Prime Capital FINANCIAL

# MONTH IN REVIEW

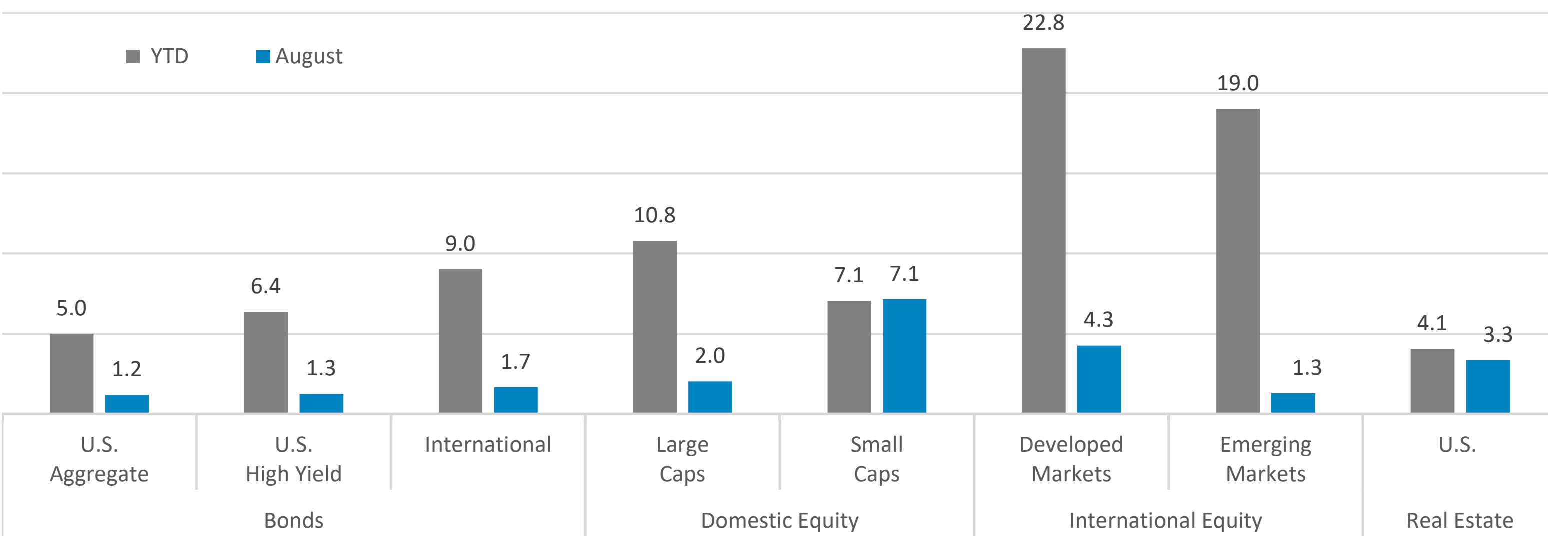
## AUGUST 2025

## Quick Takes

- **Equities Rally.** U.S. stock indices rose in August as investors were encouraged by strong earnings results from companies in Q2, continued investment in AI by large technology firms, and interest rate cuts in the last three months of the year. The S&P 500 rose 3.6% while the Nasdaq 100 rose 2.9%.
- **Inflation and Interest Rates.** The 10Y treasury yield fell in August to 4.2% as investors stepped-up bets that the Federal Reserve would cut rates through the end of the year. Fed Chair Powell hinted in his speech at Jackson Hole that the FOMC would be open to a rate cut in September.
- **Russia-Ukraine & Oil Markets.** Oil prices rose slightly in the back half of August as efforts to end the War in Ukraine fell short. Despite the Trump administrations efforts to end the war, Russian forces continued to carry out strikes on Kyiv, Ukraine's capital, and other parts of the country.
- **Nvidia Earnings.** Nvidia reported earnings that generally exceeded expectations for Q2 despite the company's data center revenue, which includes its sales of advanced chips, falling slightly short of analyst forecasts. Despite not selling to Chinese customers, Q2 revenue grew nearly 56% over the same period last year.

## Asset Class Performance

Small caps outperformed large caps in August and International stocks outperformed U.S. stocks as generally strong quarterly results and rate cuts hopes from the Fed boosted stocks in August. Equities, bonds, and real estate generally rose in August while the U.S. Dollar fell.




Source: Bloomberg, as of July 7, 2025. Asset-class performance is presented by using total returns for an index proxy that best represents the respective broad asset class. U.S. Bonds (Barclays U.S. Aggregate Bond TR), U.S. High Yield (Barclays U.S. HY 2% Issuer-Capped TR), International Bonds (Barclays Global Aggregate ex USD TR), Large Caps (S&P 500 TR), Small Caps (Russell 2000 TR), Developed Markets (MSCI EAFE NR USD), Emerging Markets (MSCI EM NR USD), Real Estate (FTSE NAREIT All Equity REITS TR).

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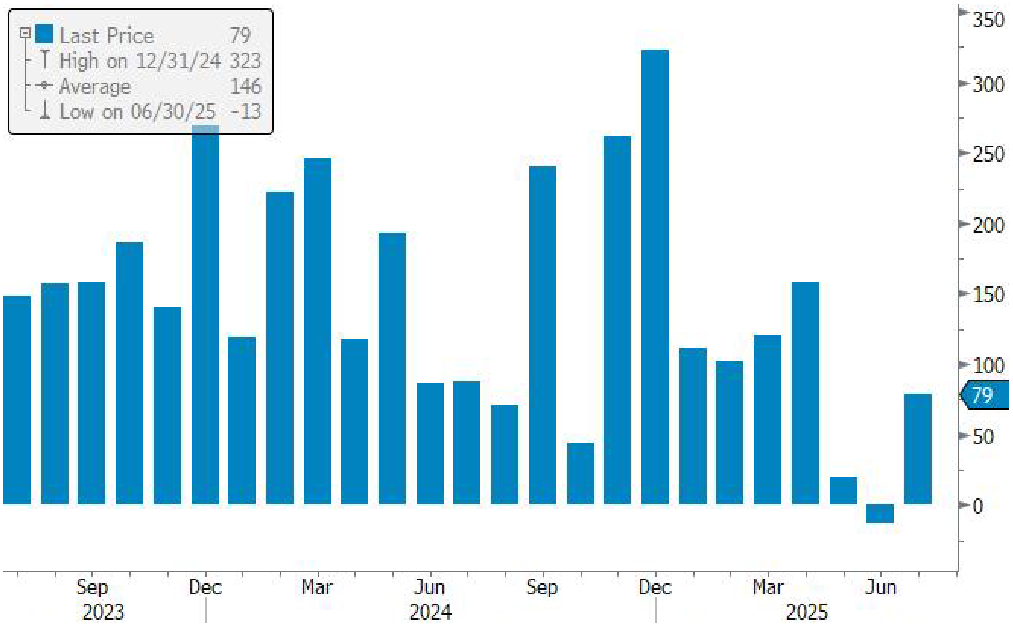
August 2025

# Markets & Macroeconomics

## The Fed held rates steady. Consumer confidence and inflation rose.

### Change in Nonfarm Payrolls

Job growth has been weaker than originally thought in recent months




Source: Bloomberg, BLS

July nonfarm payrolls were 79K, falling well short of the expected 105K additions. Hiring was strongest in education and health services, which added 77K positions during the month. Job growth was weakest in professional and business services, information services, and mining and logging, which shed a combined 23K positions during the month. Manufacturing cut 2K positions in July, marking the third consecutive month of job losses in the sector. Initial jobless claims rose during the month reaching 237K by the week of August 30.The unemployment rate rose to 4.2% from 4.1% and the labor force participation rate fell slightly from 62.3% to 62.2%. On the prices side of the Fed's dual mandate, headline CPI inflation came in slightly below expectations at 2.7% as food and energy price inflation fell during the month. Despite this, core CPI inflation rose from 2.9% to 3.1% during the month as household furnishings and supplies, transportation goods, and medical care services inflation accelerated. New and used car prices and car parts experienced a notable acceleration in their prices in July. PCE inflation, the Fed's favored inflation metric generally told a similar story with headline PCE rising 2.6% year-over-year and core PCE rising 2.9%. Producer inflation experienced its largest acceleration in three years with headline PPI inflation accelerating from 2.3% year-over-year in June to 3.3% in July and core PPI accelerating from 2.6% to 3.3%. Consumer spending generally held well in July with personal spending and retail sales increasing 0.5% month-over-month, in-line with and slightly shy of expectations, respectively. Consumer sentiment was mixed in July and August with Conference Board Consumer Confidence remaining flat at 97.4 in July while University of Michigan Consumer Sentiment came in below expectations and June levels for July and the first half of August. Manufacturing was mixed with durable goods falling July and, although less than anticipated, and industrial production declining slightly month-over-month. Manufacturing ISM PMI came in below expectations and lower than June's level at 48.0, indicating another month of contraction while the S&P manufacturing PMI indicated a milder contraction at 49.8. Equity markets continued upward and the 10Y yield fell in August as investors remain hopeful that the Fed will cut rates in September.

**<u>Bottom Line</u>: Slow hiring, slightly higher unemployment, and mixed manufacturing data likely mean a Fed cut in September, but accelerating inflation makes it risky.**

### S&P 500 vs 10Y Treasury Yields YTD

Stocks have risen on earnings and rate cut expectations


Source: Bloomberg, Department of Labor

August 2025

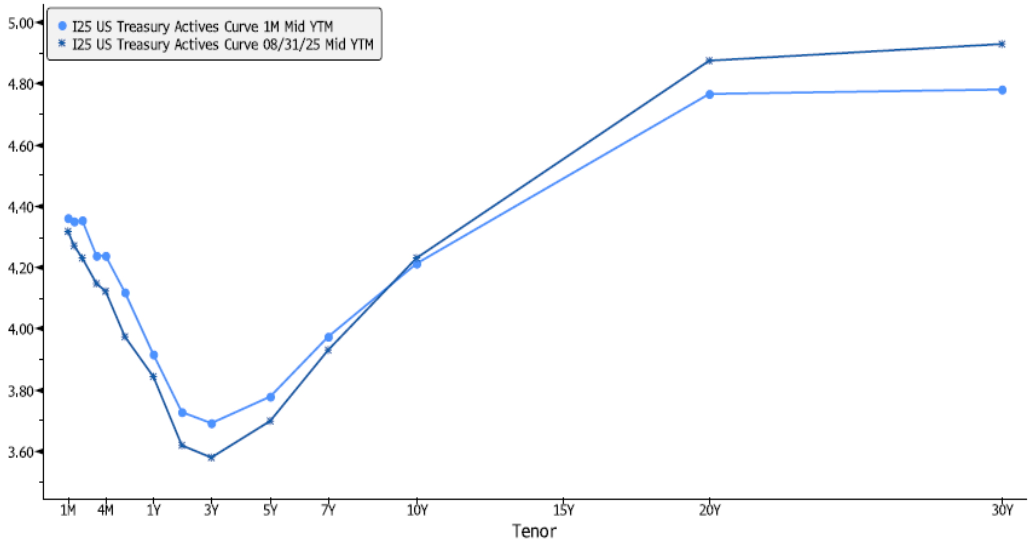
# What's Ahead

## The Federal Reserve's political independence.

As investors continued to pour over earnings reports from major companies across sectors in August, another key dynamic has been increasingly in the headlines and moving markets: monetary policy and the Federal Reserve's political independence. Investors listened to Fed Chair Jerome Powell's speech in Jackson Hole, Wyoming on August 22 where he seemed to leave the door open to a rate cut at the FOMC's September meeting, a move that has been widely seen as likely given labor market weaknesses in the last few months. This was only one of the main events of the month surrounding the Fed, however. Late August was filled with headlines about President Trump's efforts to remove Fed Governor Lisa Cook from her post. On August 20, Trump urged Cook to step down from her post after Federal Housing Finance Authority head Bill Pulte, a Trump appointee, accused her of mortgage fraud. Later in the month, Trump said he would fire Cook after she refused to go on leave or step down. Governor Cook was appointed by President Biden and confirmed by the Senate in 2022. The accusations against Cook, Trump's repeated criticism of Chair Powell over refusing to cut interest rates, and Fed Governor Adriana Kugler's resignation in early August have raised questions about the long-term independence of the Fed, a long-standing precedent designed to ensure the Fed's effectiveness. After Kugler stepped down, Trump nominated Stephan Miran as her replacement. If Cook ultimately is removed from her post, Trump will be able to nominate another governor to the Fed's board. A May report from Goldman Sachs on Fed independence indicated that greater legal independence of central banks has historically resulted in lower inflation while less independence, greater public pressure, and higher interest rate committee turnover has generally been followed by higher inflation. The report also indicated that a loss of Fed independence would likely lead to higher inflation, higher yields on longer-dated treasuries, a weaker dollar, and lower equity prices. While earnings have generally kept share prices high, long-dated treasuries experienced rising yields in August despite expectations of Fed rate cuts through the end of the year. The Dollar Index has also fallen year-to-date and now sits near a 2-3 year low. Gold, often seen as a haven asset at times of lower trust in institutions, has risen over 27% since Trump has taken office. The rest of this year and 2026 will give investors a clearer look at the direction of the Fed and how much influence Trump will wield over it going forward. The Fed remaining independent or not will have major implications for the U.S. economy, rates, and the dollar next year.

**U.S. Treasury Yield Curves 8/31 vs 1M Prior**

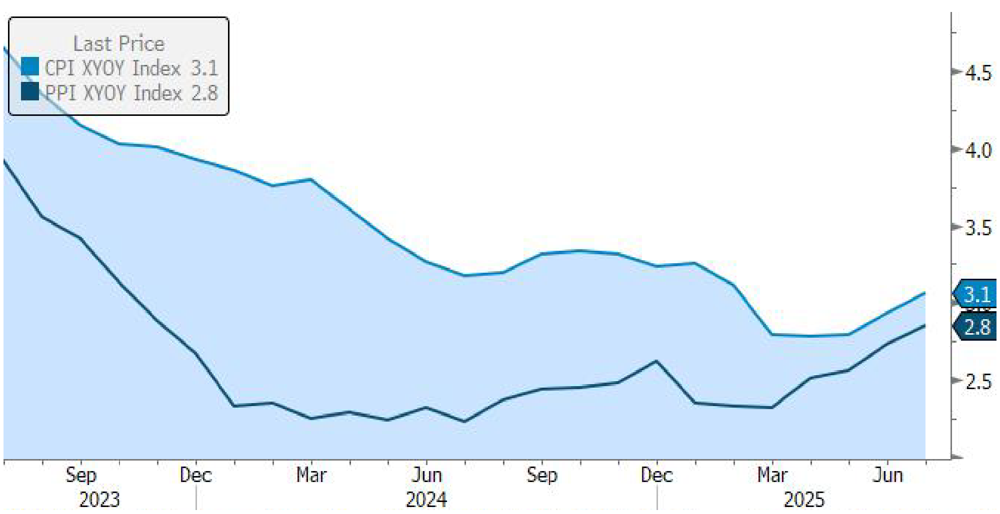
Long-end rates rose in August as Fed independence concerns rose




Source: Bloomberg

**Core CPI & Core PPI Inflation**

Inflation has accelerated since April making Fed rate cuts more difficult




Source: Bloomberg

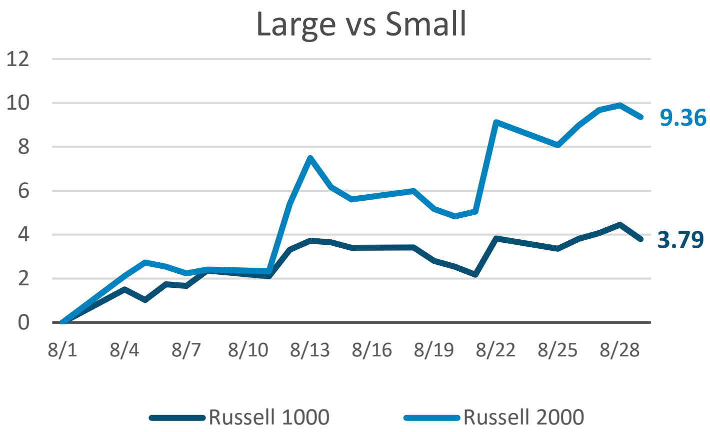
**<u>Bottom Line</u>: Fed independence or politicization will be a key theme over the next several months that will impact rates, the dollar, and stocks.**

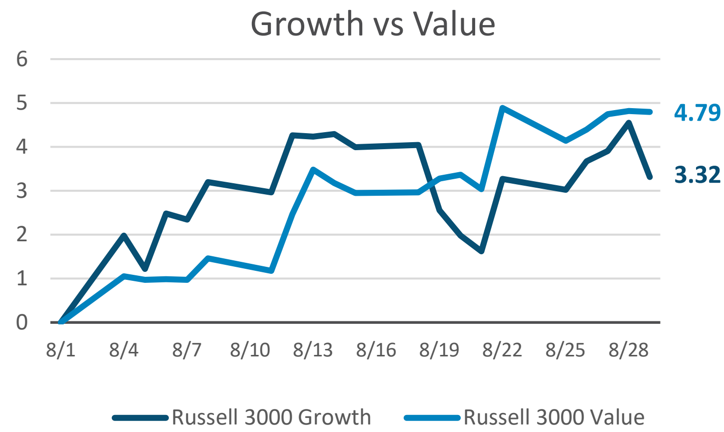
August 2025

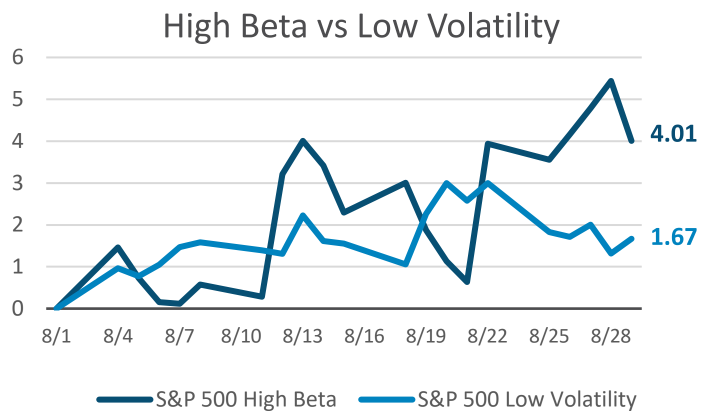
# Equity Themes

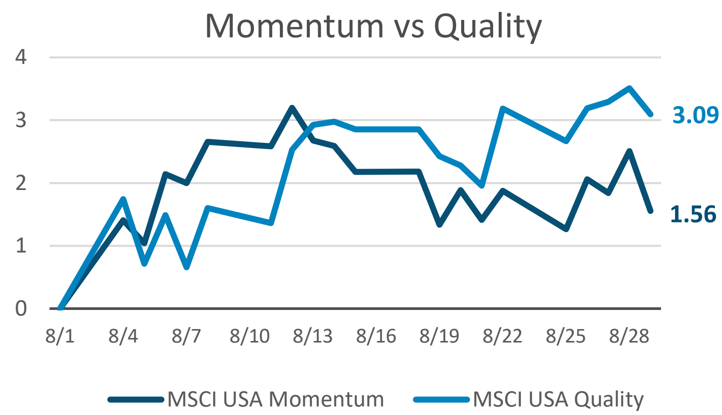
## What Worked, What Didn't

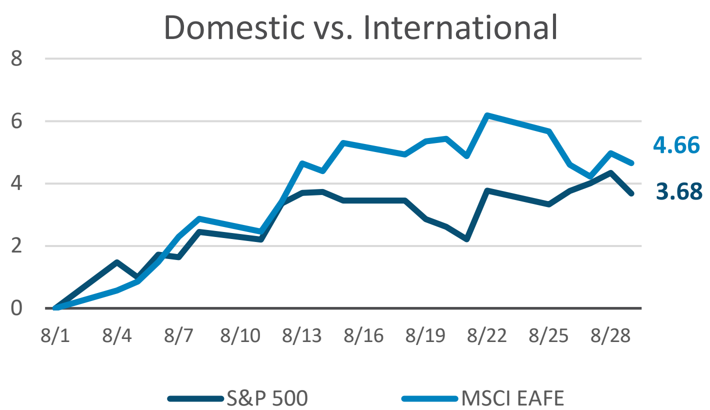
- **Small Outperformed Large while Value Outperformed Growth.** Market participants moved more into small caps and value stocks in August as companies reported their results for Q2.
- **High Beta and Quality Outperformed.** High beta outperformed low volatility and quality outperformed momentum in August as investors sought higher risk ahead of rate cuts.
- **International Over Domestic, Developed Over Emerging.** Domestic equities underperformed international stocks in August. Developed markets outperformed emerging markets during the month.

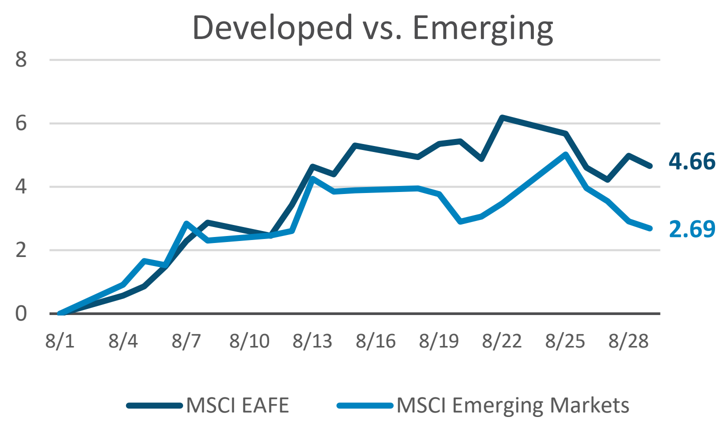


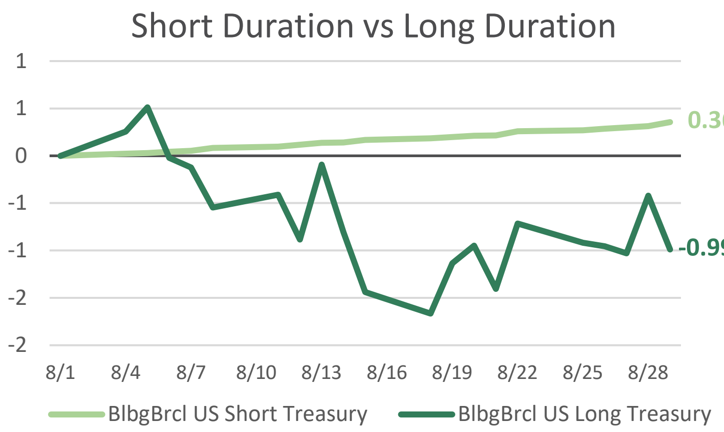

Source: Bloomberg.

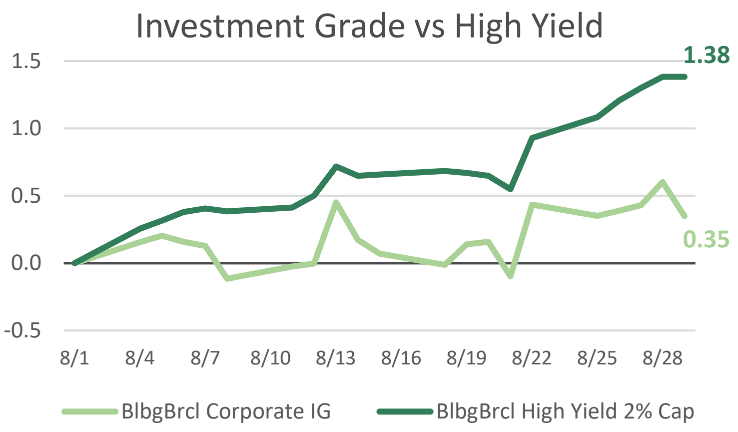
August 2025

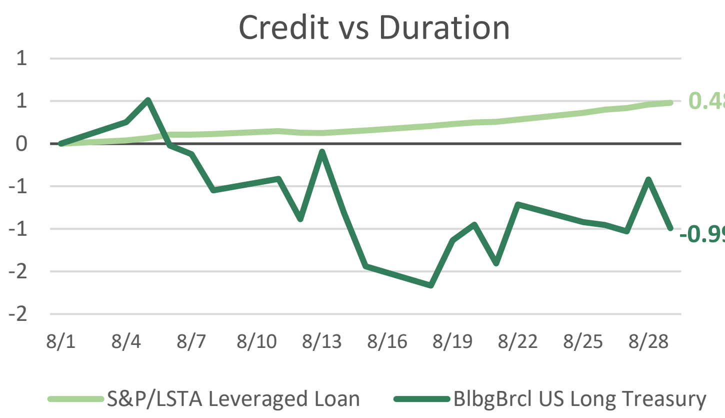
# Bond Themes

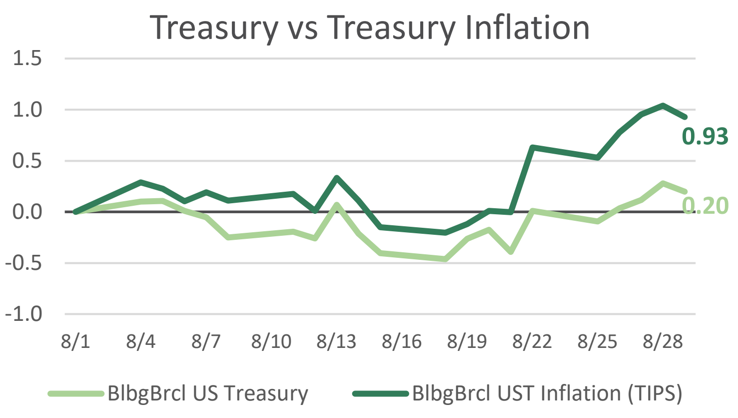
## What Worked, What Didn't

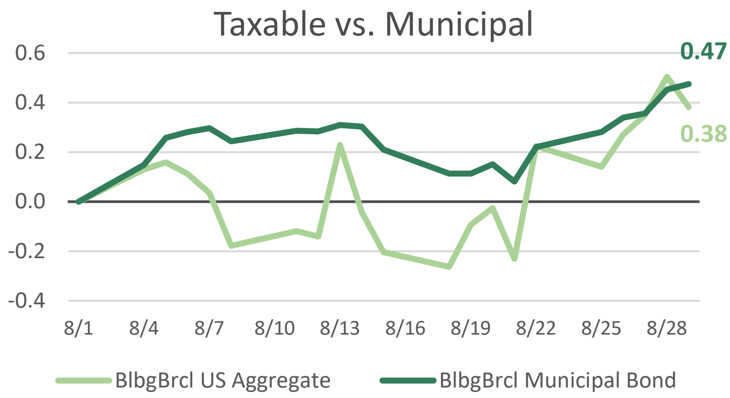
- **Short Duration Outperformed while High Yield Beat Investment Grade.** Short duration treasuries performed better in August outperforming long duration. High yield outperformed investment grade during the month.
- **Credit Tops Duration while TIPS Beat Treasuries.** In August, credit outperformed duration while TIPS outperformed treasuries as inflation continues to experience some upward pressure.
- **Munis Beat Taxable and International Outperforms Domestic.** Municipal bonds outperformed taxable bonds, while international bonds outperformed their domestic peers in August.

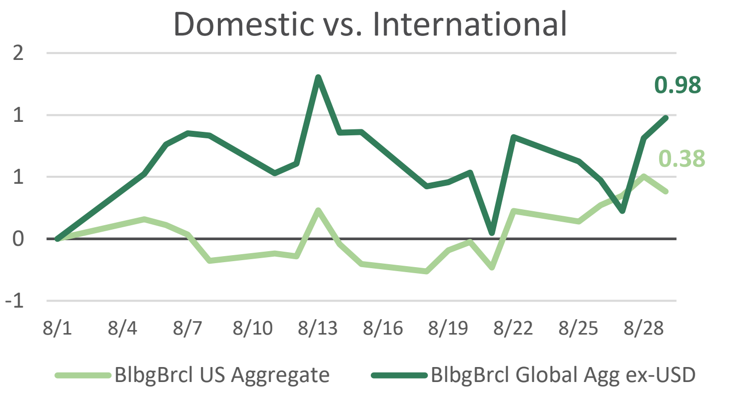



Source: Bloomberg.

August 2025

# Asset Class Performance

**The Importance of Diversification**. From period to period there is no certainty what investment will be the best, or worst, performer. Diversification mitigates the risk of relying on any single investment and offers a host of long-term benefits, such as less portfolio volatility, improved risk-adjusted returns, and more effective compounding.

| | Aug-01 | Aug-04 | Aug-05 | Aug-06 | Aug-07 | Aug-08 | Aug-11 | Aug-12 | Aug-13 | Aug-14 | Aug-15 | Aug-18 | Aug-19 | Aug-20 | Aug-21 | Aug-22 | Aug-25 | Aug-26 | Aug-27 | Aug-28 | Aug-29 | Aug | YTD | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High | IBD 1.24 | SCG 2.53 | SCV 0.72 | LCG 1.38 | IEQ 0.90 | LCG 0.82 | USB 0.07 | SCV 3.16 | SCV 2.22 | LCG 0.12 | RE 0.64 | MCG 0.69 | RE 1.79 | RE 0.37 | SCG 0.51 | SCV 4.31 | USB -0.15 | SCG 0.87 | SCV 0.84 | MCG 1.12 | RE 0.56 | SCV 11.09 | IEQ 23.80 | High |
| | USB 0.86 | MCG 2.06 | SCG 0.46 | IEQ 0.66 | EM 0.84 | IEQ 0.61 | SCG 0.07 | SCG 2.68 | SCG 1.76 | IEQ 0.01 | IEQ 0.59 | EM 0.58 | MCV 0.44 | IEQ 0.36 | SCV -0.01 | SCG 3.42 | LCG -0.16 | MCG 0.64 | SCG 0.63 | LCG 0.65 | IBD 0.22 | SCG 8.49 | EM 20.94 | |
| | HYB 0.01 | LCG 1.96 | EM 0.29 | IBD 0.53 | RE 0.39 | LCV 0.51 | HYB 0.00 | MCV 1.59 | MCV 1.54 | HYB -0.26 | IBD 0.34 | SCG 0.48 | LCV 0.32 | IBD 0.16 | HYB -0.19 | MCV 2.44 | HYB -0.20 | LCG 0.58 | MCG 0.56 | SCG 0.56 | LCV 0.01 | IEQ 5.03 | IBD 14.85 | |
| | RE -0.14 | SCV 1.74 | RE 0.25 | EM 0.47 | IBD 0.31 | SCV 0.19 | SCV -0.14 | MCG 1.43 | EM 1.20 | USB -0.28 | EM 0.12 | SCV 0.32 | USB 0.19 | LCV 0.10 | EM -0.22 | EM 1.99 | 60/40 -0.57 | SCV 0.56 | RE 0.53 | EM 0.38 | SCV -0.01 | MCV 4.62 | MCG 13.84 | |
| | IEQ -0.26 | IEQ 1.33 | USB 0.03 | MCG 0.33 | 60/40 0.18 | SCG 0.16 | 60/40 -0.17 | IEQ 1.22 | LCV 0.99 | LCV -0.29 | HYB 0.07 | LCG 0.03 | IEQ 0.01 | USB 0.06 | USB -0.23 | RE 1.80 | EM -0.57 | IBD 0.31 | MCV 0.52 | IEQ 0.37 | MCV -0.03 | LCV 4.54 | LCG 12.52 | |
| | 60/40 -0.31 | MCV 1.26 | IEQ -0.01 | 60/40 0.28 | MCV 0.08 | 60/40 0.10 | LCG -0.18 | EM 1.22 | RE 0.93 | 60/40 -0.38 | MCG 0.06 | LCV 0.01 | HYB -0.02 | 60/40 0.01 | MCV -0.26 | MCG 1.72 | RE -0.57 | HYB 0.22 | LCV 0.36 | IBD 0.28 | USB -0.13 | LCG 3.74 | 60/40 11.93 | |
| | EM -0.74 | LCV 1.06 | HYB -0.05 | HYB 0.10 | LCV 0.01 | HYB 0.01 | IBD -0.19 | LCG 1.17 | MCG 0.63 | IBD -0.68 | 60/40 0.03 | 60/40 -0.01 | SCV -0.04 | HYB -0.04 | MCG -0.27 | LCV 1.69 | MCG -0.64 | LCV 0.18 | LCG 0.20 | 60/40 0.25 | HYB -0.19 | EM 3.55 | LCV 9.84 | |
| | MCV -1.29 | EM 1.04 | 60/40 -0.08 | SCV 0.07 | USB -0.08 | MCV 0.00 | MCG -0.26 | LCV 1.10 | 60/40 0.62 | RE -0.74 | USB -0.15 | HYB -0.07 | 60/40 -0.10 | MCG -0.10 | 60/40 -0.34 | LCG 1.56 | MCV -0.65 | 60/40 0.15 | HYB 0.12 | USB 0.12 | 60/40 -0.33 | 60/40 2.92 | SCG 8.10 | |
| | LCV -1.36 | RE 1.01 | IBD -0.09 | LCV 0.03 | HYB -0.10 | EM -0.08 | LCV -0.26 | 60/40 0.81 | IEQ 0.60 | MCV -0.84 | LCV -0.19 | IEQ -0.11 | IBD -0.20 | EM -0.14 | LCV -0.37 | IEQ 1.50 | LCV -0.67 | USB 0.12 | USB 0.10 | HYB 0.05 | EM -0.48 | RE 2.73 | MCV 7.97 | |
| | MCG -1.59 | 60/40 0.91 | MCV -0.10 | USB -0.04 | LCG -0.15 | USB -0.19 | EM -0.28 | IBD 0.41 | IBD 0.50 | MCG -0.96 | MCV -0.29 | USB -0.11 | MCG -0.75 | MCV -0.21 | LCG -0.43 | 60/40 1.37 | SCV -0.81 | MCV 0.01 | 60/40 0.10 | LCV 0.04 | IEQ -0.59 | MCG 2.34 | SCV 6.86 | |
| | LCG -1.93 | HYB 0.34 | LCV -0.11 | SCG -0.40 | SCV -0.21 | IBD -0.28 | MCV -0.36 | RE 0.37 | USB 0.36 | SCV -1.10 | LCG -0.32 | MCV -0.16 | EM -0.82 | SCG -0.33 | RE -0.44 | IBD 1.07 | IBD -0.96 | IEQ -0.11 | IBD 0.03 | MCV -0.24 | MCG -0.78 | HYB 1.24 | HYB 6.53 | |
| | SCG -1.96 | IBD 0.09 | LCG -0.79 | MCV -0.43 | SCG -0.26 | RE -0.88 | IEQ -0.42 | HYB 0.22 | HYB 0.26 | EM -1.23 | SCG -0.36 | IBD -0.22 | LCG -1.39 | SCV -0.44 | IBD -0.59 | HYB 0.81 | SCG -1.06 | EM -0.26 | IEQ -0.24 | RE -0.25 | SCG -0.84 | IBD 0.53 | RE 5.28 | |
| Low | SCV -2.05 | USB 0.08 | MCG -1.02 | RE -0.71 | MCG -0.52 | MCG -1.20 | RE -0.68 | USB 0.00 | LCG -0.09 | SCG -1.43 | SCV -0.69 | RE -0.98 | SCG -1.40 | LCG -0.59 | IEQ -0.63 | USB 0.56 | IEQ -1.32 | RE -0.34 | EM -0.60 | SCV -0.26 | LCG -1.19 | USB 0.33 | USB 5.14 | Low |

## Legend

- 60/40 Allocation (60/40)
- Large Growth (LCG)
- Large Value (LCV)
- Mid Growth (MCG)
- Mid Value (MCV)
- Small Growth (SCG)
- Small Value (SCV)
- Intl Equity (IEQ)
- Emg Markets (EM)
- U.S. Bonds (USB)
- High Yield Bond (HYB)
- Intl Bonds (IBD)
- Real Estate (RE)

Source: Sources for this market commentary derived from Bloomberg. Asset-class performance is presented by using market returns from an exchange-traded fund (ETF) proxy that best represents its respective broad asset class. Returns shown are net of fund fees and do not necessarily represent performance of specific mutual funds and/or exchange-traded funds recommended by the Prime Capital Financial. The performance of those funds in August may be substantially different than the performance of the broad asset classes and to proxy ETFs represented here. U.S. Bonds (iShares Core U.S. Aggregate Bond ETF); High-Yield Bond (iShares iBoxx $ High Yield Corporate Bond ETF); Intl Bonds (SPDR® Bloomberg Barclays International Corporate Bond ETF); Large Growth (iShares Russell 1000 Growth ETF); Large Value (iShares Russell 1000 Value ETF); Mid Growth (iShares Russell Mid-Cap Growth ETF); Mid Value (iShares Russell Mid-Cap Value ETF); Small Growth (iShares Russell 2000 Growth ETF); Small Value (iShares Russell 2000 Value ETF); Intl Equity (iShares MSCI EAFE ETF); Emg Markets (iShares MSCI Emerging Markets ETF); and Real Estate (iShares U.S. Real Estate ETF). The return displayed as “Allocation” is a weighted average of the ETF proxies shown as represented by: 30% U.S. Bonds, 5% International Bonds, 5% High Yield Bonds, 10% Large Growth, 10% Large Value, 4% Mid Growth, 4% Mid Value, 2% Small Growth, 2% Small Value, 18% International Stock, 7% Emerging Markets, 3% Real Estate. 080223006 - MAH