

Chris Hyzy:

This is Chris Hyzy, chief investment officer, for the August Viewpoint, the title, "The Owl is Watching."

Earlier in the year, around the depths of the bare market movement equities, we discussed the market workout cycle in four distinct phases. The first phase was the repricing of risk as longer dated yields spiked on the back of the much higher than expected tariff rates that were announced in April. Once there was the initial decision to relax the imposition of the tariffs in some early deals or frameworks were announced, we believe that the market would enter a period of relief. We continue to believe that markets will recover [Unintelligible] session was imminent, we still have this field. The relief saves culminated around May and carried through and into early June. This stage wiped away the more than 20% drawdown in the S&P 500 and helped propelled the mega capitalization growth sector back into a leadership position.

Since June, we've experienced broader leadership across the large capitalization space with financials, industrials, and even parts of the utility sector regathering momentum. We have now upgraded industrials to a moderate overweight from neutral and financials to a full overweight from moderate. But the more we downgraded energy to a full underweight from moderate in healthcare to a moderate underweight from neutral. These sector changes are based on positive profit momentum and potential policy concerns that could impact earnings particularly in the healthcare sector. The [Anula]'s markets recently held their ground but had not increased their outperformance relative to the US since the beginning of the year. Overall, this activity, in our opinion, is a much healthier type of marketing environment in spite of above average valuations.

Additionally, the small capitalization arena has been closing the gap of its large underperformance with the strong rally in the last two months. We call this timeframe “The Re-examine Phase” and has produced what we call as an “Owl” type of market. An owl market is firmly in a bold phase which includes solid earning, stable interest rates, improving economic fundamentals Fall of 2026, easy enough financial conditions a weak issue as dollar, and tariff and geopolitical risks somewhat at bay. In this phase, the owl pierce around 360 degrees to look for confirmation signs that this type of environment is not fading but it’s actually increasing in momentum as low expectations are surpassed. We expect the owl to remain on its high perch through the autumn months. After a brief soft touch and economic data, particularly slower job growth in the next couple of months or so, we believe the fourth and final phase kicks in the gear. We call this phase the “Regrowth phase.” The core tailwind here is positive momentum and profit growth supported by the new fiscal bill and increasing in potential for rate cuts either later this year or next year. Our official call is still for rate cuts in 2026 beginning then.

We maintain our overweight in equities and preference for the US relative to the rest of the world but probably the neutral stance is warranted in international equities overall given our weaker dollar stance. We would use weakness on the back of soft touch concerns a divine opportunity in equity. The capital expenditure boom is just beginning in our view. The owl is watching and the S&P 500 is placed for further upside in the years ahead. That will do it for today. Thanks for listening.

Operator:

Please see important information provided in this report.

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