

PORTFOLIO ANALYSIS & CONSULTING

# Market Update

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Lead Portfolio Strategist

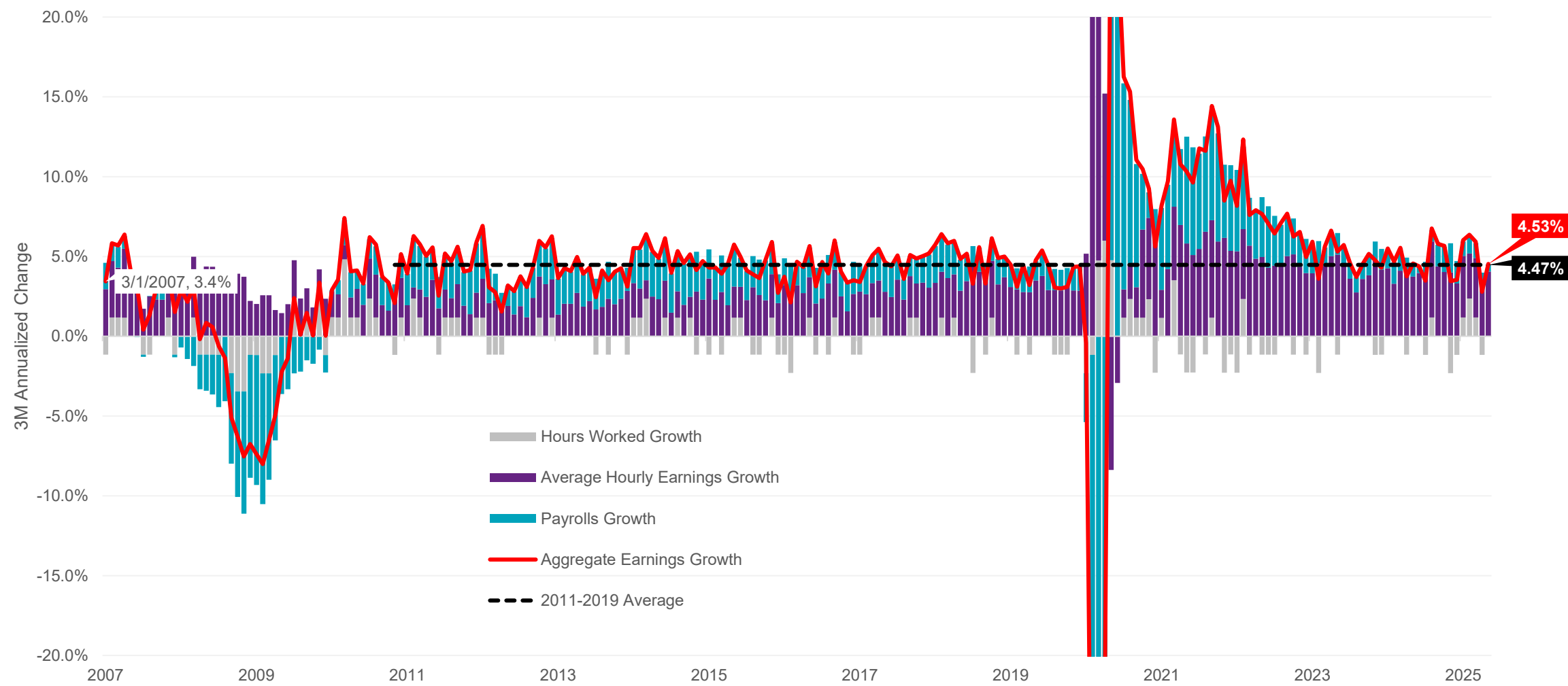




Labor Market Remains the Key

# Household Paycheck Proxy

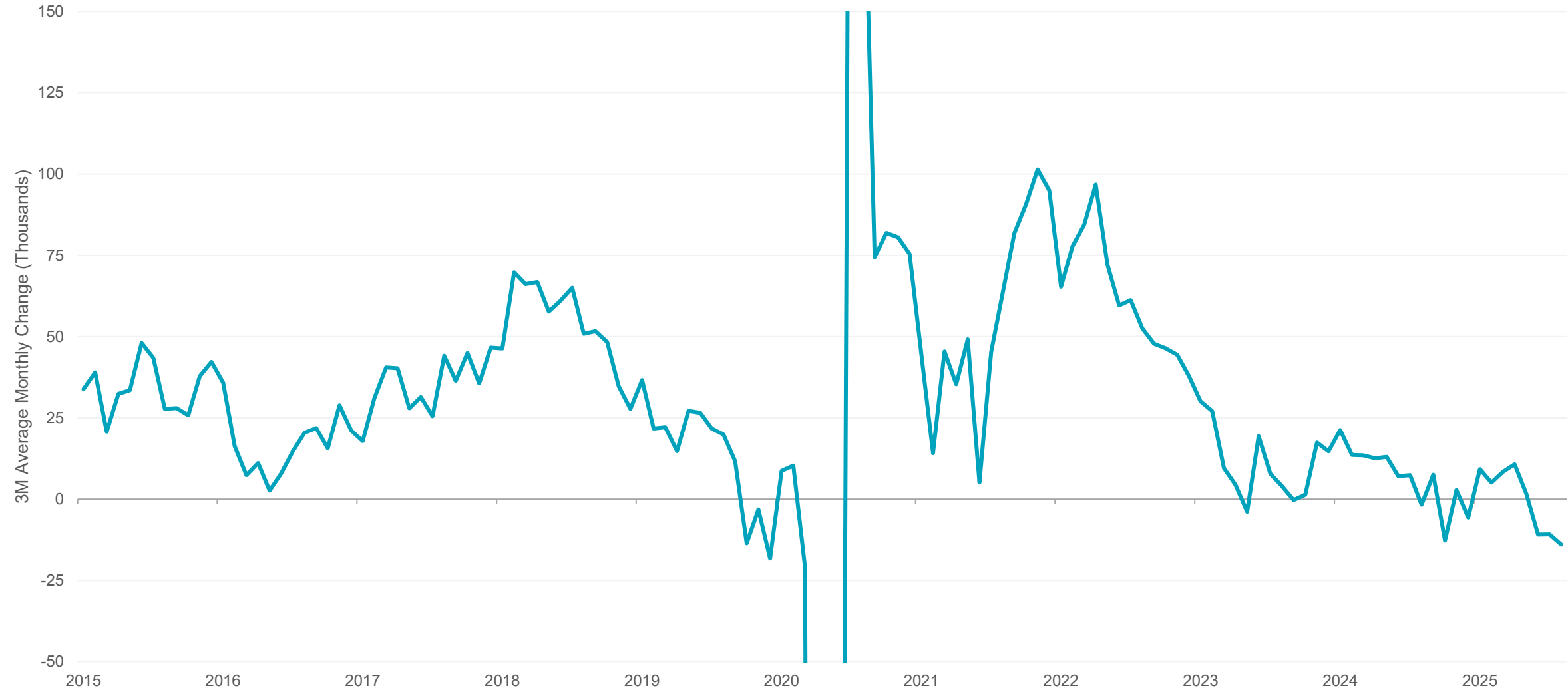
## Aggregate Earnings Growth Contributions (3/31/07–7/31/25)



Source: Portfolio Analysis & Consulting. Bloomberg.

# Cyclical Employment Contracting

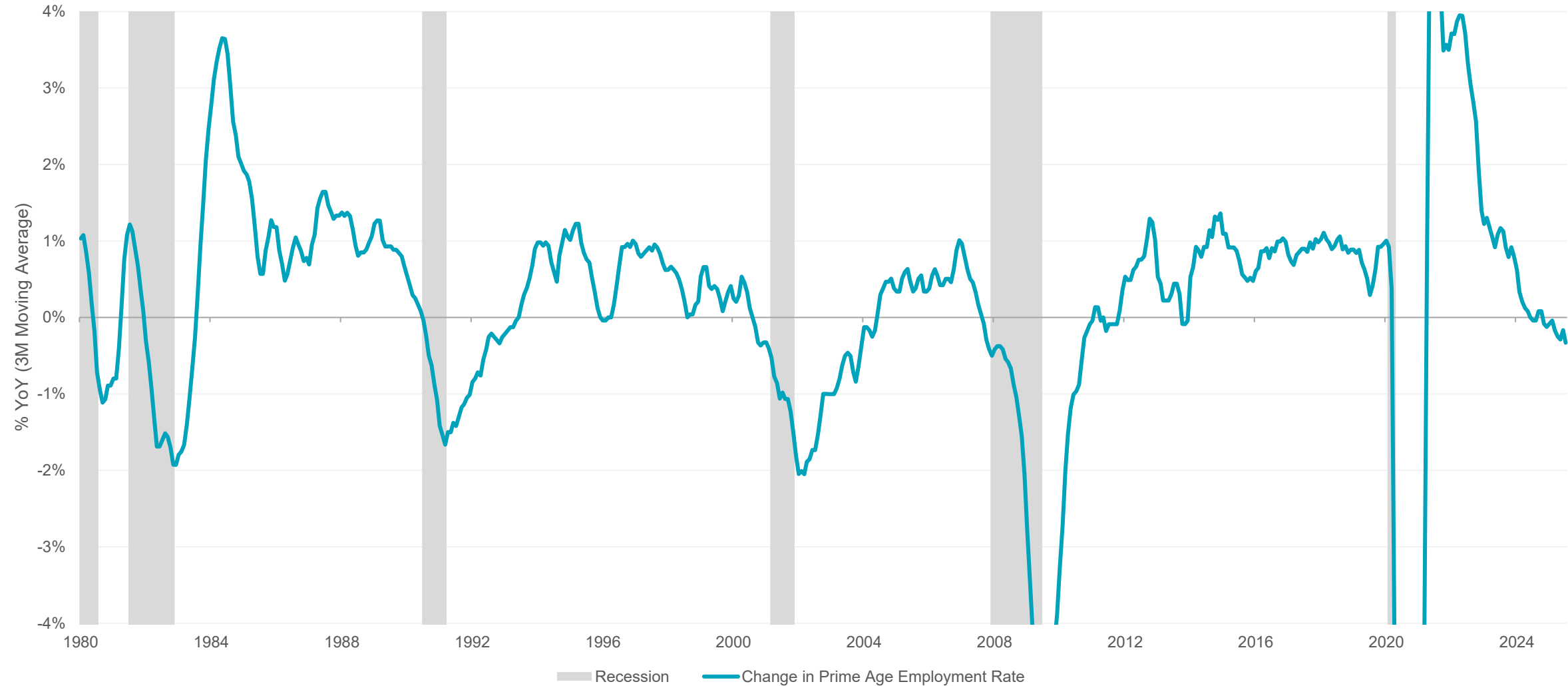
Cyclical Employment (1/31/15–7/31/25)



Source: Portfolio Analysis & Consulting. Bloomberg.

# Prime Age Employment Rate Contracting

Prime Age Employment to Population Ratio (1/31/80–7/31/25)



Source: Portfolio Analysis & Consulting. Bloomberg. Prime Age Employment refers to the age group of 25 to 54 year old.

# Immigration Doesn't Explain Rising Native Born Unemployment

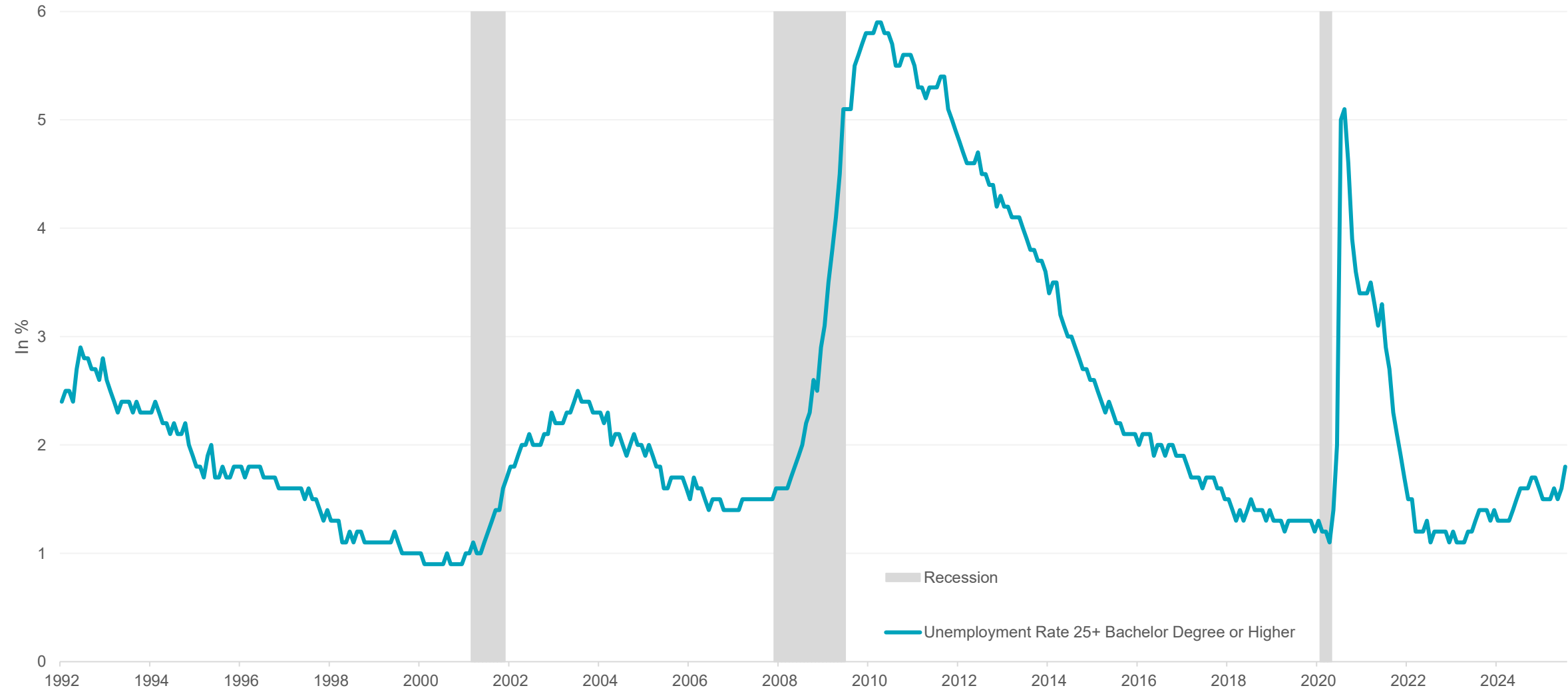
Native Born Unemployment Rate (1/31/21–7/31/25)



Source: Portfolio Analysis & Consulting. Bloomberg.

# Or New Highs in College Educated Unemployment

Unemployment Rate 25+ Bachelor Degree or Higher (1/31/92–7/31/25)

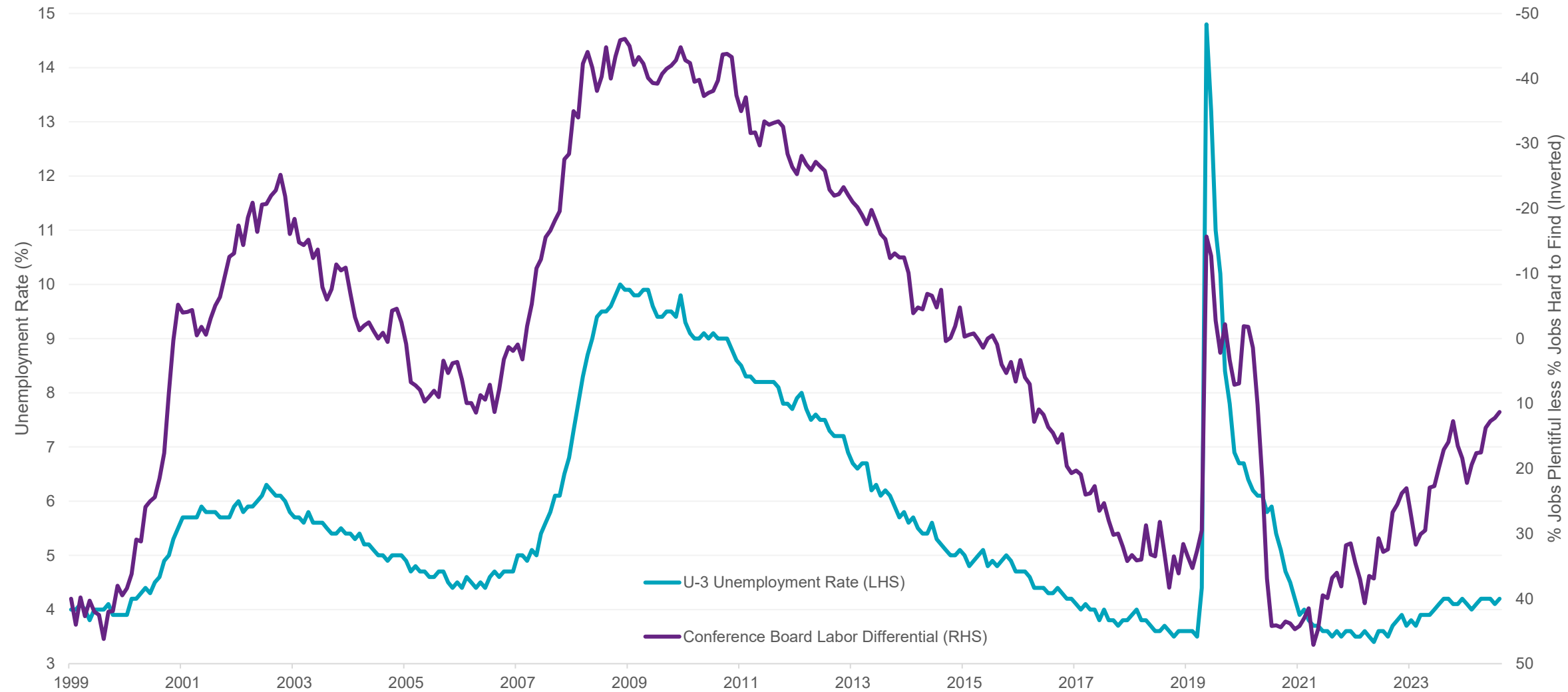


Source: Portfolio Analysis & Consulting. Bloomberg.



# Consumers See Weaker Labor Market

Unemployment Rate vs Conference Board Labor Differential (12/31/99–7/31/25)

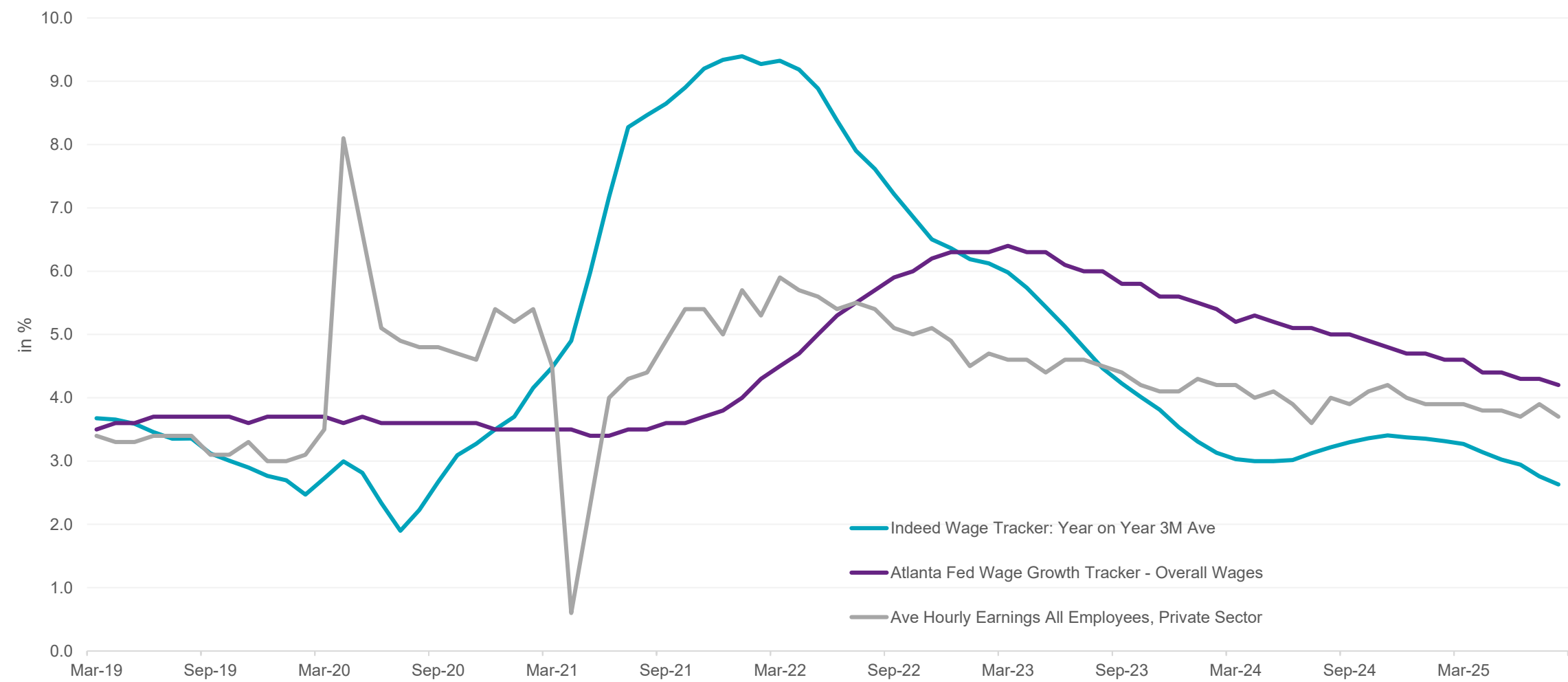


Source: Portfolio Analysis & Consulting. Bloomberg. The U-3 unemployment rate measures the percentage of the civilian labor force that is unemployed but actively looking for work.



# Wage Growth Continues to Ease

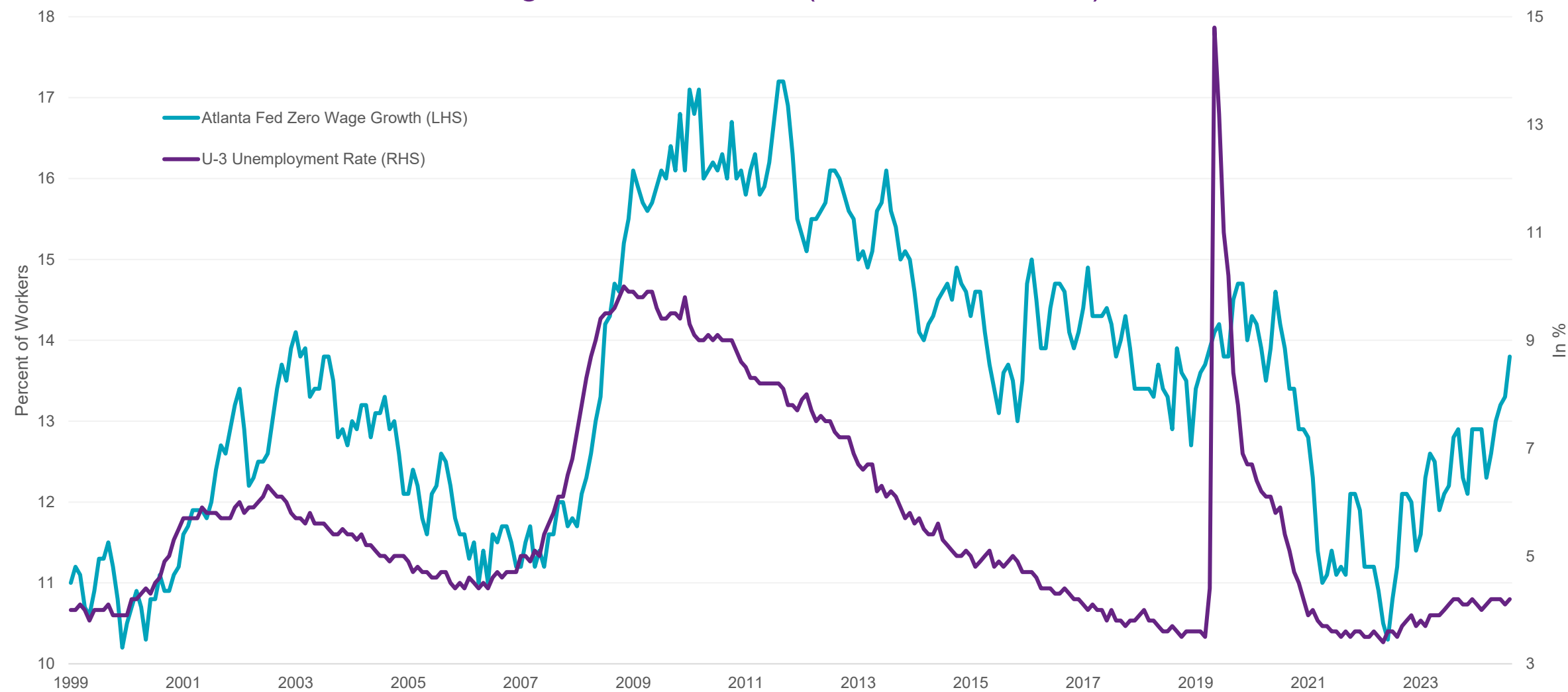
Wage Growth (3/31/19–8/31/25)



Source: Portfolio Analysis & Consulting. Bloomberg.

# Employers Halt Raises First

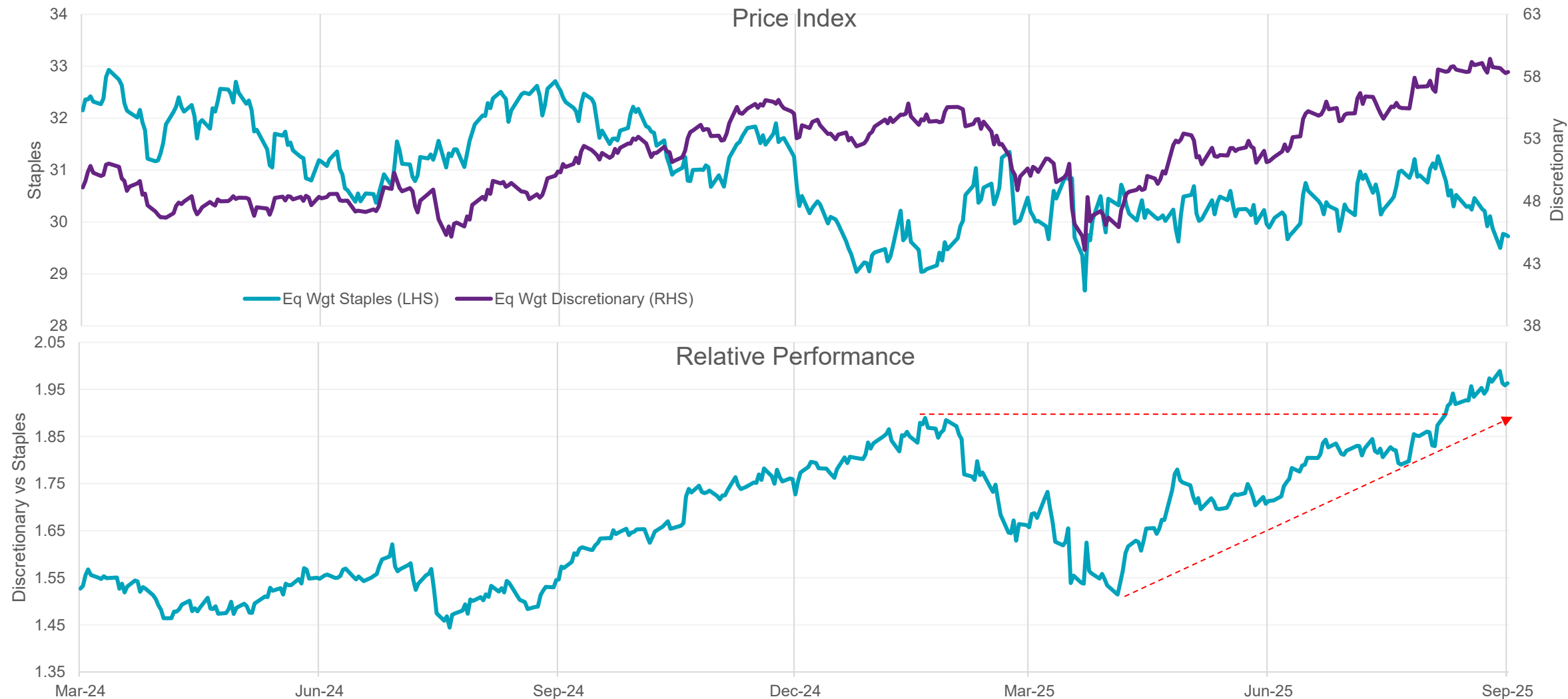
Percent of Workers with Zero Wage Growth vs U-3 (12/31/99–7/31/25)



Source: Portfolio Analysis & Consulting. Bloomberg. The U-3 unemployment rate measures the percentage of the civilian labor force that is unemployed but actively looking for work.

# Discretionaries Outperforming

S&P 500® Equal Weight Discretionaries vs Staples (9/18/24–9/18/25)

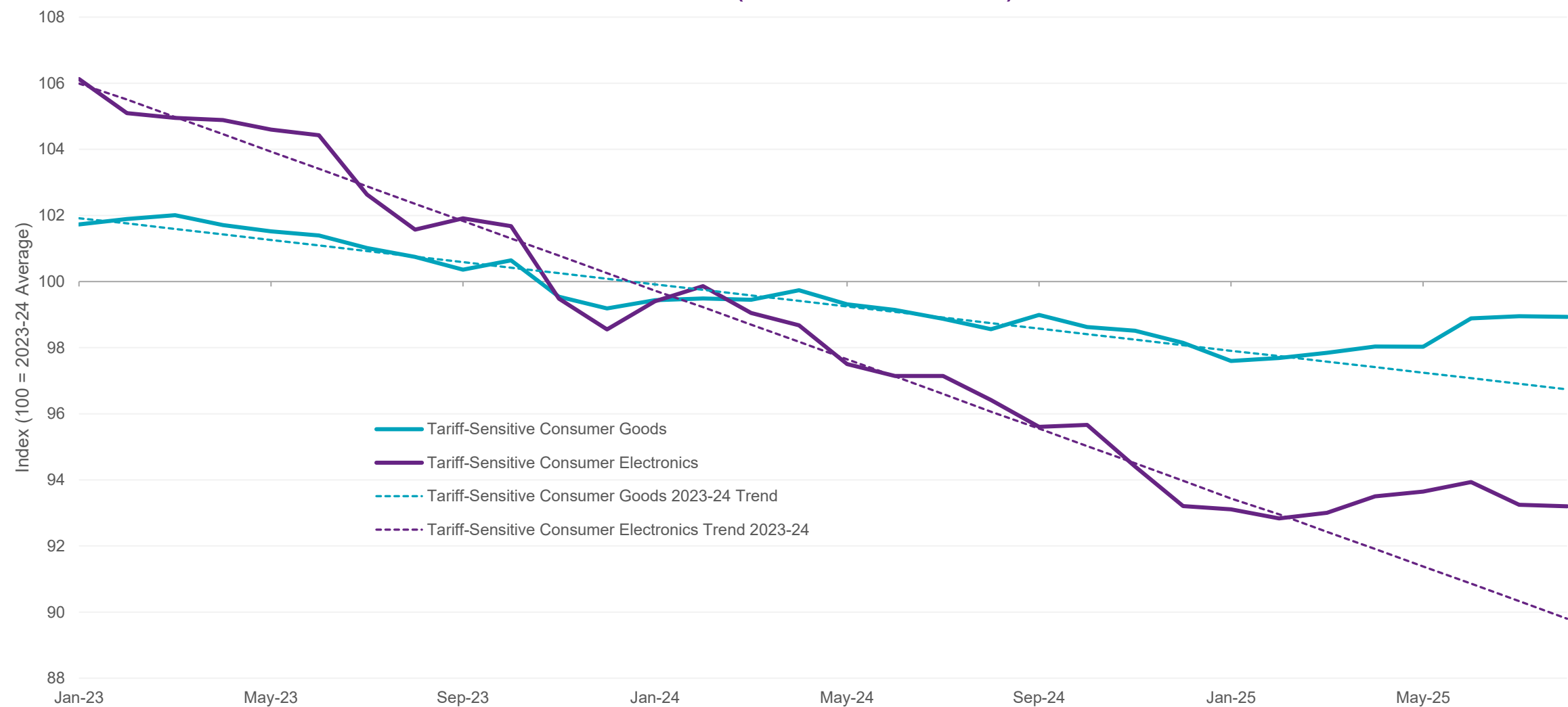


Source: Portfolio Analysis & Consulting. Bloomberg. Performance data shown represents past performance and is no guarantee of future results.

## Thoughts on the Fed Decision

# Tariffs Have Been Showing Up for Months

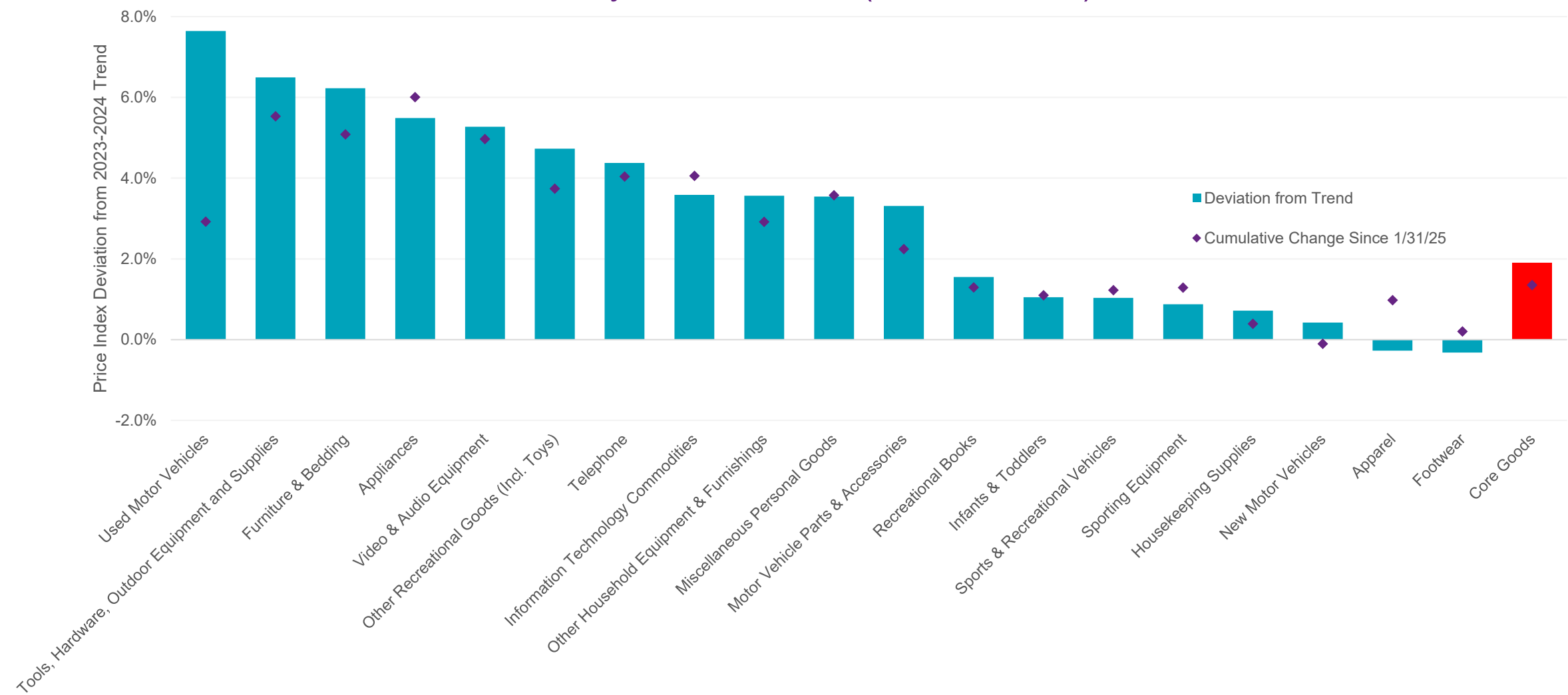
Tariff-Sensitive Consumer Goods Price Index (1/31/23–8/31/25)





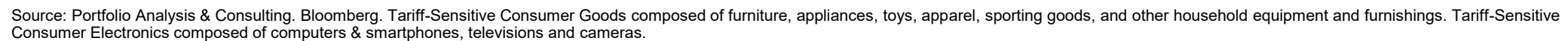
# Tariff Effects Broad Based

## Goods Inflation Deviation from Trend by CPI Line Item (As of 8/31/25)



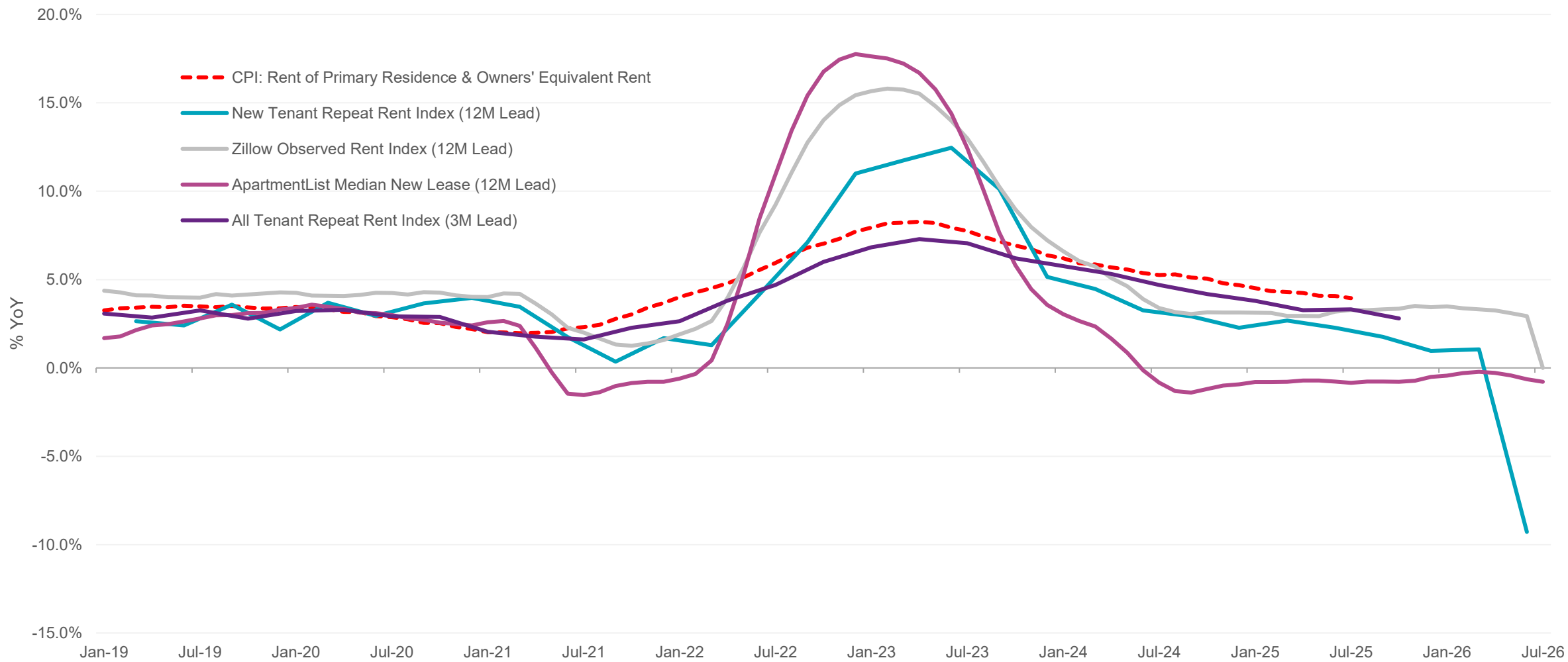
Source: Portfolio Analysis & Consulting. Bloomberg. CPI is Consumer Price Index.

## Tariff-Sensitive Goods ex Autos Contribution to Core CPI (1/31/17–8/31/25)



# Shelter Continues to Provide a Disinflationary Impulse

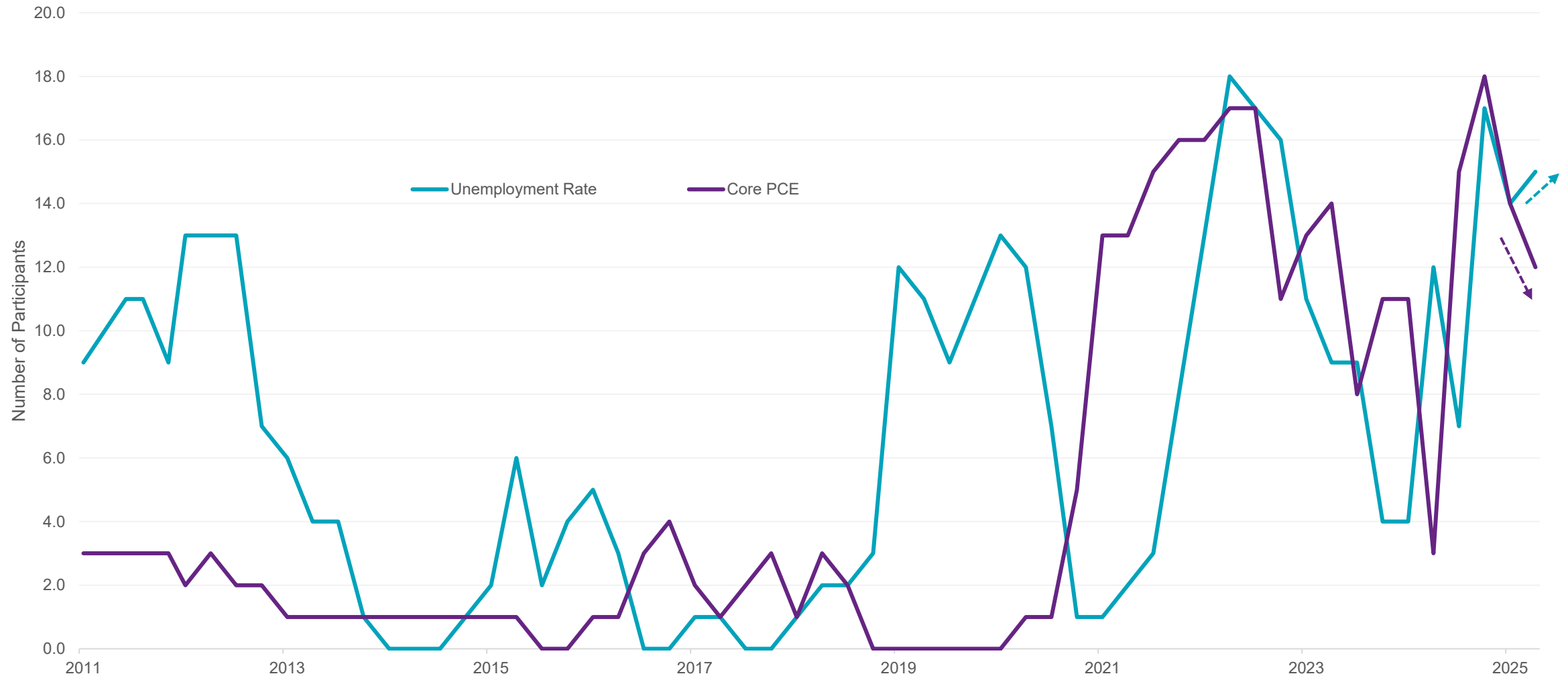
## CPI Rent vs Market Rents (1/31/19–7/31/25)



Source: Portfolio Analysis & Consulting. Bloomberg.

# Balance of Risks Has Shifted

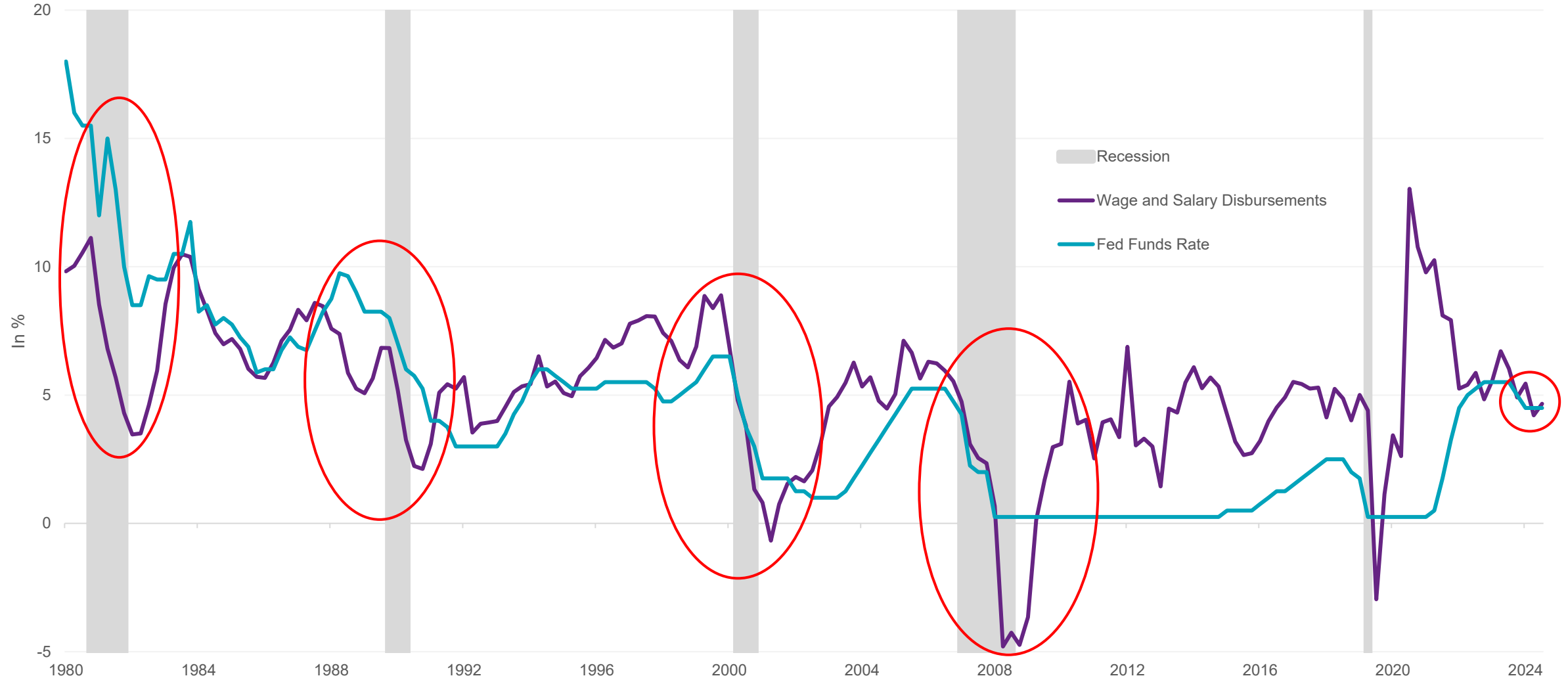
## Diffusion Indices of FOMC Participant Risk Weightings (10/31/07–9/17/25)



Source: Portfolio Analysis & Consulting. Bloomberg. FOMC represents the Federal Open Market Committee of the US Federal Reserve.

# Policy is Restrictive

## Wages vs Fed Funds Rate (12/31/80–6/30/25)

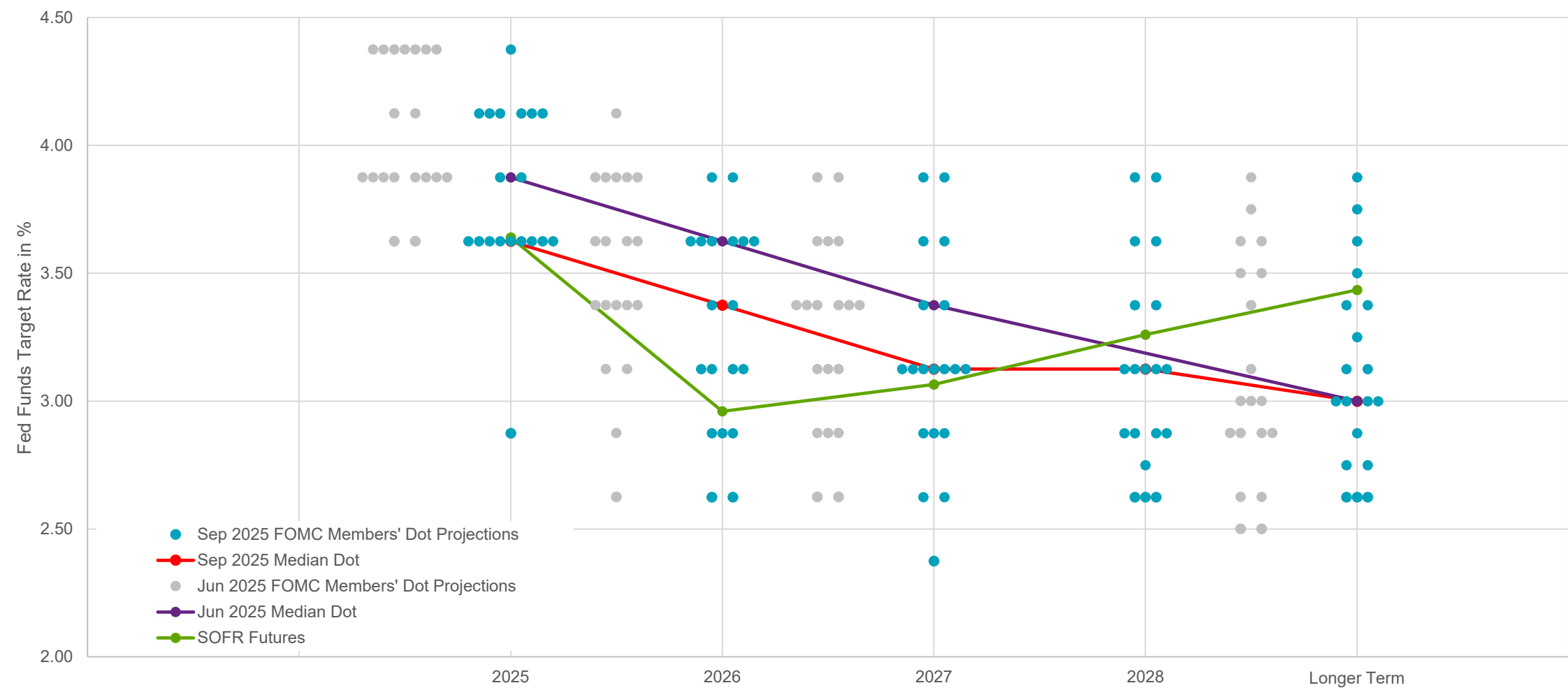


Source: Portfolio Analysis & Consulting. Bloomberg.



# What Do We Make Of This?

## US Federal Reserve's Dot Plot (as of the 9/17/25 Meeting)



Source: Portfolio Analysis & Consulting. Bloomberg. SOFR represents the secured overnight financing rate and reflects the market's pricing of the path of the fed funds rate.

# Risk Is That Market Expects Too Many Cuts

SOFR Curve Implied Fed Funds Rate by June 2026 (12/31/24–9/18/25)

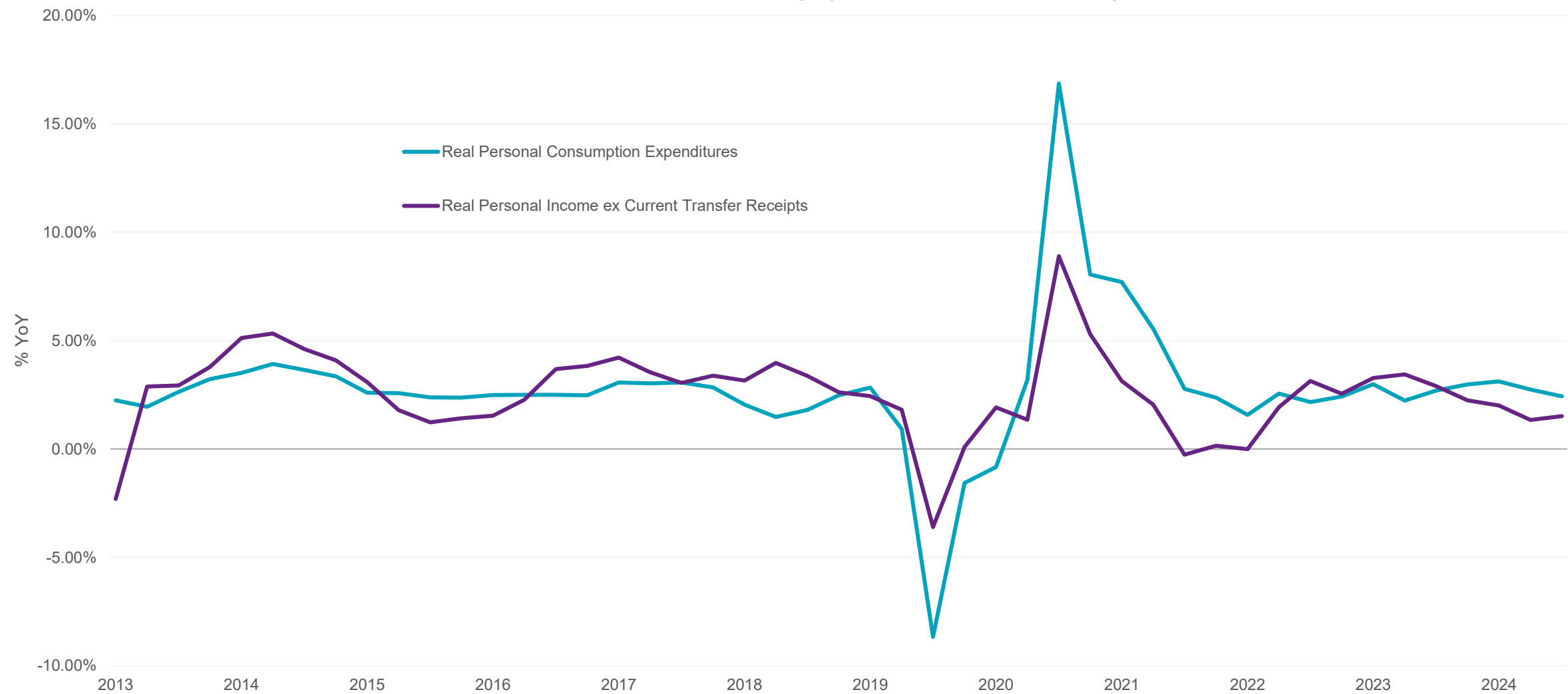


Source: Portfolio Analysis & Consulting. Bloomberg. SOFR represents the secured overnight financing rate and reflects the market's pricing of the path of the fed funds rate.

Where's the Growth Coming From?

# Consumption Likely to Converge to Incomes

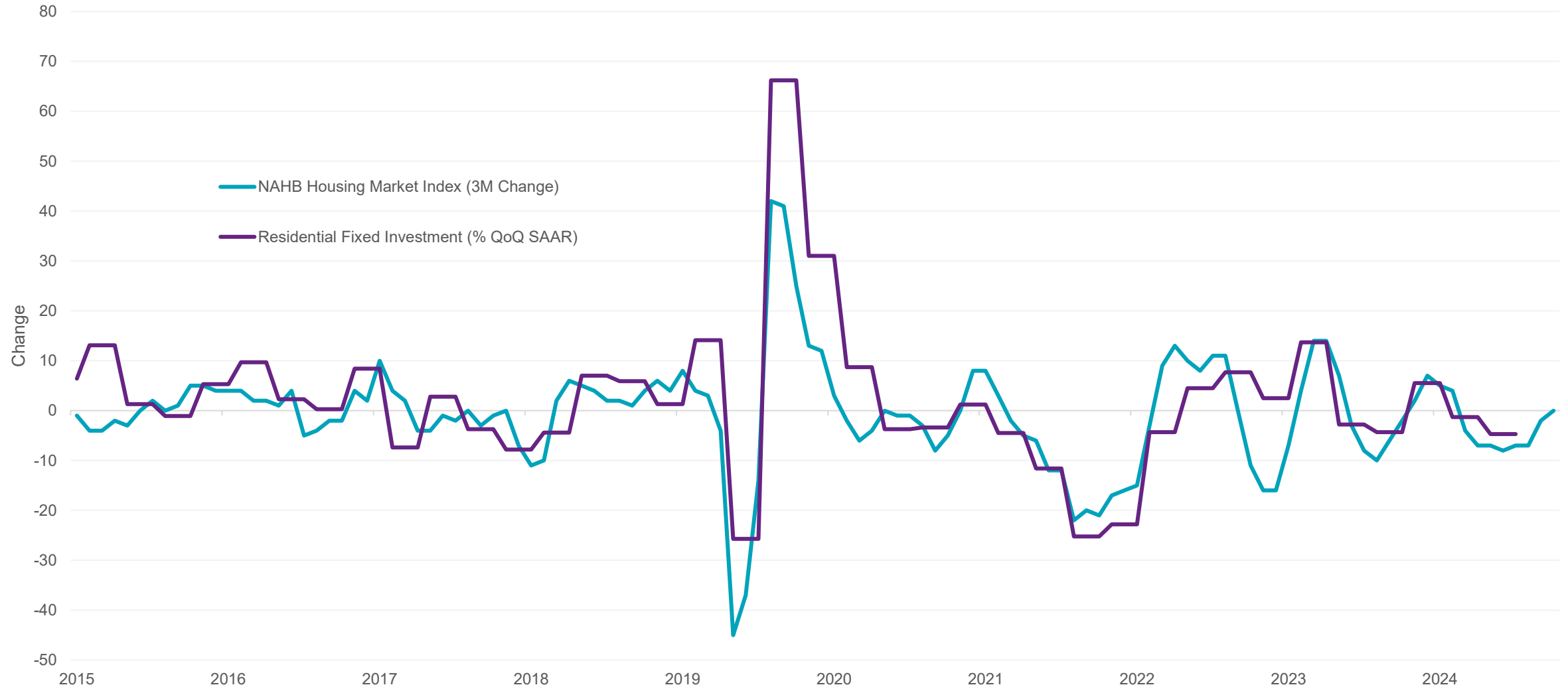
Real Personal Income vs Real Consumer Spending (12/31/13–6/30/25)



Source: Portfolio Analysis & Consulting. Bloomberg.

# Housing Is in Stasis

## NAHB Housing Market Index vs Residential Fixed Investment (12/31/15–9/30/25)

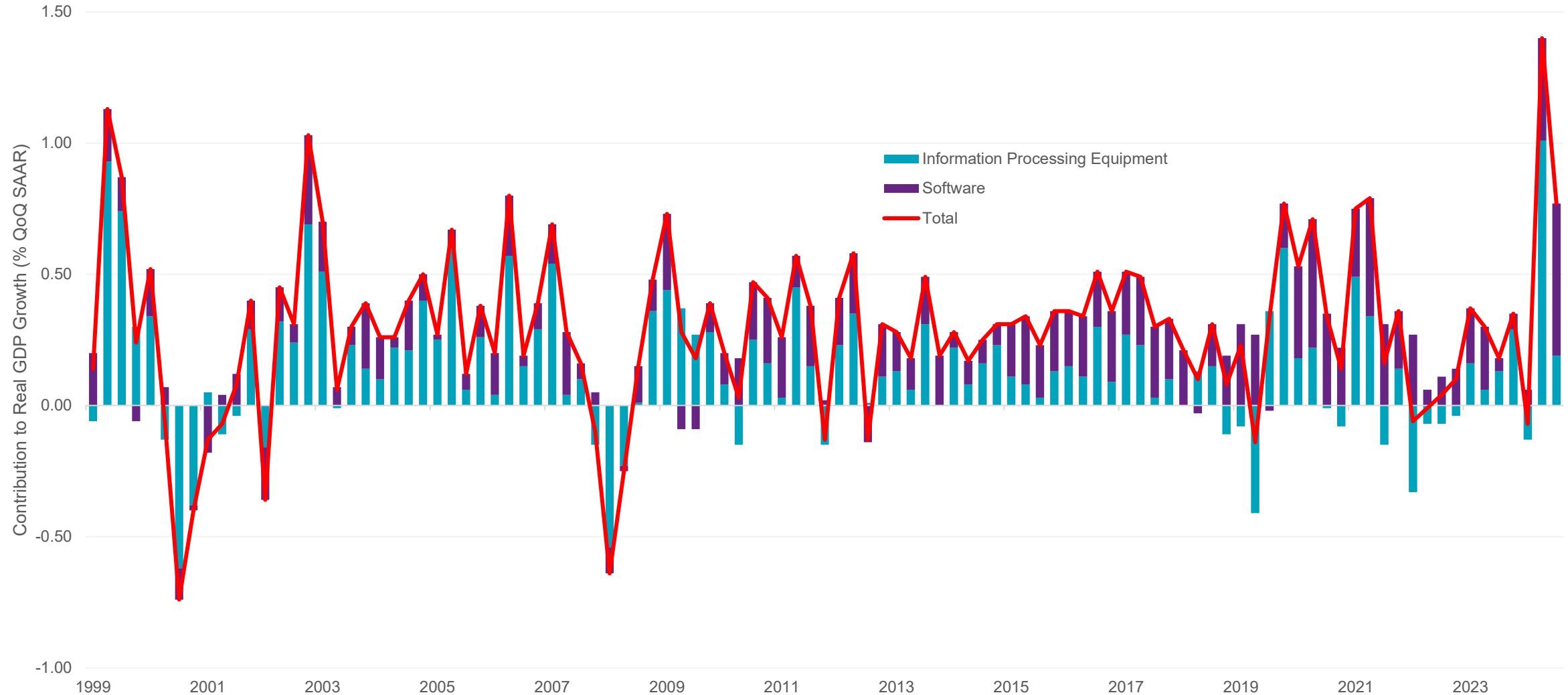


Source: Portfolio Analysis & Consulting. Bloomberg. NAHB is the National Association of Home Builders. % QoQ SAAR refers to quarter on quarter seasonally adjusted annualized rate.



# AI Fueling Capex and the Tech Complex

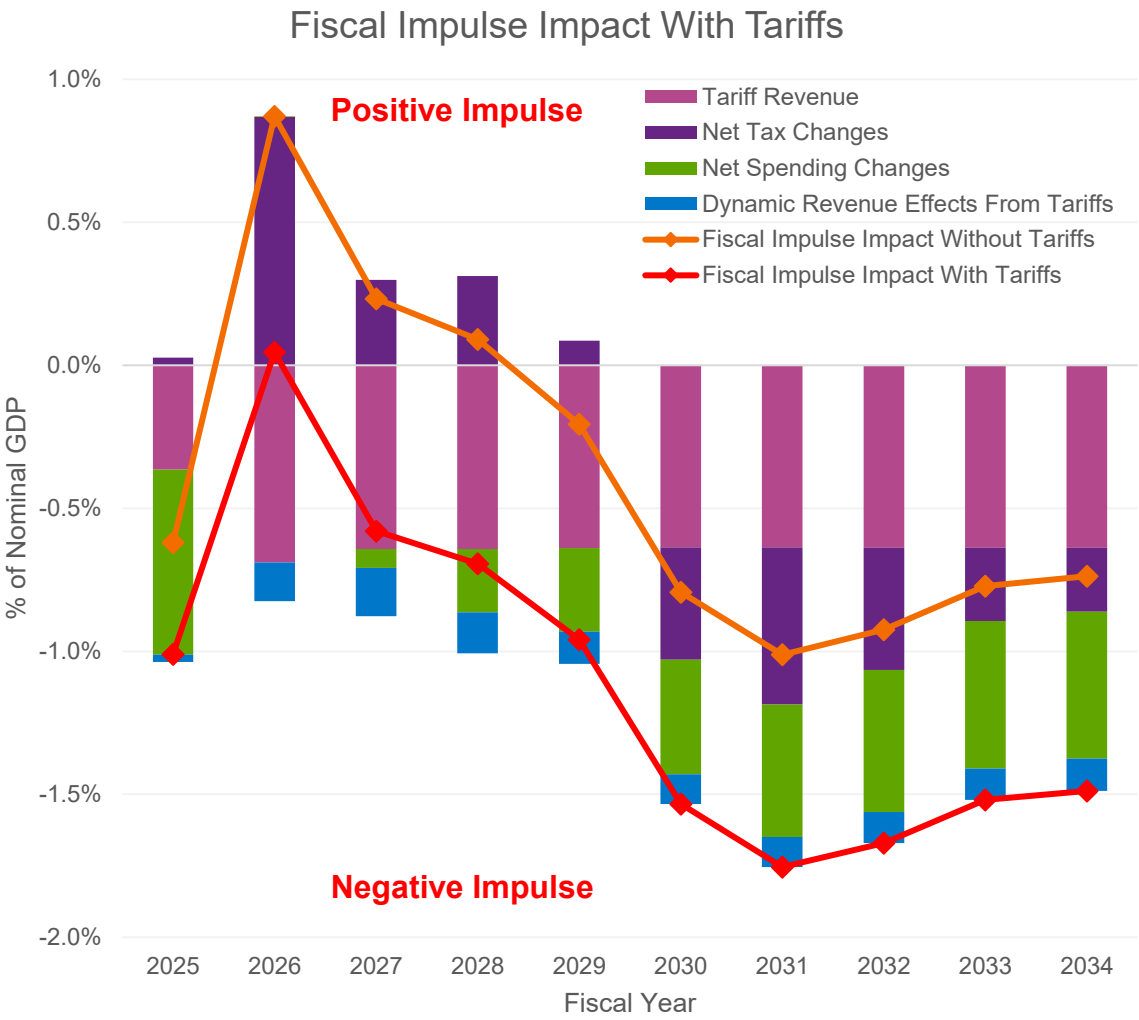
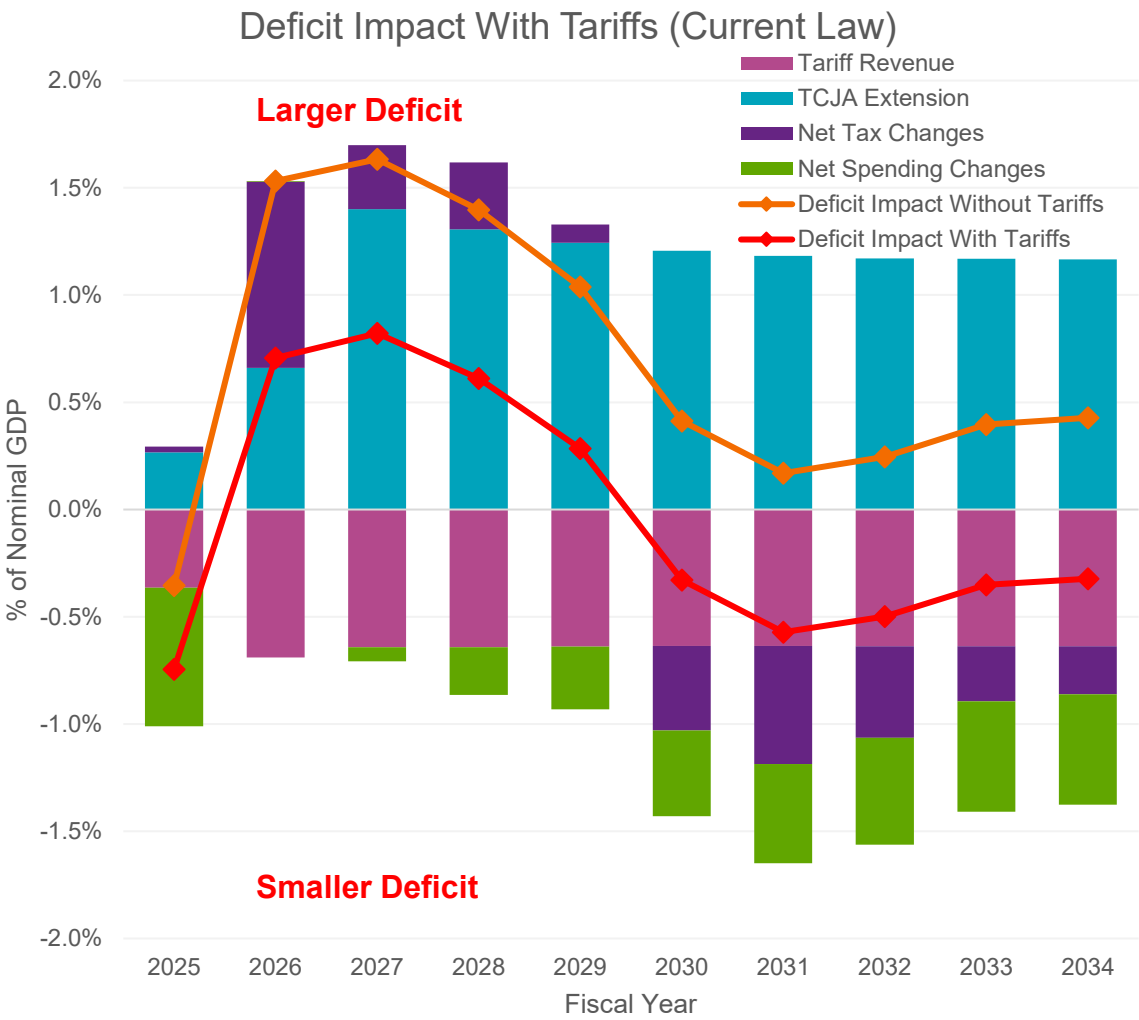
## Tech Capex Contribution to Real GDP Growth (12/31/99–6/30/25)



Source: Portfolio Analysis & Consulting. Bloomberg. GDP represents Gross Domestic Product.

# Not So Big and Beautiful

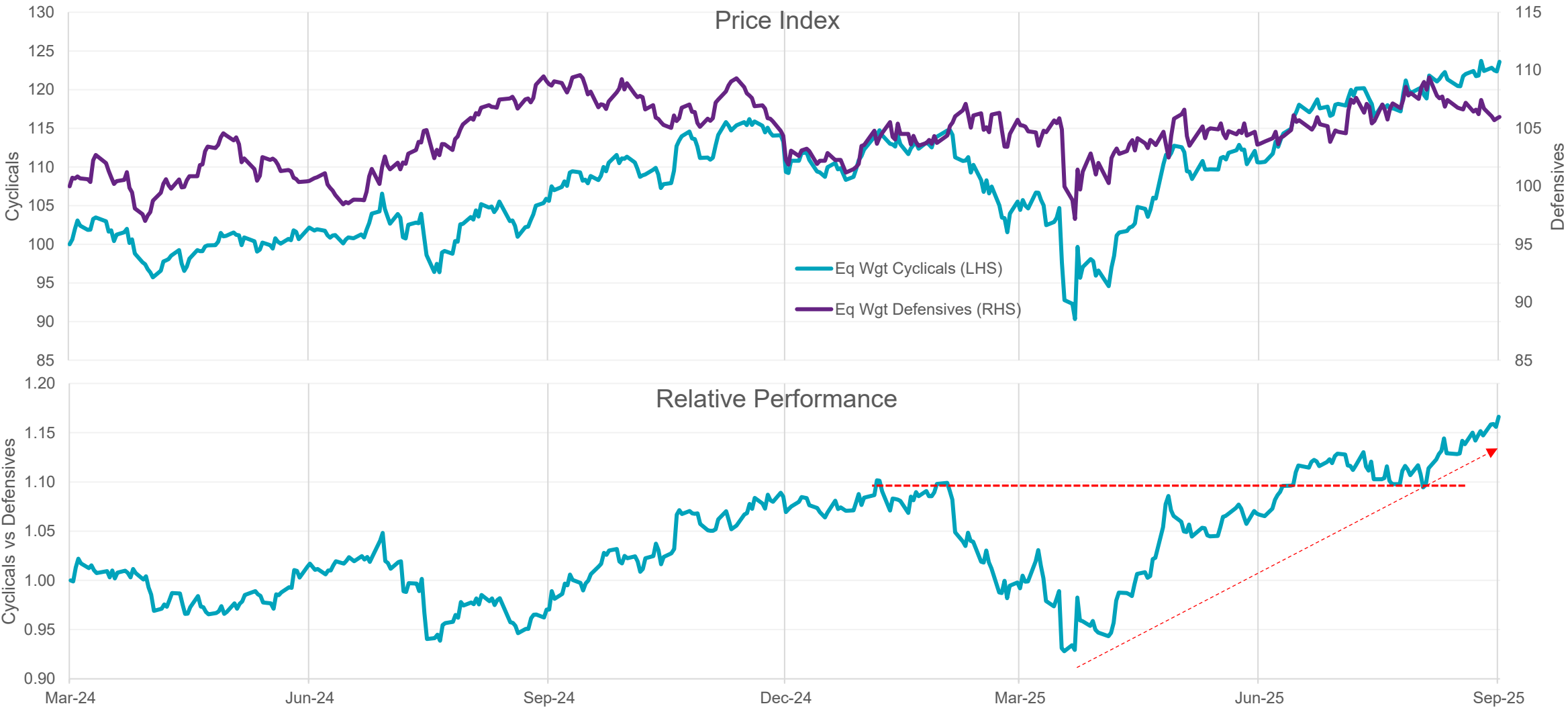
## 2025 Reconciliation Bill: Deficit Impact vs Fiscal Impulse



Source: Portfolio Analysis & Consulting, Bloomberg, Congressional Budget Office, The Budget Lab at Yale. TCJA represents Tax Cuts and Jobs Act of 2017. Assumes effective tariff rate of 12.9% as of September 3, 2025 tariff rates. Interaction Effects included within Net Spending Changes.

# Cyclicals Outperforming

## S&P 500® Equal Weight Cyclicals vs Defensives (3/18/24–9/18/25)

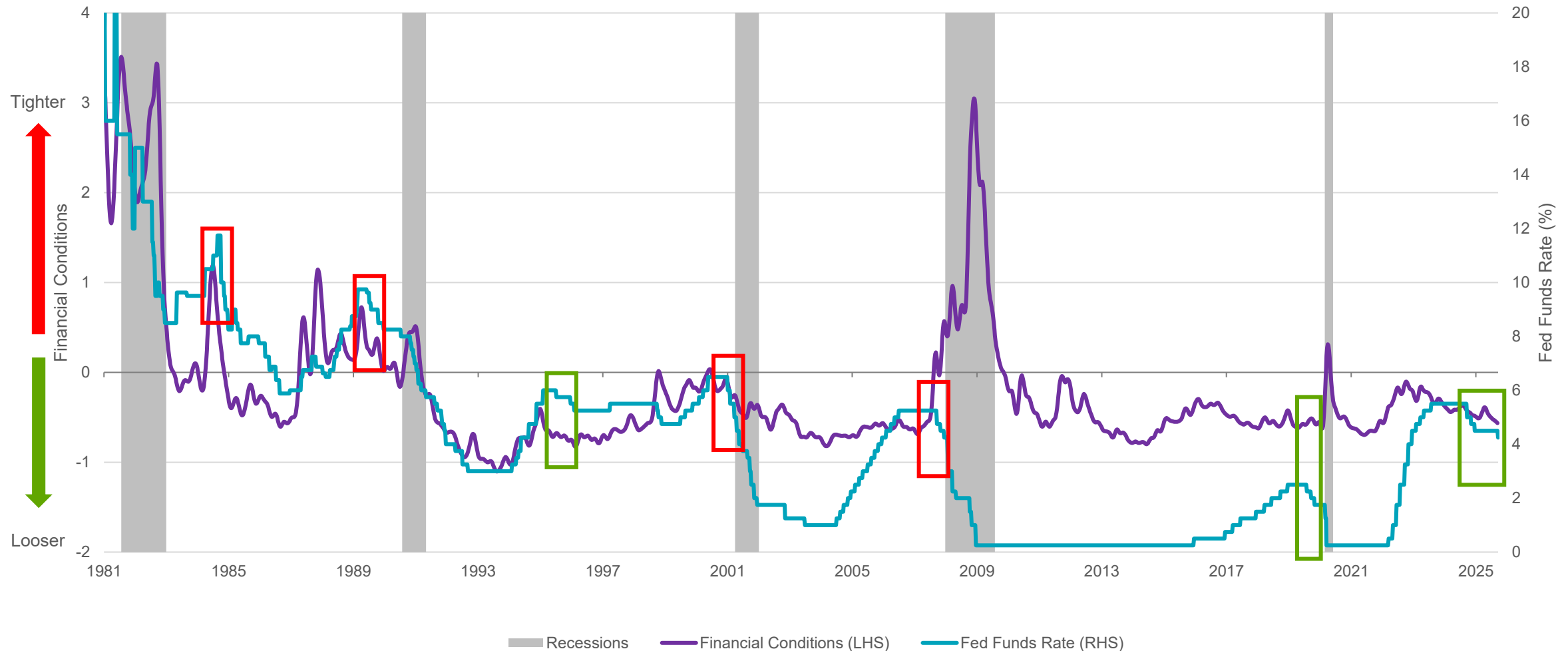


Source: Portfolio Analysis & Consulting. Bloomberg. Cyclicals composed of Information Technology, Industrials, and Consumer Discretionary. Defensives composed of Health Care, Utilities, and Staples. **Performance data shown represents past performance and is no guarantee of future results.**

Still Prefer US Equities

# Fed Usually Cutting When Financial Conditions Are Tight/Rising

## US Financial Conditions and Fed Rate Cuts (12/31/79–9/19/25)

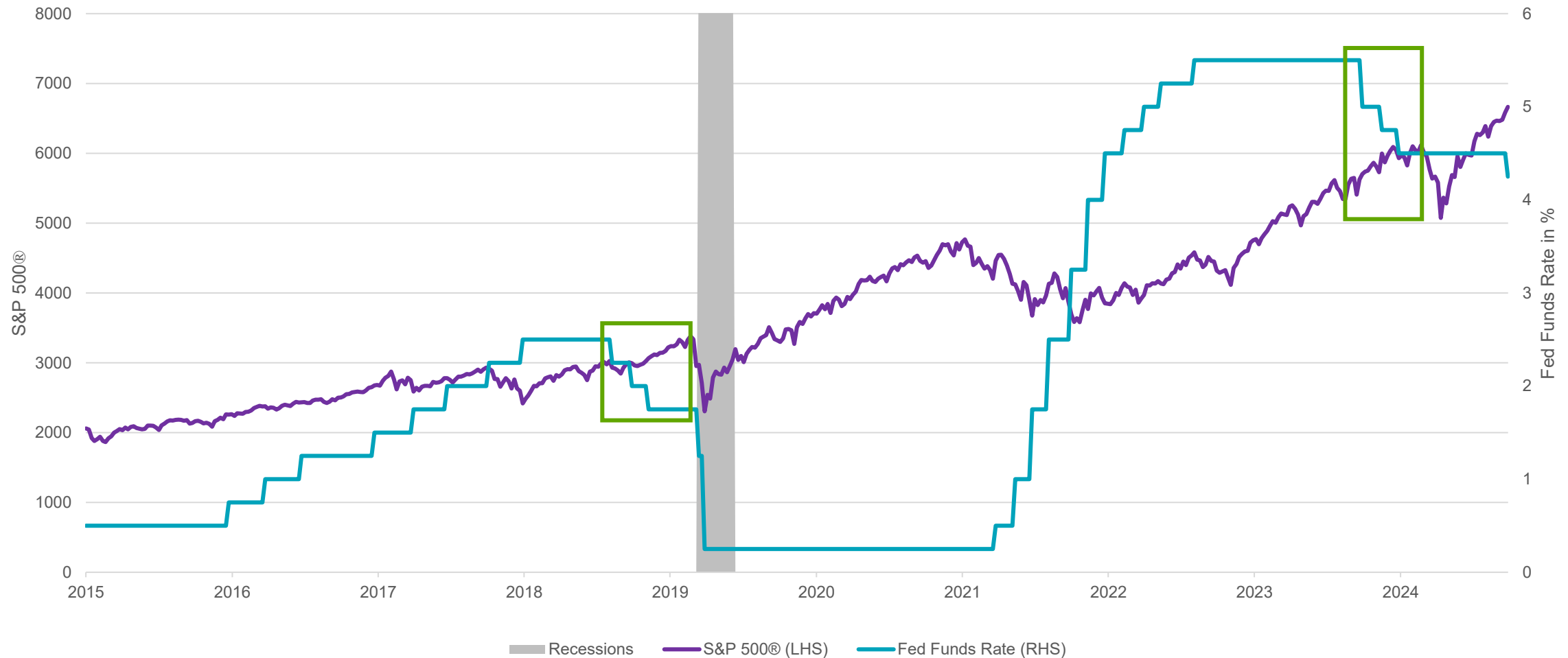


Source: Portfolio Analysis & Consulting. Bloomberg. The Chicago Fed National Financial Conditions Index is constructed to have an average value of zero and a standard deviation of one over a sample period extending back to 1973. Positive values of the index indicate financial conditions that are tighter than on average while negative values indicate financial conditions that are looser on average.



# Stocks Have Rallied With Rate Cuts and Easy Financial Conditions

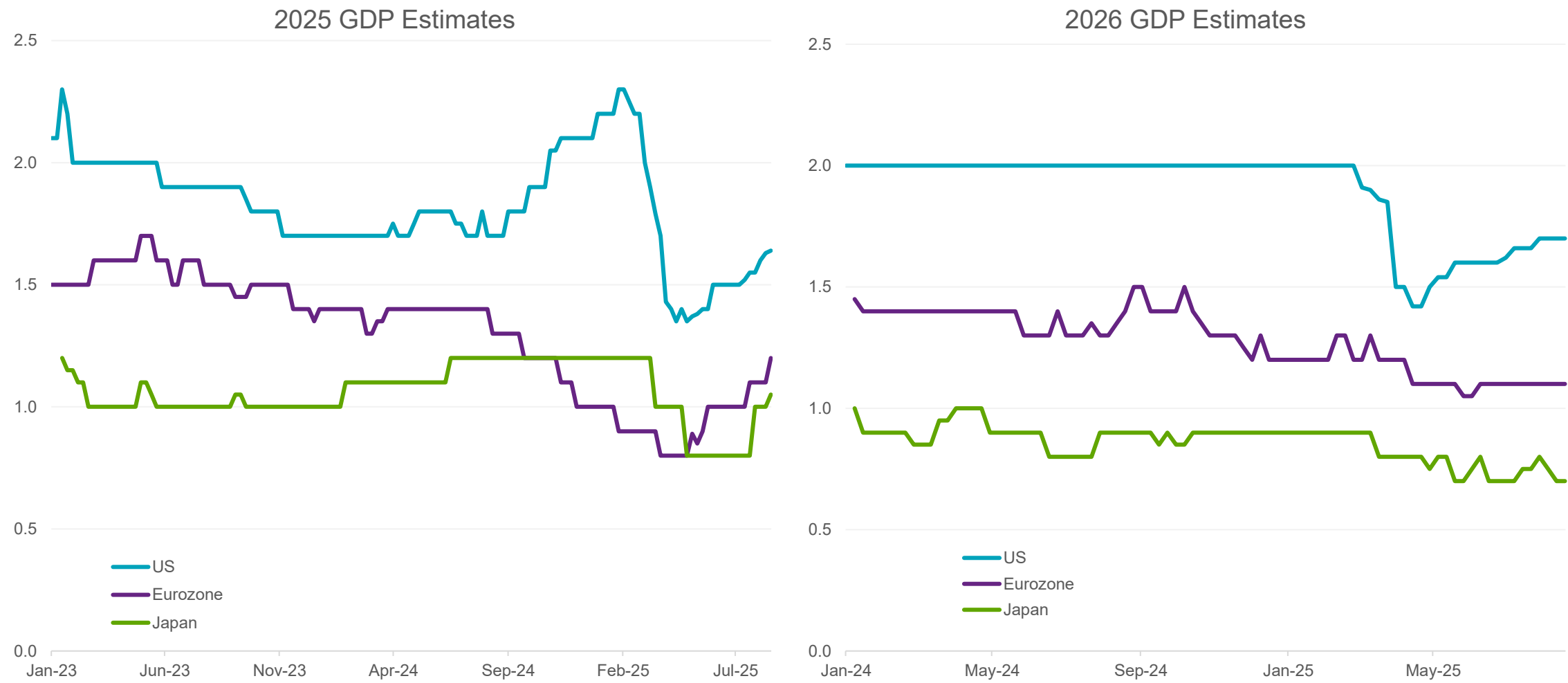
Rate Cuts When Financial Conditions Are Easing (12/31/15–9/19/25)



Source: Portfolio Analysis & Consulting. Bloomberg.

# Growth Differentials

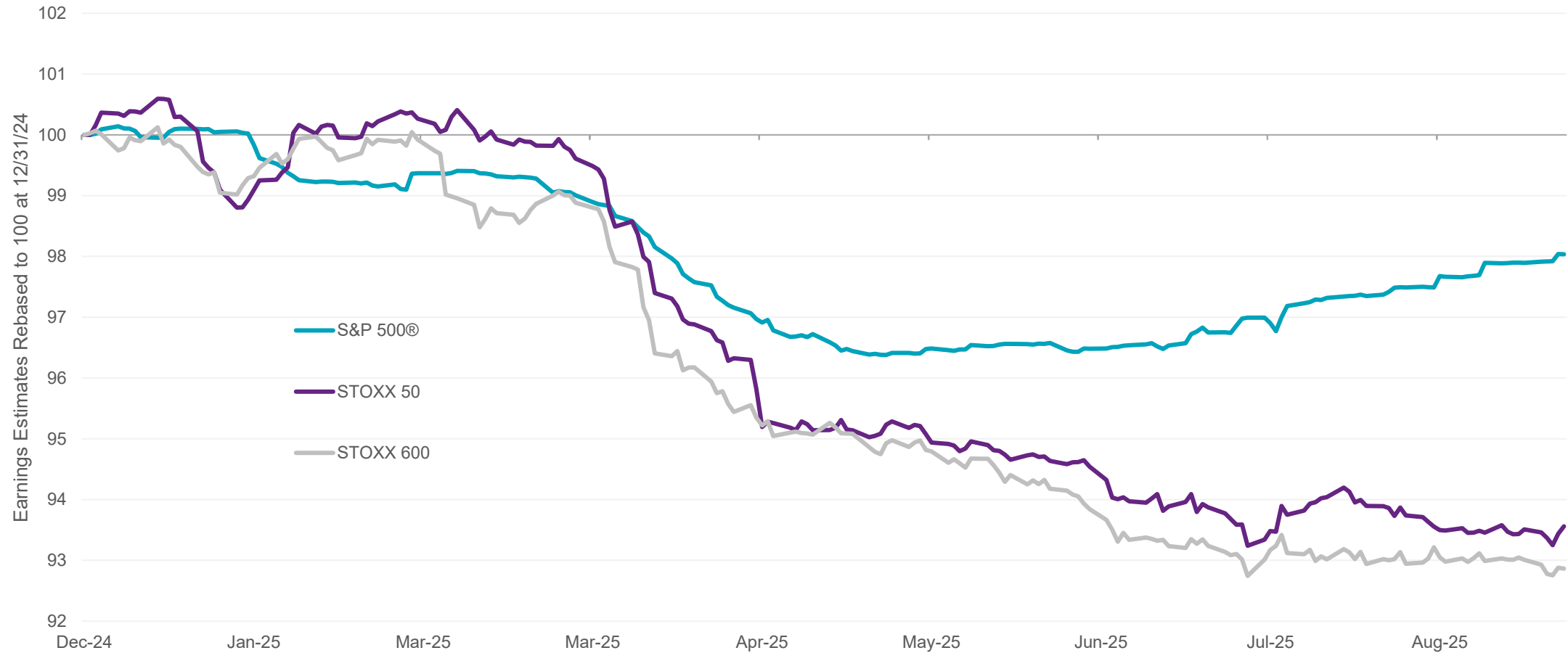
## Bloomberg GDP Growth Estimates (1/27/23–9/12/25)



Source: Portfolio Analysis & Consulting. Bloomberg.

# Earnings Revision Seem Lackluster for Europe

Change in 2026 EPS Estimates (12/31/24–9/19/25)



Source: Portfolio Analysis & Consulting. FactSet.

# S&P 500® Earnings Growth

## S&P 500® Earnings Growth %YoY As of 8/31/25

Sector	Weight	2024	2025E	2026E	NTM	Chg From 12/31
Consumer Discretionary	10.5%	11.6%	4.9%	13.2%	4.7%	1.7%
Consumer Staples	5.2%	4.8%	-1.3%	7.4%	-0.7%	-0.4%
Energy	3.0%	-7.7%	-24.7%	17.2%	-20.3%	-7.0%
Financials	14.0%	11.5%	16.1%	11.3%	13.7%	10.4%
Health Care	9.1%	15.1%	2.9%	9.6%	3.9%	-0.5%
Industrials	8.5%	8.8%	-1.1%	16.9%	3.9%	2.9%
Information Technology	33.5%	17.4%	24.3%	19.1%	20.4%	13.4%
Materials	1.9%	-2.6%	-2.3%	17.2%	-1.9%	-1.1%
Real Estate	2.0%	1.7%	1.4%	6.7%	2.0%	1.2%
Communication Services	10.0%	17.1%	29.5%	7.4%	20.3%	11.9%
Utilities	2.4%	9.2%	8.8%	9.0%	8.2%	5.3%
<b>S&amp;P 500®</b>		<b>10.8%</b>	<b>10.1%</b>	<b>13.1%</b>	<b>9.2%</b>	<b>6.5%</b>

Source: Portfolio Analysis & Consulting. FactSet. NTM is next twelve months.

# S&P 500® Earnings Growth vs Multiple Expansion

## S&P 500® Forward PE As of 8/31/25

Sector	Multiple Turn vs 12M Prior	NTM EPS
Consumer Discretionary	4.46	4.7%
Consumer Staples	0.27	-0.7%
Energy	2.98	-20.3%
Financials	0.64	13.7%
Health Care	-3.27	3.9%
Industrials	2.47	3.9%
Information Technology	0.30	20.4%
Materials	0.07	-1.9%
Real Estate	-0.89	2.0%
Communication Services	1.88	20.3%
Utilities	0.38	8.2%
<b>S&amp;P 500®</b>	<b>0.98</b>	<b>9.21%</b>

Source: Portfolio Analysis & Consulting. FactSet. NTM is next twelve months.

# Europe: What You Want to Own

Forward PEs (as of 8/31/25)

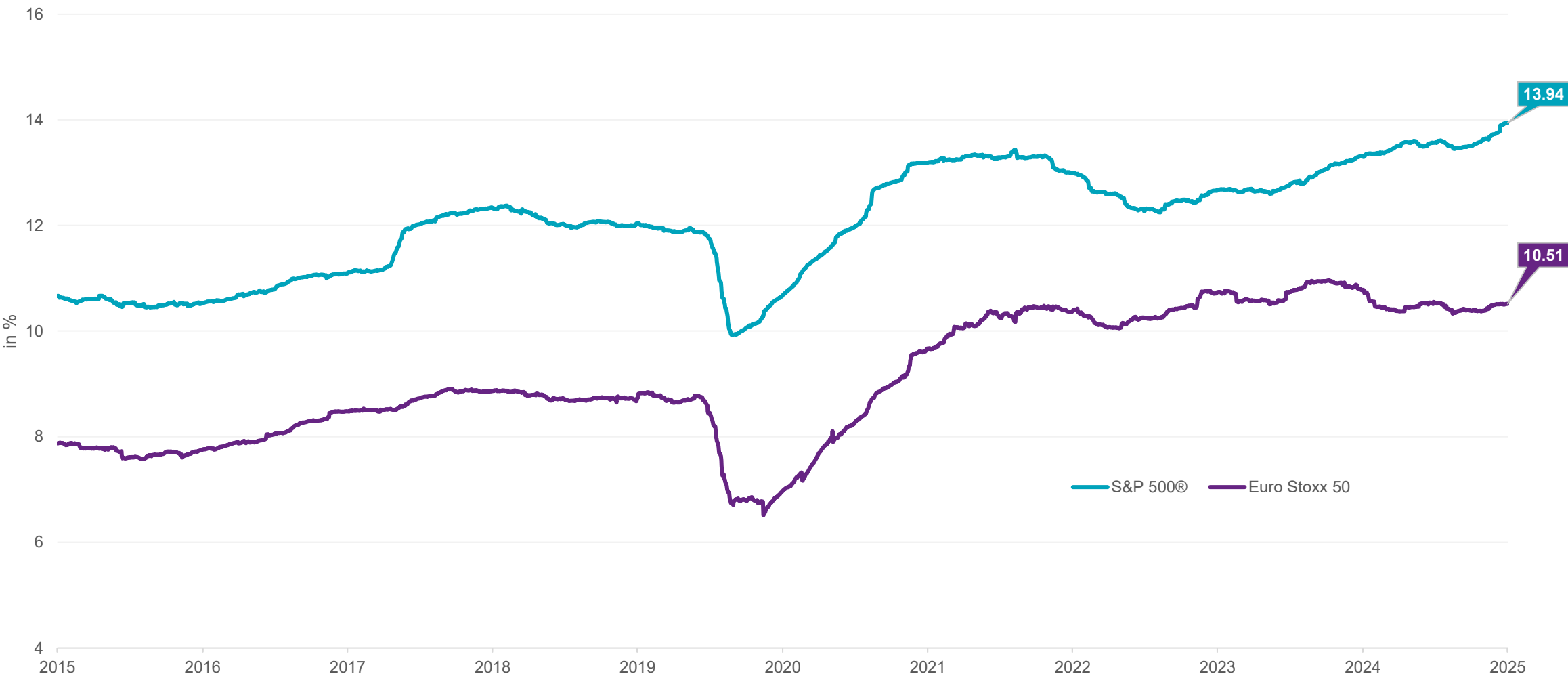
	Price/Earnings				
	Z-Score	Current	25 Year Mean	-1 Std Dev	+1 Std Dev
<b>MSCI Europe</b>	<b>0.65</b>	<b>14.51</b>	<b>13.21</b>	<b>10.97</b>	<b>15.21</b>
Consumer Discretionary	0.67	15.33	13.16	12.85	16.42
Consumer Staples	-0.43	15.79	16.72	18.67	18.90
Energy	0.10	10.42	9.97	6.76	14.22
Financials →	0.17	10.50	10.23	6.72	11.79
Health Care	-0.54	14.58	15.96	21.23	18.50
Industrials →	1.72	20.56	15.39	10.53	18.39
Information Technology →	1.23	24.65	19.05	10.56	23.59
Materials	1.38	16.83	13.16	9.50	15.81
Real Estate*	-1.21	13.34	17.00	6.65	20.03
Telecommunications Services	1.59	18.53	13.76	14.21	16.77
Utilities	-0.24	13.13	13.61	9.83	15.63

Source: Portfolio Analysis & Consulting. FactSet.



# Net Margins Remain Superior

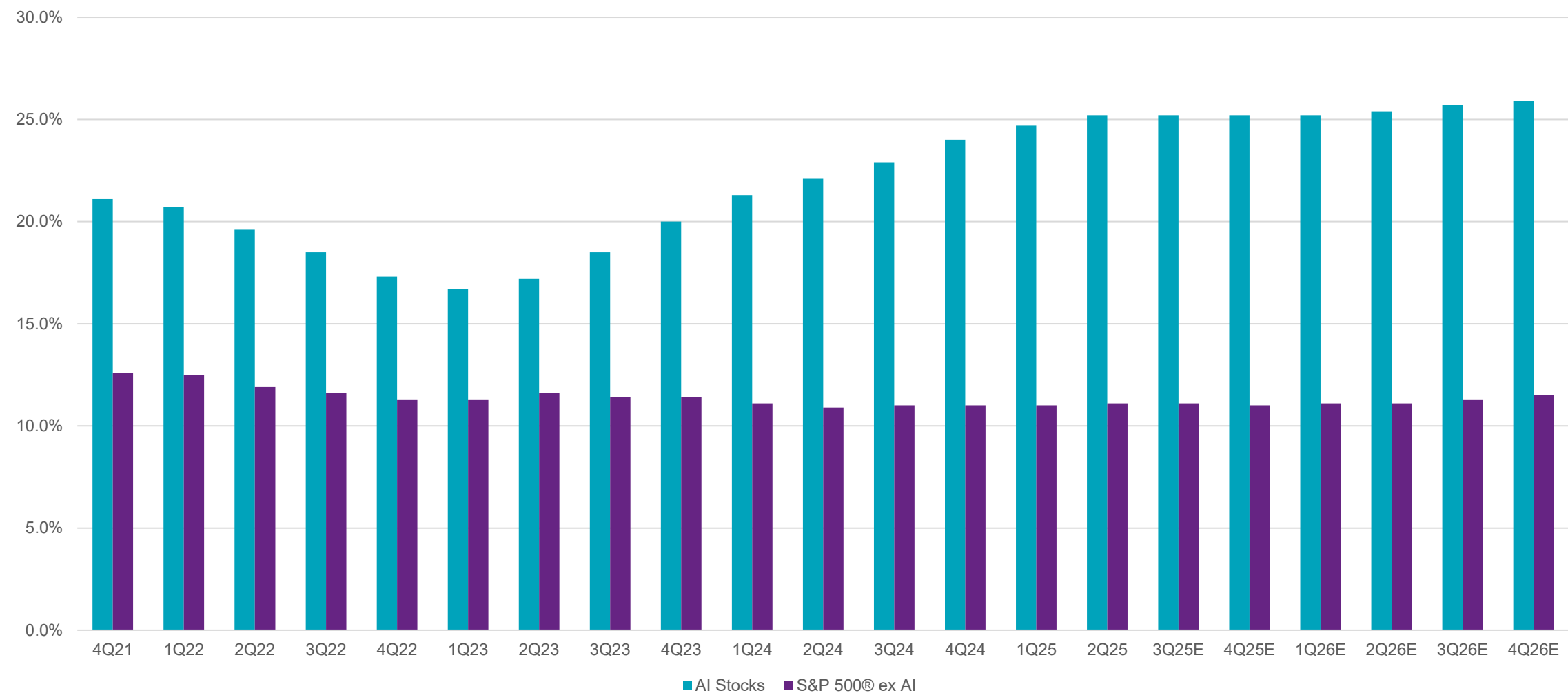
Net Margins: US versus Europe (9/16/15–9/16/25)



Source: Portfolio Analysis & Consulting. FactSet.

# The AI Trade Driving Margins

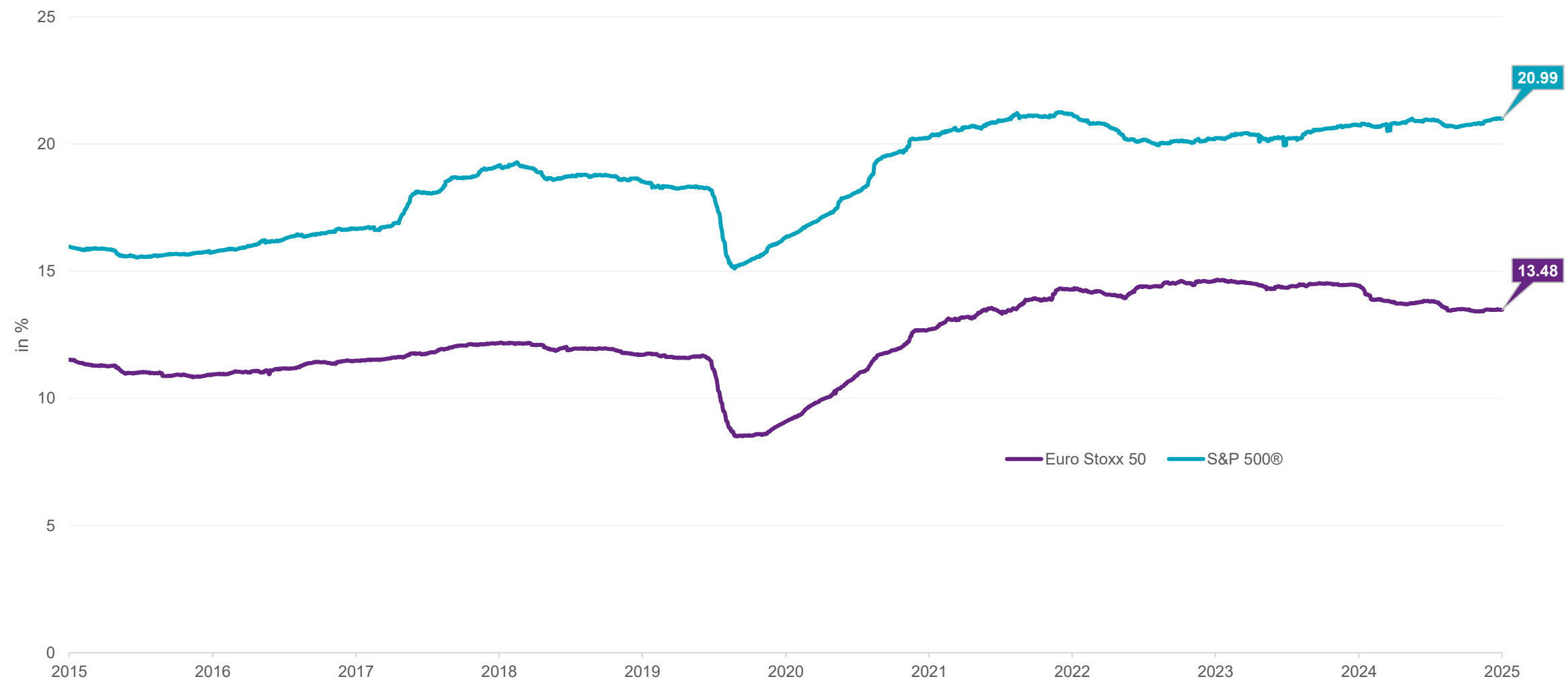
S&P 500® Companies: AI vs Non-AI Margins (9/16/15–9/16/25)



Source: Portfolio Analysis & Consulting. JPMorgan.

# Return on Equity Remains Superior

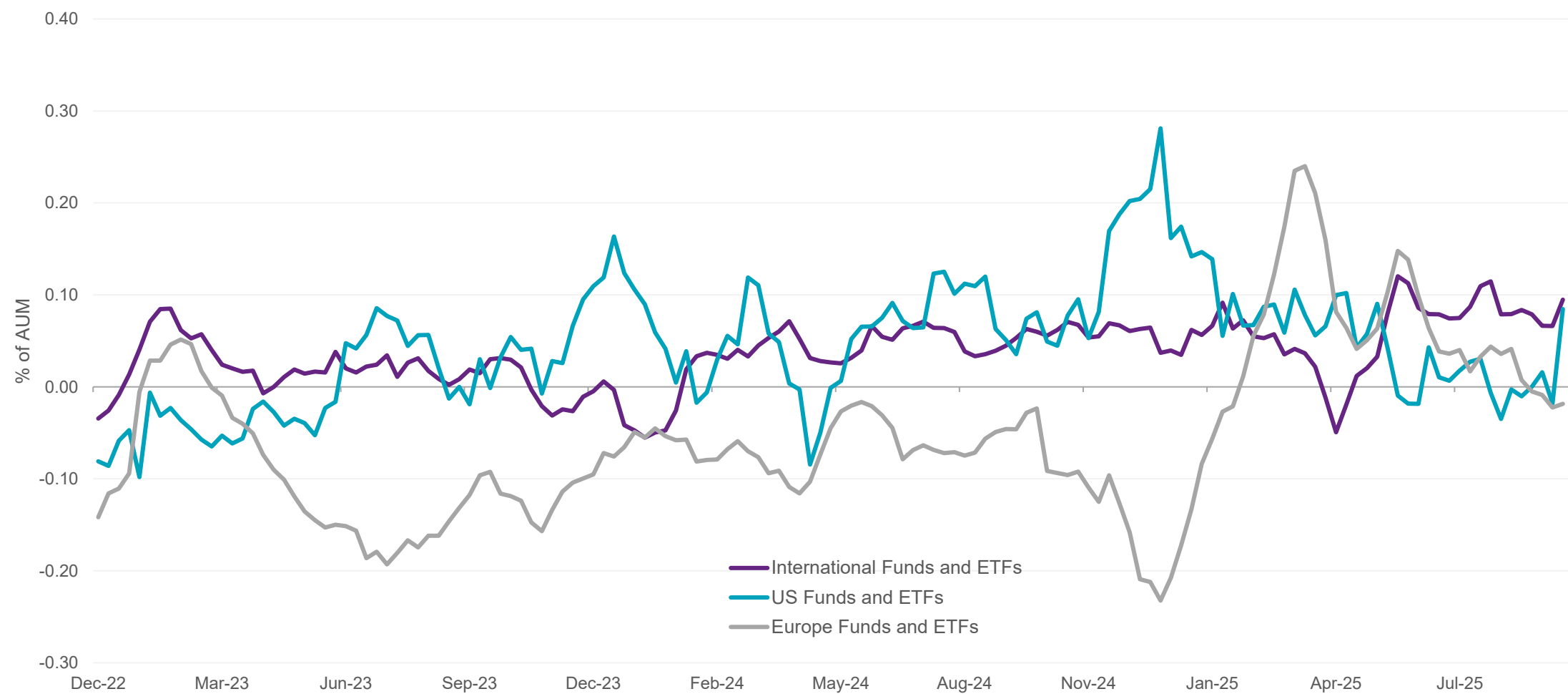
Return on Equity: US versus Europe (9/16/15–9/16/25)



Source: Portfolio Analysis & Consulting. FactSet.

# Flows Into Europe Have Cooled

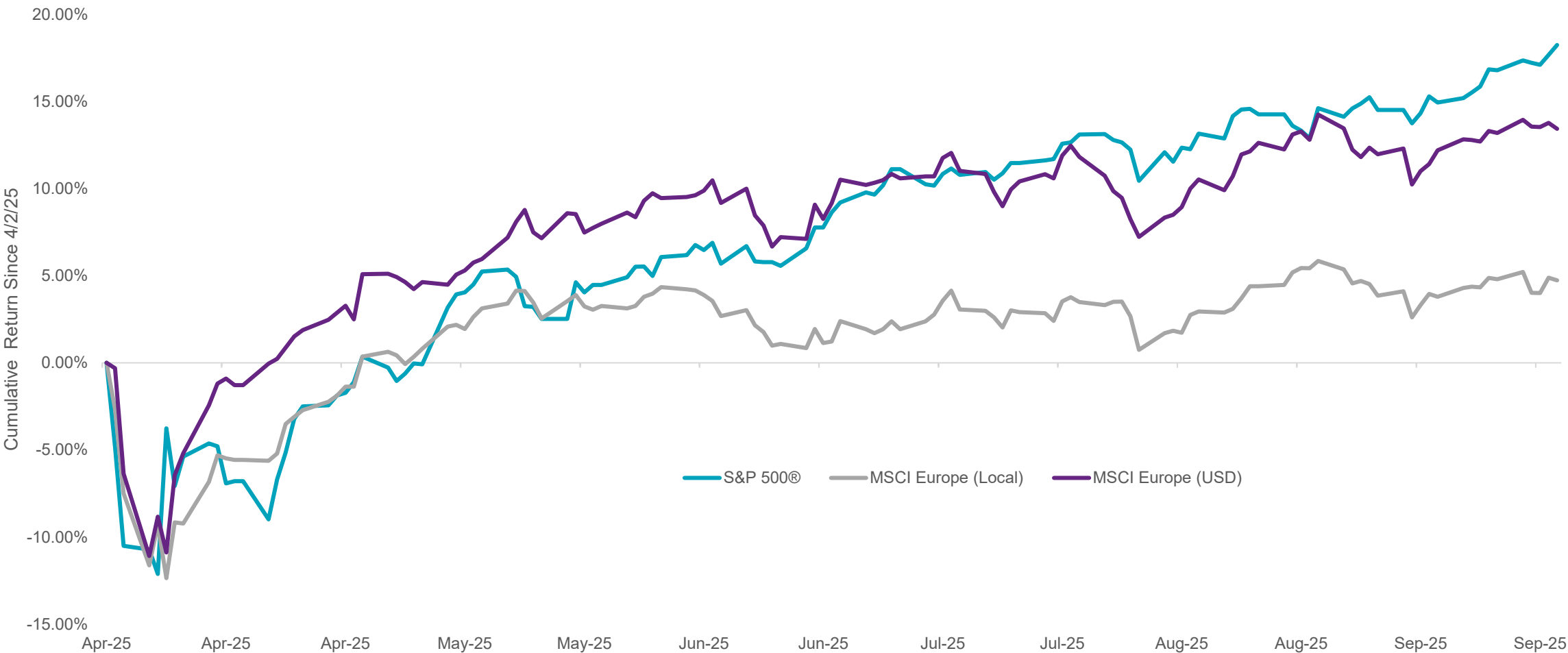
Weekly ETF and Long Only Flows: Rolling 6 Weeks Cumulative Totals (12/31/22–9/19/25)



Source: Portfolio Analysis & Consulting. FactSet.

# Europe Performance a Function of the Euro

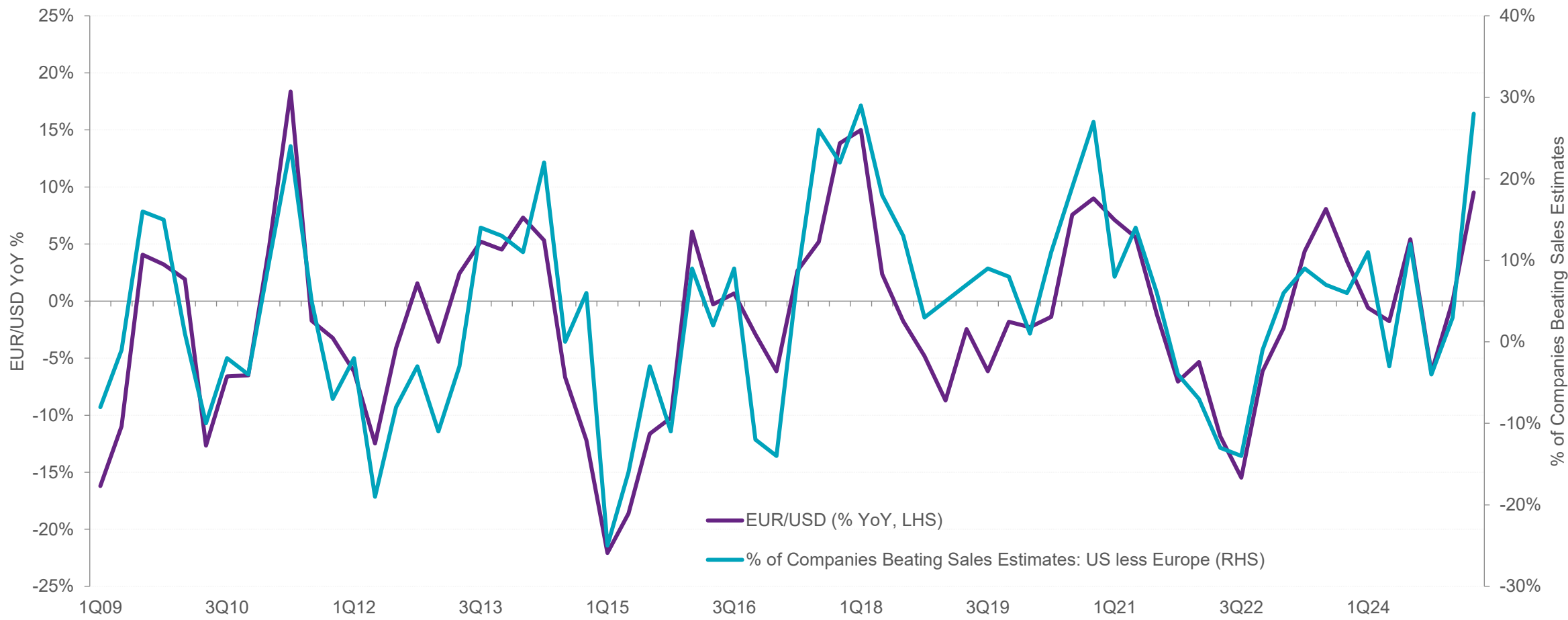
Performance Since Liberation Day (4/2/25–9/19/25)



Source: Portfolio Analysis & Consulting. Bloomberg. Performance data shown represents past performance and is no guarantee of future results.

# When Does a Strong Euro Begin to Bite?

EURUSD vs Sales Estimates (1Q09–2Q25)



Source: Portfolio Analysis & Consulting. FactSet.



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Chicago Board Options Exchange’s Volatility Index (VIX) Measures the 30-day expected volatility of the market based on S&P 500<sup>®</sup> index options.

The ICE BofA Merrill Lynch Option Volatility Estimate (MOVE) Index measures the implied yield volatility of a basket of over-the-counter options on 2-year, 5-year, 10-year, and 30-year Treasuries.

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