



*PPA Insights*  
**Market Monday: “Strategic Summer”**  
**Market Update and Strategy Call | Episode 17**  
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**Valor Asset Management™**



**Week of: July 14, 2025**

The PPA investment team met again on **Monday, July 14, 2025** to discuss current economic and market conditions and how that relates to our portfolio management process. We talked about how **tariffs** are starting to come back into the picture after President Trump sent **20 letters** out to various countries with new trade terms. Brazil topped the list, with a surprise **50%** tariff rate, while Canada also surprised with **35%**. The July 9 tariff deadline was also extended to **August 1** so we will see how that plays out over the next few weeks.

The market seems to be accepting the current trade environment at the moment. Which is evolving into a **give and take negotiation** scenario. It also seems like the market is comfortable with tariff rates anywhere between 10-30%. The team discussed how this might ultimately be the final range for trade partners with the U.S., with a few outliers. In any case, the market seems to be in a good spot right now as we continue to see **all-time highs**.

**Second quarter earnings** season begins now too with bank earnings set to report first. This will put current market sentiment **to the test**, as earnings projections for the second quarter have come down since the beginning of the year, mostly on expectations for the impact of **tariffs** on **company margins**. It will be important to listen to how companies will treat the impact of tariffs on their bottom line going forward. The team also discussed this challenge, as well as expectations for growth, both in the economy and ultimately the markets through earnings.

Speaking of growth, the **Consumer Price Index** for June, or CPI, came out on Tuesday July 15. It came in at **2.7%** over the last 12 months. This was in-line with what was expected, but does show a slight uptick to the highest level since February. This is probably the first sign of the pass-through effect on tariff pricing to the consumer and it will be an important part of the growth conversation going forward.

It is important to keep in mind there is still **uncertainty** out there, and as investors we must remain **vigilant** in our positioning and decisions. Essentially, we must stay **“strategic”** as we navigate the current investment landscape. In a way, we are in the middle of a **“Strategic Summer”**.

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

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### **Next Steps**

- Continue working on the rebalance percentages this week.
- Break out rebalance percentages for qualified and non-qualified accounts.
- Review cash balances for upcoming fees in July.
- Research the US dollar decline and implications for US investors.

## **Quick recap**

Lee provided a detailed analysis of current market performance across sectors, pointing out how **utilities** has led the pack so far this year, mostly on the artificial intelligence trade, as well as expectations for declining rates in the future. The team talked about that, as well as continued discussions on inflation, tariffs, jobs, and potential market responses from the Federal Reserve. From a tariff perspective, the group talked about the difference between “effective” (realized) and “statutory” (or announced) tariff rates and how lower (effective) tariff rates could ultimately be a reality as supply chains regroup and import mix changes. The conversation ended with reviews of investment opportunities and portfolio adjustments, including discussions about various alternative investments and how they play a role in portfolios.

## **Economic Recovery and Inflation Challenges**

Lee discussed the current economic situation, highlighting inflation concerns and the impact of tariffs. He noted that while transportation and hospitality sectors are showing signs of recovery including more favorable outlooks (as evidenced from a major airline who reported recently), overall inflation remains a key issue. The next CPI report will shed more light. Lee also touched on the Federal Reserve's likely response to inflation and the potential for rate cuts in the fall. He emphasized the need for investors to stay diversified and hedged in the face of uncertainty. Lee also mentioned that the recent tax bill signing could help reduce uncertainty, but suggested that the labor market may be cooling due to factors like immigration-related job losses.

## **Market Trends: Small Caps Still in the Spotlight**

Lee discussed market trends and sector performance, noting that small-cap value stocks are trading at a 25% discount while growth stocks remain at an 18% premium. He mentioned plans to increase the small-cap value allocation in the next rebalance to 16-18% in aggressive models. Lee highlighted that utilities are the top performers this year, driven by data center and AI themes, and the team is overweight this sector. He also pointed out opportunities in cyclicals, particularly in materials and financial services, mentioning a few ideas as potential additions to the mid-cap space.

## **Sector Insights**

The team continued discussing current market sector performance and valuations through the beginning of the year. Utilities (12.4%), Communication Services (11.4%), and Financial Services (9.6%) have been the top performers so far this year (per Morningstar). The team also discussed the latest FactSet earnings insight which projects Healthcare (+15.2%), Real Estate (+12.5%) and Energy (+11.2%) to be the top performers for the year. Other ideas were also discussed, particularly in the alternatives space as it relates to financial services as deregulation and certain legislation in the space is now beginning to take shape.

The team agreed to further look at the alternative ideas being proposed for the financial services sector, in particular exchange of money services. However, concerns were raised about increased regulatory oversight on these payment services and how that might affect growth and outlook going forward, suggesting that might tip the scale towards traditional banking sectors. In any case, it was agreed to look at the space further for possible investment.

### Job Market Limbo: “No Hire, No Fire”

The team talked about the current “No Hire, No Fire” mentality in the job market right now. The June employment report was a mixed bag, showing solid job growth, but a quirky jump in local and state government hiring. The unemployment rate also dropped to 4.1% but again it was a little misleading because fewer people are actually looking for a job. Which lowers those who are consider “unemployed”. So, we have been getting a few mixed messages from the labor market lately. However, recent **jobless claims** have countered that trend where they came down to **227,000** in the latest report, the lowest reading since mid-May. But continuing claims continue to inch up, to the highest since late 2021. This simply shows the labor market appears to be in a “No Hire, No Fire” phase right now, almost like in Limbo (see Figure 1). But it is important to keep in mind how immigration-related job losses may become a factor in the coming months and quarters and how the Fed may react (possibly lowering rates sooner).

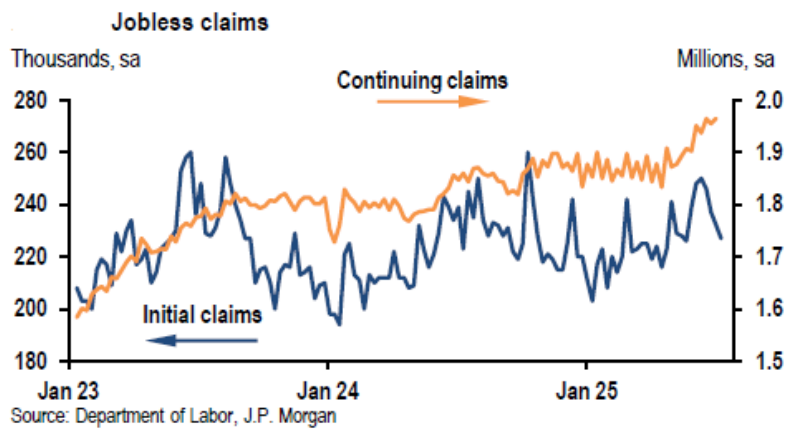


Figure 1: Jobless Claims

### Tax Bill and Project Deficit

Lee discussed the impact of the recent tax bill, highlighting that it will increase the deficit by \$3.3 trillion due to a \$4.5 trillion revenue loss versus a \$1.2 trillion spending loss. The team also discussed a change in gambling tax laws, noting that high-end gamblers may be affected as they can now only deduct 90% of their losses, potentially impacting the casino industry.

### Fixed Income Market Spread Analysis

Lee discussed the current state of fixed income markets, noting that spreads are tight, indicating a low perception of risk despite tariff uncertainty. He compared current spreads to historical averages, observing that they are well below long-term averages for both investment-grade and high-yield bonds.

Asset Class	Current Spread (basis points) 100 basis points = 1%	Historical Spread (basis points) 100 basis points = 1%
High Yield Bonds	292 = 2.92%	536 = 5.36%
Investment Grade Bonds	83 = 0.83%	148 = 1.48%
<b>Source:</b> Morningstar, as of June 30, 2025		

This suggests spreads may widen out from here, providing a possible investment opportunity in certain bonds. Because as spreads go higher, prices for bonds go lower. But it is all case specific as spreads for different bonds change at different rates. In any case, Lee suggested staying in longer-duration investments to lock in higher yields and benefit from potential interest rate declines (and potential price appreciation due to the inverse relationship on bond rates and price). Lee also suggested to avoid high-yield and floating-rate bonds for now and predicted that spreads would eventually widen on the mean reversion principle (a theory that asset prices and other market metrics tend to move back towards their historical average or mean over time). They could also widen as the market becomes less comfortable with risk (spreads widen when the market perceives risk/uncertainty on the horizon. They narrow when perceived risk is low).

### **Tariffs' Economic Impact and Volatility**

The team discussed the economic impact of tariffs, noting that while they have contributed to a latest tariff revenue of \$27 billion in June, there are concerns about their long-term effects on the economy. They agreed that the drag from tariffs might be overlooked due to the summer season, but could become more apparent as the year progresses. The team agreed is made sense to take a cautious, “**strategic**” approach to tariffs despite the market's current optimism, suggesting that volatility could increase with potential geopolitical tensions.

### **Investment Opportunities**

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. Possible shift back to U.S. large caps in light of tariff deals coming to completion.
2. High yield bonds after high yield spreads widen out closer to historical levels.
3. Canadian 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.
4. \*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 could be tariff friendly as 60-70% of India’s economy is driven by domestic consumption, not foreign imports that get taxed.
5. International hedged equity, as a pair with our overweight position in international. This may help offset possible volatility in the region from tariff uncertainty.
6. \*Long term bonds as longer term rates creep up towards the 5% range.
7. \*U.S. Small Caps as they tend to do more business in the U.S. and may not be impacted as much from tariffs.

8. Real Estate (REITs), as mortgage rates are expected to come down to 5% longer term.
9. Property & Casualty Insurance, a tariff neutral business model.
10. \*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.
11. \*Defensive sectors like Healthcare, Utilities and Staples as tariff uncertainty continues.
12. Product liability in future AI controlled technology as AI products begin to shift risk from humans to machines.
13. \*Discount retailers, as the consumer may be shifting their spending patterns to lower priced options with tariff inflation on the horizon.
14. \*Big Tech, as capital spending and research on AI continues at a record pace.
15. 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 continue with a **defensive** stance in the investment models, with **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.

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) measures the average change over time in the prices urban consumers pay for a market basket of consumer goods and services. Essentially, it reflects how much more or less it costs to buy the same set of commonly purchased items each month or year (a “basket” of goods). This basket includes items like food, housing, transportation, clothing, and medical care.

The Personal Consumption Expenditures (PCE) Price Index is another key measure of inflation and is preferred by the Federal Reserve. It tracks changes in the prices of goods and services purchased by U.S. households and nonprofit institutions. It differs from the CPI which tracks out of pocket expenditures of urban households in that it offers a broader view of consumer spending, including indirect payments, and is more dynamic in its weighting.

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.

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.

The effective tariff rate is a measure of the actual tax burden on imported goods, taking into account real world complexities such as exemptions, quotas, shipping delays and product mix shifts.

A statutory tariff rate is the legally announced tax rate on imported goods that a government sets and can be found within a country's tariff schedule. These rates act as maximum limits, and actual applied rates (effective) can be lower depending on trade agreements or other preferential programs.

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 limited upside.

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.

“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.

A bond spread, or yield spread, is the difference in yield between two bonds, often used to compare the relative risk and value of different bonds. It is typically calculated by subtracting the yield of a benchmark bond (like a Treasury bond) from the yield of another bond (like a corporate bond). A wider spread indicates a higher perceived risk or a greater valuation differential between the two bonds.