Weekly Market Commentary

WealthShield

August 18, 2025

G.R.I.P Update and Market Commentary

Executive Summary

- **Growth:** still slow. July **Industrial Production** edged down and the manufacturing sub-index stalled; **Retail Sales** rose but the pace of growth remains modest. (Federal Reserve, Census.gov)

- **Risk appetite:** trends remain positive (tight HY spreads), but breadth is narrow and concentration risk elevated. (YCharts, MarketWatch)

- **Inflation: PPI** ran hot while **CPI** printed on expectations; YoY measures ticked up or held steady, but leading indicators (rents, crude) continue to point lower ahead. (Bureau of Labor Statistics, Zillow, EIA)

- **Policy:** still tight but tilting toward easing; **Jackson Hole** next week should set the tone—expect a “cut but don’t party” message from Chair Powell. (Investopedia)

G — Growth

- **Industrial activity:** July **Industrial Production fell 0.1% m/m** with manufacturing flat; YoY output is only **+1.4%**—another notch in a generally slow-growth tape. (Federal Reserve)

- **Household demand: Retail Sales** rose **+0.5% m/m** (**+3.9% YoY**) in July, helped by autos and nonstore retail. Good print, but not a regime change—real growth remains restrained. (Census.gov)

R — Risk appetite

- **Credit:** The **HY OAS** sits near cycle lows (latest **~2.9%**), consistent with a positive trend in risk appetite. (YCharts)

- **Breadth & concentration:** Leadership is narrow; the equal-weight/cap-weight gap and sector concentration remain extreme by historical standards—classic caution flags even as prices trend up. (MarketWatch)

What this means: Our system **overweights absolute price trends**, which remain positive, but we respect the **breadth warnings** by emphasizing **true diversification** beyond cap-weighted mega-caps.

I — Inflation

- **Latest prints:**
  - **CPI (Jul): +0.2% m/m**, **+2.7% YoY**; **core +0.3% m/m**, **+3.1% YoY** (headline on expectations; core ticked up). (Bureau of Labor Statistics)
  - **PPI (Jul): +0.9% m/m** and **+3.3% YoY**—hotter than expected. (Bureau of Labor Statistics)
- **Leading indicators:**
  - **Rents:** Market-rent gauges and CPI shelter forecasts show continued deceleration into late-2025/2026. (Zillow)
  - **Energy: Brent** has slid back into the high-$60s, easing headline pressure. (EIA)

Bottom line: Even with a near-term YoY uptick in core measures, the **trend** in the pipeline (rents, oil) **still leans disinflationary** unless growth re-accelerates meaningfully.

P — Policy

- **Setup:** Policy is **still tight** but trending toward **easing**. **Jackson Hole (Aug 21–23)** should be the next signal; base case is Powell opening the door to **rate cuts** while **tempering** the easing impulse—"reduce restraint but stay restrictive." (Investopedia)
- **Rates curve & credit creation:** The **2-yr Treasury** sits **below the effective fed funds rate** (recent **~3.75%** vs **4.33%**), underscoring a restrictive stance that won't, by itself, ignite credit creation. (YCharts)

Macro implication: Easing from "very tight" to merely "tight" should **prolong moderation** rather than spur a boom—consistent with our moderation/slowing narrative.

Portfolio Takeaways (tying GRIP to positioning)

1) **Diversification (real diversification).**

- Valuations on cap-weighted U.S. benchmarks are **elevated** (forward P/E **~22x**, well above 5- and 10-yr averages) and **concentration** is near records. **Outside** that discipline, we see more attractive relative setups: **equal weight, international equities, small caps, utilities, materials, industrials, REITs, and healthcare.** (FactSet, FactSet Insight, MarketWatch)

    - *Passive investor:* add some **equal-weight** exposure to improve diversification with one allocation. (indexologyblog.com, S&P Global)

    - *Tactical investor:* **stay with the trend until it ends—Growth** remains the top style, **market-cap weighting** remains the top beta regime, and **Momentum** remains the top factor in our process, while we continue to hunt for relative value outside the crowded cap-weighted core.

2) **Risk management.**

- Risk appetite is supportive (tight HY OAS), but **breadth warnings** argue for staggered rebalancing and not chasing concentration.(YCharts, MarketWatch)

3) **AI = secular CAPEX super-cycle.**

- Governments and firms are *incentivized* to keep the AI build-out going. That channels spend into **power, grid, data centers, semis/manufacturing, and real assets**—in our view, are the structural winners. Recent analyses flag **surging data-center power demand** and record-high **AI-related capex** plans. ("If you ain't first, you're last.") (Semiconductors, Fortune)

    - On the private side, we see opportunity in **late-stage VC / pre-IPO** focused on enabling or leveraging AI—aligned with the **upcoming Pre-IPO funds in partnership with AG Dillon** noted in the deck.

A note on "inflation has to remain" (currency debasement lens)

While **CPI/PPI** can ebb, structurally high **public debt** and fiscal-monetary interactions keep **debasement risk** on the table over the long run. Recent BIS/IMF work underlines that if fiscal pressures dominate, inflation risks are **asymmetric**. We prefer assets with **pricing power, real-asset linkage, or scarce-capacity exposure** in that backdrop. (IDEAS/RePEc, IMF eLibrary, Financial Times)

Quick data appendix (this week)

- **IP (Jul):** −0.1% m/m; **+1.4% YoY**; capacity utilization **77.5%**. (Federal Reserve)
- **Retail Sales (Jul):** +0.5% m/m; **+3.9% YoY**. (Census.gov)
- **CPI (Jul):** +0.2% m/m (headline), **+2.7% YoY**; **core +3.1% YoY**. (Bureau of Labor Statistics)
- **PPI (Jul):** +0.9% m/m; **+3.3% YoY**. (Bureau of Labor Statistics)
- **Brent (Aug mid-month): ~$67** (weekly ave Aug 11–15), down from early July. (EIA)
- **HY OAS: ~2.9%**, near cycle lows. (YCharts)
- **2-yr vs EFFR: ~3.75%** vs **4.33%**. (YCharts)
- **Jackson Hole: Aug 21–23**; Fed communication expected on the policy path.

Suggested implementation (high level)

- **Core equity sleeve:** blend cap-weighted growth + **equal-weight** to dilute concentration risk.

- **Select rotations: industrials, utilities, materials, healthcare, REITs**—where relative value and cyclical leverage to the AI CAPEX build-out and power infrastructure is strongest.

- **Rates/credit:** modest **duration** bias while policy normalizes; favor quality credit as long as spreads stay benign.

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