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Sound Income Strategies
Monthly Equity Newsletter

Sound Income Strategies, Monthly Equity Update **August 31, 2025**

Monthly Quotes & Maxims

"Fear makes you sell too soon. Patience is where the real money is made. Taking a small gain can cost you a fortune." – Warren Buffet

"It is better to look ahead and prepare than to look back and regret." – Jackie Joyner-Kersee

Executive Summary

Macro: Economic data released in August painted a mixed picture for the US economy, with stronger than expected earnings and GDP being offset by negative revisions in prior months' job growth figures and slowing trends in hiring and home sales. These factors, and comments by Fed Board members have led investors to expect the Fed to cut the overnight lending rate in September, as the Board's concerns shift from price stability to maintaining full employment. Also, with inflation running hotter than core GDP growth, a case can be made that US economy has entered a period of stagflation, which is another factor that suggests rate cuts make sense now, even though the economy still has positive low single digit growth rate and company earnings estimates have been rising lately, due to lower income taxes and lower-than-feared tariff burdens. There is also still uncertainty over tariffs, amplified by courtroom defeats over these policies, which make corporate planning still very difficult. Nonetheless, the combination of stimulus from the Big Beautiful Bill and easy comparisons next year currently have US corporate EPS growth projected to pick up in 2026, after posting better than expected, post-tariff growth of 10%+ in '25.

Markets: US equity indices reached new all-time highs again in August, led by Materials, Healthcare, Communications and Energy stocks, with Technology names taking a breather after posting four unusually great months. This rotation away from growth and into cyclical value names is due to investors buying ahead, in anticipation of the benefits from lower rates to come, and easy comparisons, rather than a reflection of contemporary fundamentals. For example, Healthcare stocks posted the most negative earnings revisions during the last quarter, but were the best sector this month, while IT had the 3rd best earnings revisions yet was the third worst performing sector in August, as relative growth rates slowed.

Portfolios: Both core portfolios performed well in August, outperforming the broader index, as Fed rate cuts are just the tonic that high yield value portfolio's need. Position-wise, we made some adjustments to both yield portfolios to take advantage of market volatility and we added a small position in Archer Daniels Midland (ADM) to the Total Return Yield portfolio, as it is a direct beneficiary to changes made in the US biofuel blending laws.

Part I: Macro Factors and Thoughts

Powell ignited a "pivot party" in his Jackson Hole address on August 22nd, and US stocks have been mostly giddy since then. As noted by Wharton Professor Jeremy Seigel in his weekly newsletter:

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"Chair Powell's speech at Jackson Hole was a proper and long overdue pivot—and the markets immediately rejoiced. This was the dovish signal investors had been hoping for, and even stronger than I expected Powell to deliver. The Fed's newfound willingness to "look through" tariff-induced inflation marks a major shift in policy tone, and I believe we are now firmly on a path toward easing, barring any major surprises. That is excellent news for equities, housing, and rate-sensitive sectors….

While the 10-Year Treasury yield fell modestly on Powell's remarks, it's the mortgage market where the implications are potentially most powerful. With prepayment risks high and spreads wide, 30-year mortgage rates could drop by 100 basis points even without a major movement in long yields. That explains the sharp rally in homebuilders. Adjustable-rate borrowers stand to benefit directly from the short end of the curve falling, and that feeds directly into the strength of small-cap stocks, many of which are highly sensitive to short-term borrowing costs.

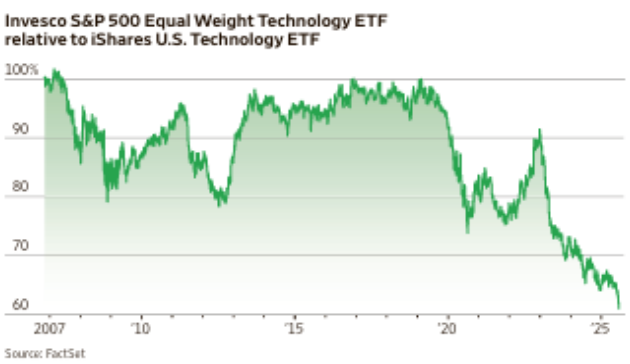
Make no mistake, these rate cuts matter. Some question whether shaving 75 or 100 basis points makes a real difference. It does—$20 trillion in loans are directly pegged to the fed funds rate through SOFR, LIBOR, and prime-linked products. That includes everything from credit cards to small business loans, and it's why the Russell 2000 outperformed strongly. Big tech might not need to borrow, but mom-and-pop America sure does….

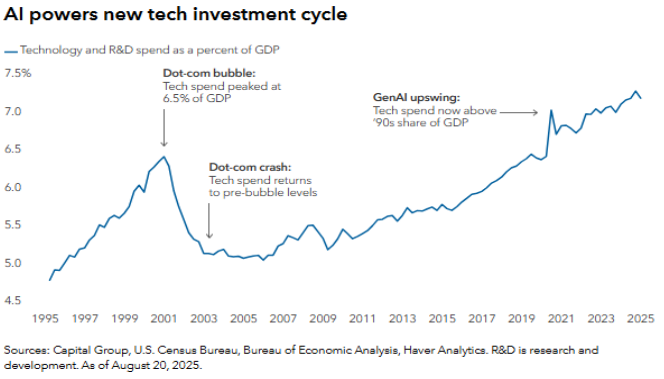
On sector positioning, I favor small-cap and value stocks here, especially those with strong dividend yields. Rate-sensitive income plays become more attractive in a lower yield environment. Multinationals also benefit from the dollar's weakness, boosting foreign earnings translations."

This forecast is music to our ears and inflation for our wallets – the one place where it is truly welcome.

Finally, with Powell ready to cut rates again, despite the President's badgering, market sentiment has been transformed from "go-go momentum," where only mega cap growth names were materially rising, into one where a rotation into cyclical and value stocks has begun to take hold.

As we have noted in prior letters, while the S&P 500 market cap weighted index is expensive at over 24X earnings, the equal-weighted index is not particularly expensive at 17X earnings, and the price differential between small caps to large caps is near all-time highs, with small caps, which have historically been more expensive than large caps (due to higher historical growth) being cheaper, due to uncharacteristically lower growth rates. Note, this market cap effect not only distorts the value of the S&P 500 index, but even the value of the technology sector within the index. As shown below, the equal weighted PE for the Investco S&P 500 technology sector ETF is 40% cheaper than that of the market cap weighted benchmark. We don't know how long this AI-led phenomenon will last, but we do know it will end eventually, as other investment options demonstrate superior returns. So far, ROI on AI has been mostly theoretical, but the promises for long-term savings in labor costs has been great.





Sources: Capital Group, U.S. Census Bureau, Bureau of Economic Analysis, Haver Analytics. R&D is research and development. As of August 20, 2025.

History Isn't Rhyming As Well As It Used To

We like so many other investors, tend to look at average and long-term historical relationships, to give us a sense for normalcy, and a hint as to when it make sense to buy or sell things when they get out of whack versus historical norms. However, the world truly has changed over the last 20 years. For example, Technology stocks and themese, which used to make up ~15% of the S&P 500 have taken over the benchmark and are increasingly taking over the US economy. While the information technology sector is now 33%,of the S&P, based on its market cap weight alone, if you add back the former technology names that are now in the consumer discretionary and communications sectors, which are still largely technology companies, including Amazon, Tesla, Alphabet, Meta, etc., technology stocks today make up over half of the S&P 500's market cap and more than half of its earnings growth. This shift is not likely to revert back to pre-2010 levels anytime soon, especially with the population of publicly traded stocks shrinking, due to the lower cost advantage that private equity now offers, consolidation in traditional industries that are not growing as fast as technology companies are, and the increasing shift in the US economy to being services-driven (now about 87%), as opposed to being manufacturing and retail driven, as it was in the pre-1980 era. So, this simple observation means many things have changed that aren't going to revert any time soon, if ever.

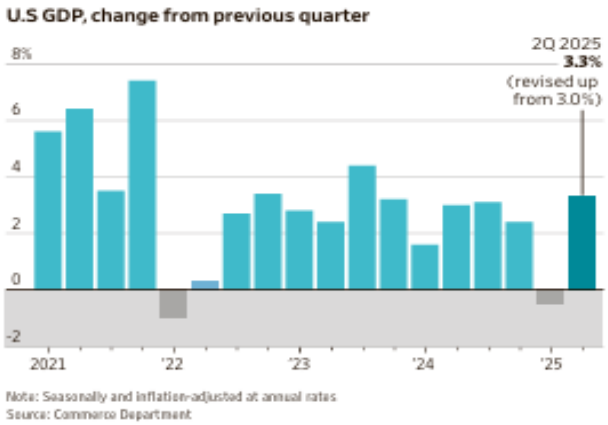
First, the historical drivers of the index carry less weight than ever before and many of them, such as manufacturing, commercial real estate, traditional retail and consumer goods have transitioned from being GDP+ growth engines to, in many cases, secular decliners. Second, as goes the relative growth rate for technology companies, so will the market cap weighted returns of the index. This shift also means that the volatility for the smaller sectors in the market will likely rise, as they become the tail of the dog, instead of central components to the beast itself. Since volatility cuts both ways, this means when there is a rotation out of technology into the rest of the market, like what we saw in 2022, or even more so in 2000, the price inflation that non-technology stocks can experience can be extreme, just as their relative underperformance for the last few years has been. For example, regional bank stocks tend to trade at modest 0% to 20% premiums to tangible book value, and 9 to 12X EPS. However, in a rotation, or a bull market, their multiples can surge to 200X P/TBV, and 16 to 20X rising earnings. This kind of extreme multiple move will be accelerated by the flash flood of capital looking for a home that will happen if investors suddenly flee technology. Another example of a potential surge area could be cyclical chemical or manufacturing stocks, which can trade down to 50% of replacement costs and post negative earnings in recessions, but which can also surge to 200% of replacement costs in recoveries, or well in advance of them when capital becomes desperate for a home with a better story than the one it in which it is currently dwelling

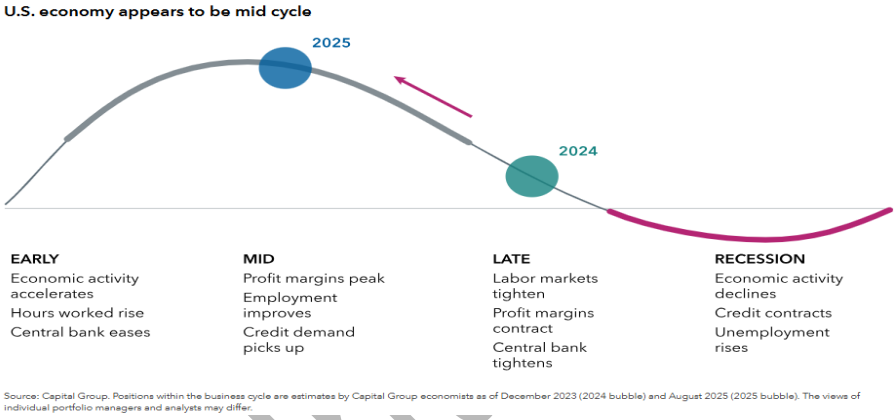
Some investors have made their careers and personal fortunes on these reversals, which is part of that market history that has helped to nudge stocks higher in August, ahead of the fundamentals. While stocks typically discount future economics 6 to 9 months ahead, this time, with so much up in the air, we might want to temper than heuristic and assume things happen faster there too.

Tariffs, GDP & Recession

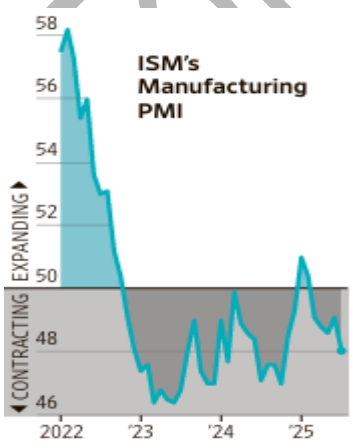
The 3% initial Q2 GDP estimate was revised a bit higher this month to 3.3%, though the core rate of consumption, at ~1.5%, still remains well below the core rate of inflation, suggesting a stagflation situation, even before the 2025 tariffs lift inflation a little higher in the months ahead. Stagflation typically happens during Fed tightening cycles, which typically usher in the end on one business cycle and the beginning of another. As shown in the next page, this time the Fed hiking did not bring about an immediate end to the business cycle, thanks to the heavy money printing on the part of both Trump and Biden, so we are in a bit of an unprecedented situation, where economists are walking their business cycle placements backwards; so instead of being at the end of a typical business cycle, we somehow are

considered to be in the middle of this one. We appreciate the extra time before the inevitable fall, but we really hope that we in fact have skipped the end and reset to a new beginning. If rate cuts truly ignite new consumer and homebuilding activity, why not call it the start of a new business cycle, and give us even more time to run? I suspect the unspoken answer is because economists believe the world is in a bigger funk that the US cannot escape and something must be done to fix the deficit before a true reset can occur, but that supposition is just as flimsy as the logic for sliding us back up the curve, so why not start at the beginning?





As shown below, the US manufacturing sector has been in a recession since 2023, directly because of the Fed rate hiking, so a rate cut revolution would be a new beginning for it. And, if these rate cuts were supported by actual manufacturing being re-domiciled in the US, well then it would be a renaissance.



US July Industrial Production Fell 0.1%, Below Est.

By Chris Middleton

(Bloomberg) -- July industrial production fell 0.1% m/m compared with median est. 0% m/m, Federal Reserve data show.

- Est. range -0.3% to +0.3% from 56 economists
- Capacity utilization fell to 77.5% from 77.7% in June, revised up from 77.6%
- IP revised up to 0.4% from 0.3% in June
- Factory production unchanged in July after rising 0.3% in June
- Utilities fell 0.2% in July after rising 1.8% in June
- Mining fell 0.4% in July after falling 0.3% in June

	Actual	Median	Survey Range	Prior
Industrial Production M/m%	-0.1%	0%	-0.3% to 0.3%	0.4%
Manuf. Production M/m%	0.0%	0%	-0.4% to 0.3%	0.3%
Capacity Utilization	77.5%	77.6%	77.3% to 77.8%	77.7%

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We don't see that happening in 2025 or 2026, but there are some green shoots of optimism that popped up this month. For example, as reported on 8-12-25, the National Federation of Independent Business (NFIB) Small Business Optimism Index hit a five-month high in July, as business owners' concerns over tariff disruptions and tax legislation waned, and optimism over new business growth improved.

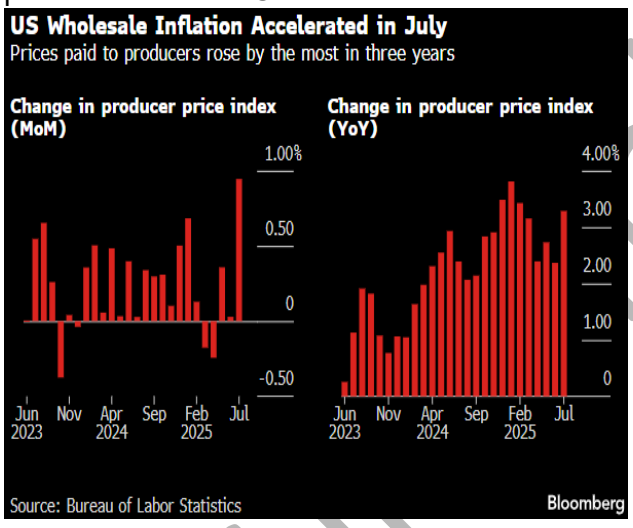
Inflation – Still Above Target and Likely to Creep Higher

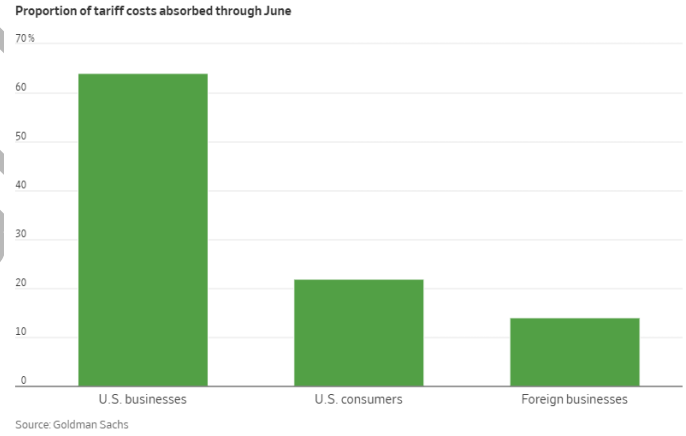
With headline CPI holding flat in July, but core creeping up to 3.1% (all items excluding food and energy), we are not yet seeing a big change in inflation, but we have stopped seeing rate decline progress. As indicated by the jump in PPI and the Bloomberg editorial on it to the right of the line charts, the beginning of pass-through inflation from the tariffs has started. Most importantly, as noted in the green bar charts from Goldman Sachs, businesses have eaten 65% of the tariff costs to date, with US consumers getting tagged by 22%. If this ratio holds, the total impact from the tariffs will be less than 2% price increases for US consumers.

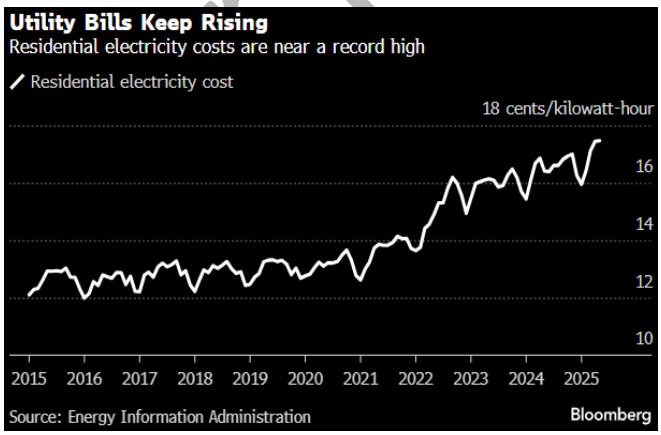
(Bloomberg) -- US wholesale inflation accelerated in July by the most in three years, suggesting companies are passing along higher import costs related to tariffs.

The producer price index increased 0.9% from a month earlier, the largest advance since consumer inflation peaked in June 2022, according to a Bureau of Labor Statistics report out Thursday. The PPI rose 3.3% from a year ago.

Services costs increased 1.1% last month – the most since March 2022. Within services, margins at wholesalers and retailers jumped 2%, led by machinery and equipment wholesaling. Goods prices excluding food and energy rose 0.4%.



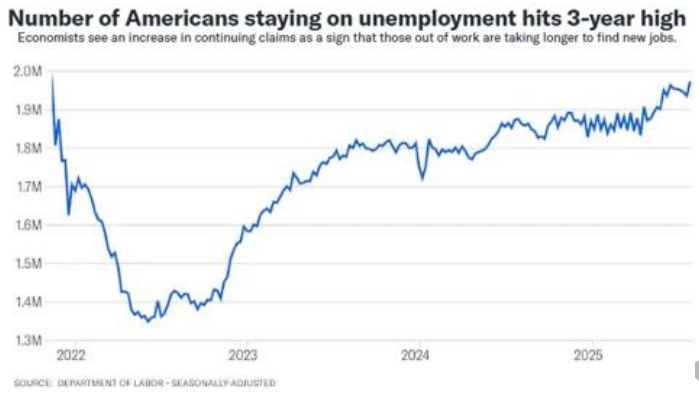




More damaging than tariff inflation has been the rise in costs in the price of goods and services due to "greenflation" which is the premium consumers pay for in the form of higher energy prices and cost of goods due to green decarbonization taxes and projects like wind and solar, instead of coal, or subsidizing EVs, instead of ICE vehicles, etc. As we noted in last month's letter, there is some movement afoot to defang the EPA's authority to regulate CO2 as a pollutant and to mandate higher cost solutions under the guise of saving the planet, when those laws too should be decided by Congress.

Jobs & Wages

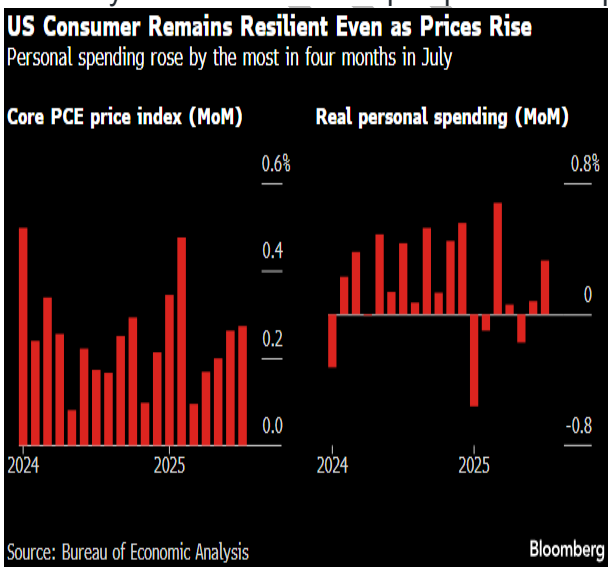
As we noted in last month's letter, on August 1st, the BLS's initial May job gains estimate was revised downward from +144K to +19K, and for June the estimate was revised down from +147K to +14K. The combination of both revisions was a drop in 258K jobs, and this significant flip revealed that US job growth had stagnated to near recessionary levels. When this same level of negative job growth revisions occurred in 2024, the Fed felt compelled to cut rates by 50 bps in September. This time around, the expectations is for a 25 bps cut, due to the stickiness of inflation, but with the durability of those on unemployment hitting a 3-year high, as shown below, 50 bps is not out of the realm of possibility.



On the bright side, the unemployment rate held steady at 4.2%, with fewer workers seeking jobs and wage growth remained strong in July (reported in August) and +4.1%, again led more by blue collar gains that white collar gains. So, consumers have been seeing real wage growth in excess of inflation, and it has shown up in a pick up in spending, as show below.

Retail Sales & Consumer

While prices continue to creep higher, retail sales grew month-to-month in July, albeit at a slower pace than in June and slightly below estimates. As discussed further below, this slight cooling matched drawdowns in consumer sentiment and confidence, which were led by rising job insecurity and concerns over the economy. These surveys, one conducted by the University of Michigan and the other by the Conference Board, tell a similar tale, "Consumers' concerns are rising, and their confidence that the economy and their economic prospects will improve is slipping."



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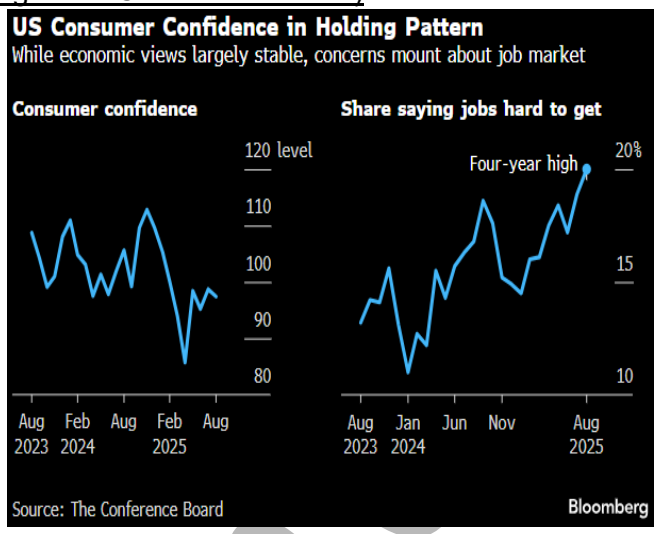
Consumer Sentiment Versus Confidence (U. Michigan vs. Conference Borad)

surveys of consumers
UNIVERSITY OF MICHIGAN

Final Results for August 2025

	Aug 2025	Jul 2025	Aug 2024	M-M Change	Y-Y Change
Index of Consumer Sentiment	58.2	61.7	67.9	-5.7%	-14.3%
Current Economic Conditions	61.7	68.0	61.3	-9.3%	+0.7%
Index of Consumer Expectations	55.9	57.7	72.1	-3.1%	-22.5%



UM Surveys of Consumers Director Joanne Hsu

"Consumer sentiment confirmed its early-month reading, moving down about 6% from July. Sentiment now stands about 11% above readings from April and May but remains at least 10% below 6 and 12 months ago. This month's decrease was visible across groups by age, income, and stock wealth. Moreover, perceptions of many aspects of the economy slipped. Buying conditions for durable goods subsided to their lowest reading in a year, and current personal finances declined 7%, both due to heightened concerns about high prices. Expectations for business conditions and labor markets contracted in August as well. That said, expectations for personal finances held steady this month, albeit at relatively subdued levels, relative to a year ago. This month, few consumers spontaneously mentioned the recent events at the Bureau of Labor Statistics and the Federal Reserve (interviews closed on Monday, August 25, the day Trump announced he was firing Governor Cook).
Year-ahead inflation expectations moved up from 4.5% last month to 4.8% this month. This rise was seen across multiple demographic groups. Independents and Republicans both exhibited month-over-month increases; expectations for Democrats were unchanged from July. Long-run inflation expectations edged up from 3.4% in July to 3.5% in August. This month ended two consecutive months of receding inflation for short-run expectations and three straight months for long-run expectations. Still, both readings remain well below the highs seen briefly in April and May 2025."

Housing

The S&P Case-Schiller home price index rose 1.9% for the latest survey ending in June. This data came following the weakest selling season in 13 years, according to the report. The combination of high home prices and mortgage rates, along with weakening employment data and rising inflation led to a cooling of a housing market that is still beset by a miss-match of demand that exceeds supply.

As noted in prior monthly newsletters, one of the biggest challenges to the home market is the ~400 basis point rise in mortgage rates over the last three years, which has locked many existing homeowners into their current homes, and kept their inventory off of the market. While creating mortgage portability is could end this problem, no one has taken it up, beyond writing about it so far. On the bright side, mortgage rates are down 50 bps since January. However, at 6.58%, they have to drop another 100 basis points before they are expected to really lift housing market activity, and that would require ~75 basis points of short-term rate cuts, 25 more than what is expected in '25.

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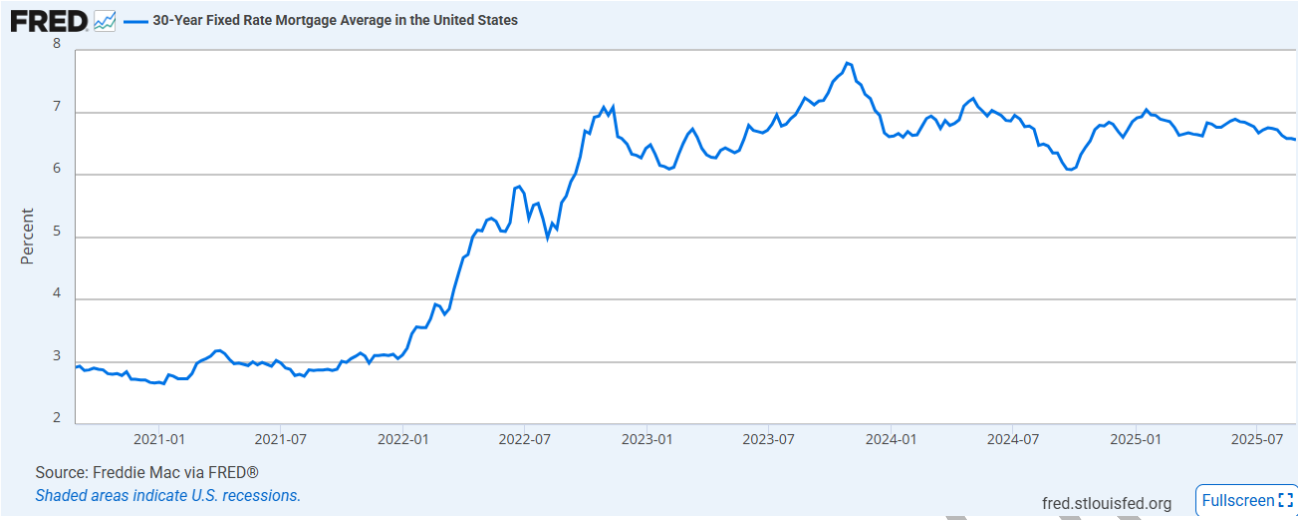
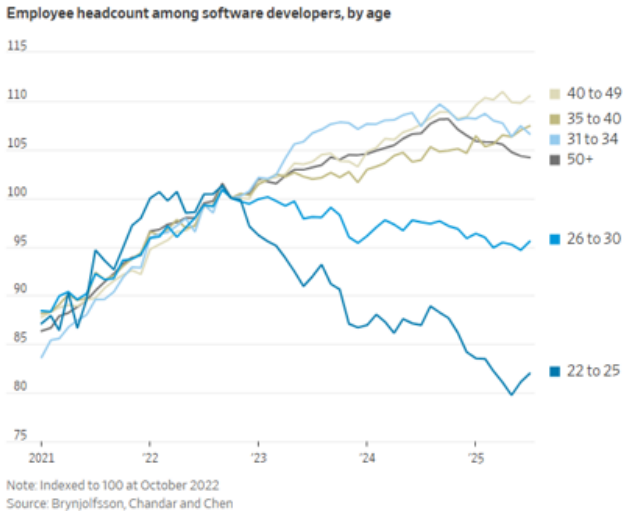


AI & Labor – Correlation For Sure, But Causation May be a Reach

We have read many articles claiming that AI is already taking away entry level jobs, as this chart posted in last week's WSJ allegedly supports. For what it is worth, the drop off in lower-level worker headcounts illustrated seems to match the Fed's rate hiking program more than a jump in AI deployments. We think companies hire college graduates when they are growing and they shed them when they are not investing in growth projects. As my son who is just entering his senior year in college tells me, "don't believe what they tell you in the press. Half of my classmates have already committed to jobs after graduation (in 9 months). If you have any real skills in business, math, engineering, or computer science, you can get hired fairly quickly. If you are a liberal arts major, or a pure science major, then it's a different story. Few of those people have jobs lined up, with many targeting graduate school."

AI Seems to be Eating Entry-level Software Jobs, WSJ 8-26-25



Trump Drama Train – Lisa Cook, Offshore Wind, Tariff Legality -- Signals Versus Noise

The Lisa Cook Affair. If the Justice Department had quietly notified the Fed that one of its members had committed mortgage fraud, in violation of its code of conduct, and indicated its intent to press charges, unless the bank resolved the problem internally, Dr. Cook's goose would likely have been cooked, without the media storm that has ensued. However, President Trump decided to make a noisy show of it, to establish that his is the ultimate power broker in DC, so we have another circus to watch that might

distract viewers from paying attention to some of the more pressing issues, like the deficit or the fact that political chasm between the left and the right has gotten so wide, cooperation is becoming impossible. Had Trump worked quietly behind the curtains, he most likely would have gotten his way by replacing Cook, without creating a legal confrontation that risks not only failing in this objective, but also in undermining his broader power play. Now, Cook has lawyered-up and Trump's "weaponizing the justice system," just as he (accurately) accused his predecessors of doing to him, is on full display.

So far, Cook has not denied lying on her mortgage applications, nor has she been formally charged, so the whole show seems premature, if due process were to get a chance. As one lawyer explained to me, the issue is time. Due process is slow and the outcome less certain than the facts might suggest. Cook's defense will claim (with evidence to back her) that most mortgages frauds go unprosecuted, but she is being singled out for political reasons. On that basis, a sympathetic judge might let her go, free from criminal punishment. However, the Fed bylaws would still likely force her out, if not for the pressure. Now, the case will drag out for months and serve as a public example of Trump bullying the Fed – though in all fairness, no mortgage fraudster should have a seat on the Board of the top banking regulator in the US. [Applying this same standard to Congress and many other seats of power, we'd likely lose 1/3 or more of our incumbents].

Offshore wind, has nothing on DC wind, which blew up a tempest last week after President Trump halted a third offshore project, for the time being. This time it was the Revolution Wind project that Danish utility construction firm Orsted and PE firm Global Infrastructure Partners are nearly finished building, which has commitments to serve electric customers in Rhode Island and Massachusetts. Trump halted the offshore work with the claim that it was a national security issue, (though no one knows why) similar to his prior actions at temporarily stopping operations at two other projects, only to recant and let them proceed after the affected states agreed to make concessions to the Administration. In the case of New York's Empire Wind 1, Trump demanded that Governor Kathy Hochul approve of the $3B NESE gas pipeline project for completion that Biden/Hochul had stopped. When she agreed, the NY wind project was allowed to resume, with the net result being a win for the people of New York, who became short power after former Governor Cuomo decommissioned a Nuclear power plant, for personal reasons. The problem with this latest stoppage is that no one knows what the ask will be to get the project back online. Everyone involved with this project is saying it is only a temporary stoppage, but no one knows what the President wants, in the form of a concession to let the multi-billion dollar infrastructure project reach completion. So, we have real tension this time around, that exceeds that of the prior two examples.

This drama affects our portfolios because one of our utilities, Eversource (ES), sold its interest in the windfarm to private equity, but with a guarantee to pay certain capex and cost overruns, and the longer the project is delayed, the more those costs will be. Further, if the project is cancelled, ES must pay its buyer enough to capture a 6.5% ROIC for its efforts. Altogether, these hits could be a couple of dollars a share that might require some equity issuance – though the probability for this outcome seems very low.

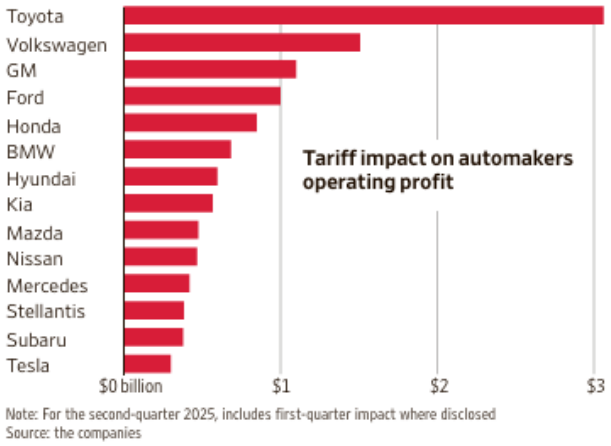
Finally, we got another legal ruling las week that found that Trump's tariffs, as they were being formulated and enacted in April were illegal. This was the 12th such ruling to date. This time, the US Court of Appeals for the Federal Circuit ruled that the President went too far when he declared national emergencies as justification to bypass Congress and pass tariffs against, almost at will. This 7-4 ruling, which follows a similar finding in May in NY, in response to a case brought by Democratic states, was led by six of the seven judges ruling against him who were also Democratic appointees. Trump now has the option to appeal to the Supreme Court for a final hearing on the matter, where his chances are expected to be much better, if the Supreme Court accepts the case.

The bigger issue that the Supreme Court will be faced with is if the 1977 International Emergency Economic Power's Act, passed when Jimmy Carter was President, can be applied to the US trade deficits with other nations, who have unequal trade policies with the US. Are these conditions national emergencies, such that the President should be permitted to use the Act to bypass Congress in order to effect his policies? In the case of steel and core industries, like automobiles, that China was found to be unfairly competing in during Trump's first term, and the Biden years, the precedent was set to allow its use. For countries where dumping is not evident, such as Canada and Mexico, as supported by the US Court of International Trade in New York's finding in May, the Emergency Powers Act does not apply. In this case, if some of the Tariffs are found to be illegal and others not, we could have another year of confusion and unwinding, with serious budgetary implications. The whole situation reminds me of watching Batman episodes from the 1960s when the bad guys would have Batman and Robin tied down with some slow-moving instrument of death getting closer to ending the heroes' lives. How will Trump and co escape legal catastrophe this time around? Again, it may come down to the Supreme Court. Stay tuned. Same bat time, same bat channel.

Part II: The Monthly US Equity Market Report

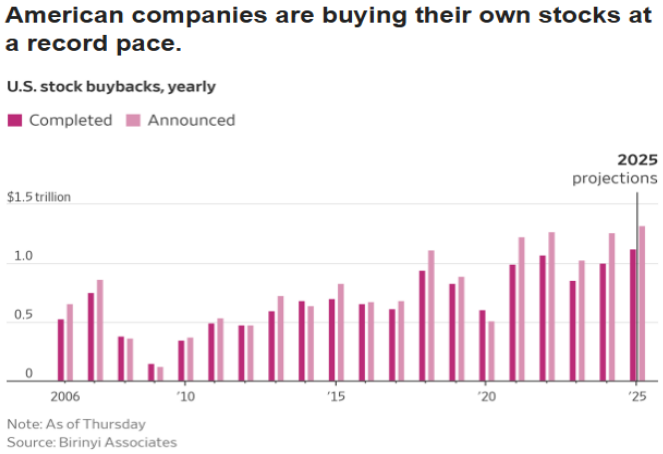
What a great month August turned out to be! While the eighth month of the year has historically been the second-worst month, stock performance-wise, followed by September, this pattern was disrupted this year by the significantly negative revisions to the jobs data at the start of the month, which greatly increased the odds of a Federal Reserve rate cut in September. This piece of bad news is good news was urraounded by mixed economic signals, as discussed above, but the markets looked thorugh the noise and saw lower rates comings, which should be helpful for every sector in the market, particularly housing and autos, which have been under pressure, to to the Fed's 2022 to 2024 rate hiking cycle, the push for EVs and now tariffs.

In fact, as the illustration below shows, the tariff effect on the car companies is ironically forecast to hurt those with plants in the US more than it has pure importers, who will simply see volume declines, in response to higher sticker prices. I suppose this impact should lessen, if imported parts can be replaced by domestically produced parts at lower costs, but that prospect isn't likely for the next several years. On the bright side, lower rates will help with sales, as early as the fourth quarter.



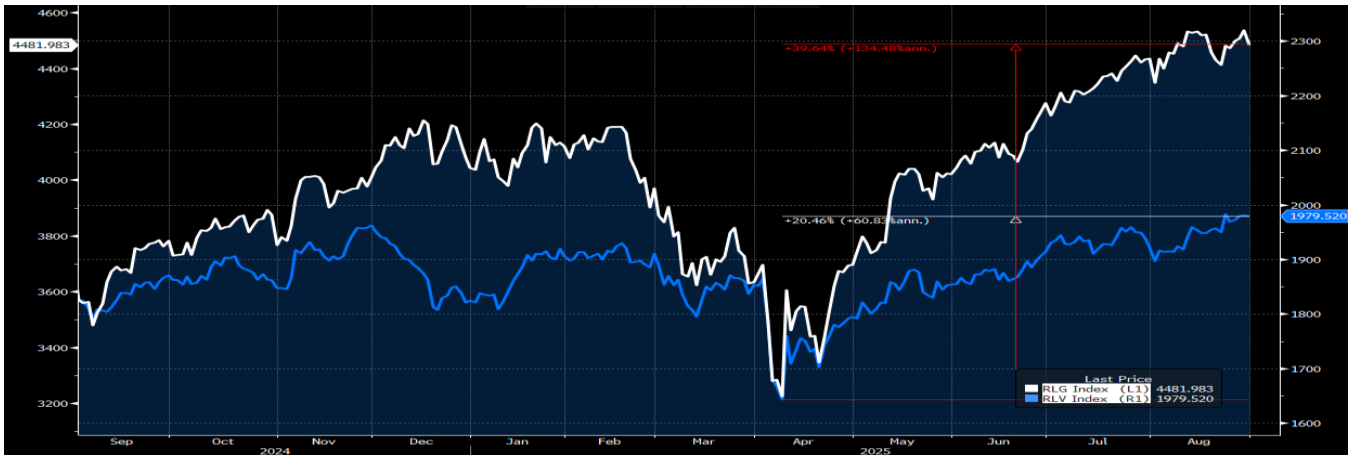
One factor that has helped US stocks, especially those in companies that don't have great near-term reinvestment options, in face of so much uncertaintly has been to increase stock buy-backs, which has happened, as shown in the accompanying chart. While the US has a shortage of productive capacity in

some areas, such as housing, until the economics are clearly positive, and interest rates supportive enough to expand, share repurchases make more sense that simply reducing debt.



Russell 1000 Value Versus Russell 1000 Growth – Last 13 Months

Since the April lows, through month-end, the Russell 1000 Value Index has risen by 20.5%, while the R1000 Growth Index has risen by 39.6% So, while value stocks had a better August than growth stocks did, especially high dividend value, it is important to acknowledge how strong growth has been, both out of fairness and to get an idea for how much one style can out-perform another, especialy when it looks like the tide may be turning.



August Returns

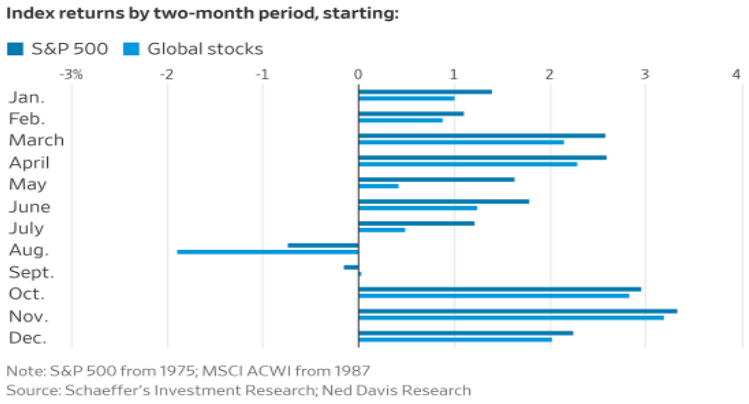
Russell 1000 Value (RLV)	+3.19%	Russell 1000 Growth (RLG)	+1.19%
S&P 500 (SPX)	+2.03%	Dow Jones Ind'l Average (INDU)	+3.42%
S&P 500 Equal Weight (SPW)	+2.69%	iShares Select Dividend ETF (DVY)	+5.04%
NASDAQ (CCMP)	+1.65%	Sound Equity Income ETF (DIVY)	+4.60%

In addition to expectations for falling rates helping cyclical and interest rate sensitive stocks, August also saw a drawdown in the AI trade, as even the bulls are recognizing that sustaining 50%+ top line growth of Nvidia and its peers will probably be too tall an order to fulfill, and certainly, the relative valuation spread should compress if the rest of the market truly picks up, just as the AI company growth rates begin to slowdown.

In addition to goosing cyclical stocks, the drop in rates in the US is expected to help cool enthusiasm for cheaper foreign stocks, as the growth in US shares picks up. As noted below, foreign companies, due to

a combination of higher social costs, lesser scale, and thinner capital markets have historically under-performed US stocks. While US stocks don't win every year, by any stretch of the imagination, US companies tend to be more profitable and hence more valuable, so Trump effects aside, global investors have tended to prefer them, which is supported by their historical returns.

International Stocks – Historically Cheaper & Not as Profitable



Note: S&P 500 from 1975; MSCI ACWI from 1987
Source: Schaeffer's Investment Research; Ned Davis Research

Monthly US Equity Market Report

8/31/2025

Fundamental, Technical, and Valuation Snapshots

Fundamentals: Estimates rose on reduced tariff rates, consumer spending & tax savings.

Trends: AI continues to be strong, consumers are buying ahead of tariffs, lower taxes are lifting capex.

(+)	Communications	Internet names are benefitting from tariff immunity, ad share gains & usage.
(+)	Financial Services	Rising deal activity & steep yield curve have lifted forecasts.
(+)	Information Tech	AI and related demand for servers and chips continues to be strong.
(+)	Consumer Discretionary	Mixed bag: Aggregate spending growth, despite deteriorating capacity.
(+)	Materials	Outlook is slowly rebounding after tariff freezes, but still a late '26 turn.
(+)	Energy	Disruptions caused low inventories & stable prices, but LT concerns remain.
(+)	Industrials	Mixed: data center & infrastructure demand is outpacing trad'l activity.
(-)	Consumer Staples	Worst trends, with falling volumes & margins, due to economizing.
(-)	Utilities	Usage has been light, but rate cut & AI power demand are LT positives.
(-)	Real Estate	Commercial occupancy improved, but weak retail & high costs are headwinds.
(-)	Healthcare	Concerns about price controls & pullbacks in elective care have hit stocks.

	8/31/2025		Earnings Revisions			Performance (Total RoR)		
	Mix		3 Mo.	6 Mo.		MTD	QTD	YTD
S&P 500			1.8%	-0.9%		2.0%	4.3%	10.8%
Communications	10.3%	Best =>	4.6%	7.4%	Best =>	3.6%	6.1%	17.9%
Consumer Discretionary	11.1%		2.3%	-4.8%	2nd Worst =>	3.4%	6.1%	2.0%
Consumer Staples	5.7%		-0.1%	-2.1%		1.6%	-0.8%	5.5%
Energy	3.0%	Worst =>	0.9%	-15.1%		3.6%	6.7%	7.5%
Financial Services	13.5%		3.3%	0.8%		3.1%	3.1%	12.5%
Healthcare	8.9%	2nd Worst =>	-2.6%	-4.8%	Worst =>	5.4%	1.9%	0.8%
Industrials	8.4%		0.3%	-3.4%	2nd Best =>	0.0%	3.0%	16.1%
Information Tech	33.1%	2nd Best =>	3.2%	2.0%		0.3%	5.5%	14.0%
Materials	1.8%		2.0%	-2.2%		5.8%	5.3%	11.6%
Real Estate	2.0%		-0.9%	-4.2%		2.2%	2.1%	5.7%
Utilities	2.3%		-0.5%	-0.6%		-1.6%	3.3%	13.0%

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There's a lot one can comment on, based in the information in the tables above. First, the tide of positive revision over the last month was a welcome filip for consumer, financial services and materials stocks, which got hit hard by tariff effects in April. As these negative impacts were revised downward, due to reduced tariff rates, changes in government tax policies, and company mitigation efforts, as discussed in their earnings calls, there was a relief in estimates rally in many cyclical names. These improvements in outlook also led these sectors to rebound, which greatly improved their YTD figures, and made it so that Technology, Communications and Utilities were not the only sectors with double-digit positive returns.

Healthcare stocks got a nice price bounce in August, but estimates continued to fall, as RFK and price controls weigh on sentiment, while consumers also pull back on elective services.

The sector with the most upside from here seems to be financial services, which is seeing a steepening yield curve, rising deal activity, and is also benefitting from yield scarcity bids on the margin. We have our largest weighting in financials, but this will likely creep higher on price appreciation, if the Fed rate cuts go as planned.

Technicals: Overall Neutral to Positive, per StockTA.com

Key Positive indicators:	IT & LT EMAs, IT & LT Fibonaccis, Lows, ST & IT Trends						
Key Negative indicators:	ST EMA, MACD, RSI, TDD, ST Fibonacci, High's, Stochastics						
(+) Trend	10/11 sectors rose on hopes for a Fed cut & slight rotation from tech to value						
(--) Fund Flows	ETF & LT mutual fund flows fell as of 8/20/25.						
		Price	**30 Day**	**50 Day**	**100 Day**	**200 Day**	
(+) Golden Cross [50 dma > 200]		6,460	6,393	6,316	6,017	5,959	
(+) Price / Moving Average [4 / 4 are "> 1"]			1.01	1.02	1.07	1.08	
(=) Support Levels (scope for gaps)		6,317	-2.2%	6,294	-2.6%	6,271	-2.9%
(--) Resistance Points		6,508	0.7%	6,564	1.6%	6,813	5.5%
(+) Volatility, (VIX)	Fell by 137 bps, on a rising tape.						
(+) Trading Volume	Rose y/y, as investors nudged stocks higher to new all-time highs.						

Technically speaking, the most interesting measure to us tends to be put-call parity, which is reported every week in Barron's or the Association of Individual Investors' website. As illustrated below, with the VIX falling and the Put-Call Ratio near the low end, stocks are not cheap and the risk premium has narrowed to levels that suggest only incremental moves from here.

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Valuation: SPX is Rich vs. Treasuries	PE		EPS			
Treas. Yields fell; spreads tightened	2024	2025e	2023	2024	2025e	
'25e PE is ~8 points > LTA	27.1	24.1	$ 221.3	238.3	$ 268.5	<= est.
10 Year US Treasury: (1/r) = PE Equivalent	23.3	23.3	-1%	8%	13%	= y/y %
10 Year BBB: (1/r) = PE Equivalent	19.8	19.8	'25 EPSe rose due to Comm, Tech. & Fin'ls.			
Stocks are close to FMV Relative to Bonds based on LT Spreads			***Upside For Stocks Relative to Bonds***			
10 Yr Treas: LT Avg (1/r) relative to S&P PE	1.0	1.0	vs. 10 yr	-14%	-3%	Thin
10 Yr BBB: LT Avg (1/r) re spx	0.7	0.7	vs. BBB	6%	19%	
S&P 500 Earnings Yield (E/P)	3.69%	4.16%	<= Earnings yield up; risk prem up more			
10 Year US Treasury Yield (-8 bps in Aug)	4.30%	4.30%	10Y Tr. Downside to Parity			1%
Spread (E/P minus 10 Yr. %)	**-0.61%**	**-0.14%**	**<= PE rose; stocks not cheap vs SPX**			
BBB tightened vs. Treasuries, as BBB rates fell 19bps and T10 fell by 8 bps. BBB bonds are rich vs. LTA						
10-year BBB Corporate Yield (-1 bps in July)	5.06%	**Norms**	<- Fell by 1 bps in July			
Yield Spread of S&P E/P minus BBB	-1.37%	-2.68%	BBB downside to nomal SPX			-26%
Yield Spread of BBB minus 10 Yr T Tight =>	0.76%	2.20%	BBB upside to LT Spread vs. T			-22%

For the third month in a row, the table above illustrates that the S&P 500 is expensive relative to bonds, based on its historical valuation levels. However, as we have repeated throughout this and prior letters, aside from the super expensive mega-cap names, the average stock in the market, or the equal-weighted index is still cheap versus norms. What these differentials suggest is that something has got to give, either the mega-cap names multiples should fall, due to lower prices or higher earnings, the rest of the market should rise, or bond prices should rise / yields should fall, to bring everything back towards the historical relationship levels. We believe aspects of all three will occur, hopefully without any exogenous drama to amplify or accelerate these movements.

Part III: Portfolio News and Changes

In August, we took advantage of some price movements to reposition our existing holdings in both main portfolios and we added a small position in Archer Daniels Midland (ADM) in Total Return Yield, to take advantage of a change in the law for biofuel blending that effectively will replace Asian Palm oils with domestically grown and crushed grain oils.

Chicago, IL-based Archer Daniels Midland (ADM) is the largest publicly traded grain processor in the world with operations in over 180 countries and a $30B US equity market capitalization. While most of its output goes into human and animal foods, it is also a significant producer of seed oils, which are used for biofuels. 40% of ADM's Sales come from the US and 80% come from the Ag Services (grain processing) and oilseeds (crushing) segments.

For the last three years, ADM's sales and earnings have been hurt by falling grain prices, however a large harvest this year is expected to mitigate that effect to some degree. More importantly, the catalyst for strong EPS growth beginning in Q4 and lasting for the next few years, is the fact that the US has changed its rules on biofuels, such that blenders can no longer use Asian palm oil and receive US biofuel credits. They now must use oils that come from seeds grown in the USA. This means more crushing for ADM, and better prices and profits for the farmers they serve. As a result of this change, ADM's EPS are expected to rise from a run-rate of just under $4 per share in 2025, to over $5 per share in 2027 If we put a normal 15X PE on that, ADM's stock would rise by 31%, from $57, where we bought it, to $75 in 18 months, while paying a 3.4% dividend along the way. In addition to this catalyst, that is now in place, there is also lobbying for the adoption of E15 (15% ethanol fuel blend), to further help the US farmers, who on average support the current President's party. If that occurs, it is

estimated to add incremental profits to ADM, though we do not have that factored into our models at this time.

Performance Notes

As show below, our returns in August were meaningfully positive, as our materials, consumer products financial, healthcare, industrial and material names all came back due to a combination of lower rate expectations and better than feared outlooks. In particular, the steaper yield curve and increased deal activity is helping our banks, and a look forward to more normal consumption patterns has helped to lift our beaten down materials names. While the tariff tumult has not full been settled, we are seeing companies taking healthy actions to mitigate them, to the extent possible, including passing along higher costs. Until these changes in costs cycle through a full year, we expect more volatility in the affected names, however, twelve months from now, this speed bump should be over and earnings should be moving back in the right direction.

For those of you in the SIS "Thoroughbred" All-Cap Growth SMA, this year, the gains continued in August. While the relative growth versus value trade went to value for the month, growth still did just fine, rising ~2.3%. The small and mid-cap components of the composit really helped this month, and that trend seems likely to continue through year end.

Performance (non-GIPSs)	Q1'25	Q2'25	July	Aug.	8/3125 YTD (per T Venuto)
Dividend River (est.)	+1.70%	+1.08%	(0.71%)	+4.56%	+6.72% gross
Total Return Yield (est.)	+2.61%	+0.78%	(0.27%)	+6.33%	+9.66% gross
SIS All Cap Growth SMA	-6.84%	+14.83%	+2.04%	+2.33%	+11.69% gross (Mar.)
DIVY TRA (Bloomberg)	+1.34%	+0.90%	(1.00%)	+4.60%	+5.89% (after fees)

Characteristics – Cheaper Than the S&P 500, With Lower Betas & Higher Yields

Our portfolios are ~50% cheaper than the S&P 500 on a 2025e PE basis, with higher dividend yields and lower betas, which means that they should rise and fall less than the market.

Dividend River Porfolio Characteristics

August 31, 2025

SECTOR WEIGHTS	SIS	SPX
Communications Services	9.1%	10.3%
Consumer Discretionary	4.7%	11.1%
Consumer Staples	5.6%	5.7%
Energy	14.8%	3.0%
Financial Services	23.2%	13.5%
Healthcare	13.2%	8.9%
Industrials	3.1%	8.4%
Information Technology	6.1%	33.1%
Materials	13.3%	1.8%
Real Estate	0.0%	2.0%
Utilities	7.0%	2.3%
Totals	100.0%	100.0%

KEY METRICS *	SIS	SPX
Dividend Yield	4.4%	1.3%
2025e PE	12.8	24.1
EV/ EBITDA	11.8	17.1
PB	6.4	5.3
2025e Sales Growth	3.4%	5.2%
2025e EPS Growth	14.0%	12.6%
BETA	0.7	1.0
EPS Gr. + Div %	18.5%	13.9%

* Based on Bloomberg consensus data.

Total Return Yield Porfolio Characteristics

August 31, 2025

SECTOR WEIGHTS	SIS	SPX
Communications Services	6.1%	10.3%
Consumer Discretionary	8.4%	11.1%
Consumer Staples	9.5%	5.7%
Energy	12.1%	3.0%
Financial Services	22.8%	13.5%
Healthcare	13.8%	8.9%
Industrials	5.2%	8.4%
Information Technology	10.6%	33.1%
Materials	11.4%	1.8%
Real Estate	0.0%	2.0%
Utilities	0.0%	2.3%
Totals	100.0%	100.0%

KEY METRICS *	SIS	SPX
Dividend Yield	3.6%	1.3%
2025e PE	11.2	24.1
EV/ EBITDA	11.5	17.1
PB	2.7	5.3
2025e Sales Growth	3.8%	5.2%
2025e EPS Growth	20.8%	12.6%
BETA	0.8	1.0
EPS Gr. + Div %	24.5%	13.9%

* Based on Bloomberg consensus data.

As of August 31th, Dividend River was paying a 4.4% dividend yield, 3.5X that of the S&P 500 at 47% below its 2025e PE price, while the Total Return Yield was paying a 3.6% dividend, 2.9X the yield of the S&P 500, at ~53% below its PE price. Dividend River has a 14.0% weighted average 2025e EPS growth forecast that is 1.3% above the S&P 500, while the Total Return portfolio is expected to grow EPS by 20.8%, 8.21% above the popular benchmark. With Betas of 0.7X & 0.8X the Index, both portfolios should be less volatile than the S&P, based on the historical movements of their constituent shares. The EPS growth plus dividend lines in the tables above indicate that our expected total return for Dividend River is 4.6% above that of the S&P 500 in 2025 if multiples don't change, while the Total Return Yield combination is 10.6% higher. The reason for these differentials is that investors have more

confidence in the durability of the earnings in the higher multiple, large-cap technology-based Technology, Communications, and Consumer Discretionary names than they do in the traditional brick and mortar-based cyclicals, especially with a Tariff war making traditional products more expensive. If this situation is resolved favorably, we expect our stocks to catch a bid, as traditional companies are unusually cheap by traditional measures. Also, as the growth rates slow for the mega cap technology names, we expect their valuation multiples will contract, which would increase the relative performance of our portfolio names.

While stock prices are generally based on discounted future cash flows that look beyond the current year, the simple CY EPS growth + dividend yield heuristic has proven to be an accurate guide over time, and it suggests that our portfolios should perform relatively better than they have YTD. On these bases, we think it is fair to project a positive return for our portfolios this year, despite the rise in volatility.

Looking Ahead

While our stocks have already gotten a nice goose from Powell's rate cutting comments at Jackson Hole, there will likely be more upside, when the cut actually takes place. This upside is contingent on the prospect that Powell will leave the door open for more cuts, which is the dot-plot consensus. We had expected rate cuts to happen earlier this year, and were disappointed by those getting pushed back, allegedly due to inflation. Then we got hit by the tariff broadside, which only made things worse. However, today those disappointments and their effects seem to be fading and our companies poised for improvements in Q4 and 2026.

With rates expected to fall in '25 and '26, and EPS growth expected to pick up, the conditions appear to be setting up for us to have not only a decent equity year in 2025, but a potentially better one next year. We have gone from an environment filled with doomsayers predicting an economy cataclysm in April, to now some bulls predicting a resurgence in equity earnings and stock prices to new all-time highs.

These sentiment swings are as difficult to digest as relatively weak performance, relative to growth stocks, but now both seem to be normalizing a bit. May that normalization and better days ahead come to fruition as we head into the back half of this unusual year.

Thank you, as always, for the great work you do for your clients, and for your steadfast support of Sound Income Strategies and the income method of investing for retirement.

We would be nowhere without you,

Best regards always,
Eric

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