

# MARKET INSIGHTS

AUGUST 2025



Fed Chair Powell may be in the process of making (yet another) policy mistake, ironically to preserve his legacy. This would be the fifth major policy mistake of Jerome’s tenure: 1. overtightened in 4Q18, 2. too late to ease in 1Q20, 3. too late to tighten in 2021-22, and 4. asleep at the bank-supervision wheel in 1Q23).

In the Fall of 2024, he cut 100bps when various key metrics were notably stronger than they are now: Private sector labor income growth is well below 2024 levels, Real Services PCE is well below 2024 levels and the last 5 months through June were the worst since Covid, 2Q Real GDP ex-government and net exports *declined* at 3.2% but was at trend in 2024, and 2Q Private Real Final Sales growth slowed to 1.2% but was above trend in 2024.

Did President Trump’s social media attack cause Powell to hold rates steady as a show of institutional independence but at the expense of data indicating a clear case for rate cuts?

Or is Powell more focused on his legacy? He doesn’t want to be known as the steward of the worst inflation since the 1970s where he kept the Fed Funds Rate 1,000 basis points below what the Taylor Rule indicated and continued Quantitative Easing for 14 months while inflation was accelerating above the Fed’s target.

We’ve been calling for a bottom-up economic regime of Quad 3 Inflation for the 2<sup>nd</sup> half of 2025 since the beginning of the year. Quad 3 is a classic set up for a Fed policy mistake. Slowing growth says cut while rising inflation says hike. Not cutting rates in July in the face of a slowdown is a de facto tightening, causing the Fed to fall behind the curve.

## ASSET CLASS SIGNAL STRENGTH:

| ASSET CLASS    | AUGUST 2025     | JULY 2025       | 3 - 12 MONTH OUTLOOK * |
|----------------|-----------------|-----------------|------------------------|
| EQUITIES       | OFFENSIVE LONG  | OFFENSIVE LONG  | FAVORABLE              |
| FIXED INCOME   | DEFENSIVE LONG  | DEFENSIVE LONG  | NEUTRAL                |
| COMMODITIES    | DEFENSIVE LONG  | DEFENSIVE LONG  | FAVORABLE              |
| US DOLLAR      | DEFENSIVE SHORT | DEFENSIVE SHORT | UNFAVORABLE            |
| RFR (3M TBILL) | DEFENSIVE LONG  | DEFENSIVE LONG  | NEUTRAL                |
| BITCOIN        | OFFENSIVE LONG  | OFFENSIVE LONG  | FAVORABLE              |

## PORTFOLIO SNAPSHOT *(new format shows current exposure relative to target range)*

| MODEL           | EQUITIES   |          |           | FIXED INCOME |          |           |
|-----------------|------------|----------|-----------|--------------|----------|-----------|
|                 | RANGE      | AUG 2025 | JULY 2025 | RANGE        | AUG 2025 | JULY 2025 |
| BOND            | --         | --       | --        | -25 to 100%  | 45%      | 45%       |
| PEA CORE STOCK  | 100%       | 100%     | 100%      | --           | --       | --        |
| MODERATE ARM    | 30 to 60%  | 60%      | 45%       | 10 to 40%    | 35%      | 20%       |
| DIVIDEND INCOME | 30 to 60%  | 49%      | 45%       | 10 to 40%    | 40%      | 20%       |
| MACRO PERSIST   | -40 to 40% | 20%      | 20%       | -40 to 40%   | 40%      | 30%       |

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|                          |              |     |     |              |     |     |
|--------------------------|--------------|-----|-----|--------------|-----|-----|
| SYSTEMATIC MACRO         | 0 to 60%     | 60% | 30% | --           | --  | --  |
| ALL ASSET                | -25 to 100%  | 40% | 24% | -25 to 100%  | 30% | 15% |
| FOCUS                    | -100 to 300% | 10% | 10% | -100 to 300% | 23% | 23% |
| Special Situation Equity | 0 to 100%    | 85% | 85% | --           | --  | --  |

## CURRENT MARKET REGIME: *current conviction score 87%*

| Quadrant            | MARKET REGIME   |                  |
|---------------------|-----------------|------------------|
|                     | Current % Share | Previous % Share |
| GOLDILOCKS / Quad 1 | 41%             | 44%              |
| REFLATION / Quad 2  | 37%             | 35%              |
| INFLATION / Quad 3  | 9%              | 5%               |
| DEFLATION / Quad 4  | 12%             | 16%              |

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