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INVESTMENT MANAGERS

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Markets advanced in August despite a volatile finish. The S&P 500 gained about 2.7%, international developed markets rose 2.0%, and US small-cap stocks added roughly 1.1%. Investors looked past a softer July employment report and focused on strong corporate earnings, renewed momentum in technology shares and continued economic growth, even as oil prices and Treasury yields moved higher late in the month.

Growth stocks regained leadership during August as software and semiconductor shares rebounded. Energy was also a standout, supported by renewed tensions around the Strait of Hormuz and higher oil prices. Small caps posted a modest monthly gain and remained among the year's strongest market segments, while participation beneath the major indexes was uneven and several defensive and rate-sensitive sectors lagged.

Inflation remained above the Federal Reserve's 2% objective. July CPI rose 3.4% from a year earlier and core PCE inflation was 3.3%. The Fed held its target rate at 3.50%-3.75% at its July meeting, with three policymakers favoring an increase. The 10-year Treasury yield ended August at 4.75%, keeping the possibility of further tightening in focus ahead of September's policy meeting.

Key themes shaping markets

- Growth leadership returns: Technology and other growth-oriented shares led in August, helped by resilient earnings and renewed confidence in AI-related investment. The rebound was meaningful, but high valuations leave less room for disappointment.
- Energy and geopolitical risk: Energy stocks were among the month's strongest performers as renewed US-Iran hostilities pushed oil prices higher. Continued disruption could feed inflation and pressure consumer spending and profit margins.
- Labor-market moderation complicates the Fed's task: July payrolls edged lower and prior months were revised down, while unemployment held at 4.1%. Softer hiring argues for patience, but above-target inflation keeps the door open to a September rate increase.

Risks on the horizon

- Elevated equity valuations, particularly in growth and AI-related areas, could amplify volatility if earnings or guidance disappoints.
- Persistent inflation or another energy-price shock could keep rates higher for longer and lead the Fed to tighten further.
- Geopolitical and trade uncertainty remains a threat to energy supplies, global growth, supply chains and business confidence.

Key takeaways

- Rebalance after strong gains - Several equity segments have posted double-digit year-to-date returns, which may have pushed portfolios above intended risk targets.
- High-quality fixed income, money markets, buffer ETFs and premium income funds can help manage volatility and provide income.
- Diversification across sectors, company sizes and international markets remains prudent as leadership continues to rotate.

As always, if you'd like a deeper dive into your personal portfolio's alignment or a review of income-planning for the years ahead, we'd be happy to assist.

Key Statistics

Consumer Price Index (July)	3.4%
Core PCE Deflator (July)	3.3%
Unemployment Rate (July)	4.1%
10-Year US Treasury Yield (8/31)	4.75%
Fed Funds Rate (8/31)	3.50%-3.75%

Index Returns

	August	YTD
S&P 500	2.72%	13.14%
MSCI EAFE	1.99%	13.81%
Russell 2000	0.98%	20.01%
US Agg Bond	0.39%	-0.31%