

Portfolio Changes

Model Changes:

- Bought KRE 3%, XBI 1.75%, JBBB 10%
- Trimmed QQQ 1.5%, EWY 1%, URNM 1%, IUSB 5%, FBND 5%
- Added ETHA 0.5%
- Sold XLU 2%

Drivers of Portfolio Changes

- Adding some cyclical exposure as we expect an inflection on growth into early next year.
- Yields continue to be range bound, reduced duration marginally as rate cut expectations peaked and rates moved closer to the lower end of the range.
- Continue to maintain higher beta positions with asymmetry.
- Model Yield 2.2%
 - Bond Yield – 4.9%, Effective Duration 5.05

Current Economic Highlights

- Personal consumption 2.7% YoY vs 2.5% prior revised.
- Headline retail sales 5% YoY vs 4.1% prior revised.
- Retail Sales control group up 5.9% YoY vs 4.9% prior revised.
- Industrial production 0.9% YoY vs 1.3% prior revised.
- The unemployment rate was up to 4.3% vs 4.2% prior.
- Aggregate Hours worked 0.8% YoY vs 1.1% prior revised.
- Aggregate labor income 4.4% YoY vs 4.9% prior revised.
- Total employees on non-farm payrolls 0.9% YoY vs 1.0% prior.
- ISM manufacturing PMI still in contraction at 48.7 vs 48.0 prior.
- ISM Services PMI up to 52.0 vs 50.1 prior.
- Core PCE flat at 2.9% vs 2.9%, revised the previous month.
- Q2 2025 GDP 2.1% YoY vs 2.0% YoY in Q1 2025
3.8% QoQ vs -0.5% QoQ in Q1 2025
- Personal Consumption Expenditures 2.5% (Q2 2025 annualized) vs 1.6% (Q1 2025 annualized)

Forecast

- We continue to expect growth to inflect higher into early next year with some visible tailwinds from new policy early next year. Some of these expectations are now reflected in consensus positioning and we may be in the later innings than the beginning.
- Inflation should re-accelerate marginally in the short term and will likely stabilize around 3% over the intermediate term.
- We continue to expect markets to climb the wall of worry as consensus remains bearishly positioned relative to the underlying economic dynamic with ample hedging activity despite elevated valuations.
- Employment data has weakened over the last year and is typically a lagging indicator and FED has cut rates based on it; we should expect further cuts next year into an growth inflection which should bode well for risk assets creating a goldilocks environment in early 2026.