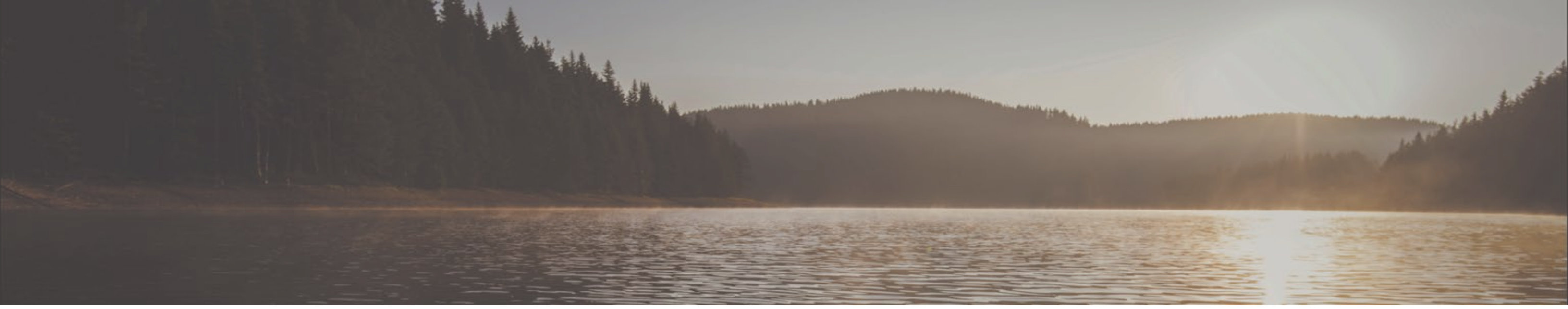
Monthly Market Update – August 2025

RIVERCHASE
WEALTH MANAGEMENT



Executive Summary

Throughout July, economic data continued to show a resilient economy, defying expectations of a slowdown induced by tariffs. In part, this likely was the result of the tariff effective date being pushed (initially) to August 1st.

Early in the July, markets reacted generally positively to passage of the One Big Beautiful Bill which made permanent the lower personal tax brackets of Trump's first term equivalent, the Tax Cuts and Jobs Act of 2017. We previously provided an update on the key provisions of the OBBBA which can be found on our website.

At the July end policy meeting, the Federal Reserve held rates steady, citing a lack of data suggesting either an acceleration or deterioration in the economy and still unknown impact of tariffs. Powell is caught between a high-pressure campaign by Trump to force a rate cut and the potential for tariff policy to push the economy into a stagflationary environment where inflation rises as importers pass on the cost of tariffs to consumers while consumption declines due to those same higher costs, resulting in lower employment and business investment at the same time.

The first estimate of second quarter GDP came in at a relatively strong 3%. However, this primarily resulted from a significant reversal in imports which added 4.99% to the headline number. This was almost an exact reversal of the -4.61% detraction from GDP in Q1 which resulted from companies frontrunning the April tariff announcements. The offset to the import anomaly has been business inventories which grew when imports rose and have declined as imports fell. On net, that leaves us with very noisy data. As Powell noted, it's going to take some time to figure out the actual impact of tariffs.

So far, we have not seen the uptick in consumer prices which many economists have forecast, possibly because the full tariff impacts have continued to be deferred. However, following month end, the July jobs report did flash a warning sign as July jobs growth came in below expectations at only 73,000 jobs. The bigger concern was above average revisions to prior month data which suggests hiring was much weaker since May than previously thought. The May data was revised down by 125,000 from 144,000, and the June data was revised down by 133,000 from147,000. In total, that's a combined 258,000 lower jobs and means total hiring for May and June was only 33,000 total. Is this the weakness economists have been waiting for?

While the Fed did not have the needed data at their policy meeting at the end of July, the jobs miss (which was reported after the meeting) has solidified market bets that the Fed will cut at their September meeting. According to CME Group, the probability of a cut was sitting at roughly 64% at the end of July and has since climbed into the low 90% levels.

It feels like we're reaching a bit of an inflection point where anecdotal data suggesting a change in company and consumer behavior following the Liberation Day announcements may finally reflect in lagged economic data.

Market Summary
Index Returns

Asset Class Snapshot	7/31/25
Asset Class	1 Month Return
U.S. Stock	2.24%
Emerging Markets	1.95%
U.S. Bond	-0.26%
Global Stock Ex U.S.	-0.29%
Global Bond	-1.49%

Region Snapshot	7/31/25
Region	1 Month Return
U.S. Stock	2.24%
Emerging Markets	1.95%
Asia Pacific Stock	1.07%
Global Stock Ex U.S.	-0.29%
Europe Stock	-1.78%
Latin America Stock	-4.44%

Equity Style Snapshot			7/31/25
1 Month	Value	Blend	Growth
Large	0.19%	2.34%	3.76%
Mid	1.71%	2.02%	2.42%
Small	1.74%	1.85%	2.00%

Asset Class Summary						7/31/25
Asset Class	1 Month	3 Month	YTD	1 Year	3 Year	5 Year
U.S. Stock	2.24%	14.21%	8.59%	16.33%	17.10%	15.88%
Global Stock Ex U.S.	-0.29%	7.82%	17.56%	14.73%	12.61%	9.11%
U.S. Bond	-0.26%	0.54%	3.75%	3.38%	1.64%	-1.07%
Global Bond	-1.49%	0.02%	5.67%	4.40%	1.52%	-2.07%
Emerging Markets	1.95%	12.69%	17.51%	17.18%	10.50%	5.40%

U.S. equity markets shrugged off policy uncertainty and rallied to new record levels into late July. U.S market strength was supported by unexpectedly strong earnings results roughly 2/3rds of the way through Q2 earnings season. Large growth stocks, lead by the Magnificent 7 stocks, lead returns.

International markets were similarly strong in local currency terms, but lagged U.S. equities as the dollar strengthened through July, hurting foreign returns via currency translation effects. On a year-to-date basis, international markets remain well ahead of U.S., bolstered by year-to-date depreciation in the dollar.

U.S. Bonds were slightly negative as rates moved up incrementally for the month while global bonds suffered the same currency induced losses as international equities.

Equities

July 2025 Returns

Sector Snapshot	7/31/25
Sector	1 Month Return
Utilities	4.91%
Technology	3.76%
Industrials	3.04%
Energy	2.83%
Consumer Cyclical	1.89%
Financials	0.00%
Real Estate	-0.02%
Materials	-0.09%
Comm. Services	-1.03%
Consumer Defensive	-1.47%
Health Care	-3.23%

S&P 500 Sector Weights*	8/4/25
Sector	Weight
Technology	35.34%
Financials	13.27%
Consumer Cyclical	10.26%
Comm. Services	9.96%
Health Care	8.99%
Industrials	7.81%
Consumer Defensive	5.28%
Energy	2.94%
Utilities	2.50%
Real Estate	2.01%
Materials	1.63%

Sector Summary						7/31/25
Sector	1 Month	3 Month	YTD	1 Year	3 Year	5 Year
Cyclical						
Consumer Cyclical	1.89%	12.49%	-0.83%	19.13%	11.77%	10.97%
Financials	0.00%	7.77%	9.11%	21.52%	17.87%	18.99%
Materials	-0.09%	5.10%	5.28%	-2.93%	6.06%	9.92%
Real Estate	-0.02%	1.16%	3.38%	3.88%	1.24%	6.21%
Sensitive						
Comm. Services	-1.03%	12.81%	11.54%	26.58%	25.22%	14.11%
Energy	2.83%	9.24%	3.45%	-3.35%	7.30%	24.24%
Industrials	3.04%	16.19%	16.06%	20.59%	18.58%	18.01%
Technology	3.76%	25.34%	13.38%	20.90%	23.12%	19.90%
Defensive						
Consumer Defensive	-1.47%	-1.84%	2.72%	5.06%	5.05%	7.71%
Health Care	-3.23%	-6.70%	-4.37%	-11.36%	1.14%	5.99%
Utilities	4.91%	9.33%	14.77%	21.14%	8.32%	10.45%

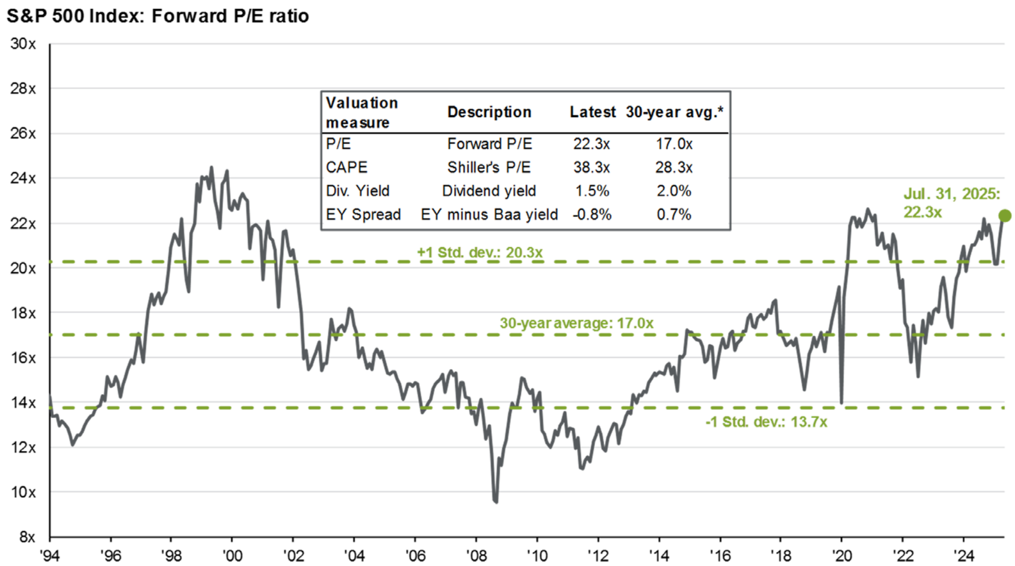
According to FactSet, the percentage of companies in the S&P 500 reporting positive surprises and the magnitude of those surprises are both above 10-year averages. With 66% of companies reporting (as of 8/1/25), 82% have reported earnings that are stronger than estimates, and the average surprise is 8% higher than estimated.

While there remains talk of recession risk and tariff policy uncertainty in economic circles, the earnings outlook remains inconsistent with such talk. At the end of the second quarter, Q2 earnings were expected to grow at 4.9% but currently are on track to grow in excess of 10%. Furthermore, analysts are projecting Q3 growth of 7.6% and Q4 growth of 7%. And finally, that growth is expected to continue as analysts see 2026 growth of 13.6%.

To be sure, the bottom-up EPS estimate on the S&P 500 has declined from a high near $280 roughly one year ago to a current estimate of $265, but that estimate has recently bottomed near $262 and has started to trend higher.

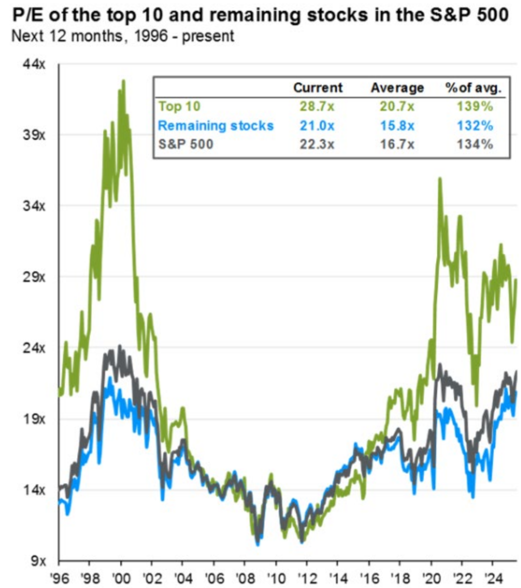
Performance in the S&P 500 for July could once again be primarily attributed to the Technology and Consumer Discretionary sectors. Positive performance combined with outsized weight in the index offset weaker performance elsewhere.

Valuations remain a concern. As the chart below from JPMorgan illustrates, the recent recovery has pushed the forward P/E ratio of the S&P to roughly 30% above the 30-year average.



For much of the last three years, the valuation of the top 10 stocks in the index has been well ahead of the remainder of the index constituents. However, this latest rally has seen broader participation in relative valuations.

While the top ten continue to trade at a higher absolute valuation (28.7x vs. 21.0x for the remainder of the index), the relative valuation gap has closed with the top 10 trading at 139% of the historical P/E average while the remainder trades at 132%.



International Equities

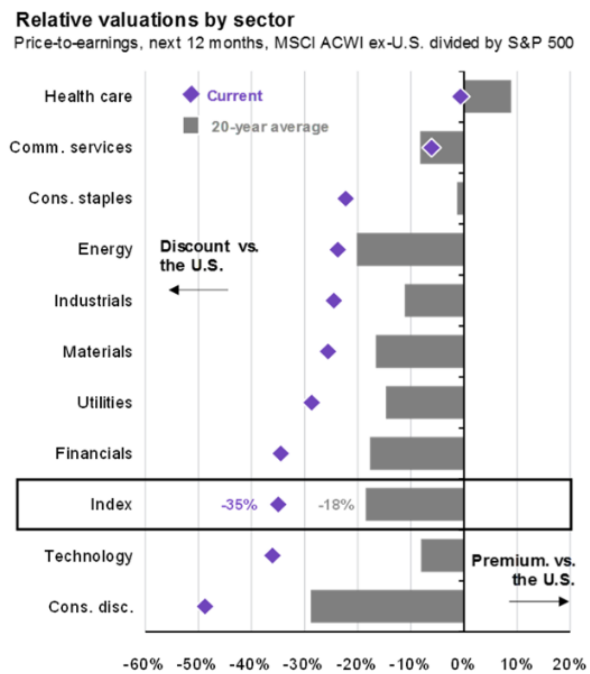
International equities lagged U.S. counterparts for the month, primarily due to a rise in the value of the dollar.

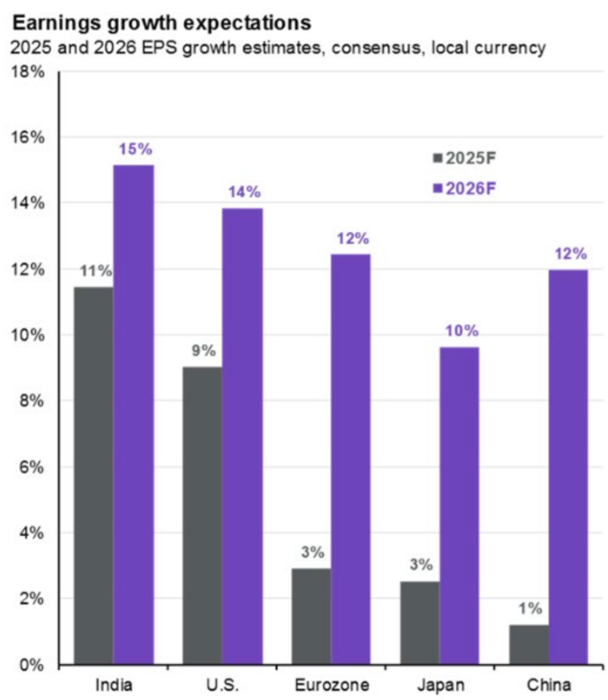
More broadly, as the chart on the right from JP Morgan shows, valuations remain more attractive for international stocks than U.S. stocks. The question is whether that valuation difference will ultimately result in relatively better returns.

One possible catalyst to unlock the return deficit is growth. While U.S. stocks have undoubtedly benefited from an expansion in price multiples, that multiple expansion could arguably be justified by the fact that there was corresponding stronger relative earnings growth over the same timeframe.

Is it possible that could change? Current estimates do not suggest that international markets will soon provide much faster earnings growth than U.S. companies, but earnings growth is expected to accelerate, and at lower valuations, the cost to participate in that growth appears more attractive in international markets.

Of course, it should be noted that expectations have been for stronger returns in foreign markets for much of the last 15 years, a period where American Exceptionalism has resulted in significant outperformance for the U.S. That being said, foreign portfolio exposure does appear to remain warranted at more attractive valuations and reasonable growth rates.





Final Thoughts

President Trump is currently undertaking a significant rewriting of the global trade rules which have been in effect for much of the past several decades of globalization. There are partisan arguments on both sides of the political aisle regarding the future impact of tariff policy on the U.S. economy and company earnings.

Other than the uncertainty created by the frequent policy shifts, the problem facing investors is the lag in actual economic impact and measurement. It takes time for companies to adjust to updated policies, and it likely takes even longer to adjust when those policy changes go through an on again/off again cycle where many companies may simply choose to sit on the sideline and wait it out before making massive changes to investment, employment, and/or pricing decisions. Along the way, there may be some legitimate canaries in the coalmine, and there likely will be temporary anomalies to data (like the net import impact on GDP in Q1 vs. Q2). In short, we have a long way to go to know how the economy and companies will react.

Disclosures and Sources

Riverchase Wealth Management LLC is a registered investment adviser. Information presented is for educational purposes only and does not intend to make an offer or solicitation for the sale or purchase of any specific securities, investments, or investment strategies. Investments involve risk and, unless otherwise stated, are not guaranteed. Be sure to first consult with a qualified financial adviser and/or tax professional before implementing any strategy discussed herein. Past performance is not indicative of future performance.

Sources:
Market Summary Data from Ycharts. The following indices are used to proxy specific asset classes. It is not possible to invest in an index. Index performance does not include product or advisory fees.

- U.S. Stock – S&P 500 Total Return
- Global Stock Ex. U.S. – MSCI ACWI Ex USA Net Total Return
- U.S. Bond – Bloomberg U.S. Aggregate
- Global Bonds – Bloomberg Global Aggregate
- Emerging Markets – MSCI Emerging Markets Net Total Return
- Equity Substyles proxied by CRSP style specific indices
- Sector returns proxied by SPDR ETF sector returns.
- GDP Data from Bureau of Economic Analysis
- Labor Data from Bureau of Labor Statistics
- Earnings Growth Data from FactSet Earnings Insights
- Valuation and International Equity data from JPMorgan