



“Summer Recess”

Market Update

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August 2025

Principle
WEALTH



Today's Agenda

1. Markets
2. Economy & Policy
3. Everything Else

Full Reversal In The Stock Market

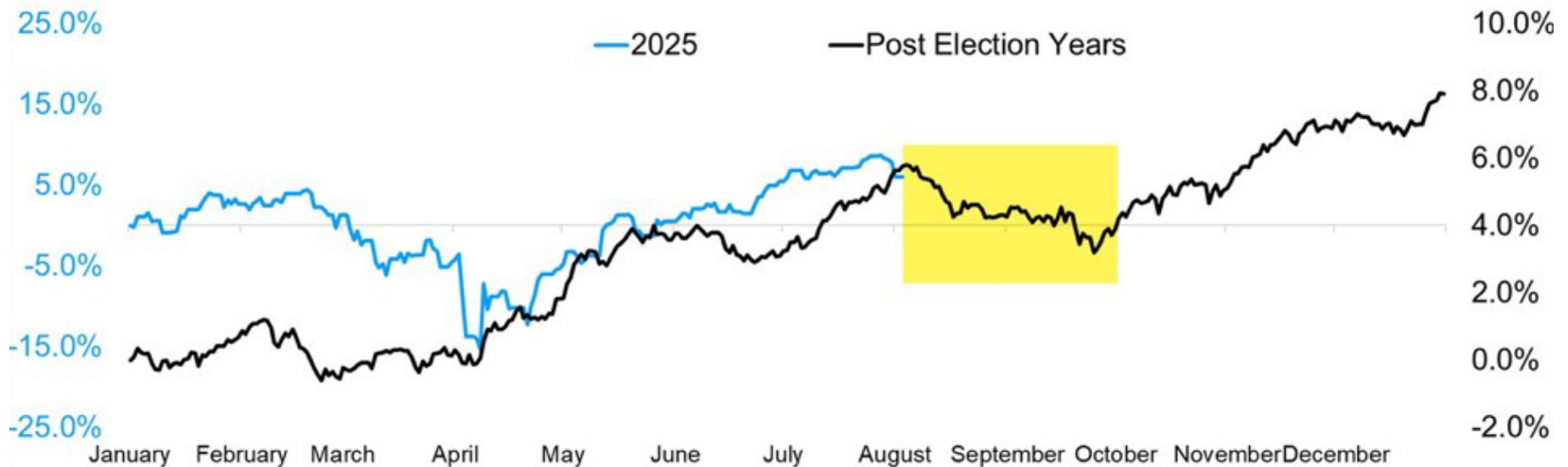


Source: Creative Planning, Charlie Bilello, YCharts, as of 07/24/2025

Seasonal Weakness In The Post-Election Cycle

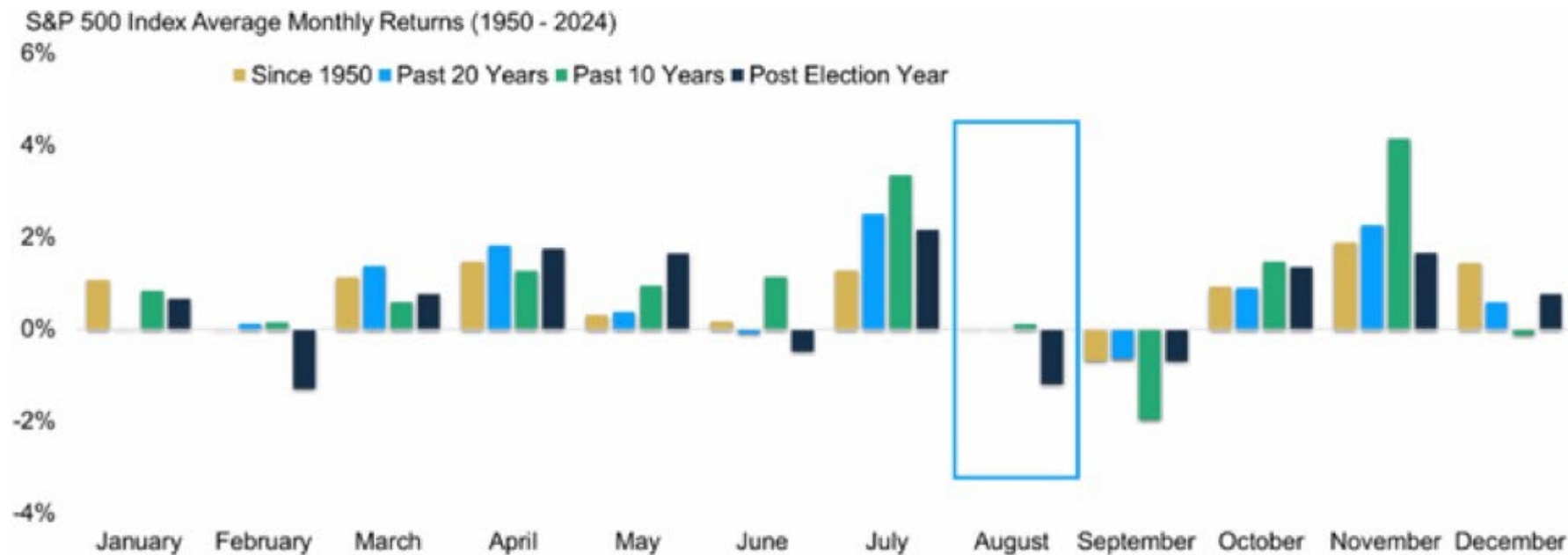
Post-Election Years Tend To Peak Around Now

Average Post-Election Year For S&P 500 (1950 - Current)



Source: Carson Investment Research, FactSet, as of 08/01/2025

August Tends To Be A Weaker Month

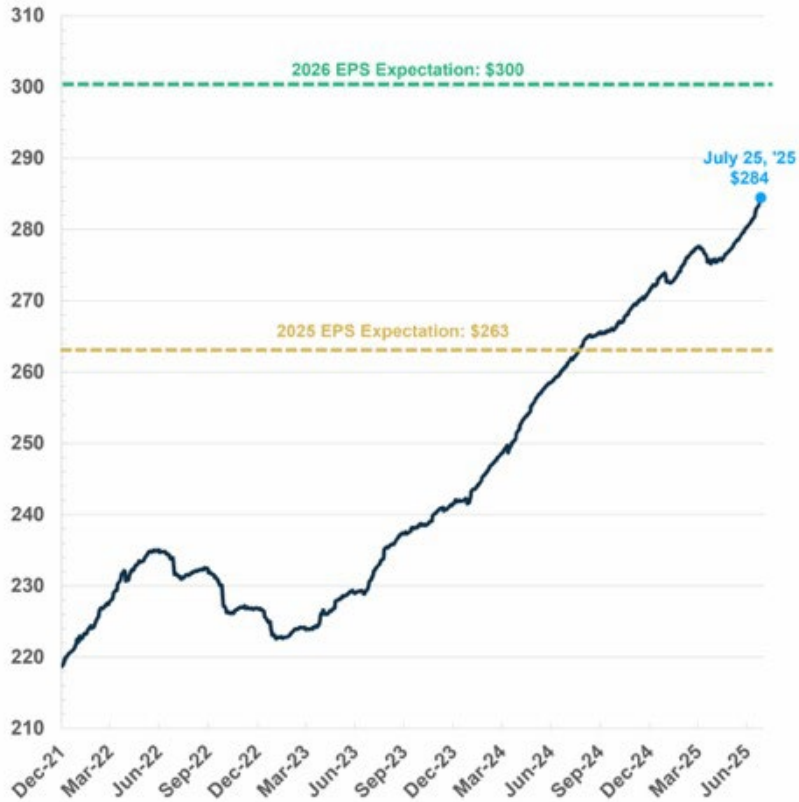


Source: Carson Investment Research, FactSet, as of 07/30/2025

Earnings & Margins Are Growing

Forward earnings expectations still rising

S&P 500 Index - Next 12 Month Earnings Per Share



Margins expanding again

S&P 500 Index - Profit Margin (Forward 12-months)

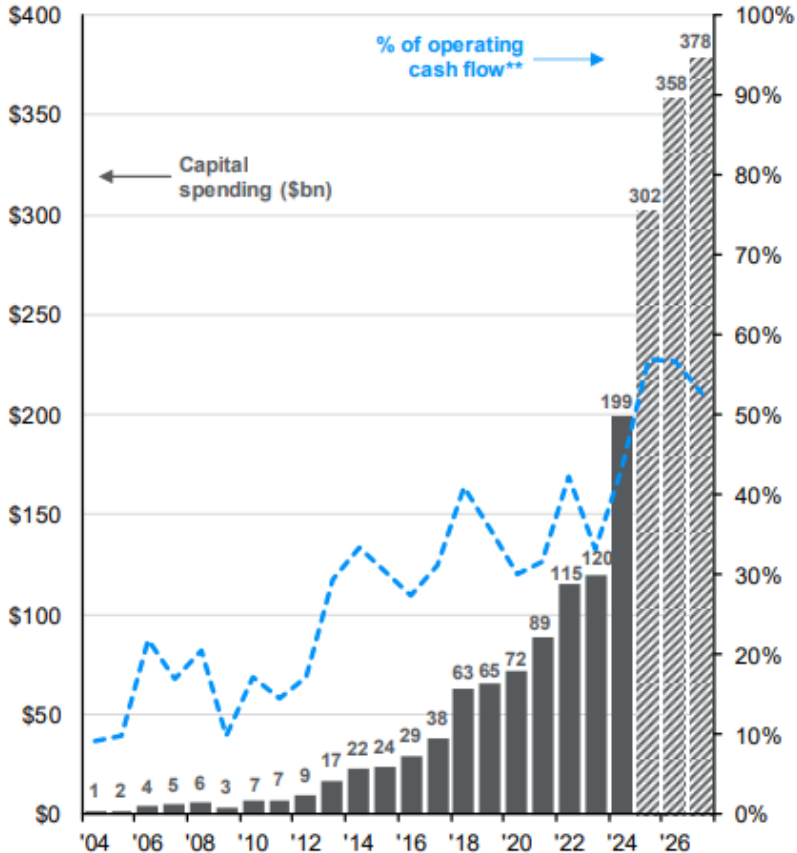


Source: Carson Investment Research, FactSet, as of 07/25/2025

Business Spending – From AI Build-Out To AI Implementation

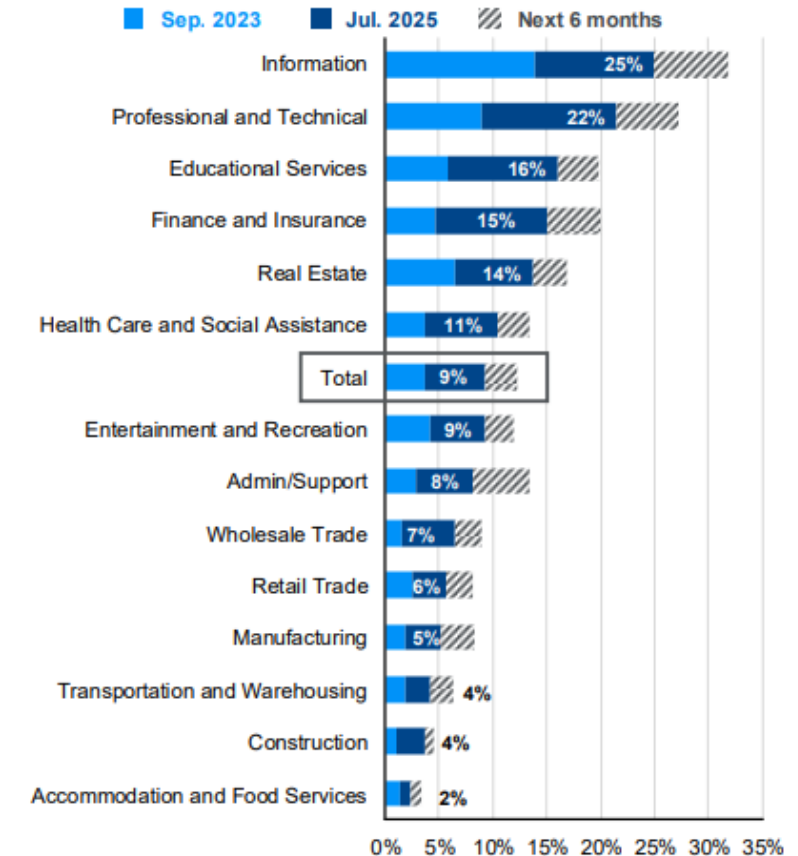
Capex from the major AI hyperscalers*

Alphabet, Amazon (AWS), Meta, Microsoft



Businesses using AI to produce goods and services

% of all firms reporting use of AI applications



Source: J.P Morgan Asset Management, Guide to the Markets, Bloomberg, Census Business Trends and Outlook Survey, as of 07/31/2025

Money In Motion – More U.S. Investment



Source: LSEG Datastream, Yardeni Research, U.S Treasury, as of 05/31/2025

Tolerating Volatility + Time = Good Returns

To achieve the power of compounding, an investor must tolerate downside risk

Frequency and magnitude of historical equity market risk (since 1950)

- 3 corrections of **5%** per year
- 1 correction of **10%** per year
- 1 correction of **>15%** once every 3 years
- 1 correction of **>20%** once every 5 years



Opportunity:

**~11% annual
historical return**



S&P 500 “batting average”

(i.e., % of positive calendar years) since 1950

75%

Source: Fidelity Investments, as of 06/30/2025

Fed Meeting – Where They Stand Now

*“A reasonable base case is that the effects [of tariffs] on inflation could be short-lived – reflecting a **one-time shift** in the price level.” – Jerome Powell*

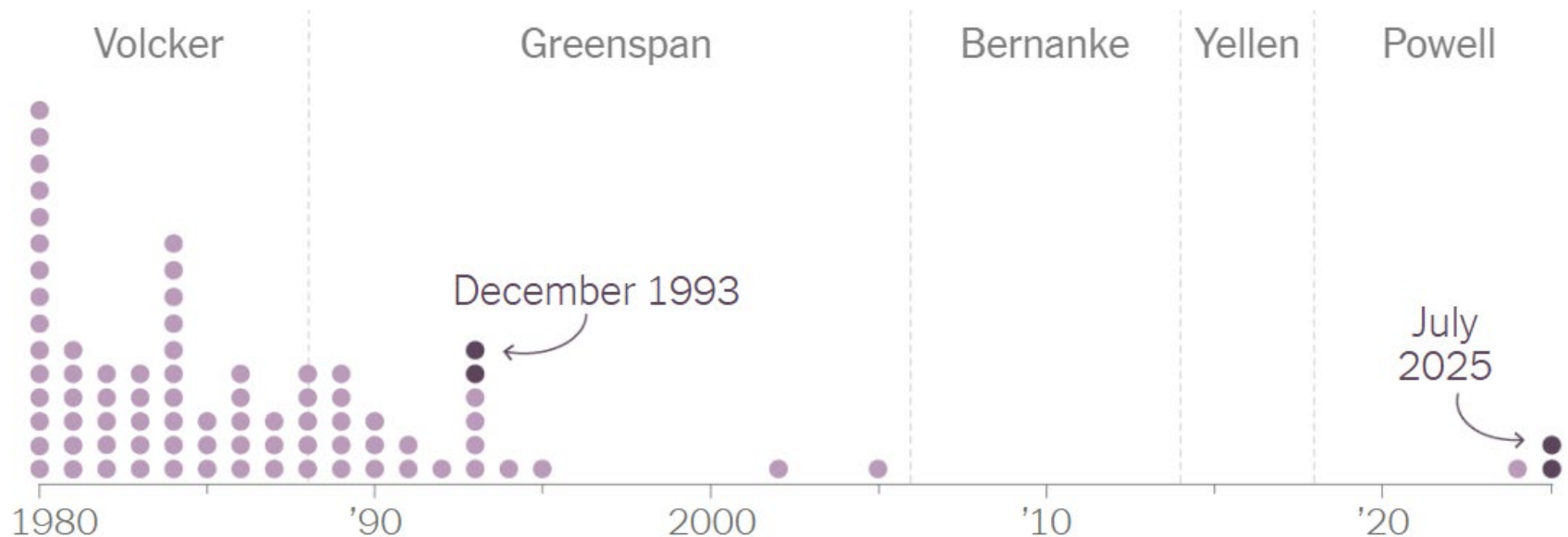
Category	Details
Fed Funds Rate	Held steady at 4.25%–4.50%
Economic Outlook	<ul style="list-style-type: none">• GDP growth slowed to 1.2% H1 2025 (vs. 2.5% in 2024)• Consumer spending slowed, while business investment picked up
Labor Market	<ul style="list-style-type: none">• Unemployment: 4.1%• Jobs growth: ~150k/month• Labor market in balance, but downside risks emerging
Inflation	<ul style="list-style-type: none">• Headline PCE: 2.5% YoY• Core PCE: 2.7% YoY• Inflation easing but still above target• Tariff-driven goods inflation rising
Tariffs Impact	<ul style="list-style-type: none">• Causing one-time price level shift• Uncertainty remains about persistence
Monetary Policy Stance	<ul style="list-style-type: none">• Modestly restrictive• Balance sheet reduction continues• Fed ready to adjust policy based on data
Rate Cut Prospects	<ul style="list-style-type: none">• No decision on September• Evaluating two rounds of jobs & inflation data
Committee Dynamics	<ul style="list-style-type: none">• 2 dissenters favored a rate cut• Most support restrictive policy due to inflation
Housing Market	<ul style="list-style-type: none">• Activity remains weak• Mortgage rates high, but Fed cites long-term factors
Consumer Spending	<ul style="list-style-type: none">• Growth slowed• Households and credit markets in solid shape

Source: Federal Reserve, as of 07/30/2025

The Path Of Interest Rates - Disagreement Within The Fed

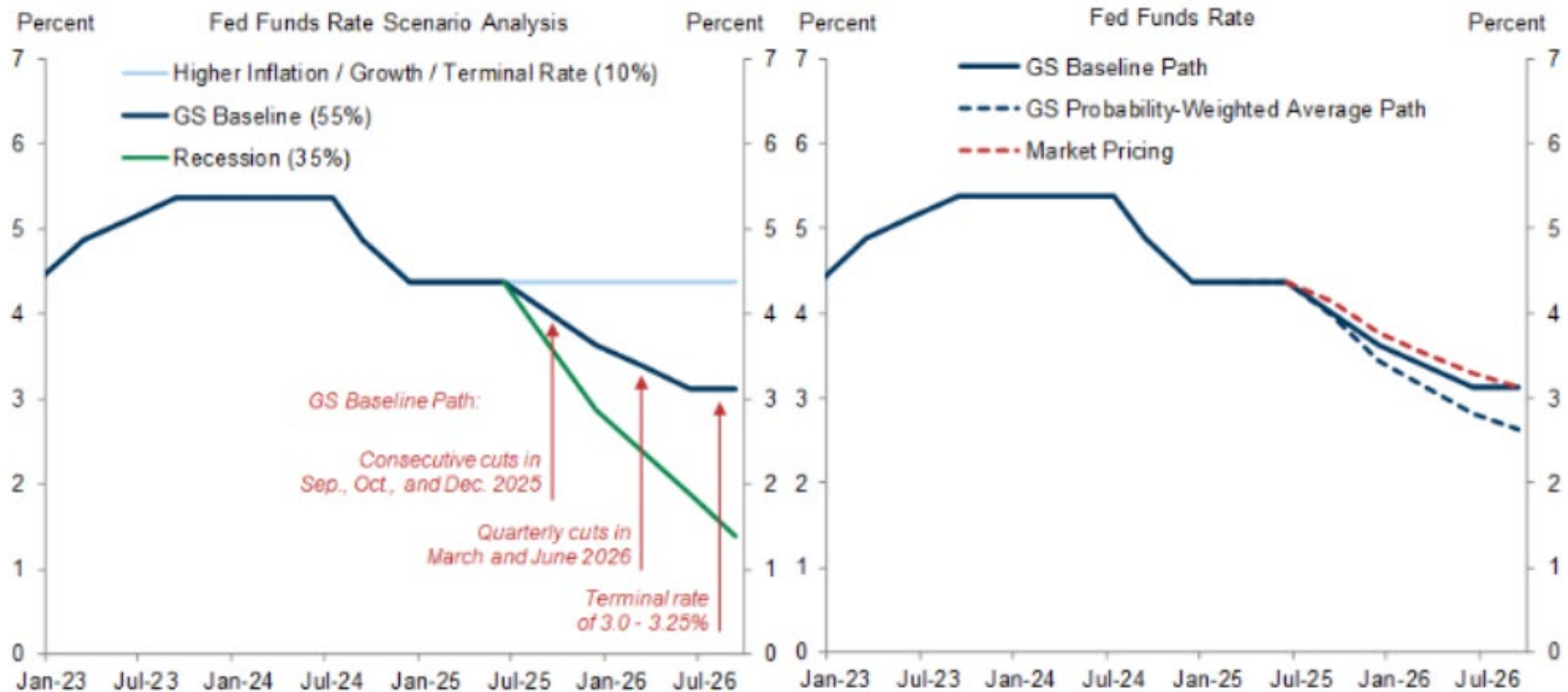
"If everyone is thinking alike, then no one is thinking." – Ben Franklin

Number of governor dissents per year under each of the following chairs



Source: The Federal Reserve, Christine Zhang, as of 07/31/2025

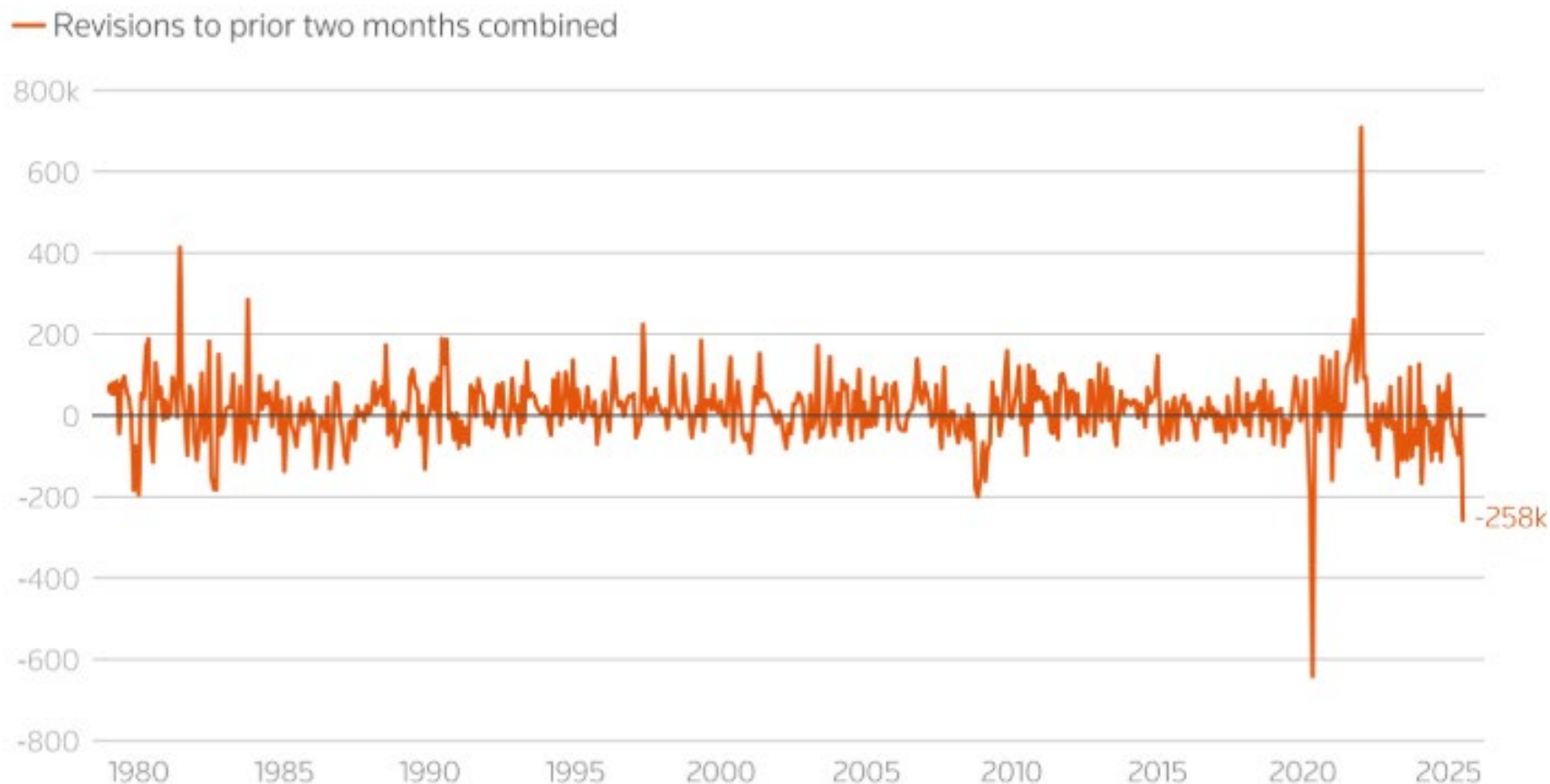
The Path Of Interest Rates – Lower Rates Are Coming



Source: Bloomberg, Goldman Sachs Global Investment Research, as of 07/31/2025

Jobs – One Of The Largest 2-Month Revisions Ever

Except for Covid, last week's revision was the largest 2-month downward revision in history.

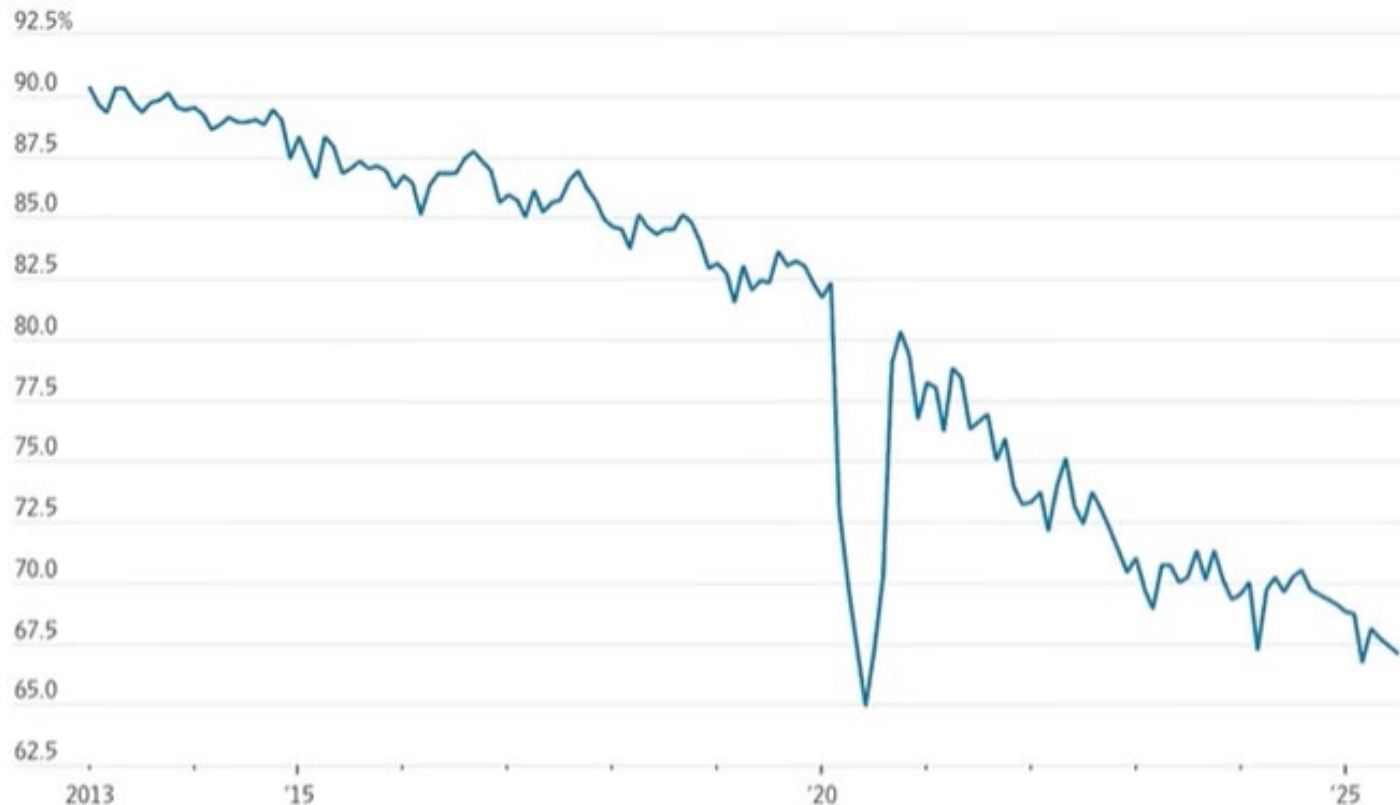


Source: U.S. Bureau of Labor Statistics, Dan Burns, as of 07/31/2025

Jobs - Dependent On Bad Data?

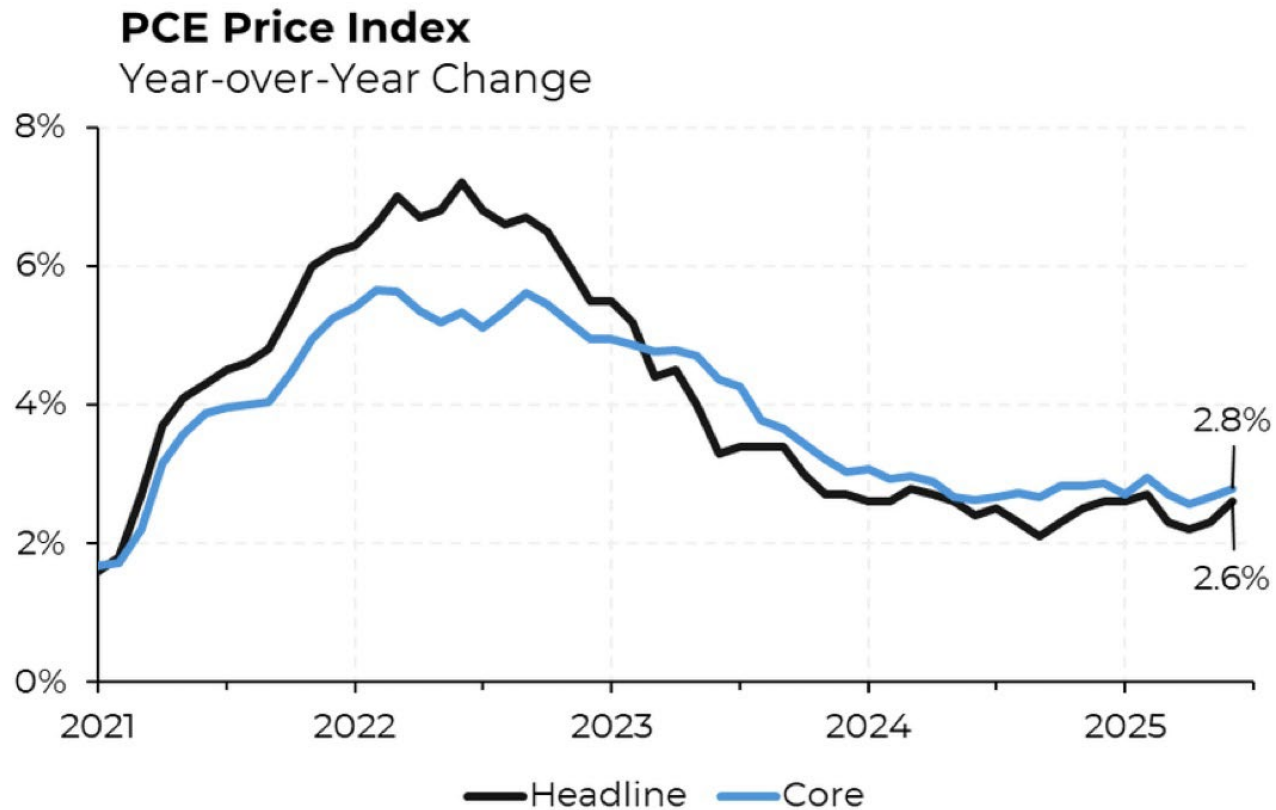
The Household Survey provides employment data that determines the official unemployment rate. A low response rate means the Bureau of Labor Statistics does not have a full picture of the job market.

Household survey response rate



Source: Bureau of Labor Statistics, CNBC, as of 08/05/2025

Inflation Remains Low

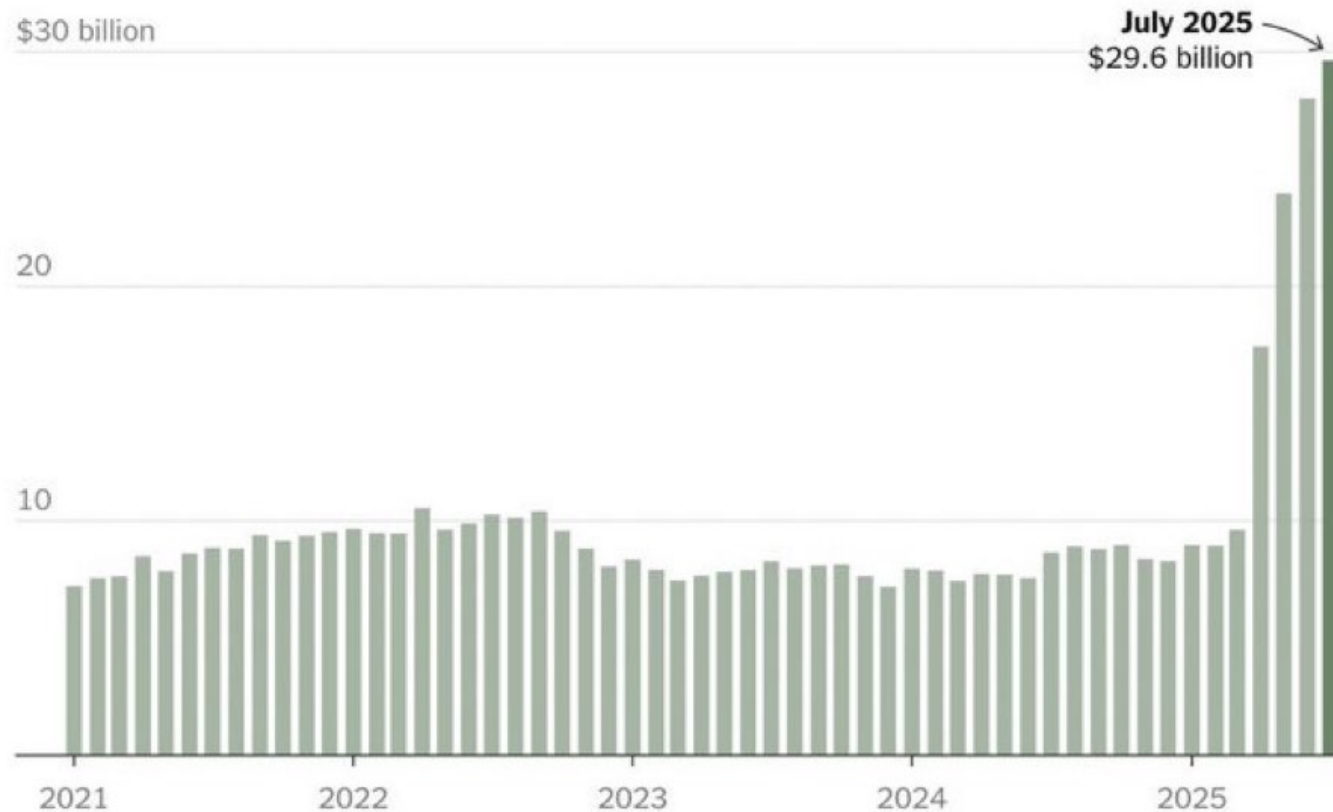


Source: Steve Rattner, BLS, as of 07/31/2025

Tariffs – More Revenue For The Government

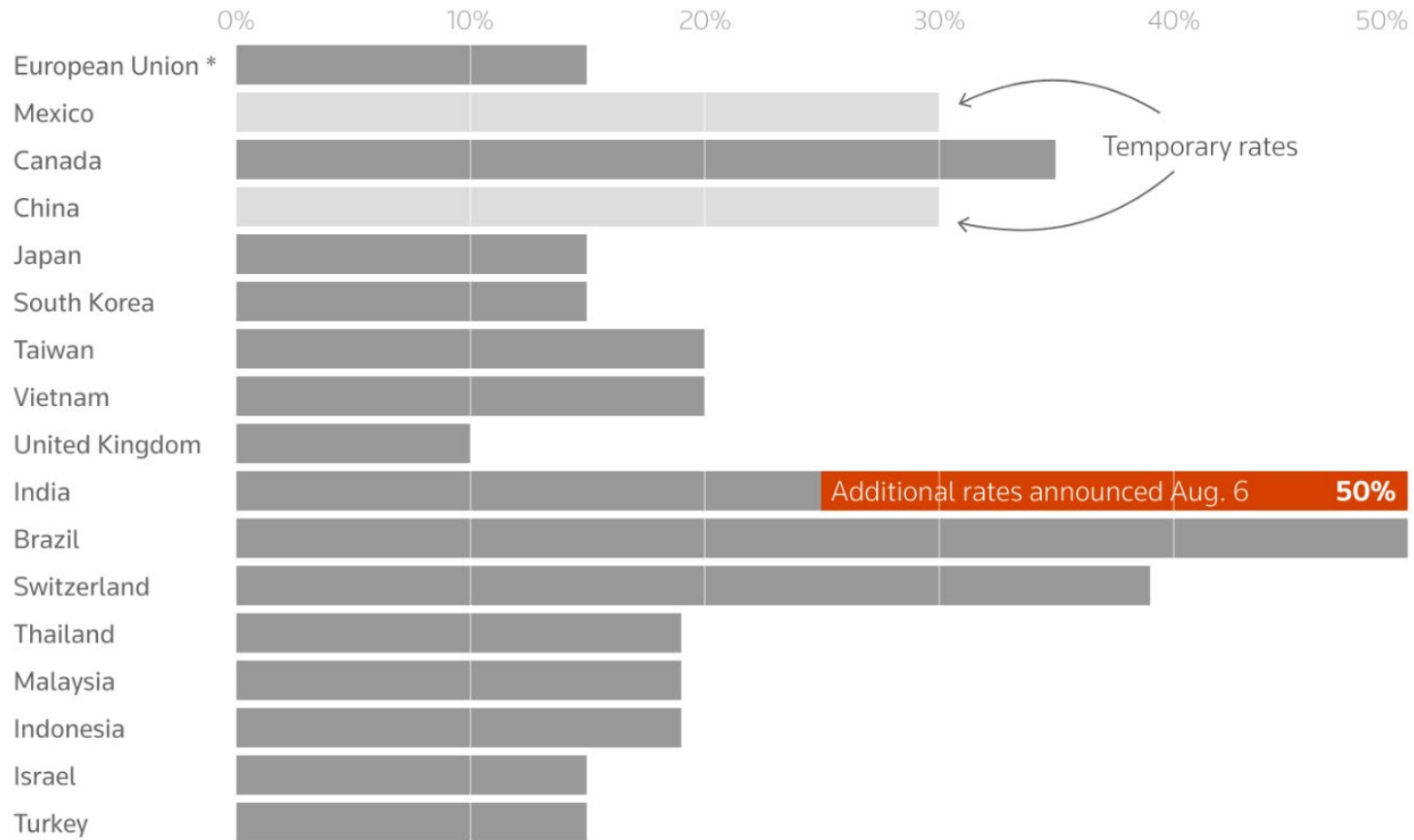
Tariff revenue rose in July

Monthly government revenue from customs duties and certain excise taxes



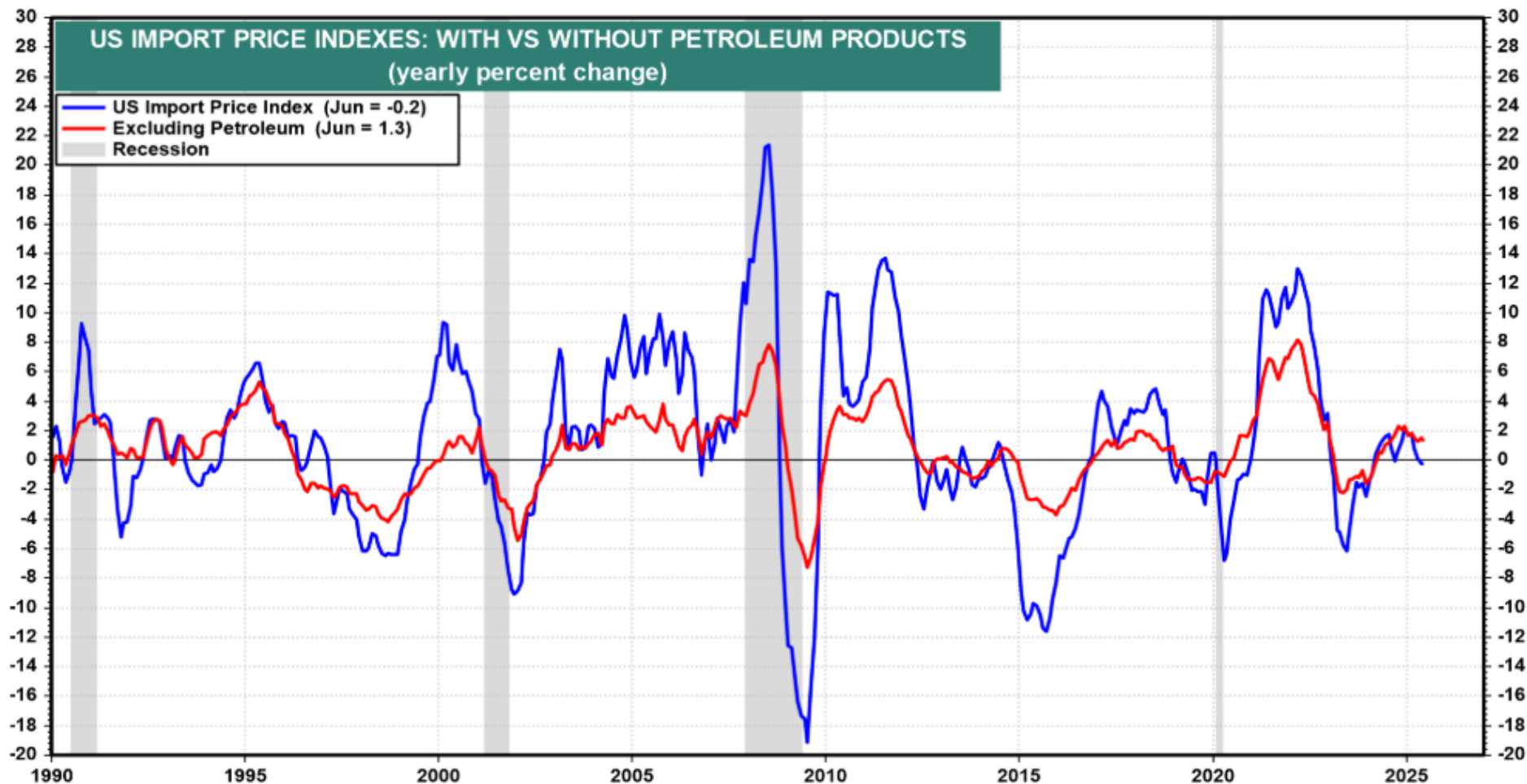
Source: Strategas, as of 06/30/2025

Tariffs – Latest Changes



Source: The White House, Reuters Reporting, Pasit Kongkunakornkul, as of 08/06/2025

Tariffs – Where Is The Inflation?

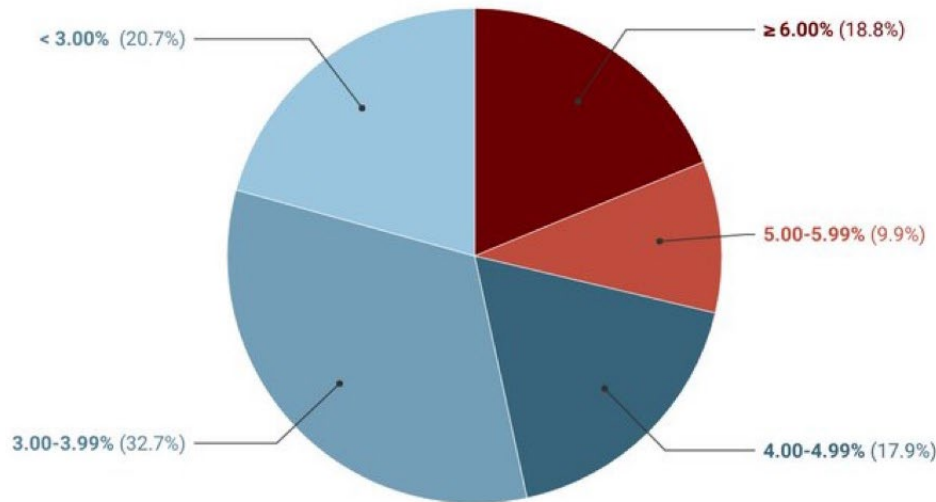


Source: LSEG Datastream, Yardeni Research, as of 06/30/2025

Mortgage Rates – What Rate Unlocks The Housing Market?

Interest rate on outstanding mortgages

71.3% of U.S. mortgage borrowers have an interest rate under 5.0%, according to FHFA



Source: Lance Lambert, ResiClub, Federal Housing Finance Agency's National Mortgage Database, Datawrapper, as of 06/30/2025

OBBB – Digging Into Auto Loan Interest Deduction

“No Tax on Car Loan Interest”

- **New deduction:** Effective for 2025 through 2028, individuals may deduct interest paid on a loan used to purchase a qualified vehicle, provided the vehicle is purchased for personal use and meets other eligibility criteria. (Lease payments do not qualify.)
 - Maximum annual deduction is \$10,000.
 - Deduction phases out for taxpayers with modified adjusted gross income over \$100,000 (\$200,000 for joint filers).
- **Qualified interest:** To qualify for the deduction, the interest must be paid on a loan that is:
 - originated after December 31, 2024,
 - used to purchase a vehicle, the original use of which starts with the taxpayer (used vehicles do not qualify),
 - for a personal use vehicle (not for business or commercial use) and
 - secured by a lien on the vehicle.

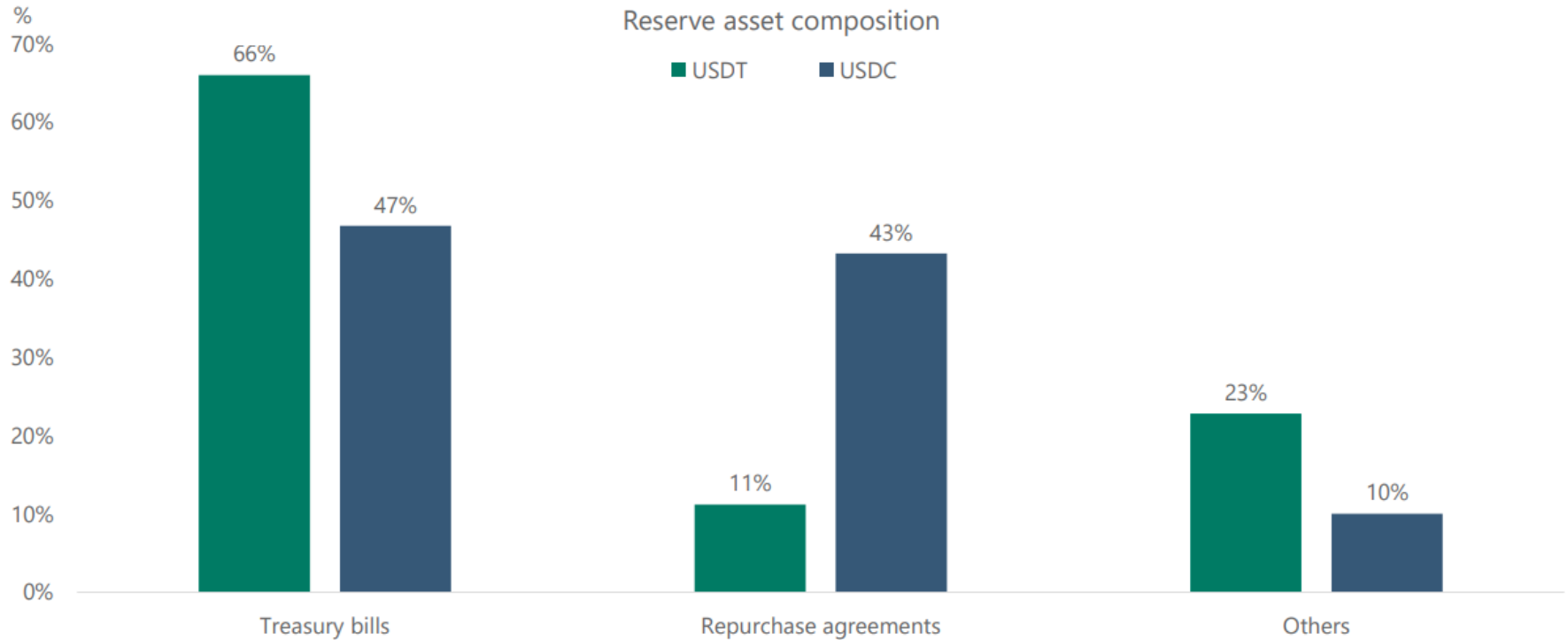
If a qualifying vehicle loan is later refinanced, interest paid on the refinanced amount is generally eligible for the deduction.

- **Qualified vehicle:** A qualified vehicle is a car, minivan, van, SUV, pick-up truck or motorcycle, with a gross vehicle weight rating of less than 14,000 pounds, and that has undergone final assembly in the United States.
- **Final assembly in the United States:** The location of final assembly will be listed on the vehicle information label attached to each vehicle on a dealer's premises. Alternatively, taxpayers may rely on the vehicle's plant of manufacture as reported in the vehicle identification number (VIN) to determine whether a vehicle has undergone final assembly in the United States.
 - The [VIN Decoder](https://vpic.nhtsa.dot.gov/decoder) website for the National Highway Traffic Safety Administration (NHTSA) provides plant of manufacture information. Taxpayers can follow the instructions on that website to determine if the vehicle's plant of manufacture was located in the United States.
- **Taxpayer eligibility:** Deduction is available for both itemizing and non-itemizing taxpayers.
 - The taxpayer must include the Vehicle Identification Number (VIN) of the qualified vehicle on the tax return for any year in which the deduction is claimed.

Source: Internal Revenue Service, as of 07/31/2025 <https://vpic.nhtsa.dot.gov/decoder> OBBB=One Big Beautiful Bill Act

Stablecoins – The New Big Treasury Buyer

Composition of assets backing USDC and USDT is predominately Treasuries



Source: U.S Treasury, Macrobond, Circle, Tether, Apollo Chief Economist, as of 05/31/2025

Stablecoins – The New Big Treasury Buyer

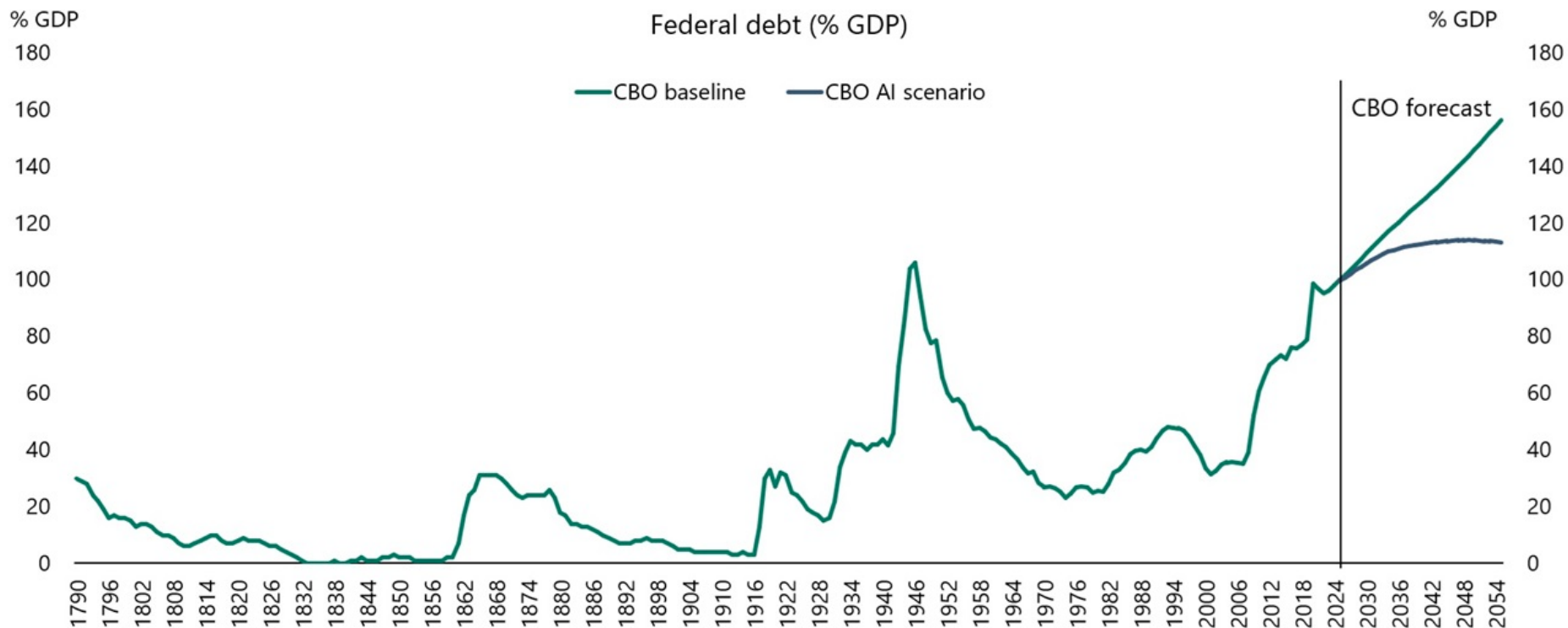
USDC and USDT are the 18th largest “foreign” holder of Treasuries!



Source: U.S Treasury, Macrobond, Circle, Tether, Apollo Chief Economist, as of 05/31/2025

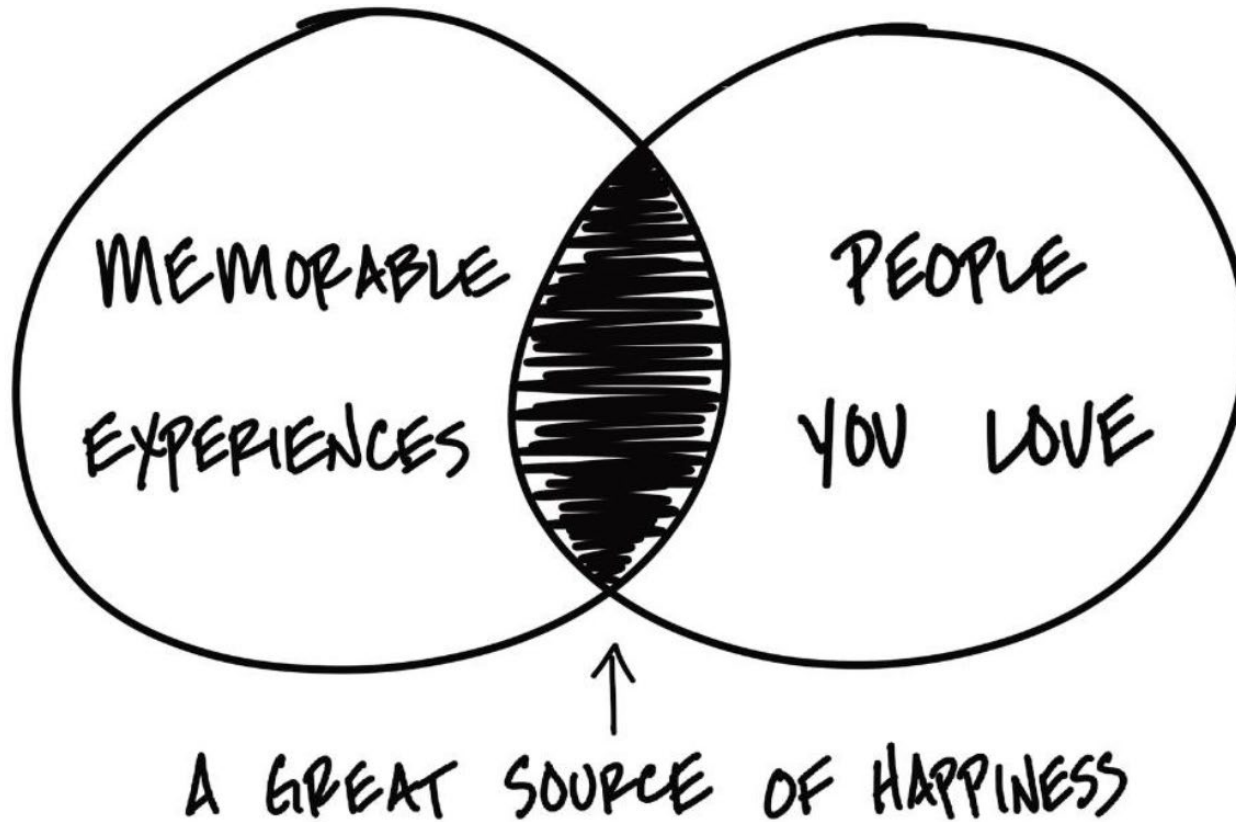
AI – Solving The US Fiscal Problem, One Line Of Code At A Time

Higher GDP growth and lower inflation, resulting from AI usage, could solve the growing U.S debt problem.



Source: Congressional Budget Office, Apollo Chief Economist, as of 07/31/2025

Things To Do In August



Source: Carl Richards, The Behavior Gap, Vol.1, as of 7/31/2025

Disclaimer

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