

When Data Rule

Weekender

August 9, 2025

Without data, you're just another person with an opinion.

The greatest waste ... is failure to use the abilities of people ... to learn about their frustrations and about the contributions that they are eager to make.

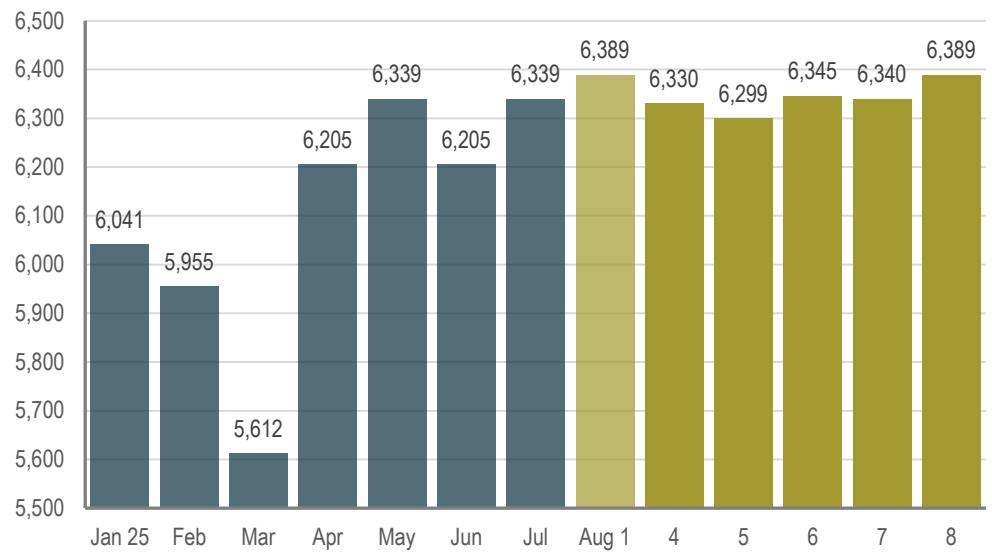
The most valuable "currency" of any organization is the initiative and creativity of its members. Every leader has the solemn moral responsibility to develop these to the maximum in all [the] people. This is the leader's highest priority.

William Edwards Deming

Good morning and welcome to the *Weekender* for Saturday, August 9, 2025. For US equities, it was a limp week. Completely flat. The Standard and Poor's 500 ended the week at precisely the same spot it started. Approximately 91.1% of the S&P 500 constituents have reported earnings for the second quarter. In aggregate, earnings were strong but only half as strong as analysts had expected going into 2025. We will discuss earnings in much more detail next week.

S&P 500 Index Levels

(Source: Bloomberg)



Aside from earnings, equity and debt markets are trying to make sense of conflicting US economic data. Economic growth is strong but heavily influenced by corporate and consumer actions that pull forward purchases and stock-piles to avoid potential tariff-related stockouts or price hikes later in the year or next year. Inflation has been rising, but not so much that economists fear a general trend higher. Inflation data can also be explained by tariff-related price pressures that have not yet materialized due to tariff delays and effective preemptive countermeasures. Labor markets remain resilient but pensive. Resilient from the perspective that nothing seems broken. Contemplative in the sense that companies and government entities are not hiring, but they're not firing either.

Most economists and strategists are taking a wait-and-see attitude to predicting the future, which is the same strategy we espouse. We are positioned for economic softness by holding substantial fixed income and protective equity positions. Economic softness is certainly being telegraphed, which we expect to get worse as tariff impacts work their way through the system. Inflation is also likely to continue to hold higher than expected, and much higher than the Federal Reserve's 2.0% target. We anticipate stagflation to be the economic environment most likely to unfold over the coming year.

Be sure to consult a qualified financial advisor before making important financial decisions.

Market Narrative

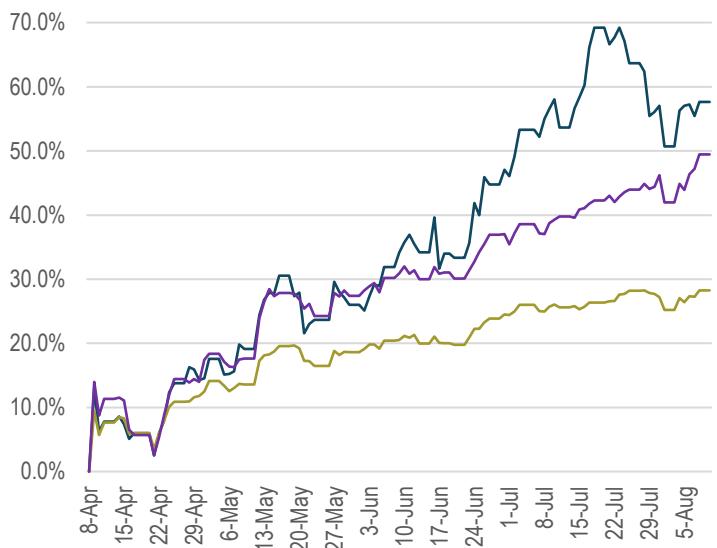
Since the tariff nadir in April, equities have staged a forceful rally. When looking at driving factors, there are two dominant players. Companies in the S&P 500 that lose money have led the way, higher by 57.6% since the April bottom. The Magnificent Seven are higher by 49.4% and the S&P500 is up by 28.2%. What is clear is that postponed tariffs are not the same as tariffs denied. They are coming, and their impact will follow.

We believe that company fundamentals are not guiding market dynamics at the moment. Instead, relief from tariff delays has catalyzed a stock market frenzy that has taken hold of many retail investors and traders. Valuations are back at all-time highs with earnings prospects, outside of artificial intelligence, fading by the moment.

Period Returns for Money Losing (Blue), Mag 7 (Purple) and S&P 500 (Gold)

April 8 - August 8, 2025

(Source: Bloomberg)



As an illustration of how lopsided the equity market currently is, the Magnificent Seven now accounts for approximately 33.8% of the total market value of the S&P 500, a record. Interestingly, profits from the magnificent seven also account for a similarly disproportionate share of the S&P 500 members

Mag 7 Market Value as a Percent of the S&P 500

January 2019 - August 2025

(Source: Bloomberg)



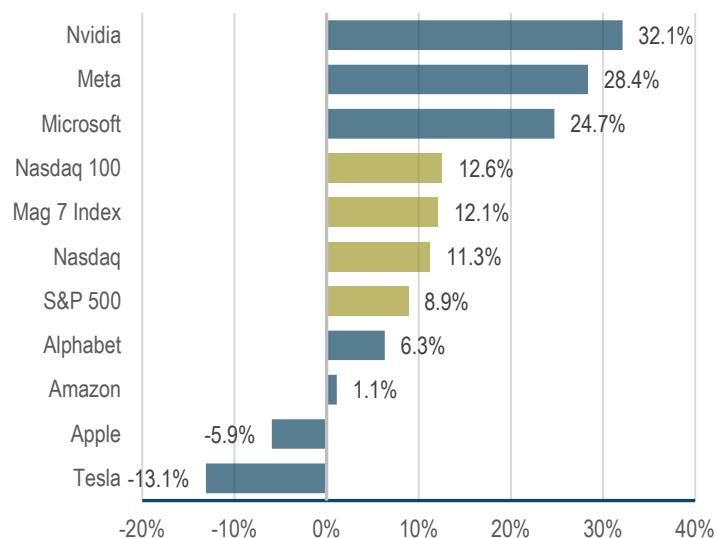
Year-to-date equity returns are also heavily skewed by the Magnificent Seven, even though two of its members, Apple and Tesla, are in negative territory from January 1, 2025, through Friday.

Year-to-Date Returns

January 1 - August 8, 2025

(Source: Bloomberg)

As a historical confirmation of stagflation, the relationship between the dollar, the blue line, and the ten-year US government bond yield is now completely untethered.



US Dollar Index (Blue) and US 10-Year Government Bond Yield (Gold)

S&P 500 (Blue)

January 1 - August 8, 2025

(Source: Bloomberg)



Economic Narrative

While stagflation seemed in the cards, at least for the United States, markets are not yet wholly convinced. We track portfolios of stocks that excel during periods of stagflation. During the early tariff threats, stagflation portfolios outperformed the S&P 500. When delays and decanting waxed, stagflation fell, and the S&P 500 recovered. Now that the tariffs seem to be more of a fixture than a bargaining chip, financial markets are trying to find their way.

Year-to-Date Returns of Stagflation (Gold) and S&P 500 (Blue)

January 1 - August 8, 2025

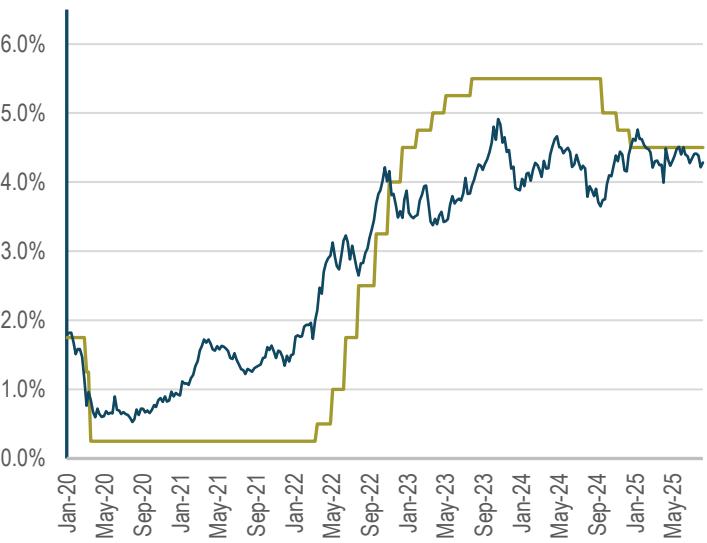
(Source: Bloomberg)

US government bond yields are stubbornly married to the Federal Reserve's target rate, a reflection of rate uncertainty over the next six months.

US 10-Year Government Bond Yield (Blue) and Federal Reserve Target Rate (Yellow)

January 2020 - August 8, 2025

(Source: Bloomberg)



As inflation rises, the restrictive impact of higher rates softens. The ratio of the Federal Reserve's target interest rate to inflation suggests the economy may be able to get more comfortable with higher rates.

Conclusion

Thats it for this *Weekender*. Next week we will do a deep dive into earnings results for the second quarter and expectations going forward now that there is a little more precision on where tariffs will settle. Have a wonderful week.

Disclosure Statement

Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors cannot invest directly in an index. Past performance does not guarantee future results. Investing involves risk, including loss of principal.

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