

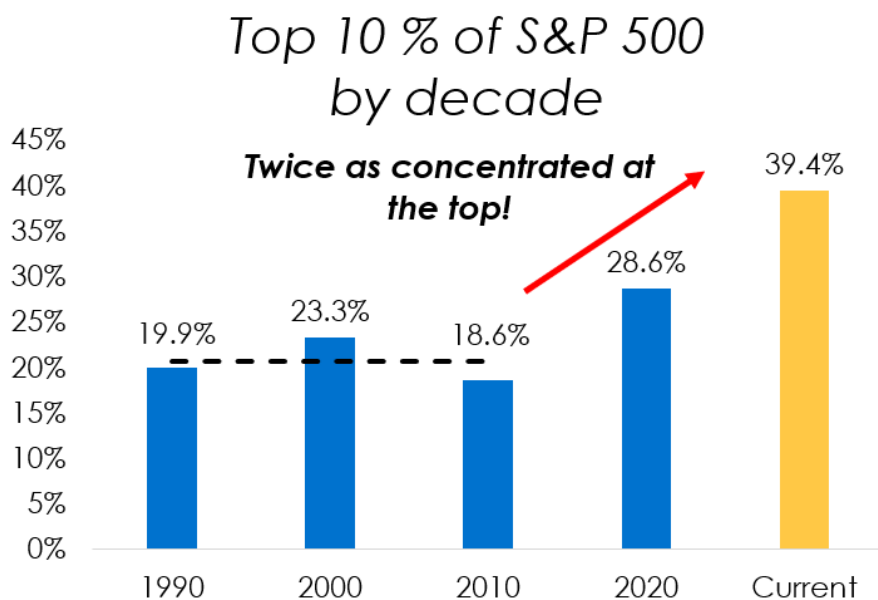
It's a "Twofer"

"Price is what you pay. Value is what you get."

– Warren Buffett attributed to Benjamin Graham

It's hard to believe we're already to Labor Day and, like any good holiday, retailers were not one to let it go to waste. While certainly not as popular as Black Friday, advertisements on deals ranged from mark downs to your favorite BOGO ("buy one, get one"). While the savvy shopper is always one to search out the best deal, that concept doesn't seem to translate to the recent investor psyche.

The concept of looking for a good (investment) deal seems like a far cry from the current investor refrain and yet we think that today presents quite the "twofer" (or two for one opportunity). While many have currently espoused the idea of "de-worsification" – implying that concentrating is the new way to invest – we think the age-old concept of diversification holds its value and represents one of the more compelling opportunities as we examine today's backdrop. Most of us understand the concept of diversification as singularly beneficial in reducing risk and not putting all one's eggs in that proverbial basket. In short, uncertainty is what compels diversification. If one knows with "absolute certainty" what will happen in the future, we'd agree that diversification is counterproductive. It would only make sense to invest in that one "absolutely certain" investment. We just don't know of anyone that has that degree of clairvoyance and yet we see many investors acting with a high degree of certainty. While optimism around AI has bid up the growthier corners of the market, many are quick to point out that the speculative fervor is



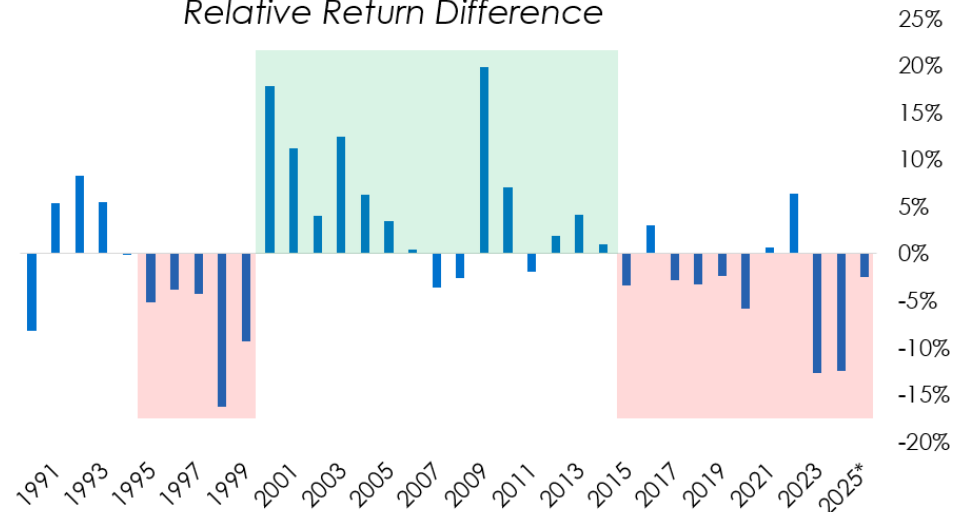
Source: visualcapitalist.com as of year end 1990-2000-2010; Factset IVV's S&P 500 ETF used for constituent data as of year end 2020 and 8/31/25.



nowhere near the levels we saw in the late '90's as many ".com" companies generated little to no earnings. Today's growth stocks are much more profitable resulting in valuations that are seen as much less extreme. However, the concentration risk associated with the most popular stocks today isn't a particularly close comparison. As can be seen in the chart on the prior page, the Top 10 companies that make up the S&P 500 today represent almost double the exposure the Top 10 accounted for over the thirty-year period from 1990-2010. The Top 10 stocks have gone from making up about 20% of the index back then to almost 40% today! According to this stat, the concentration of risks would seem twice as extreme. While it's true that earnings have been more robust at the top of the market, that hasn't stopped valuations from expanding suggesting that investors are pricing in even more spectacular growth to come – with increasing certainty.

To continue along with this comparison, as can be seen in the chart at right, markets narrowed particularly in the last five years of the 1990's. As a result, the S&P 500 Equal Weighted index (or the "Average" stock) consistently underperformed the S&P 500 Market Cap Weighted index. The magnitude of the return differential in '98 and '99 was significant and comparable to what we

S&P 500 Equal Weight vs S&P 500 Cap Weight
Relative Return Difference



Source: Factset; Return difference is based on price return only. *2025 as of 8/31/25.

recently witnessed in '23 and '24. It's also noteworthy that the decade following the '90's saw the reversal of such performance in favor of diversification in twelve of the next fifteen years (i.e. the Equal Weighted index outperformed). In short, we think today represents a unique – though not unprecedented – opportunity in that diversification offers a two for one benefit – risk reduction and upside optionality. The upside is likely to come when investors have deemed that the pendulum has swung too far. The timing of such an episode is a notoriously difficult question to answer with any kind of certainty. But perhaps investors should take comfort knowing that they generally don't need to. That's because staying diversified still allows one to participate in the solid absolute returns that help one achieve plan success. And at the same time, not overly exposing one to the extreme risks that may ultimately come in the form of exceedingly depressed returns when the bill comes due. In our opinion, that's what prudent investing is all about.



August returns were strong across all asset classes with positive returns for Stocks, Bonds, Commodities, and REITs. Small Cap stocks led equity markets higher on expectations of additional interest rate cuts while US Large Caps, International, and Emerging Markets all posted strong returns for the month and year. Bonds were up in August as markets anticipate further Fed rate cuts amid weakening jobs data. REITs were also up for the month based on the above and are now solidly positive for the year. Finally, Commodities rebounded after a weak July while delivering solid year to date returns.

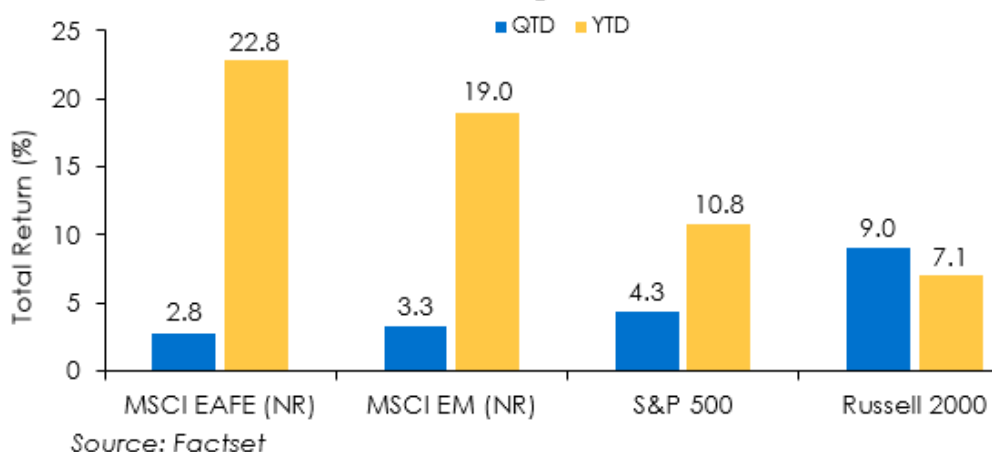
Stocks

US Small Caps (Russell 2000) led stocks higher for the quarter as markets

have now priced in about five (25 bps per) interest rate cuts by the Federal Reserve before the end of next year. US Large Caps (S&P 500) also performed well on the back of strong corporate earnings and AI optimism. International Developed Markets (MSCI EAFE) and Emerging Markets (MSCI EM) continue to post strong results and lead all equity asset classes so far this year. Foreign returns have benefited from dollar weakness as investors look to increase portfolio diversification. From a sector perspective, performance has been broader year to date with outperformance coming from a combination of growth (Communication Services, Tech), defensive (Utilities), and cyclical value (Industrials, Financials, Materials) sectors with all areas now in positive return territory.

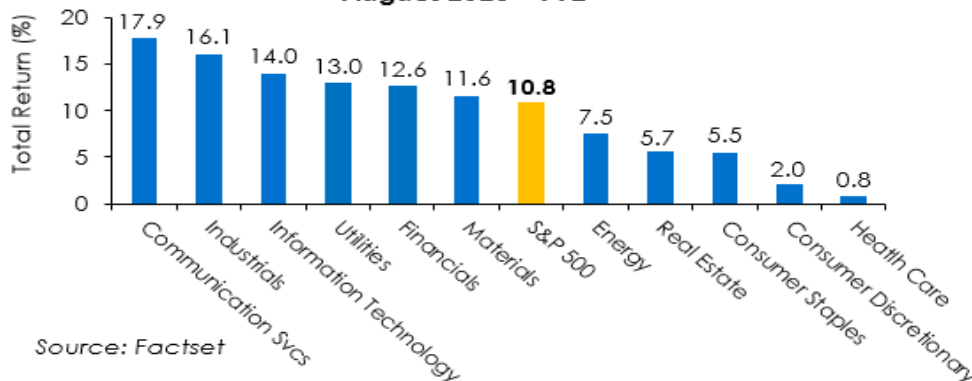
Global Equity Returns

August 2025



S&P 500 Sector Returns

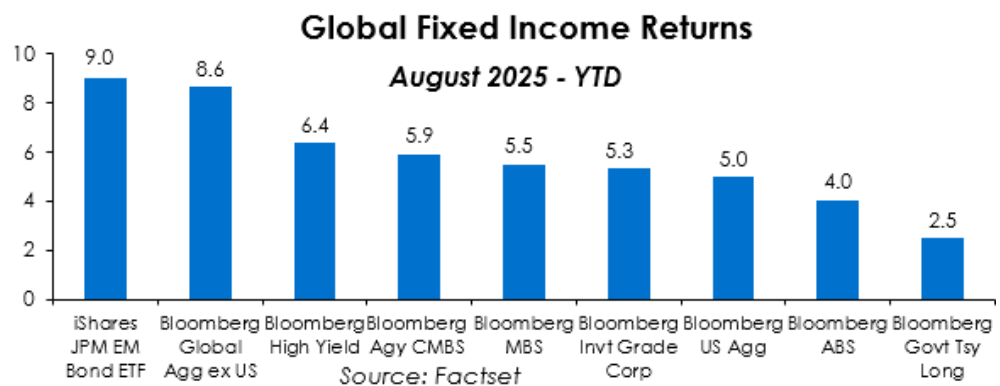
August 2025 - YTD



Bonds

After pivoting to an easing bias in the back half of last year, policymakers left rates unchanged at all of their 2025 meetings so far (January, March, May, June, and July). Consistent with that “wait and see” approach, since December, the Fed has reduced its number of expected 2025 rate cuts from four to two (25 bps per) and indicated they expect slower growth and higher inflation by this year’s end. However, July’s soft jobs report now has the market pricing in accelerating rate cuts through the end of next year (two in ’25 and at least three in ’26). Despite the Fed’s forecasts for a stagflationary-lite backdrop, Bonds have performed relatively well with returns generally up mid-single digits. International (Bloomberg Global Agg ex US) and Emerging Markets

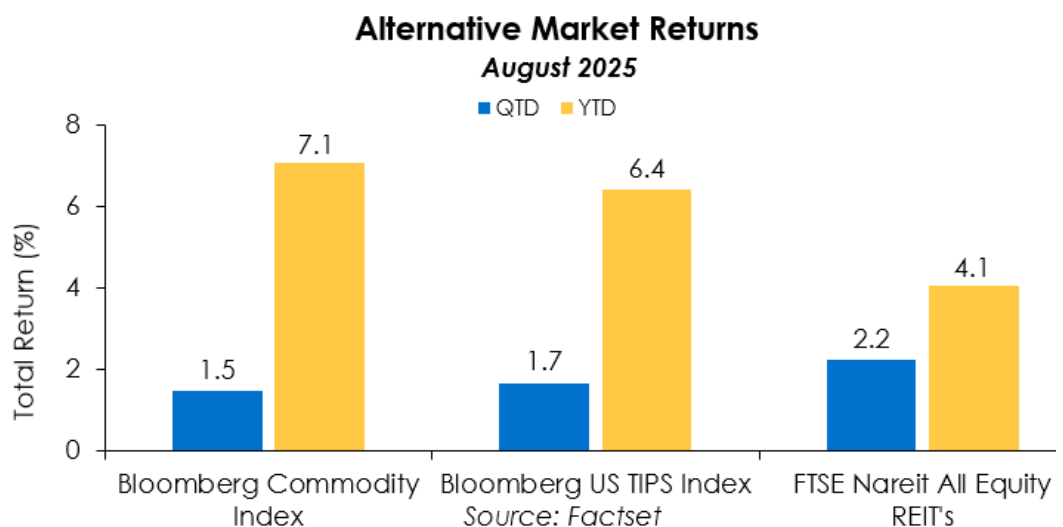
(iShares JPM EM Bond ETF) have been the standouts for the year due to dollar weakness while long duration Treasuries and Asset Backed Securities (Bloomberg ABS) have lagged.



Alternatives

Commodities rebounded in August, after declining in July, while delivering solid year to date returns. Precious metals have been the leader while Energy the laggard. Meanwhile, publicly traded Real Estate (REITs) has improved as the prospect for Fed rate cuts has

increased. Finally, year-to-date returns on Treasury inflation protected securities (TIPs) have performed better than nominal Treasuries amid volatile inflation expectations that have been biased higher since April.



Market Outlook

*"It's Tricky to rock a rhyme, to rock a rhyme that's right on time.
It's Tricky."*

– Run DMC, *It's Tricky* (1986)

As the page turns further into 2025, we remain focused on the ever evolving Tricky "Tri-Cycle" – the "three cycle" framework we're using to assess the landscape. A stagnating (and late) Economic Cycle, gradually

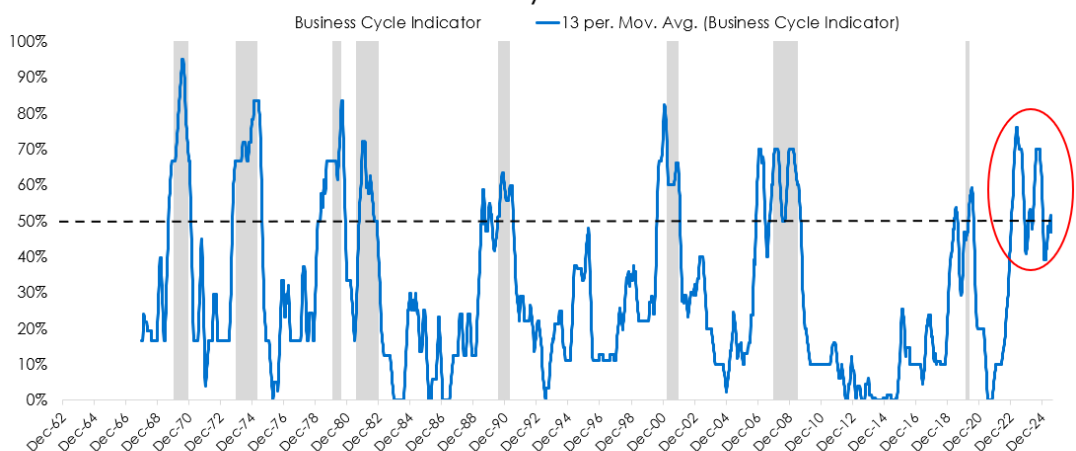
Tricky "Tri-Cycle"

Cycle	Stage
Economic Cycle	Stagnating (and Late)
Profit Cycle	Maturing
Policy Cycle	Reversing

maturing Profit Cycle and wildly reversing Policy Cycle – makes for the continuation of a Tricky backdrop that requires investors to keep their proverbial eyes up and "Head on a Swivel". Let's explain.

Economic growth remains choppy with a stagnating impulse, in part, due to trade and fiscal policy. In isolation, the sizeable increase in the deficit would have made the budget bill virtually impassable. However, when viewed within the context of tariff revenue as an offset, the GOP was able to successfully pass the fiscal measure. Still, tariffs raise the question of stagflation for the Fed which has meant they've been reluctant to act in the short term. However, with the recent weakness in the jobs report along with speculation of a shakeup at the Fed (with the President's recent firing of Board Governor Lisa Cook yet to be decided in the courts), the market is anticipating that is likely to change. Stepping back a bit further, we believe there's fundamental evidence – including the yield curve, leading economic indicator composites, certain survey relationships and especially labor market measures – that point to being on the later side of the economic cycle.

Business Cycle Indicator



Source: Factset and Yellow Cardinal Research; the Business Cycle Indicator is a proprietary dashboard of financial conditions that historically have provided some context of business cycle duration and lead time on recessionary events. When more than half of the weighted average signals were triggered, this often preceded a recession. The Business Cycle Indicator is a weekly signal with the 13 week moving average smoothing the volatility.

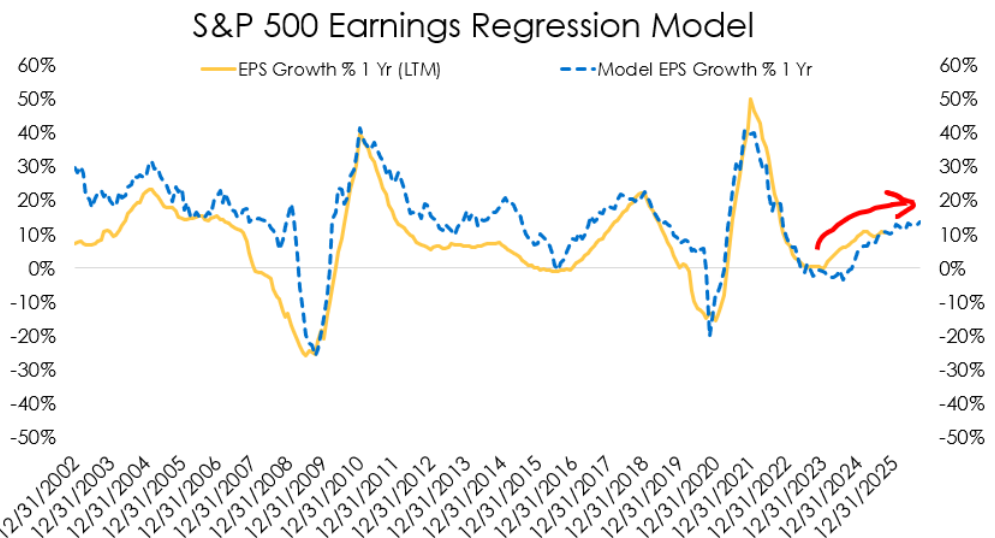
As can be seen in our business cycle indicator above, an increased



percentage of measures being triggered is a good illustration that we remain at comparable late cycle levels in the economy (with recessions designated by shaded regions – chart on prior page).

At this point, the profit cycle doesn't look as late as the economic cycle but the fundamental trends suggest a gradually maturing backdrop.

As can be seen in the chart at right, our proprietary top-down earnings regression model suggests healthy but a gradual leveling off of earnings growth ahead. This is corroborated by bottom-up earnings growth expectations that peaked back in January though recent revisions have been more positive – perhaps helped by the



earnings benefit of a weaker dollar and the expected limited fallout from tariffs. Still, we believe positive but slowing earnings growth denotes a gradually maturing profit cycle – an important observation within the context of the general strengthening equity market price action. The bottom line is that we think its important to monitor the late economic cycle and downshifting of earnings growth in such a fluid fundamental backdrop.

Add to that, the third leg of the stool – a policy cycle that's abruptly reversing from looser fiscal and tighter

The Certainty of Uncertainty

Past Policy	Future Policy
Looser Fiscal	(Relatively) Tighter Fiscal - Less government spending / More government revenue
Tighter Monetary	(Relatively) Looser Monetary - Higher tariff rates likely lead to lower interest rates though not initially.

monetary to one that suggests the opposite – (relatively) tighter fiscal and (relatively) looser monetary. We say relatively because, while the deficit remains unchanged in aggregate, the recognition of its unhealthy status is leading to some reductions in



government spending and the need to find more government revenue (tighter fiscal). As a result, higher tariff rates and slowing growth are likely to cause the Fed to react in eventually lowering rates. This reversal in policy is causing investors, consumers and companies to re-think the backdrop as denoted by high uncertainty and weak survey results. The good news is that the sharp rally in risk assets since the second half of April (from backing off of the worst case tariff rates) was a constructive move that flipped the technical script from bearish to bullish. This suggests that the market hasn't deemed anything a foregone conclusion. We'd also be remiss if we didn't mention that consumer and business aid are likely to kick in next year with targeted pro-growth stimulus (like 100% expensing, increased SALT deductions and child tax credit measures) that sterilizes the tariff effect in the near term. The bottom line is that we continue to live in an environment that suggests an increasingly large number of potential scenarios still on the table. It's no wonder that the only certainty might be a high degree of uncertainty.

So what are the implications and key takeaways for portfolios?

From a portfolio positioning perspective, we continue to emphasize the importance of diversification and balance as a way to mitigate the high uncertainty as referenced above. While diversification has previously been an uncontroversial concept, the concentration present in passive indices today – by virtue of the price action over the last couple of years – suggests this notion remains a relic of the past. We respectfully disagree and continue to look for opportunities to rebalance portfolios to maintain that degree of balance – taking advantage of such an opportunity last month. As a result, we've remained UW the most expensive and concentrated areas where we've viewed the long-term risk reward less favorably.

Within equities, our positioning incorporates balance geographically (tilt toward International) and within our US Large Cap exposure especially (away from the top of the market). Our bias has generally been to have more exposure to less expensive areas (down market cap). As such, we've maintained a larger OW in Cyclical Value and Defensive sectors combined with a smaller sized cap bias. We remain UW the most concentrated and expensive Cyclical Growth areas and think that if AI is as transformative as advertised its benefits will need to accrue to more than just the select few.

Within fixed income, we remain biased toward the higher quality US Core Fixed Income segment – where we're slightly longer in duration for diversification purposes. We've also previously added to International Fixed Income (EW), where the end of negative interest rate conditions has led to more attractive opportunities. Maintaining a higher quality bias means that we still remain UW the most expensive part of the bond market (High Yield) where extremely tight spreads have made this unattractive in our view.

Within alternatives, we remain fairly balanced across the board with neutral positions in Diversified Alternatives, Real Estate and Commodities. Earlier this year, we adjusted our mix of Diversified Alternative



managers in order to provide greater insurance against market volatility by emphasizing income and short exposure – areas that can benefit from choppy market conditions, thus, enhancing diversification.

From a broader perspective, we also think that investors should keep in mind the following:

- Stay focused on the things you can control like ensuring you have adequate 6-12 month liquidity needs which should allow your long-term investment monies to stay invested.
- Has the structural integrity of your plan changed (purpose of money, time horizon, liquidity needs, risk tolerance)? If the answer is no, then recognize that the economy and the market run in cycles that diversified portfolios are there to help mitigate.
- Short term volatility is often the price one pays for the benefit of higher long-term returns.

Thanks for giving this a read.

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