

Trend Report Commentary



WEALTHSHIELD



GRIP Framework



September 8, 2025

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Monthly Trend Report – GRIP Framework

Executive summary

Markets entered autumn with a divergence between economic activity and risk markets. The Leading Economic Index (LEI) continues to contract on a six-month basis, pointing to recession risk, while risk assets price a Goldilocks scenario. Oil-price momentum has rolled over and interest rates are trending lower. Yet U.S. equities trade at the highest market-cap-to-GNP ratio ever recorded [1]. In this report we apply our GRIP framework — Growth, Risk appetite, Inflation and Policy — to highlight macro signals and propose portfolio actions. We conclude with a discussion of diversification benefits from high-volatility trend following and our WealthShield Absolute Return Fund as a potential long-only equity replacement.



Growth – Six-month LEI recession signal

LEI declines again: The Conference Board's LEI fell 0.3% in June and 0.1% in July 2025. The index has declined -2.8% over the first half of 2025 [2] and -2.7% over the latest six-month window [3]. This annualized rate (about -5%) is significantly faster than the -1.3% contraction during the second half of 2024 [2]. Weak consumer expectations, new orders and building permits outweighed the rally in stock prices [4]. Although the diffusion index improved to 65 in July [3], the broad decline in leading components keeps the LEI recession signal intact.

Implications: Historically, a six-month rate of change below -4% signals recessions with a one-year lead. The current negative momentum, combined with a tightening in bank credit standards and sluggish manufacturing surveys, suggests growth risk is rising.

Risk appetite – Positive for now

High-yield spreads near cycle lows: The ICE BofA US High Yield Master II option-adjusted spread trades around 2.75% [5] as of 28 Aug 2025, down from 3.19% a year earlier and well below the long-term average of 5.24% [5]. Spreads have compressed steadily since April's brief spike near 4% and currently sit roughly 50 – 60 basis points below their five-month moving average ($\approx 3.3\%$). Such tight spreads indicate strong risk appetite and leave little cushion should growth disappoint.

Prices at all-time highs: In addition to compressed credit spreads, both U.S. and international equities remain in robust uptrends and continue to post new all-time highs. The VEU ETF, which tracks international developed and emerging markets, surged more than 4% in August, while the VTI ETF, representing the total U.S. stock market, gained over 2% during the same period. These strong performances further highlight sustained investor optimism across global equity markets.



Intermarket relationships and market internals: Intermarket relationships and market internals have shifted back to neutral from positive as the bullish percent indexes in both the S&P 500 and the Nasdaq 100 have diverged negatively from price.

Lumber and copper have also both collapsed against gold, suggesting more of a deflationary impulse and reinforcing the current regime of slowing growth and inflation. The good news is that sector and factor performance is still reflective of a risk-on regime, indicating that investors continue to favor equities in select areas despite broader signs of caution.

Equity valuations at extremes: According to GuruFocus's calculation of the Buffett Indicator, the ratio of total U.S. market capitalization to gross national product reached 213.1% on 30 Aug 2025 [6]—the highest level in the past five decades [1]. The service categorizes valuations above 161% as “significantly overvalued” and notes that the market has risen from under-valuation in 1982 to historic extremes [6]. Elevated valuations, coupled with compressed credit spreads, suggest investor complacency and limit forward returns.

Valuations are not a catalyst, however, and only remind us that the current concentration in US equity market indices are distorting and masking both the economic weakness and the opportunities within small caps, international stocks, real assets, and several undervalued sectors. The stretched valuations, although indicative of a bubble, suggest tremendous opportunities may be available underneath the surface. This means that despite headline indices reaching new highs, many areas of the market remain underappreciated and could offer meaningful upside as market leadership rotates or sentiment shifts. Investors should therefore consider broadening their exposure beyond the dominant mega-cap stocks to capture potential gains from these overlooked segments.



Inflation – Oil momentum turns negative but so is the dollar

Oil price six-month ROC: West Texas Intermediate (WTI) crude averaged \$75.74/bbl in January 2025 and \$68.39/bbl in July, producing a six-month rate-of-change of –9.7%. Using the EIA's monthly table, June 2025 prices (\$68.17/bbl) versus December 2024 (\$74.93/bbl) also imply a –9.0% change [7]. The decline reflects easing supply fears, slowing Chinese demand and higher U.S. production. A negative 6-month ROC indicates that energy inflation pressures are receding, supporting the view that headline CPI will continue to drift lower into year-end.

Dollar price: This dynamic between inflation and the U.S. dollar is especially relevant now, as recent dollar weakness may set the stage for upward pressure on prices. Historically, when the dollar depreciates, import costs rise and inflation can accelerate, particularly if economic growth picks up. Over the past year, assets like precious metals, bitcoin, and livestock have shown the strongest momentum, and the softer dollar environment has certainly contributed to their outperformance. If growth reaccelerates, there is a real possibility that this could spill over into headline inflation data, warranting close monitoring by investors and policymakers.

Policy – Restrictive stance

Fed funds vs 2-year yield: The Federal Reserve's effective funds rate is 4.33%, whereas the 2-year Treasury yield is around 3.68% [8]. The 65 basis-point inversion implies that markets expect rate cuts over the next two years. The Fed has kept rates unchanged since July but remains data-dependent; with inflation slowing and growth weakening, markets price 50–75 bp of easing by early 2026. However, the inversion also reduces bank margins and signals tight financial conditions.

The good news is that Jerome Powell signaled further easing during his Jackson Hole Speech. The Fed is likely to reduce interest rates (albeit in a measured fashion) as the focus shifts from inflation to unemployment. This shift in monetary policy could provide additional support to markets and alleviate some of the restrictive pressures currently weighing on growth. Investors should closely watch upcoming policy decisions for further confirmation of this evolving stance.



Putting GRIP together – caution warranted

1. Growth is decelerating: the LEI's six-month decline remains firmly negative [2][3].
2. Risk appetite is high: high-yield spreads near 2.75% [5] and the market-cap-to-GNP ratio at a record 213% [6] signal excessive optimism.
3. Inflation momentum is cooling: oil's six-month rate-of-change is roughly -9% [7].
4. Policy remains restrictive but moving in the right direction: the Fed funds rate exceeds the 2-year yield by ~65 bp [8], keeping the curve inverted.

Given these signals, investors should prepare for heightened volatility. Equity markets are pricing an immaculate disinflation and soft landing, yet growth indicators and valuations argue for caution. **The asymmetric risk-reward argues for diversifying away from traditional long-only equity exposure.**



Diversification via high-volatility trend following

Why high-vol trend following? Traditional diversified portfolios often fail to protect during severe equity drawdowns because most allocations (equities, credit, real estate) lose together. The DUNN WMA High-Volatility Trend-Following Program, described in the attached paper, pursues an unconstrained global trend-following strategy with higher target volatility. Key takeaways from the study:

- **Low correlation & positive skew:** Over 2000–Jun 2025, the DUNN WMA program delivered a cumulative return of 564% with annual volatility 7.7% and a Sharpe ratio of 0.53. Its correlation with equities is negative, and return distribution exhibits positive skew and convexity, meaning it tends to perform well in trending markets and during crises.
- **Crisis alpha:** The program produced +172% during the 2000–02 tech bust, +78% during the 2007–08 debt crisis, +1% during the Covid-19 crash and +67% during the 2022–23 inflation crisis while equities suffered large losses. This demonstrates its ability to profit from major downtrends across asset classes.
- **Portfolio impact:** Allocating 20% of a traditional 50/30/20 (stocks/bonds/cash) portfolio to the high-vol CTA raised cumulative return to 514% and reduced the maximum drawdown to –21.6%. The diversified portfolio experienced positive returns during major equity crises, whereas portfolios with other alternatives (e.g., long–short equity, macro, low-vol CTAs) still suffered drawdowns.

These results highlight that volatility matters: high-vol CTAs have more flexibility to capture large trends and thus provide better crisis protection. In contrast, many “diversified trend” or low-vol programs dampen volatility at the cost of crisis alpha.

In an environment like today’s—marked by slowing growth, elevated risk appetite, and uncertain policy direction—true diversification is essential. Opportunities exist beyond traditional stocks and bonds, making the inclusion of high-volatility trend following in an asset allocation a prudent choice. By incorporating such strategies, investors can better position themselves to capture returns during market dislocations and protect portfolios from severe equity drawdowns, as illustrated by the DUNN WMA program’s historical crisis alpha and low correlation with equities.



Long-short equity replacement – Ascentis Absolute Return Fund

Our WealthShield Absolute Return Fund (WSARF) aims to deliver equity-like returns with significantly lower beta and drawdown. The portfolio invests across six long-short equity managers (Viking, Point72, Sachem Head, Schonfeld, Coatue, Balyasny) with roughly equal allocations, providing manager diversification. The June 2025 hypothetical analysis of the manager blend shows:

- **Consistent returns:** Since inception WSARF would have generated 13.58% cumulative return with volatility 6.81% and a Sharpe ratio 1.74. It produced positive returns in 76% of months.
- **Diversification:** The managers' beta to the S&P 500 is 0.26, and the correlation is 0.57. This low beta indicates that the fund behaves differently from the broader equity market.
- **Moderate drawdowns:** The worst drawdown since inception is –15.1%, far less than the S&P 500's –51% drawdown.

Given current market extremes, we believe reallocating part of long-only equity exposure into WSARF can reduce downside risk while maintaining upside potential. When combined with high-volatility trend following, portfolios gain exposure to uncorrelated crisis alpha and long-short stock selection, providing a more resilient return stream.



Conclusion

The GRIP framework signals caution: growth momentum is negative, risk appetite is exuberant, inflation pressures are easing, and policy remains tight. Equity valuations are at unprecedented levels [6], leaving little margin for error. **Investors should therefore diversify proactively.** High-volatility trend following has demonstrated the ability to generate positive returns during equity crises and materially improve portfolio risk-adjusted returns. Our WealthShield Absolute Return Fund offers a long-short equity alternative with low beta and attractive risk-adjusted performance. Implementing these diversifiers today can help investors navigate a late-cycle environment characterized by weakening growth, compressed spreads and historically rich equity valuations.

[1] [6] Buffett Indicator: The percent of total market cap relative to GNP

<https://www.gurufocus.com/stock-market-valuations.php>

[2] US LEI Technical Notes

https://www.conference-board.org/pdf_free/press/US%20LEI%20Tech%20Notes%20July%202025.pdf

[3] Leading Economic Indicators Post Slowing Decline in July — RISMedia

<https://www.rismedia.com/2025/08/21/leading-economic-indicators-post-decline-july/>

[4] US%20LEI%20PRESS%20RELEASE-July%202025.pdf

https://www.conference-board.org/pdf_free/press/US%20LEI%20PRESS%20RELEASE-July%202025.pdf

[5] US High Yield Master II Option-Adjusted Spread - Real-Time ...

https://ycharts.com/indicators/us_high_yield_master_ii_optionadjusted_spread

[7] Cushing, OK WTI Spot Price FOB (Dollars per Barrel)

<https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx>

[8] Federal Reserve Board - H.15 - Selected Interest Rates (Daily) - August 29, 2025

<https://www.federalreserve.gov/releases/h15/>



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