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Monthly Market Commentary | Edition 2025-09

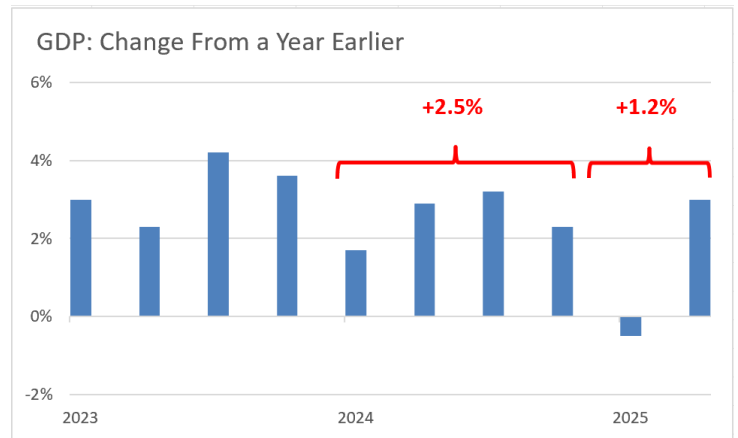
This newsletter will focus on a potential weakening in GDP growth and jobs despite the US economy remaining resilient. I also don't feel that the potential headwinds from tariffs and inflation are being taken seriously enough. Because of this, I am working on a plan to potentially adapt investment strategies.

I am watching US GDP, Jobs, Inflation, and Tariffs

Part 1: US GDP and Jobs

US Gross Domestic Product (GDP) is defined as the total value of goods and services produced within the United States.¹

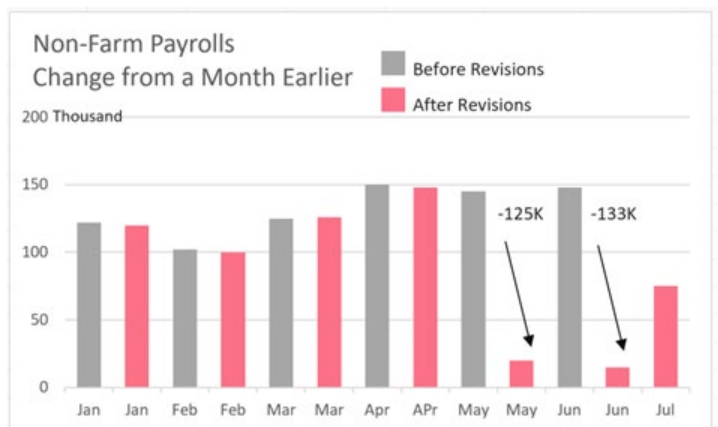
Economists treat GDP as one measure among many of overall economic health of the nation. Looking at the chart from The Wall Street Journal, GDP growth in the US has been humming along at an ideal average of 2.5% per quarter (healthy, but too fast as to overheat). The markets were somewhat rattled in June when GDP contracted by -0.5% year over year, then breathed a sigh of relief when the July GDP print showed a +3.0% reversal. However, when averaging the June and July GDP growth figures, the US economy only grew by a combined +1.25%.² June's figure alone is a pretty big whiff in my opinion, and the average of June and July tells me that unless the next few quarters show some decent improvement, GDP growth could be slowing down.



St. Louis Federal Reserve (FRED): Gross Domestic Product (GDP)

The US job market is also measured using several sources, one of which is the nonfarm payroll numbers collected by the Bureau of Labor Statistics (BLS). Farming jobs are viewed as cyclical, geographically specific, and therefore removed from the broader US job measures. Last week, two big things happened.

- 1) Nonfarm payroll job additions in July were materially lower compared to every prior month in 2025.
- 2) The Bureau of Labor Statistics frequently revises prior month figures because of data collection methods, data not being available at the time of reporting, and some need for estimates, not because the BLS is manipulating data or because of any political agenda. The reasons for the revisions are sound, but that doesn't make it annoying for markets and decision makers relying on sound data. In addition to the lower July figure, the BLS made significant, material



Labor Department, St. Louis Federal Reserve (FRED)

downward revisions to May and June estimates (grey vs pink columns), causing a kerfuffle in the stock market. Non-farm payrolls took a dip this summer by any measure, implying that the US jobs market may be experiencing a material slowdown.

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Part 2: Tariffs and Inflation

The impact of tariffs has yet to play out. In my view, caution is merited.

Tariffs and inflation are both headwinds for economic growth for separate and related reasons. Some tariffs are already in place, and President Trump seems content on keeping an unpredictable stance on future tariffs and negotiations. In my view, the S&P 500 is presently not pricing in any chance of an economic slowdown, but it should. I feel that caution is prudent.

Tariffs are like a Weighted Vest

For those unfamiliar with a weighed vest, some athletes wear one during exercise to enhance the stress of a workout. The vest needs to be light enough to allow proper completion of exercise while being heavy enough to make the exercises more stressful. The key to the analogy is that a weighted vest is tolerable early in a workout, but the longer the vest is worn, the more burdensome it gets. If the vest is too heavy, it can slow down or stop the workout entirely. We are four months into the new tariff regime, and if tariffs are a weighted vest, I believe the economy can tolerate the stress in the short term which is why I think the economy hasn't shown significant signs of weakness perhaps until now. I am concerned that the more time that passes under current tariffs, the heavier the weighted vest will feel until it slows or potentially stops the economy.

Inflation is like a Beach Ball

Remember as a child trying to hold a beach ball in a pool underwater? Keeping the ball below the surface was easy for a short time, but the constant buoyancy usually led to the beach ball slipping out of one's grip and breaching the surface. I feel that tariffs have a similar effect on inflation. Tariffs inflate the beach ball, causing more upward pressure. Looking at corporate earnings reports, consumer trends, and other metrics, vendors and retailers are mostly passing on the effects of tariffs to consumers in the form of higher prices. I am concerned that consumers will eventually get worn down by higher prices and will respond by value shopping or buying less. Data from credit cards and auto loan delinquencies, changes in grocery shopping habits, and other metrics are pointing to stress in the lowest income brackets, and the same data is implying that the stress could be expanding to middle income class families too. The longer tariffs stay in place, and the longer companies pass higher prices to consumers, the higher the chances of inflation and the more difficult it may be to keep the beach ball under the surface.

The Fed seems to believe that we're still early enough in the tariff policy that the tariff weight vest isn't dramatically impacting the economy, and consumers are still absorbing higher prices, implying they're able to keep the inflation beach ball underwater. This is why the Fed has been warning of an inflation "pop" in the coming months and why it is focusing on both the impacts of growth and on resisting calls to lower interest rates too soon.

In my view, tariffs will eventually have an impact on growth and inflation, so my question is by how much.

Conclusion

The S&P 500 reached, then passed, its all-time high on June 26, just 55 trading days after the April 7 low. It's certainly more fun to watch the S&P 500 advance by almost 30%, but in my view, the market growth was a valve releasing pressure from tariff stress and potential recession fears, followed by Fear of Missing Out and algorithmic trading. True to our trading strategy, I spent some cash on April 7 to buy stocks just hours before President Trump announced a 90-day reprieve on tariff negotiations. Sometimes it's just fun to be lucky. And, when the S&P 500 passed an all-time high at the end of June, I took the opportunity to capture some profits in stocks (in IRAs only, to avoid capital gain considerations in taxable accounts) and

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reinvested the cash in a Treasury money market fund. It is unusual for me to trade this much in a short period of time, but with GDP and job market signals, the weighted vest and inflated beach ball are sources of potential concern, especially as markets don't seem to be rising on a materially positive catalyst. In fact, if the S&P 500 rises another 5%, I may capture yet more profits in stocks. If the economy falters and the stock market declines, it could create a buying opportunity, which we can spend the cash on to buy stocks. If the economy continues to be resilient in the face of tariffs and inflation, then accounts should still increase and everyone benefits. The US economy continues to be the largest, and most diverse economy on earth. That doesn't mean we shouldn't exercise caution in this environment. Regardless of what happens, the best client outcomes come from having a plan, sticking to a plan, and never making investment decisions based on emotion.

Questions & comments are welcome,

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Sources & Disclosures:

¹ Bureau of Economic Analysis

² Note, the average of -0.5% and +3% = 1.25%. It appears that the WSJ economists may have rounded down, removing the 0.05% from the average in the chart.

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