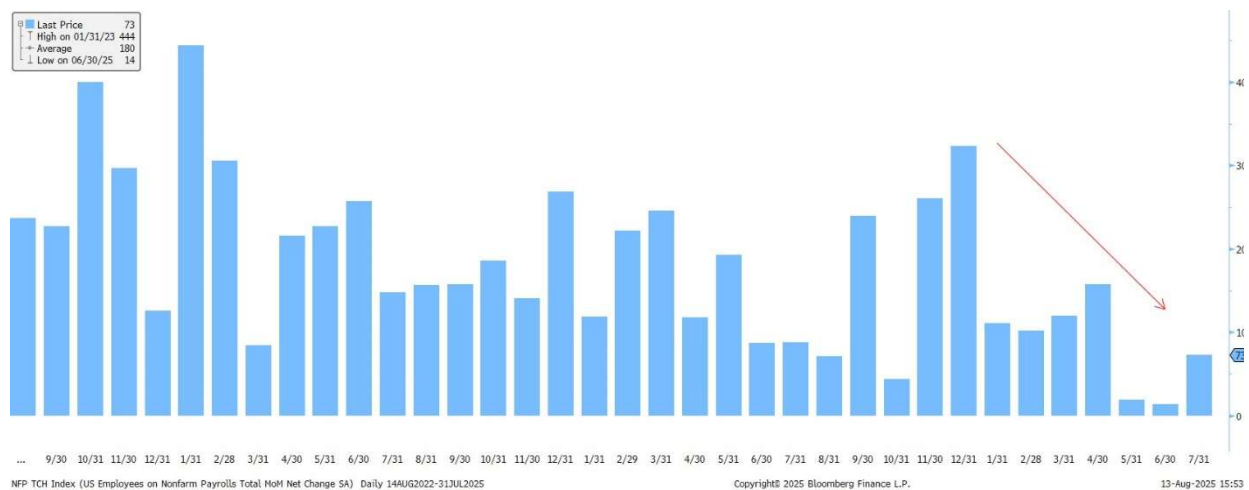


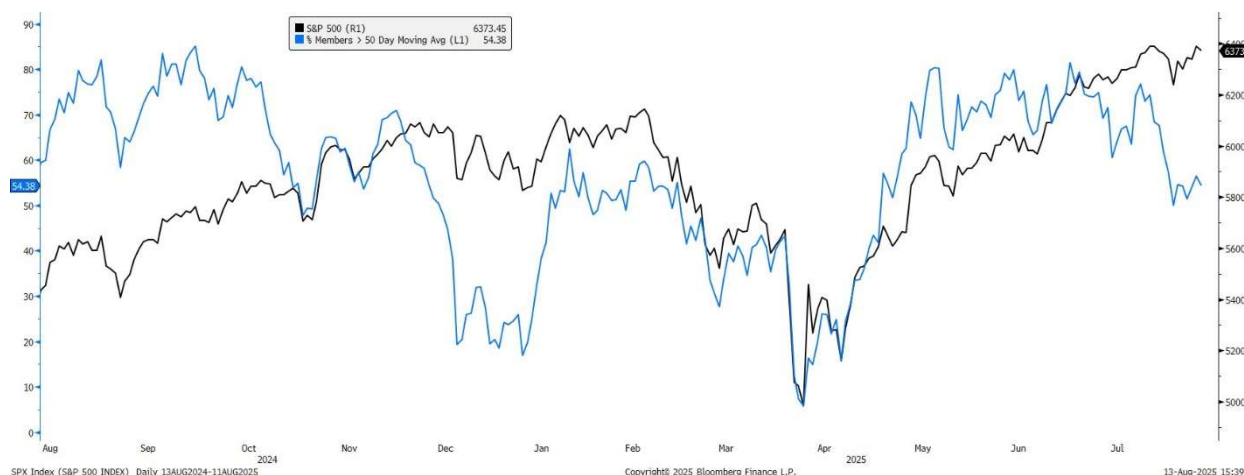
Moderate inflation numbers, softening labor market conditions, and mounting political pressure are increasingly setting the stage for the Federal Reserve to cut interest rates starting in September. The S&P 500 hit a new record high yesterday after the release of the July Consumer Price Index showed tariff-related goods inflation appears modest for now. The headline number came in at 0.2% month-over-month while the Core figure (excluding food and energy) increased 0.3% month-over-month—both numbers were in line with expectations. These readings, when combined with deteriorating labor market data, strengthen the case for near-term monetary easing. The July nonfarm payroll report showed the economy only added 73k jobs in July, below the 104k estimate. Moreover, the prior two months were revised sharply lower by 258k jobs, indicating only 19k jobs were added in May and 14k in June. There is still another round of labor and inflation data before the next Fed meeting. Still, any meaningful pickup in inflation or strengthening in the labor market would likely only alter the prospects for additional cuts after a September reduction, in our view.

Large downward revisions in May and June Non-Farm Payrolls point to softening labor market



Rate cuts would help a wider number of stocks outside of the mega caps and perceived AI beneficiaries that have been struggling. Since June, participation in the market rally has narrowed meaningfully. A recent reading showed only around 55% of S&P 500 stocks were above their 50-day moving average, down from nearly 80% in June. This weakening of market breadth underscores a growing reliance of the broader market on only a few stocks. The S&P 500 remains highly concentrated with just eight stocks making up over 37% of the index. We expect rate cuts will benefit a broader swath of stocks, including more cyclical areas and interest rate-sensitive smaller caps, particularly when combined with upcoming fiscal stimulus.

Less stocks participating in rally since June – rate cuts may present opportunity for a catch up for the average stock



Signs of complacency are on the rise. The VIX, often referred to as the “fear index”, is at its low of the year near 14 amidst the summer doldrums. So, while the 2nd quarter earnings season wrapped up on a high note, the One Big Beautiful Bill will provide fiscal stimulus going forward, rate cuts appear in the offing, and the AI investment cycle shows no signs of slowing down, investors are likely not well prepared for any surprise to this narrative. Accordingly, a bout of volatility over the next few weeks should not come as a surprise. Still, we would likely use short-term pullbacks to add to areas of the market where valuations are less demanding, including smaller companies and individual stocks where there are idiosyncratic drivers.

S&P 500 P/E near 2020 peak while S&P Midcap index is trading below its 10-year average



Jed Glick, CFA, Portfolio Manager – U.S. Equities

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