

Portfolio Changes

Model Changes:

- Bought XLK 3%
- Trimmed IVV 5%,
- Added QQQ 1.5%, SCHG 5%, IWP 1%, XME 0.5%, URNM 1%, EWY 0.5%, SPSM 1%, SPMD 1%
- Sold LVHD 3%, SMIN 2%

Drivers of Portfolio Changes

- Rotating slightly more into BM beta as we approach an inflection in economic growth in the US.
- Getting slightly overweight small/mid-caps as earnings have improved and should also benefit further if reshoring and capital investment commitments pan out.
- Maintain positions that work in Stagflation.
- No changes in fixed income exposures.
- Model Yield 2.8%
 - Bond Yield – 4.77%, Effective Duration 5.33

Current Economic Highlights

- Personal consumption 2.7% YoY vs 2.1% prior revised.
- Headline retail sales 3.9% YoY vs 4.5% prior revised.
- Retail Sales control group up 4.8% YoY vs 4.5% prior revised.
- Industrial production 1.4% YoY vs 0.8% prior revised.
- The unemployment rate was up to 4.2% vs 4.1% prior.
- Aggregate Hours worked 1.5% YoY vs 0.8% prior revised.
- Aggregate labor income 5.3% YoY vs 4.5% prior.
- Total employees on non-farm payrolls 1.0% YoY vs 1.0% prior revised.
- ISM manufacturing PMI still in contraction at 48.0 vs 49.0 prior.
- ISM Services PMI up to 50.1 vs 50.8 prior.
- Core PCE ticked down to 2.8% vs 2.8%, revised the previous month.
- Q2 2025 GDP 2.0% YoY vs 2.0% YoY in Q1 2025
-0.3% QoQ vs 2.4% QoQ in Q4 2024
- Personal Consumption Expenditures 1.4% vs 0.5% (Q2 2025 annualized)

Forecast

- Growth is likely to bottom in Q3 and inflect higher into early next year, which will likely be juiced further from the big beautiful bill passed this year.
- Inflation to remain a concern until later this year as tariff impacts are reflected in reported data and should top out and ease heading into early next year given the current underlying economic environment.
- Expect some volatility in the very near term as portfolios are rebalanced with valuations extended. Any weakness is likely an opportunity to get positioned for an inflection in the economy with signs already in place of a much broader equity market.
- Fed will likely cut rates by 25 bps in September with the backward-looking data showing signs of weakness both in the economy as well as labor markets. However, it likely will be one and done vs markets still expecting two rate cuts this year.