



PPA Insights
Market Monday: At a Crossroads
Market Update and Strategy Call | Episode 21
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“Stay the Course”



Week of: September 2, 2025

The PPA investment team met again on **Tuesday, September 2**. We talked about how the market seems to be *at a crossroads* at the moment. Could the latest weak jobs numbers bring the market down or will the outlook of lower future rates be a catalyst for growth? Of course, there are many things to think about with that question but that seems to be the topic of conversation at the moment.

Meanwhile, the market continues to trade up as we saw the **fourth straight month of gains** on the S&P 500 in August. This a pretty good sign of where the market could be taking us in the months ahead. Especially if a **rate cut** is on the horizon at the next Fed meeting September 16-17. Which Jerome Powell clearly telegraphed at the Jackson Hole, WY economic symposium. This is where we could see a shift in Fed policy to focus on jobs instead of inflation. So, not only is the market at a crossroads, but the Fed is too.

The economic data has us at a crossroads too. **Inflation** has been cooling but has now started to turn back up, likely on tariffs. **Jobs** have been historically resilient but now we are starting to see a slowdown there as payrolls are down and jobless claims are up. Revised **second quarter Gross Domestic Product** posted a nice 3.3% growth but future projections show a mixed bag in 2026 (1.5% to 3.0%). **Interest rates** are expected to come down, but the path and pace are not clear. **Consumer confidence** has been down all year, yet **retail sales** continue to show consumers who are spending and responding well to tax changes and tariffs. The housing market has also been a challenge as high mortgage rates, low inventory, and record high prices have caused gridlock.

Being at a crossroads is not necessarily a bad thing. It presents both **challenge and opportunity**. It is also good reason to take a step back and brainstorm the pros and cons for the path going forward. Which is what our investment team continues to do. And with the market trading at all-time highs, it makes even more sense to proceed with **cautious optimism**. This is what we also continue to do in investment models at PPA.

Thank you for reading and we hope you enjoy this summary of our continued discussions!

Quick Recap

The team explored financial news regarding interest rates and bond markets, particularly in Europe, and discussed potential investment opportunities in various sectors. The group analyzed the impact of tariffs on shipping companies and small packages, examined investment strategies for regional banks and small caps, and discussed the challenges facing the electric vehicle market and government equity stakes in large businesses.

Next Steps

- Monitor the upcoming jobs report on Friday (9/5/25) for its impact on Fed decisions and potential interest rate cut.
- Evaluate investment opportunities in small/mid caps, financials, autos, airlines, and home builders as potential beneficiaries of interest rate cuts.
- Monitor Trump's 2 o'clock announcement (on 9/2/25) for potential impacts on tariffs.
- Assess implications of the de minimis exemption elimination related to tariffs.
- Monitor the impact of the elimination of the de minimis exemption on shipping companies.
- Research shipping companies as potential investment opportunities in light of the de minimis exemption changes.
- Continue monitoring the effects of tariffs on small and mid-sized companies before increasing positions in those sectors.
- Follow up on the used car market as a potential investment opportunity.
- Check out the news about European bonds and their rising yields.

Europe's Bond Market

The conversation began with a brief mention of financial news regarding Europe's bond market, where we have been seeing a sell off lately. This has caused long-term bond yields to go up in the region (Figure 1). Generally, bond yields move in the opposite direction of bond prices, hence the reason why we have starting seeing yields go higher. And the reason why yields typically go up is because of *uncertainty*. Which has been starting to go up in Europe on political turmoil in France, where a “confidence vote” was called for on their 2026 budget, which includes 44 billion (euro) in cuts and is facing strong opposition. This is while both Europe and the UK have been on rate cutting cycles but recently stopped so it was interesting to see yields starting to come up on the political turmoil in the region.

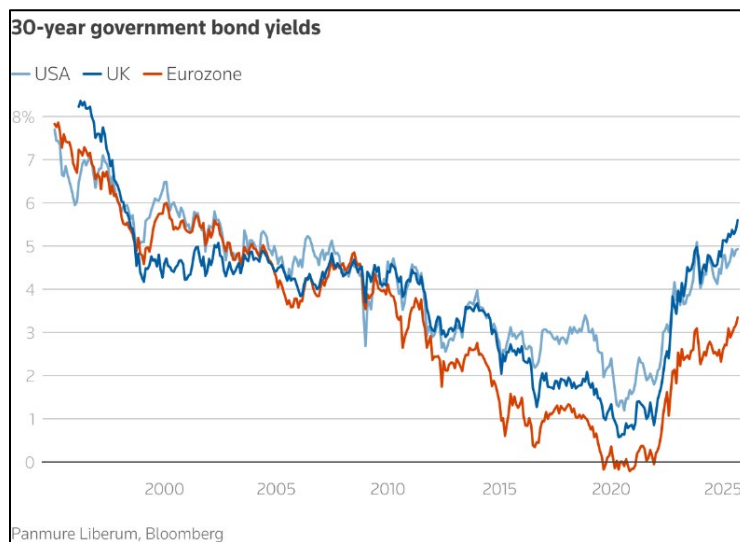


Figure 1: 30-year government bond yields
Source: Panmure Liberum Investment Bank, Bloomberg

Interest Rates and Investment Opportunities

The team discussed recent developments in interest rates, with Europe's rates rising faster than expected. They noted that long-term European bonds reached 6% and 10-year bonds exceeded 5%, which could suggest an investment opportunity.

Back in the US, the team discussed the Federal Reserve's potential interest rate cut in September and the upcoming jobs report, which could influence the Fed's decision. They also discussed the positive impact of strong earnings and the resurgence of tech, particularly in AI spending. Lee highlighted potential investment opportunities in small and mid-cap stocks, financials, autos, airlines, and home builders as interest rates decline. However, he noted that September and October are typically more volatile months, but overall economic indicators suggest a stable and expanding economy despite headwinds like tariffs.

Tariff Impact on Small Package Shipping

The group discussed the impact of the elimination of the de minimis exemption on small packages, which will result in higher tariffs for items under \$800. This could lead to decreased shipping volumes and potentially negative effects on shipping companies, though it might create buying opportunities if their stocks decline. Lee noted that this could cause a one-time price increase, leading to front-loading of purchases, but suggested that the economy might eventually reach a better supply-demand equilibrium. Colleagues suggested exploring the effects on other shipping companies perhaps in Europe, and Lee mentioned that domestic retailers might benefit from bulk purchasing, while others warned against investing in small and mid-cap companies due to their limited ability to absorb higher costs.

Small Cap Performance and Trends

Lee discussed the performance of small caps, noting they are up 7% year-to-date and 8% over the past year, despite trailing the S&P and Dow. He highlighted the potential for small caps to revert to the mean due to favorable valuations and an easing interest rate cycle. Lee also mentioned recent buys of stock in the pharma space, selling consumer discretionary and energy sectors to make room for these investments. He noted that GDP is up 3.3% with forecasters predicting a slowdown, but wage income is steady and growing above inflation, suggesting a potentially resilient labor market. Colleagues inquired about the recent decrease in jobless claims, which Lee attributed to steady but mixed trends in initial and continuing claims.

Regional Bank Strategy Discussion

The team discussed opportunities in regional banks. Colleagues suggested researching financials to potentially move into before the September 17th Fed rate decision. Lee presented charts showing increasing corporate profit margins and shared insights on leading economic indicators, noting a gap between coincident and leading indicators but overall signs of economic expansion. The team also discussed recent trades, including selling an auto manufacturer stock due to tariffs and buying a technology retailer company for its dividend, including staying in the emerging market space with an option overlay income strategy.

Holiday Sales Outlook

The team discussed the upcoming holiday season prospects, with Lee noting positive analyst forecasts and the potential benefits of front-loading inventory at low cost. Colleagues discussed that various retailer membership program generates steady cash flow despite some cancellations, as new members often join to take advantage of discounts and extended warranties.

EV Market Challenges and Tariffs

The group discussed the challenges facing the electric vehicle market, particularly the Hummer EV, which is experiencing reduced production and declining resale values due to the expiration of tax credits. They explored how tariffs might impact new car sales and the potential for the used car market to thrive as consumers opt for more affordable options. Colleagues noted that while foreign car manufacturers have been building plants in the U.S. for years, new facilities would not be operational until after Trump's presidency, creating uncertainty for businesses planning long-term investments.

Government Equity in Corporate Sector

The group discussed government equity stakes in large businesses, with colleagues expressing concerns about the separation of government and company, potential lawsuits, and conflicts of interest. One suggested that government equity could lower taxes and deficits, but another questioned this logic. They also briefly touched on tariffs, with questions raised about the opportunity cost of tariff revenue. The conversation ended with a brief discussion about the upcoming jobs report.

Summary of Ideas

Listed here is our latest summary of ideas that we have discussed on our calls.

1. Undervalued pharma and healthcare companies.
2. Strategies that track the MSCI Emerging Market Index.
3. Package delivery and transport companies as we approach the holiday season, including the end of the \$800 de minimis package exemption.
4. Brazil and Mexico exposure.
5. 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.
6. Possible shift back to U.S. large caps in light of tariff deals coming to completion.
7. High yield bonds after credit spreads widen back to historical levels.

8. Canadian companies, as they have now removed the digital services tax which might pave the way to a tariff agreement with the U.S.
9. 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.
10. International hedged equity. This may help offset possible volatility in the international region from tariff uncertainty.
11. Long term bonds as longer term rates creep up towards the 5% range.
12. U.S. Small Caps as they tend to do more business in the U.S. and may not be impacted as much from tariffs.
13. Real Estate (REITs), as mortgage rates are expected to come down as the long end of the yield curve shifts lower to normalize.
14. Property & Casualty Insurance, a tariff neutral business model.
15. Gold and other precious metals, including miners for broad commodity exposure and defense, especially as the dollar remains weak. Gold is viewed as a "safe haven" asset in that regard.
16. Defensive sectors like Healthcare, Utilities and Staples as tariff uncertainty continues.
17. Product liability in future AI controlled technology as AI products begin to shift risk from humans to machines.
18. Discount retailers, as the consumer may be shifting their spending patterns to lower priced options with tariff inflation on the horizon.
19. Big Tech, as capital spending and research on AI continues at a record pace.
20. Used cars, parts, and rentals as tariffs impact prices on new cars. New auto sales have been trending down as tariffs hit the industry. This may present an opportunity for used cars and/or parts too.

Thank you for reading!

Sincerely,

Lee



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Founder and Owner
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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.

An "option overlay" is an investment strategy where options contracts (calls or puts) are used on an existing portfolio or asset (an ETF that tracks the MSCI EAFE Index in this case) to adjust its risk and return profile, often to generate income, manage risk, or create defined outcomes, rather than as a standalone strategy.

Coincident indicators are economic metrics that fluctuate in roughly the same direction and at the same time as the overall economy, providing a snapshot of its current health. Unlike leading indicators that predict future trends, or lagging indicators that confirm past shifts, coincident indicators offer real-time information about the current phase of the business cycle.

Leading indicators are measurable variables that change before overall economic or organizational trends, providing insights into future outcomes and enabling proactive decision-making. Common examples include the stock market, new building permits, and consumer confidence surveys, which can signal shifts in the economy. They differ from lagging indicators, which report on past events.