

Trend Report Commentary



WEALTHSHIELD



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Monthly Market Commentary (GRIP framework) - August 2025

Growth

My GRIP framework assesses growth using the Conference Board's Leading Economic Index (LEI), a composite of ten forward-looking data series. The latest release from **July 21, 2025**, showed that the **US LEI fell 0.3 % in June to 98.8**, and it **declined 2.8 % over the first half of 2025**, a much faster drop than the **-1.3 %** contraction over the second half of 2024 [1]. The Conference Board warned that the **six-month growth rate of the LEI weakened** and that the diffusion index remained below 50, triggering a recession signal for a third consecutive month [2]. This negative six-month rate of change indicates that economic momentum continues to deteriorate even though GDP growth is still positive. Real GDP is projected to grow just **1.6 % in 2025** as the drag from tariffs and soft consumer confidence becomes more apparent [3].



Risk Appetite

I gauge risk appetite using the direction of high-yield credit spreads and investor positioning. **High-yield spreads serve as a proxy for risk-on/risk-off behaviour**; when they narrow (negative three-month rate of change) investors are adding risk, whereas widening spreads indicate risk aversion. MacKay Shields' high-yield outlook notes that spreads **bottomed at a 20-year low of 279 basis points in mid-February, spiked to 476 bps in early April** after tariff announcements and then **retraced to 321 bps by 30 June** [4]. This 155-bp narrowing over roughly three months signals a **risk-on shift**. Retail outflows in April were followed by sizable inflows in May and June, and institutional investors increased high-yield allocations as market volatility subsided [5]. The ICE BofA US High Yield Index spread-to-worst of 321 bps remains below its historical median [6].

State Street's institutional *Risk Appetite Index* corroborates this optimism; their June update recorded a pro-risk reading of **+0.36**, with investors adding exposure to stocks, commodities and currencies [7][8]. Thus, despite slowing growth, **risk appetite remains positive**, aided by expectations of future policy easing and robust credit fundamentals.



Inflation

My inflation outlook uses energy prices as a leading indicator. Brent crude and gasoline prices have been under pressure in recent months, suggesting that headline inflation should continue to moderate. **Brent crude fell to \$69.48 per barrel on August 1, 2025**, and trading economics reports that **it is about 9.5 % lower than a year ago** even after a modest 0.54 % rise over the past month [\[9\]](#). **US gasoline futures traded around \$2.11 per gallon at the start of August**, down 0.36 % over the past month and **about 9.5 % lower than a year earlier** [\[10\]](#). The six-month rate of change is similarly negative, as energy prices were near \$77 per barrel for Brent and \$2.30 per gallon for gasoline in early 2025. Lower energy costs reduce pressure on headline CPI and support the view that **inflation will keep falling**. This is consistent with the International Monetary Fund's January 2024 update, which projected **global headline inflation to decline to 5.8 % in 2024 and 4.4 % in 2025** [\[11\]](#). Core inflation remains stickier, but cooling goods and energy prices point to further disinflation ahead.



Policy

The GRIP framework defines policy as **tight or easy relative to the 2-year US Treasury yield**. When the Federal funds rate exceeds the 2-year yield, policy is restrictive; when it is below, policy is supportive. As of **August 1, 2025, the 2-year Treasury rate stood at 3.69 %** [\[12\]](#). The Federal Open Market Committee has kept the **target range for the federal funds rate at 4¼ % to 4½ % since June**, leaving the policy rate roughly 50–80 basis points above the 2-year yield [\[13\]](#). The Fed is also shrinking its balance sheet, reducing holdings of Treasury and agency securities by about **\$180 billion in 2025** [\[14\]](#). This gap between the policy rate and the market-implied neutral rate signals a **restrictive monetary stance**. Globally, other developed central banks have begun to cut rates modestly, but the Federal Reserve has not yet followed [\[15\]](#). Unless the 2-year yield rises or the Fed eases, monetary conditions will remain tight, tempering growth but providing scope for future cuts.



Opportunity – Real Assets in a New Supercycle

Stocks vs Real Assets

One of the most compelling cross-asset developments has been the outperformance of real assets versus equities since late 2021. CME Group analysis shows that **the S&P 500 Index fell 28 % relative to gold from late 2021 through 2022 [16]**. The study noted that the **S&P 500 lost its upside momentum relative to gold** and warned that geopolitical instability and central-bank tightening could favor hard assets [17]. The underperformance has continued; broad equity indices have rallied, but when measured relative to gold they remain in a down-trend. This divergence implies that stocks peaked against real assets in late 2021 and underscores the value of diversifying into commodities, precious metals and real-asset-oriented equities.



Why a Real-Asset Supercycle?

Several structural trends support the view that late 2021 marked the start of a multi-year supercycle favouring real assets:

- 1. Deglobalization and geopolitics.** ClearBridge Investments notes that long-standing macro pillars are unwinding simultaneously: “the 80 years of U.S.-led geopolitical order, the **35 years of globalization** and the **15-year era of ultra-low interest rates**” [18]. The unravelling of global supply chains, re-shoring of manufacturing and a more fragmented world order increase demand for domestic production of energy, metals and agricultural goods, putting upward pressure on real-asset prices. The same commentary adds that the portfolio added **media and real asset holdings as insurance against higher inflation** [18].
- 2. Commodity supercycle and supply constraints.** Supply constraints following years of under-investment and the need to replace ageing infrastructure add to the bullish case.
- 3. Digitalization, AI and infrastructure.** Brookfield points out that the world will require **about \$94 trillion of capital between 2016 and 2040** to maintain and upgrade legacy infrastructure and to build new projects such as data centers [21]. The same report observes that digitalization is creating opportunities across **data centers, power generation, midstream and transportation** [24]. It highlights that improvements in AI efficiency are unlikely to reduce the need for infrastructure; rather, AI adoption will drive **astronomical capital expenditure of 2–5 times today’s installed capacity** on data-centre infrastructure [25].
- 4. Fiscal dominance.** Post-pandemic fiscal policy has become a dominant economic force. Governments globally are running large deficits to finance social programmes, defence and industrial policies. Persistently loose fiscal policy and high public debt levels may also necessitate financial repression, which historically benefits real assets.



Taken together, these factors—degobalization, supply constraints, the AI-infrastructure boom and fiscal dominance—create a supportive backdrop for commodities, precious metals, infrastructure and other tangible assets. The underperformance of equities versus gold since late 2021 [\[16\]](#) suggests that investors have already begun to re-price this new regime. While risk appetite remains positive, the GRIP framework indicates that slowing growth, falling inflation and a still-tight policy stance warrant caution toward traditional risk assets. A strategic allocation to real assets could help preserve purchasing power and provide diversification as the supercycle unfolds.



[1] [2] [3] The Conference Board Leading Economic Index® (LEI) for the US Declined in June

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[13] [14] The Fed - Monetary Policy: Monetary Policy Report (Branch)

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