

# MONTHLY INVESTMENT OUTLOOK | AUGUST 2025

## KEY POINTS

The U.S. equity markets continued to climb to record highs in July, extending the post-Liberation Day recovery. This upward momentum was fueled by the passage of the budget bill, resilient economic growth, and optimism around trade deals. Corporate earnings for the second-quarter earnings season have been strong, led by mega-cap tech companies and the AI theme, with 82% of companies surpassing their earnings estimates.

**DIVERSIFICATION - THE BIG WINNER IN 2025:** Diversification has played a key role in driving strong client portfolio returns this year. All five asset classes (stocks, bonds, real assets, alternatives, and cash) are up in 2025, highlighting the value of balance in portfolios. International stocks outperformed U.S. stocks for much of the year, although that advantage has narrowed in recent months. Alternatives have outperformed investment-grade bonds, and gold has surged 27% to reach another all-time high.

**EARLY YEAR CONCERNS HAVE FADED:** Many of the concerns that caused volatility to spike earlier this year, including a global trade war and geopolitical conflicts, have faded. Tariff uncertainty still exists, but clarity has increased. Several trade deals were announced in July, including agreements with Europe, Japan, and South Korea, while China and Mexico were given a 90-day extension. The average tariff rate is projected to settle in the 15-20% range. The passage of the budget bill (OBBBA) provided greater clarity around government spending, the debt ceiling, individual and corporate taxes, and other factors.

**ECONOMY-GROWTH AND INFLATION:** The U.S. economy continues to show resilience, with growth rebounding sharply in the second quarter as GDP rose at a 3% rate. Beneath the headlines, however, there are signs of weakness. Personal consumption has stalled, and the housing market has slowed. While the unemployment rate moved from 4.1% to 4.2%, recent jobs data showed unusually large downward revisions in job creation, pointing to a slowing economy. On inflation, services inflation is slowing, but goods inflation is increasing as tariffs begin to affect the data for manufactured goods. The combination of slowing growth and higher inflation in the U.S. points to a stagflationary backdrop over the next few months.

**FEDERAL RESERVE CLOSER TO CUTTING RATES:** The Fed remains in a rate-cutting cycle but is currently on pause, taking a *wait-and-see* approach regarding the effects of tariffs on inflation. At the July FOMC meeting, Chair Powell stated that inflation is most of the way back to the 2% goal and that a *reasonable base case* is that tariffs will have only a one-time impact. He also noted that the labor market and overall economy are slowing. The Committee voted to keep interest rates unchanged at 4.25% to 4.5%, with two Fed Governors dissenting in favor of a small rate cut. Overall, this suggests that lower rates are likely approaching, and the market has priced in two rate cuts by year-end.

**VALUATIONS BACK TO ELEVATED LEVELS:** Valuations for the S&P 500 Index have climbed back to 22 times forward earnings, which is above the historical average of 17–18 times. However, when viewed on an equal-weighted basis, the index appears more reasonably valued at around 19 times earnings. The headline figure remains elevated due to higher multiple mega-cap stocks. In contrast, international markets continue to look more attractively priced.

**ASSET ALLOCATION – STAYING DIVERSIFIED GLOBALLY :** For investors, we continue to emphasize the importance of staying invested in a diversified portfolio and focused on long-term goals. Central Trust builds diversified portfolios with five major asset classes to enhance returns and lower volatility. Key risks include tariffs, a resurgence of inflation, labor market weakness, high global debt and geopolitical tensions. With market valuations back to highs, we favor balanced positioning with a quality tilt and active management to navigate the road ahead. The risk of tariffs, fiscal dominance and a lower dollar underscores the need for inflation hedges (TIPS, commodities and gold). Gold and alternatives further strengthen portfolios by reducing volatility and enhancing returns.

## KEY TAKEAWAYS FOR INVESTORS:

- Global diversification and quality positioning are key to navigating volatile markets.
- Long-term themes like *reindustrialization*, *AI*, *automation* and *shifting supply chains* are key drivers of productivity and economic growth.
- The key to reaching your long-term investment goals is diversification, balanced asset allocation and focusing on the long-term horizon.

## SUCCESSFUL INVESTMENT PRINCIPLES: FOCUS ON THE LONG GAME

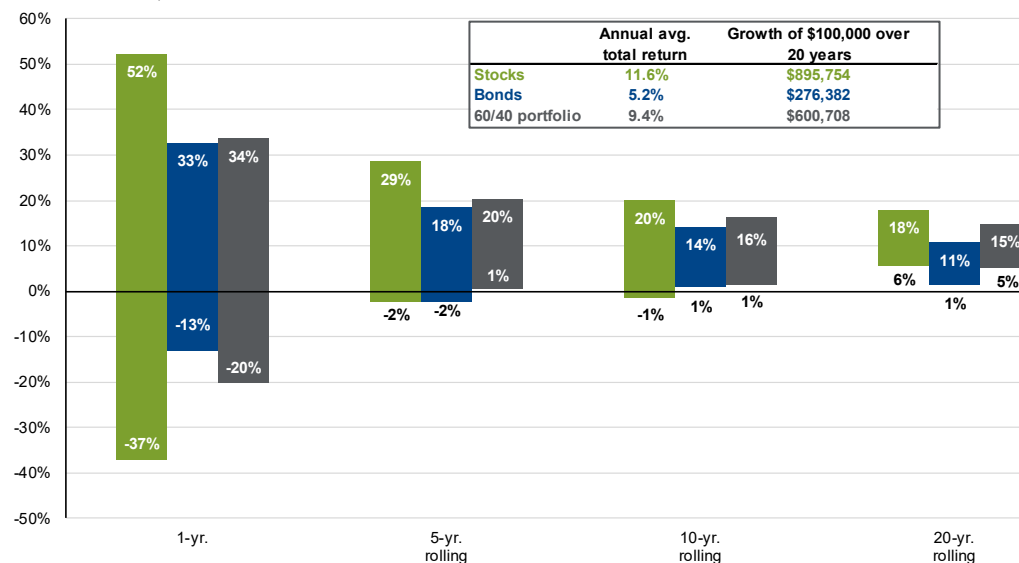
Successful investors maximize the odds of success by focusing on the long term and maintaining a long-term investment plan based on their goals. Studies show individual investors significantly underperform the broad stock market. Individuals are more likely to be driven by emotions that lead to reducing equity and risk assets after market declines during times of volatility.

By taking a multi-year view, investors stack the odds in their favor of achieving investment success and achieving their goals. As can be seen in the chart below, over any one-year period the annual return for the S&P 500 can be volatile with returns from -37% to +52% since 1950. Over any 5-year period, the range shrinks to -2% to +29%. Most importantly, there has never been a twenty-year period since 1950 where equities have experienced losses, as returns ranged from +6% to 18% per year for the S&P 500.

For balanced accounts, data shows that there has never been a rolling 5-, 10-, or 20-year period where a simple 60/40 portfolio of stocks and bonds had a negative return. Overall, from 1950 to 2024, a 60/40 portfolio compounded 9.4% per year. The lesson here is that the more time you have and the more diverse your portfolio, the less risk there tends to be and, lastly, to focus on the long term to achieve your goals.

## TIME, DIVERSIFICATION, AND THE VOLATILITY OF RETURNS

Range of stock, bond and blended total returns  
Annual total returns, 1950–2024



## ECONOMIC DATA

- Global growth continues to be resilient despite policy uncertainty around tariffs, ongoing weakness in China and geopolitical tensions. For 2025, growth estimates are 1.5% for the U.S. and 2.3% for global growth. For 2026, consensus estimates remain stable for global growth at 2.4%, and U.S. growth at 1.6%.
- S&P 500 earnings were \$208 (+48%) in 2021, \$219 (+5%) in 2022, \$220 (+1%) in 2023, and \$243 (+10%) in 2024 (FactSet). For 2025, analysts have trimmed earnings to \$265 and are projecting earnings growth of 9.9% and revenue growth of 5.6%. For 2026, earnings are projected to grow 13.6% to \$301, which will likely be lowered.
- Valuations continue to be above the long-term historical averages.
- The trailing 12-month operating price-earnings ratio is 24.6 times operating earnings compared to the 5-year average of 25 times, the 10-year average of 22.5x, and the 50-year average of 14.2 times earnings.
- The forward operating price-earnings ratio is 22.4 times earnings, which is above the 5-year historical average of 19.9x, the 10-year average of 18.5x, and the 30-year average of 17.0 times earnings.

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## MARKET RECAP (AS OF JULY 31, 2025)

- U.S. equity markets had a strong July extending the post-Liberation Day rebound with the S&P 500 posting another record high.
- Year-to-date, the U.S. dollar has plunged 12%, boosting international equity returns when measured in dollars. International developed equities gained 18.0%, and emerging markets jumped 16.6% — both materially outperforming the S&P 500, which gained 8.6%. The Growth style outpaced Value with a return of 10.1%, compared to 6.6% year-to-date.
- The Bloomberg U.S. Aggregate Bond index benefited from lower yields and rose 3.7% year-to-date, trailing U.S. equities by 5%.
- Credit recovered after the pause in reciprocal tariffs in April, as credit spreads returned to tighter levels. Floating-rate bank loans rose 3.7% and emerging market debt gained 7.0%, year-to-date.
- Gold surged to another record high with a gain of 27% reinforcing its role as a hedge against uncertainty and global money printing. Oil settled at \$69 and remains roughly unchanged for the year.
- Alternatives: Overall, fixed income substitutes and unconstrained alternatives had solid gains matching or exceeding nominal bond returns.

Period Ending July 31, 2025

Source: Bloomberg.

Past performance is not indicative of future results.

Asset Class	Index	MTD	Trailing Performance (annualized for periods > 1 year)				
			YTD	1Y	3Y	5Y	10Y
EQUITIES							
Benchmark	MSCI All Country World IMI	1.3	11.3	15.1	14.7	12.5	9.8
Large Cap	S&P 500	2.2	8.6	16.3	17.1	15.9	13.6
Long-Short	[50% S&P 500, 50% ICE 0-3m T-Bill]	1.3	5.5	10.5	10.9	9.4	7.8
Small/Mid Cap	Russell 2500	1.9	2.4	4.3	8.4	11.0	8.6
International	MSCI World Ex US IMI (net)	(1.0)	18.0	14.1	13.1	10.4	6.4
Emerging Markets	MSCI Emerging Markets IMI (net)	1.8	16.6	16.0	10.8	6.1	5.9
FIXED INCOME							
Benchmark	FTSE World Broad Investment Grade	(1.4)	5.9	4.5	1.7	(2.3)	0.9
U.S. Aggregate	Barclays US Aggregate	(0.3)	3.7	3.4	1.6	(1.1)	1.7
U.S. TIPS	Bloomberg US TIPS	0.1	4.8	4.1	0.9	1.2	2.7
Tax Exempt	S&P Municipal Bond Index	(0.2)	(0.4)	0.4	1.7	0.4	2.2
U.S. Corp High Yield	Bloomberg US Corporate High Yield	0.5	5.0	8.7	8.0	5.1	5.5
U.S. Floating Rate	S&P/LSTA Leveraged Loan	0.9	3.7	7.5	9.2	7.2	5.2
International	FTSE Non USD WGBI	(2.8)	6.8	4.3	0.2	(4.7)	(0.3)
Emerging Markets	JPM Emerging Markets	1.3	7.0	9.3	8.3	1.3	3.6
REAL ASSETS							
Benchmark	Gold	1.2	26.8	35.4	23.4	11.0	11.8
Inflation	Consumer Price Index (CPI)	0.0	1.2	2.5	2.9	4.5	3.1
Commodities	Bloomberg Commodities	(0.5)	5.0	9.7	(1.4)	11.3	3.1
ALTERNATIVES							
Benchmark	[20% S&P 500, 80% ICE 0-3m T-Bill]	0.7	3.7	7.0	7.2	5.5	4.3
Multi-Strategy	Credit Suisse Multi-Strategy I		4.1	5.8	7.8	6.9	5.1
Global Macro	Credit Suisse Global Macro Ind		3.1	4.3	0.0	6.8	4.6
Managed Futures	Credit Suisse Managed Futures		(6.6)	(8.2)	(1.3)	4.2	1.7