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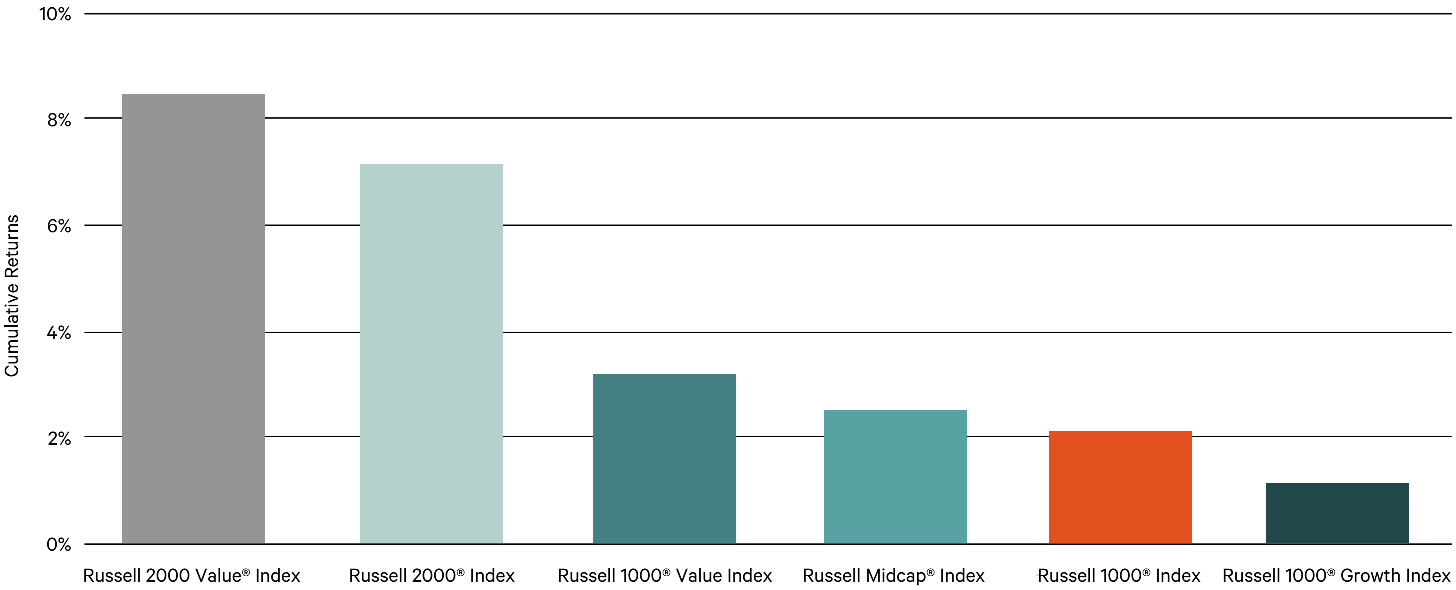
Investment Management

Market Review Commentary

AUG 2025

Equity markets delivered positive returns in August. As shown in Figure 1, value stocks outperformed growth stocks amid concerns that AI, while no doubt transformative, may not immediately generate the huge earnings growth that many have been predicting. Separately, market volatility, measured by the VIX Index, declined, nearing the lowest levels seen in years. This could reflect optimism about the outlook for growth and stability, unjustified complacency, or lethargy brought on by the summer heat.

FIGURE 1: AUGUST 2025 INDEX RETURNS



Data presented is for the one month ending August 31, 2025, is obtained from FactSet and is assumed to be reliable. The indexes are not actively managed and do not reflect the deduction of any investment management or other fees and expenses. It is not possible to invest directly in an index. Please see the end of this commentary for important information regarding the indexes. ***Past performance is no guarantee of future results.***

Here's what markets delivered to investors over the month of August:

Small-cap stocks surged ahead of large stocks, likely due to a combination of factors including:

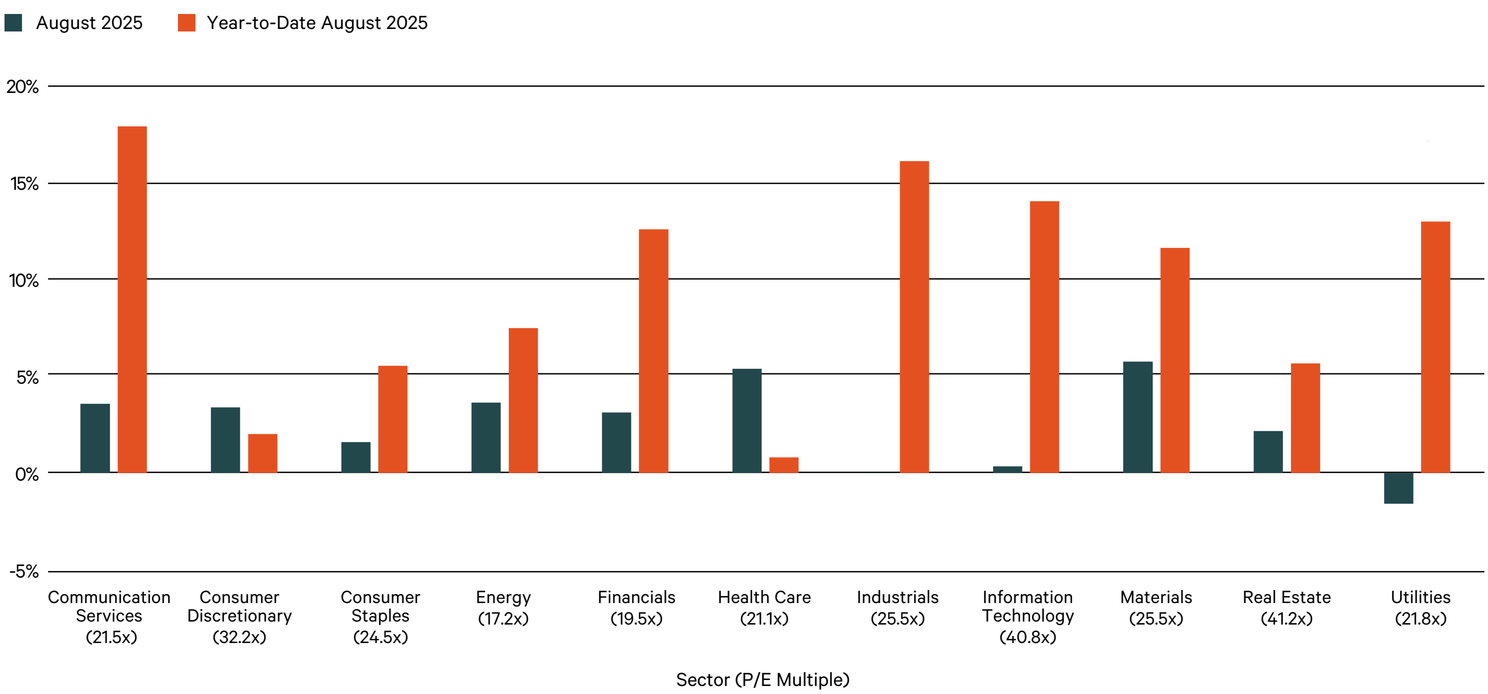
- Concern for the high valuations of mega-cap technology stocks. By comparison, we believe small cap stocks are more attractively priced.

- Expectations that the Federal Reserve will cut short-term interest rates next month, and perhaps again before year-end. This would benefit small cap companies, which tend to borrow from banks, not the bond market, and thus pay a floating rate of interest on their debt.
- Increasing M&A activity, which boosts the chance of a small cap company being acquired at a premium.
- The potential for attractive earnings growth, as S&P 500 earnings forecasts excluding the Magnificent 7 are low single-digits, while small cap earnings growth could be in the double-digits.

If we view valuation multiples as a risk factor, small caps, in our view, look less risky than large caps. Of course, we would caution investors to be selective, and seek out quality companies with pristine balance sheets that showed earnings resilience in the last earnings recession, with a strong competitive position.

In the large cap space, sector returns were mostly positive, except for utilities and industrials (the latter is the second-best performer year-to-date). The technology sector eked out a small gain.

FIGURE 2: S&P 500® INDEX SECTOR RETURNS

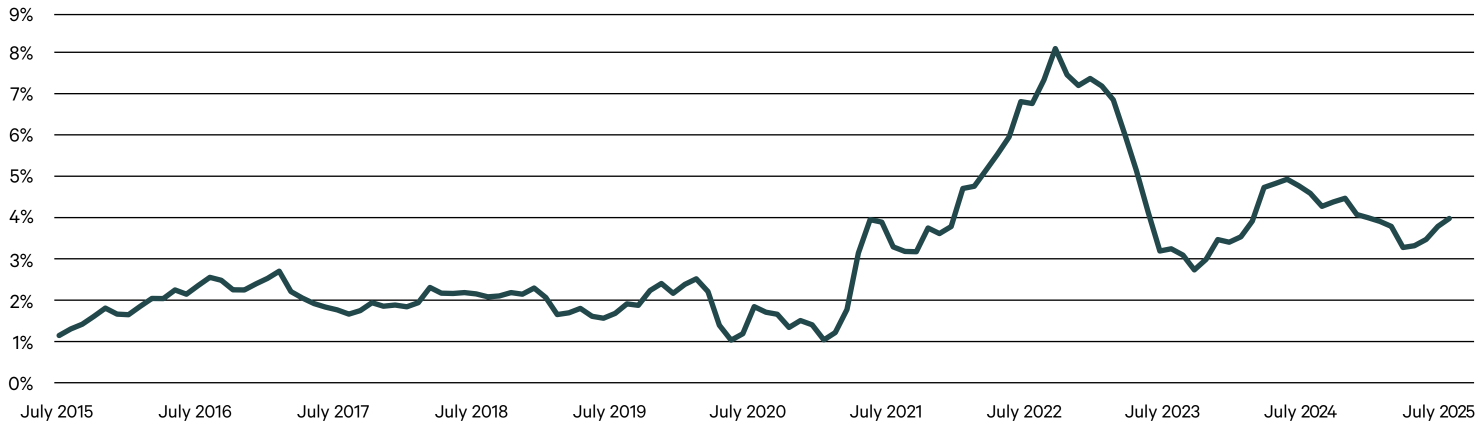


Data presented is as of August 31, 2025, is obtained from Factset and is assumed to be reliable. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and it is not available for direct investment. The P/E multiple is for the next twelve months ending August 31, 2025. Please see the end of this commentary for additional information regarding the index. ***Past performance is no guarantee of future results.***

Inflation (Both Goods and Services)—Much of the news on inflation centers on the impact of tariffs, but tariffs largely apply to goods. Meanwhile, consumers are seeing higher prices for both goods and services, with services leading inflation higher. Fed Chair Jerome Powell has started to emphasize “super-core” services (core minus shelter), which rose 4.0% year-over-year in July.

FIGURE 3: KEY ECONOMIC INDICATORS

Change in Consumer Price Index (Year-Over-Year): Services ex. Shelter



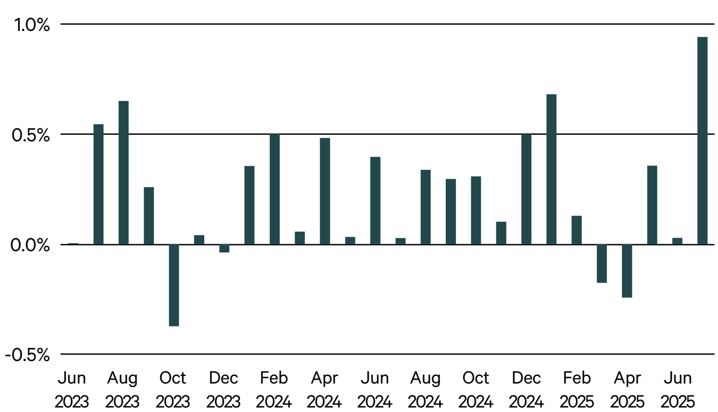
Data presented is as of July 31, 2025, is obtained from FactSet and the Bureau of Economic Analysis and is assumed to be reliable.

With that said, goods prices are also rising as inventories that were built up in advance of tariff deadlines are sold down. Businesses have been trying to postpone tariff-induced price increases as long as they can, and corporate tax cuts in the One Big Beautiful Bill can partly offset the hit to profitability. That said, there is evidence that many companies are planning some price increases soon.

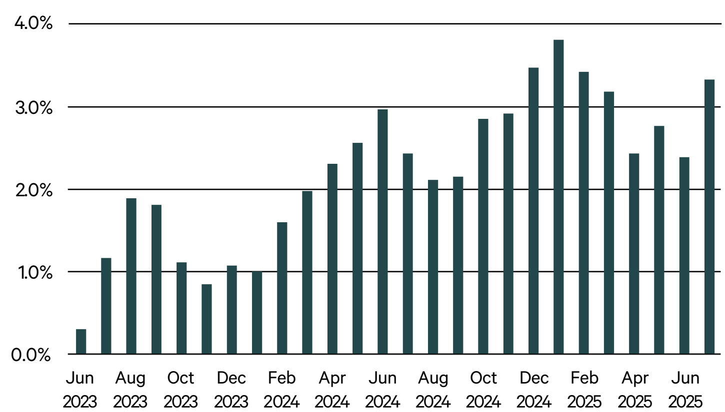
The Producer Price Index (PPI) increased 0.9% in July from a month earlier, up 3.3% from a year ago. This is the largest advance since consumer inflation peaked in June 2022, according to the Bureau of Labor Statistics. The spike in the cost of goods at the producer level is largely due to a 1.4% increase in the cost of food. Food is not part of “core” CPI, but consumers who eat are seeing price increases at the grocery store. Prices on vegetables jumped 38.9%, egg prices rose 7.3%, beef and veal increased by 4.6%. The U.S. cannot produce certain food products, such as coffee, in meaningful quantities but tariffs apply regardless. For example, Brazil, which supplies roughly 35% of U.S. coffee imports, has been hit with 50% tariffs.

FIGURE 4: KEY ECONOMIC INDICATORS

CHANGE IN PRODUCER PRICE INDEX (MONTH-OVER-MONTH)



CHANGE IN PRODUCER PRICE INDEX (YEAR-OVER-YEAR)



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Lastly, while the inflation news is disheartening, resilience is a U.S. superpower. If we think about the last five years and what the U.S. economy has had to sort out, it's really quite remarkable: a pandemic, supply chain nightmares, double-digit inflation, a mini banking crisis, global wars, the dawn of a new technology with the potential for existential impacts, and a chaotic first seven months of a new presidency. Through it all, the U.S. economy has outgrown and out-innovated a majority of the world.

The symbiotic relationship between consumers who are willing to spend as long as they have a job and companies that keep innovating to adapt to just about anything thrown at them is uniquely American. Companies are still figuring out how to manage with tariffs and the uncertainty that more may be coming, but many CFOs appear to be realizing that investors will give them a pass if earnings guidance proves unreliable as a result of tariffs. As we see it, that's probably helping markets march higher.

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Julie Biel, CFA is Chief Market Strategist, Portfolio Manager, and Senior Research Analyst with primary research responsibilities for the small and mid-capitalization information technology and health-care sectors. Ms. Biel began her equity research career in 2004.

The S&P 500® Index is a market capitalization weighted index which includes 500 of the largest companies in leading industries of the U.S. economy. The Russell 1000® Growth Index is a market capitalization-weighted index of growth-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The Russell 1000® Value Index is a market capitalization-weighted index of value-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The Russell 2000® Index is a market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The Russell 2000® Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. The Russell 1000® Index is a market capitalization-weighted index of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The Russell Midcap® Index is a market capitalization-weighted index of medium-capitalization stocks of U.S. companies. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment. This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should not be considered a recommendation or solicitation to purchase securities. ***Past performance is no guarantee of future results.***