



Market Overview

August delivered steady gains and a broadening tape. The S&P 500 posted positive returns four consecutive weeks, while small cap stocks led U.S. equities with their strong advance.

Performance leadership widened beyond the largest tech names, helped by relief around rates and a constructive earnings backdrop. Emerging Markets kept pace and remain competitive with U.S. stocks since the April 8th market low, while developed international stocks lagged during the month.

Breadth Returns as Rates Ease

The curve steepened in a bullish fashion, with two-year yields falling faster than the ten-year. That dynamic expanded net interest margins for banks and eased refinancing pressure for shorter duration borrowers. As a result, cyclicals, Small Caps, and equal-weight strategies outperformed, while emerging Markets kept pace despite currency volatility. This widening of participation marks a healthier backdrop than the narrow leadership that dominated much of the past year.

Earnings Power Holds, AI Spend Evolves

Corporate results remained robust with another quarter of double-digit S&P 500 EPS growth and solid sales momentum. Margins held steady despite tariff noise, thanks in part to megacap operating leverage. NVIDIA's report met expectations of their already signaled hyperscaler spending, with massive capital expenditure and expectations for a slowing growth rate. That shift points toward a gradual transition from capacity build-out to monetization and free cash flow, with second-order beneficiaries across the supply chain starting to participate.

Policy and Liquidity Rotation Support Risk

Money market balances remain large, but monthly income from cash has started to drift lower as policy eases. While that is a modest headwind for top-end spenders, lower borrowing costs, healthier bank lending appetite, and the potential for mortgage rates to move back toward 5% support broader credit and housing activity. History shows that when the Fed cuts from a position of strength, especially with spacing between moves, forward equity outcomes tend to be positive.

Positioning

Since the April 8 low, small caps have outpaced large caps which fits the environment of falling front end yields and broadening participation. Banks and other cyclicals benefit from a steeper curve, while megacap leaders continue to provide margin stability at the index level. Our stance

remains more stocks and fewer bonds with guardrails, recognizing that traditional fixed income is poised to delivered low real returns.

Final Thoughts

August reinforced the case for rational optimism. Breadth is improving, earnings are holding, and policy shifts are more constructive than threatening. The market will not move in a straight line, but the balance of evidence still favors more stocks and fewer bonds with guardrails. Structure and discipline remain the best defense against volatility while allowing investors to capture opportunity.

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