companies. It is possible that people may have been initially resistant to job changes during economic slowdowns, but this seems to have lessened as people continue to switch jobs for better pay.

## **Economic Signals and Consumer Behavior: Disconnect Between Sentiment and Hard Data**

In closing, the team discussed mixed signals in the economy, noting that survey data is still down on various indicators like the Purchasing Managers Index surveys and various consumer sentiment surveys (University of Michigan, The Conference Board, Small Business Optimism Index). But while these indicators continue to show weakness, that has not translated to material hard data weakness, which illustrates just how robust the U.S. economy is. The team also talked about how the correlation between survey data and hard economic indicators is usually spurious, where there is typically a disconnect between consumer confidence surveys and actual economic data.

One final question was curiosity about how different income groups contribute to the overall personal savings rate, suggesting that the average might not accurately reflect the distribution of savings across demographics. Lee said he would look further into that.

## **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.
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.

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.