



PPA Insights
Market Monday: Bent but Not Broken
Market Update and Strategy Call | Episode 22
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Valor Asset Management®
“Stay the Course”



Week of: September 15, 2025

The PPA investment team met again on **Monday, September 15**. We talked about current market and economic conditions and what we are expecting to see in the markets and economy in the days and weeks ahead. For example, the Fed is scheduled to announce their **rate decision** on Wednesday, September 17, which will shed more light on the economy.

It seems that things are **“Bent but Not Broken”** at the moment. For example, sentiment remains down but the market has been trading at all-time highs. Jobs have also been showing signs of weakness, but Gross Domestic Product was just revised higher to a respectable 3.3% growth in the second quarter. That is expected to slow (on tariff pass through) but only to an extent as prices stabilize to the new norm (tariffs are a one-time price hike not a continuous price hike). However, the latest jobs data has shown a steady decline in payrolls and that may tilt the scales here. We will know more when the Federal Reserve announces their rate decision on Wednesday.

As we have pointed out in prior notes, the Fed is in a **peculiar position** right now because **inflation** is not quite yet at their 2% target and has actually been creeping back up in recent months. Mostly on the **core goods** component as tariffs begin to take hold on import prices. But the **services** part of our economy has also been showing signs of price appreciation lately as well. So, inflation overall has been “sticky”. Case in point, the latest Consumer Price Index report for inflation for the month of August came in at **3.1%** year over year (excluding the volatile food and energy components).

At the same time, the labor market has been showing signs of weakness, which is another concerning piece to the puzzle. One interesting data point that came out recently was the **March benchmark revision** to payrolls. Every year in March, the Bureau of Labor Statistics reconciles the monthly payroll numbers that are obtained from surveys to unemployment insurance claims and revises the already reported payrolls up or down. On September 9th, the revision was released with a **downward adjustment of 911,000 jobs** for the 12-month period from March 2024 to March 2025. This was quite a revision (equates to 76,000 fewer jobs per month than originally reported) and will likely tip the scales at the Fed in favor of a rate cut to help spur growth in the labor market.

Inflation and jobs are a balancing act. This, in a nutshell, is the Fed’s **dual mandate**: *price stability and full employment*. But it appears the Fed will now shift focus to the labor market instead of inflation. With an average of only 27,000 jobs created over the last four months (versus 110,000 a year ago, source: Bureau of Labor Statistics), it makes sense that **job growth** will now be the focal point, instead of prices.

The team discussed these topics and more on our September 15th call.

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

Quick Recap

The meeting began with a discussion on upcoming economic events, including the Federal Reserve meeting and potential rate cuts, industrial production and retail sales economic releases. The team also reviewed current market trends, economic indicators, and asset allocations, with particular focus on small caps, gold performance, and international markets. The discussion concluded with updates on private equity investments, operational matters regarding cash management and trading for client accounts, and upcoming economic data releases.

Next Steps

- Monitor the Federal Reserve rate announcement on Wednesday 9/17.
- Analyze the Federal Reserve's Summary of Economic Projections to be released 9/17.
- Review upcoming industrial production and retail sales reports.
- Evaluate Leading Indicators report to be released Thursday 9/18.
- Review Roadmap projections for client reports.
- Research gold and various analyst predictions for future price points.
- Refine cash management procedures to optimize investing new money.

Rates Update and Fed Policy

The meeting began with a brief discussion on where rates stand now and the upcoming Federal Reserve meeting, with Lee noting there was a high probability of a 25 basis point rate cut, though the market may have already priced it in. Based on current market sentiment, the probability of a 25 basis point rate cut was 96% (per the CME FedWatch Tool, the Chicago Mercantile Exchange).

Market Trends and Asset Allocation

Lee discussed market trends, highlighting potential rate cuts and their positive impact on small caps, commodities, and overall economic growth. He presented asset class returns as of August 29, 2025 showing strong returns in small caps over the past three months, and strong returns in gold over the last 12 months. Lee said both asset classes are in the models and exposures are already allocated to each. Lee expressed optimism about performance on small caps going forward, citing undervaluation metrics by Morningstar and expected future rate cuts. Lee continues to favor international and emerging markets as well, since interest rates in the US will be lower which may cause the US dollar to remain low and shift favor to overseas. But Lee advised maintaining a cautious approach despite current market highs, describing the market as "bent but not broken."

Bond Market and Gold Outlook

Lee discussed the current state of the bond market, noting that spreads have been decreasing and are near historical lows, indicating a positive outlook despite some economic uncertainties. He reviewed recent economic data, including mixed PMI results and a lower-than-expected jobs report, suggesting potential Fed rate cuts. Lee also highlighted gold's performance and potential, citing JP Morgan Research Center's predictions of gold reaching \$4,000 by early 2026, and discussed the positive impact of rate-cutting cycles on gold performance.

March Payroll Benchmark Revision, Breakeven Payroll Growth, and Fed Policy Implications

Lee discussed recent economic trends, focusing on the recent payroll benchmark revision released by the Bureau of Labor Statistics (the “BLS”) which showed a downward revision of 911,000 jobs between March 2024 and March 2025. This benchmark revision is calculated every year as a way to adjust payroll numbers from the monthly survey data to actual employment counts derived from state unemployment insurance tax records. Those are a better indication of actual payrolls across the country. Each March, the payroll numbers are reconciled to the unemployment tax records to better reflect the state of the jobs market.

In this case, with 76,000 fewer jobs per month than originally reported, lowering it from 147,000 payroll gains per month to 71,000 (per JP Morgan estimates, and BLS statistics). That points to an even weaker jobs market than originally expected. And with that data, it might cause the Fed to shift policy by easing rates to help restore balance to the jobs market.

Lee also noted that the final benchmark revision will not be released until February 2026 and usually the final revision is revised upward. JP Morgan estimates it could be revised up from 71,000 gains per month to 90,000. But still, the St. Louis Federal Reserve's projection for breakeven payroll growth is 150,000 jobs added per month so even at 90,000 that is still lower than breakeven. Which would still point to a slowing jobs market and risk unemployment to raise. This is the “bent” aspect Lee is inferring to but with the Fed able to adjust rates down to help spur job growth (by making it easier to borrow money for companies to grow which will promote hiring) that could make it an easy decision for the Fed to cut rates on September 17.

Inflation Still Running Hot – It’s All About Supply and Demand

Aside from the jobs market, the latest Consumer Price Index (CPI) data for August 2025 showed inflation at 2.9% headline (all goods and services) and 3.1% core (excluding food and energy). Both are well above the Fed’s 2% target (**Figure 1**) but have been steadily coming down. However, core goods prices are beginning to show a steady rise, most likely due to tariffs (**Figure 2**).

Figure 1: Core inflation

% ch, over year ago

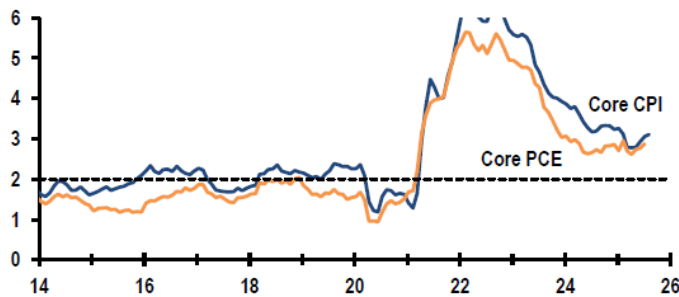
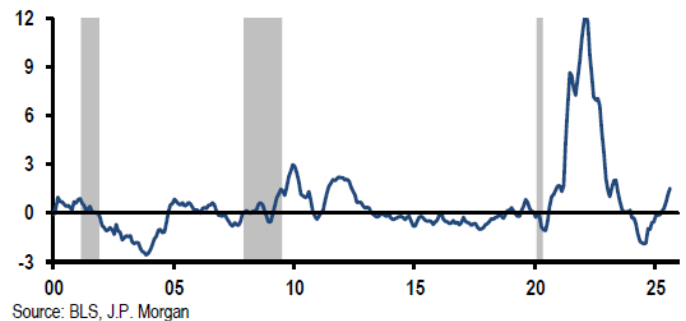


Figure 2: Core goods CPI inflation

%ch, over year ago

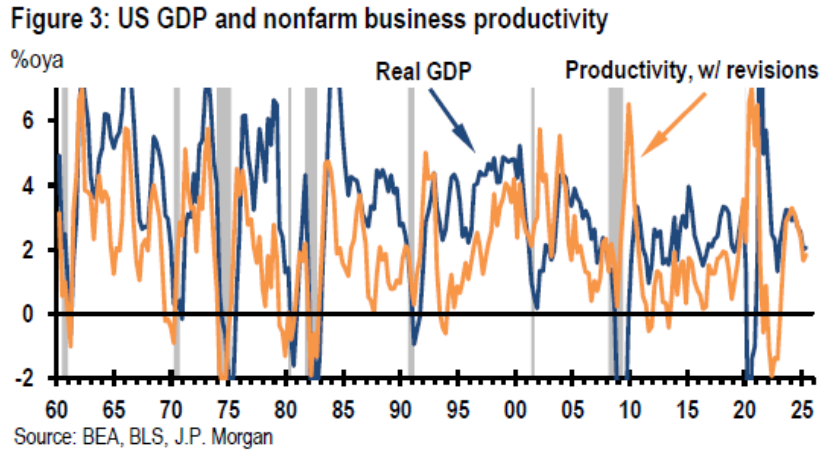


This may be the beginning of a period where prices simply remain elevated as tariffs begin to take hold. But Lee explained that there are expectations among analysts that it will be short-lived because tariffs are usually a one-time upward adjustment until prices stabilize and companies settle into the new import environment. It is a balance between supply and demand, just like the labor

market has a supply/demand balance. With labor supply being how many workers are available in society and labor demand being how many jobs are available by companies that are looking to hire.

Economic Indicators and Productivity Trends

Lee discussed the current economic indicators, highlighting a strong correlation between productivity and GDP growth in the past two years, potentially driven by the AI boom (**Figure 3**). And that the hope that the productivity balance there will help drive Gross Domestic Product up. He noted positive trends in manufacturing and services sectors as well, with S&P Global reporting solid growth, though the ISM report showed some contraction in manufacturing. Lee also reviewed earnings projections, indicating 7.6% growth for Q3 and a profit margin of 12.7%, with utilities and information technology being favored sectors. He mentioned upcoming events, including the Fed meeting and jobs reports, and expressed optimism about market tailwinds from Fed easing, strong earnings, and AI developments supporting current investment allocations.



Private Equity and Market Updates

Lee shared information about various private equity investment opportunities, as a way for clients to invest other sources of money, to diversify their holdings. He presented a few offerings that are approved at Cetera in the private equity space focused on acquiring controlling stakes in durable, growing, middle-market businesses to provide a combination of current income and long-term capital appreciation for investors, as well as a private offering in the oil and gas space.

Asset Class Performance and “Shopflation” Effects

The discussion circled back to current market performance across various asset classes, again noting strong returns in international markets and small caps recently. The team also discussed upcoming economic data, including expectations for a rate cut and the retail sales report. Colleagues raised concerns about potential "shopflation" effects from tariffs, or sticker shock on price tags, and how a possible rate cut would help with that sentiment. Lee also commented on the labor market imbalance and that while a rate cut would be nice, it may not significantly impact the market a sit may already be price din, but multiple rate cuts would be beneficial.

System Operations Discussion

Lee and the team discussed various operational tasks, checks, and notifications for incoming fund transfers to help invest cash when it comes into client accounts. The team agreed to check procedures and notifications settings to help optimize the process for investing new money.

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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“Stay the Course”

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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.