

The following commentary is the opinion of our Portfolio Manager at the time of its writing. Please see important disclosures.

OVERVIEW

The Fed watching game played out in a frenzy of parsing every word from the new Fed Chairman Warsh. A weak July *Jobs Report* and a slowdown in July *Retail Sales* beat back the drum beat for a September rate hike. Then the hawks jumped on Warsh's speech from Jackson Hole and presto, through tortured reasoning, a rate hike in September was back on the table. With that, in the last week of the month, traders wiped out almost 60% of the gains in US Small Cap Equities for the month. The hard economic news showed a solid growth economy with growth accelerating in the manufacturing and services sectors and the consumer remaining resilient. Housing remains sluggish, constrained by a low supply of existing homes for sale and mortgage rates once again approaching 7% due to the inflationary pressures from oil. Overseas, business activity surveys remain moderate to strong in Japan, UK, China, India and Brazil; Germany remains on the weak side.

The S&P 500 ended the month up 2.62% with Foreign Developed at 1.99% and Emerging Markets at 3.37%. The AI trade was reignited which, along with the aforementioned interest rate hike fear, led US Large Caps to outperform US Small Caps, which likewise contributed to Growth substantially outperforming Value.

Bond yields were somewhat distorted by the speculation on a Fed rate hike and the Fed increasing its buying of longer dated Treasuries. As a result, Intermediate Treasury yields ticked up and long term yields ticked down. That led Interest and Blend to post small fractional gains with Credit posting a substantially larger fractional gain. The Credit action is at odds with the underperformance of US Small Cap Equities. The Dollar declined, which helped Global Bonds to outperform US Bonds.

Commodities were broadly and substantially positive in response to the solid economic news with Precious Metals rallying on the AI trade and decline in the Dollar.

PERFORMANCE

TAG TACTICAL STRATEGIES: Global Macro

All three *Core Strategies* substantially outperformed their proxies. Positions in Natural Resources and Foreign Equities and Bonds and US Credit Bonds drove the outperformance.

Tactical Income substantially outperformed its proxies due to positions in US and Foreign Credit Income Securities. The yield as of August 31, 2026, is at 5.27%.

Tactical Equity substantially outperformed its proxies. Positions in Metals Miners, Emerging Markets and US Biotechnology drove the outperformance.

RPg STRATEGIES: Quantitative Formula

Tactical US Equity substantially trailed the S&P 500 due to an overweight in Value Sectors. *Tactical US Equity FT* also underperformed but by a lesser degree due to its Growth weighting.

Tactical Global Balanced was essentially in line with its domestic proxy. Positions in Foreign and US Credit Bonds and Natural Resources drove the outperformance.

OUTLOOK

We see the increase in inflation as primarily due to the increase in the price of oil due to the Iran War. That is a shock. It does not seem logical to fix a supply shock with demand destruction from raising interest rates. The Fed acknowledged as much in their FOMC July 2026 Minutes wherein they noted – most participants anticipate inflation to ease over the rest of the year as the effects of tariffs and energy prices wane. Furthermore, we do not interpret any of Fed Chairman Warsh’s comments to mean he is ready to raise rates, just that he would if that were necessary, which is to say nothing as that is just one of the Fed’s tools. So, who is rooting for a rate hike, especially in the middle of the Iran War?

We have been discussing how an increase in “productivity” can allow for strong economic growth without corresponding inflation. Productivity happens when the “private sector” drives growth as opposed to the “public sector” (i.e. the government). We saw an example of that with the August *Philadelphia Fed Manufacturing Index* which came in at a very strong 47.4 versus 41.4 the prior month – a 5 year high, yet a measure of inflation, “prices paid” came in at 40.9 versus 53.9. The Fed also acknowledged this in their July 2026 Minutes wherein they cited productivity as strong and Warsh said, “more generally, capex (capital expenditures) is preparing the ground for future growth”.

The crippling effects of Biden’s 4 year inflation explosion does not go away with now much lower inflation (pre Iran War); it would require an actual decline in prices (which did happen for energy costs pre Iran War; has not happened for housing; which is underway with the new lower drug prices available on Trump RX). A second leg of repairing the consumer is a rise in wages, i.e., earning our way out of that damage. That can happen with the private sector driving growth.

The *TAG* and *RPg Strategies* remain allocated to increasingly strong US growth and solid global growth.

Your RPg Investment Team

We welcome your comments and questions regarding the foregoing.

Please direct them to: support@riskparadigmgroup.com

Please read and refer to important disclosures that follow.

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