ECONOMIC & INVESTMENT PERSPECTIVES

September 2, 2025

AUGUST: STOCKS AND BONDS RALLY
EARNINGS GROWTH DRIVES STOCK RETURNS

Figure 1: 8/31/2025 Returns (source: FactSet)
Conditional formatting: green (high) to red (low) for each time period

Bonds	ETF	Month	YTD	1YR	vs. 52-wk High	vs. 52-wk Low
US Aggregate Fixed Income	AGG	1.2%	5.0%	3.1%	-2.5%	3.9%
Investment Grade Corp Bonds	LQD	1.0%	5.5%	3.2%	-3.7%	6.1%
U.S. 20+ YR Treasuries	TLT	0.0%	1.7%	-6.4%	-14.8%	4.0%
Muni Bonds	MUB	0.8%	-0.1%	0.1%	-4.0%	4.2%
US High Yield	HYG	1.1%	6.3%	8.0%	-0.2%	7.7%
Non-US Corp Bonds	IBND	2.3%	15.1%	9.4%	-1.5%	16.2%
Emerging Markets Bond LC	EMLC	2.5%	13.7%	9.0%	-0.7%	10.5%
Global Equity						
ACWI Global Equity	ACWI	2.7%	14.4%	16.0%	-0.7%	31.8%
ACWI Global Equity ex US	ACWX	4.1%	22.0%	15.8%	-1.6%	28.1%
International Developed	EFA	4.5%	23.1%	13.7%	-2.0%	26.8%
Emerging Markets	IEMG	2.9%	20.3%	17.9%	-1.4%	31.3%
Global Equity by Region						
United States	VTI	2.4%	10.5%	15.8%	-0.7%	34.6%
Europe	IEUR	3.7%	26.0%	13.8%	-2.3%	25.5%
Asia ex-Japan	AAXJ	2.6%	19.8%	20.2%	-1.7%	33.5%
China	MCHI	6.8%	32.1%	50.8%	-1.4%	52.3%
Japan	BBJP	6.4%	17.9%	11.7%	-2.6%	31.9%
Latin America	ILF	8.9%	32.6%	11.3%	-0.6%	30.1%
US Equity						
US S&P 500	IVV	2.1%	10.8%	16.0%	-0.7%	34.0%
NASDAQ 100 QQQ	QQQ	1.0%	11.9%	20.4%	-2.2%	41.8%
US Large Growth	IWF	1.2%	11.2%	22.5%	-1.6%	44.4%
US Large Value	IWD	3.2%	9.9%	9.2%	-0.3%	23.6%
US Eqwt S&P 500	RSP	2.7%	8.6%	9.0%	-0.7%	25.5%
US Mid Cap	IJH	3.4%	5.2%	6.8%	-4.6%	29.9%
US Small Cap	VTWO	7.2%	7.1%	8.3%	-4.0%	37.1%

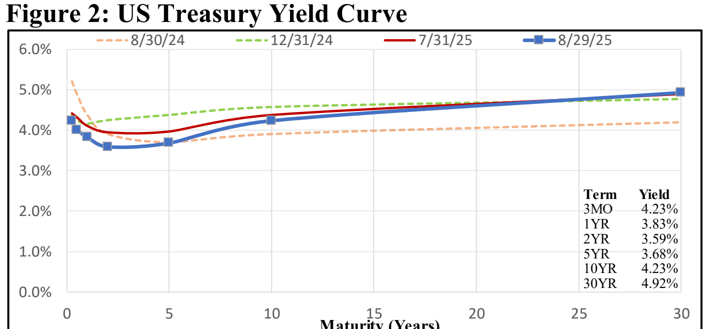
Global markets gained in August after a weaker-than-expected jobs report fueled hopes for imminent Fed rate cuts. US stocks continue to benefit from solid earnings reports from the tech sector, but a weak US dollar continues to favor non-US assets. Performance highlights for August and year-to-date (YTD) include:

- **Bonds:** The US Aggregate index (AGG) rose 1.2% this month (+5.0% YTD). Long-term Treasuries (TLT), which are very sensitive to interest rates, were flat (+1.7% YTD). Corporate bonds (LQD) and high yield (HYG) underperformed. Non-US bonds outperformed as the dollar weakened.
- **Global equity:** ACWI gained 2.7% in August (+14.4% YTD).
- **US Equity:** The broad market (VTI) rose 2.4% (+10.5% YTD); the S&P 500 (IVV) gained 2.1% (+10.8% YTD). Small stocks are highly sensitive to US economic growth and interest rates, rebounding sharply on hopes for Fed rate cuts (VTWO +7.2%, +7.1% YTD). Returns at the sector level were mixed, led by gains of over 5% for health care and materials stocks while utilities and technology stocks were down marginally.
- **Non-US Equity:** Stocks outside of the US continue to post impressive returns. International developed market stocks (EFA) gained 4.5% in August (+23.1% YTD), partially due to US dollar weakness. Stocks in Europe (IEUR) rose 3.7% (+26.0% YTD), and Japan (BBJP) gained 6.4% (+17.9% YTD). Emerging market stocks (IEMG) gained 2.9% (+20.3% YTD), led by gains in Brazil (EWZ) and China (MCHI), but stocks in India (INDA) and Korea (EWY) were down marginally, likely due to tariffs and trade tensions with the US; India is the worst-performing major equity market YTD (INDA -1.3%).

Interest Rates and the Economy

Interest rates and bond yields moved lower in August after a very weak July jobs report (including significant downward revisions to prior months' data) increased the odds of a September rate cut by the Federal Reserve (the Fed). At their annual gathering in Jackson Hole, Fed chair Powell stated that while tariffs continue to put upward pressure on inflation, the balance of risks is shifting to the weakening job market. Investors expect two 0.25% cuts this year and more in 2026, depending on incoming economic data. The yield curve (Figure 2) plots the interest rates for various US Treasury maturities. US 10-year Treasuries now yield 4.23%.

Figure 2: US Treasury Yield Curve

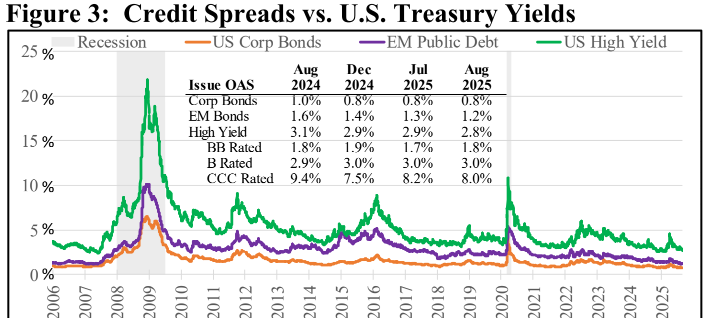


Source: Board of Governers of the Federal Reserve System via St. Louis Fed (FRED)

For bonds other than US Treasuries, we track the option-adjusted spread (OAS) between their yields and Treasuries of comparable maturities (Figure 3). Low or narrowing spreads signal optimism; high or widening spreads signal fear. Spreads narrowed modestly this month, reflecting the "risk on" tone of US markets.

- Investment grade corporate bond spreads were steady at +0.8% but have been relatively stable over the past year.
- High yield (non-investment grade) spreads narrowed to +2.8% last month and are down from the +3.1% spreads a year ago. Spreads of the riskiest bonds (rated CCC & below) narrowed to +8.0% and are well below the +9.4% spreads one year ago.
- Emerging market spreads narrowed to +1.2% and are down from +1.6% a year ago; investors see low risk in EM debt.

Figure 3: Credit Spreads vs. U.S. Treasury Yields

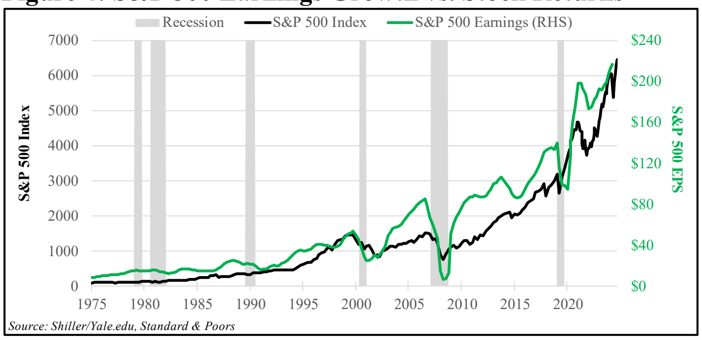


Source: Ice Data Indices, LLC via St. Louis Fed (FRED)

Earnings Growth Drives Equity Returns

US and global equity markets continue to notch new all-time highs despite the elevated volatility and uncertainty (on-going tariff and trade war rhetoric and the potential impact on inflation, economic growth, employment and interest rates). While the day-to-day market gyrations and headlines tend to focus on the timing and magnitude of potential Fed rate cuts, corporate profit growth remains strong. Macro-economic factors are very important, but corporate earnings are "where the rubber meets the road", as illustrated in Figure 4, which plots the relationship between earnings growth and S&P 500 index returns over the past 50 years. This is one of our favorite charts:

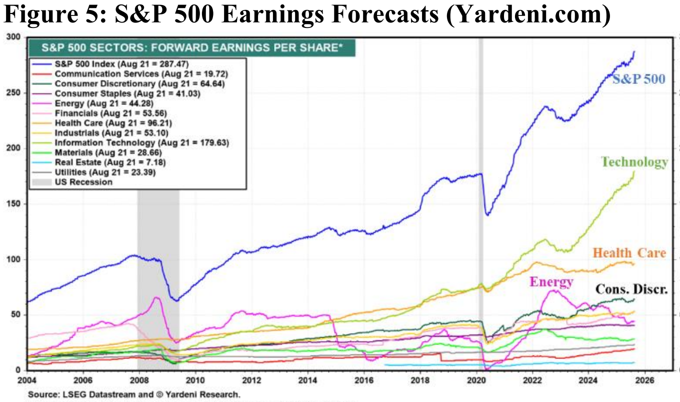
Figure 4: S&P 500 Earnings Growth vs. Stock Returns



While the two lines in the figure above do not align perfectly, the correlation between earnings growth and stock market returns is an astounding 97%! We can debate whether markets and stocks are overvalued or undervalued by various metrics, but one fact is clear: Earnings growth drives stock market returns. But it is easy to see why macro-economic concerns are important to investors; we can see what happens to corporate earnings (and, therefore, stock market returns) during recessions (shaded gray areas).

Recent earnings reports have continued to out-pace expectations, especially for tech stocks. Figure 5 plots the forward-looking consensus earnings estimates for the S&P 500 and each of the eleven economic sectors underneath. (Note: The consensus earnings-per-share estimates are bottom-up calculations, based on analysts' one-year forecasts for each company in the S&P 500.)

Figure 5: S&P 500 Earnings Forecasts (Yardeni.com)



While the chart is very "busy", several observations are clear:

- S&P 500 earnings forecasts are at an all-time high.
- Almost all of the earnings growth stems from tech stocks; growth outside of the Technology sector has been anemic.
- The Technology sector (dominated by Nvidia, Microsoft and Apple) comprises the largest sub-component of S&P 500 earnings growth by far. Tech earnings forecasts have exploded higher amid the AI boom over the past several years.
- Health Care stocks represent the second largest component of S&P 500 earnings; growth forecasts have been flat since 2022.
- Earnings forecasts for Consumer Discretionary stocks (dominated by Amazon and Tesla) appear to be stagnating amid economic uncertainty and weak consumer sentiment.
- Earnings growth in the Energy sector has been volatile, rising and falling with the global price of oil.
- The growth contribution of all other sectors is muted.
- Earnings growth forecasts for small- and mid-cap stocks (not included in Figure 5) have been flat since 2022 as well.

Non-US stocks have dramatically outperformed US stocks so far this year, with the All Country World Index ex-US (ACWX) up 22% while the S&P 500 (IVV) is up 11%. Much of the outperformance is due to a weakening US dollar, but earnings forecasts for non-US stocks appear to be rising as illustrated in Figure 6. This potential reacceleration of growth is primarily driven by solid earnings forecasts for Europe, Japan and India.

Figure 6: Global ex-US Earnings Forecasts (Yardeni.com)

Bottom Line

Global stocks continue to rebound from the lows of early April, fueled by declining uncertainty around tariffs (at least temporarily) and solid corporate earnings growth. Factors that contribute to the sustainability of the global equity rally include:

- Tariffs/Trade: The ultimate economic impact remains to be seen, but history tells us that tariffs are inflationary and a tax on US companies and consumers; this negatively impacts profit margins and consumer spending, which represents approximately two-thirds of US economic activity.
- Interest rates: The Fed must balance inflation risks (tariffs) with downside risks to the job market as the economy slows; investors now expect the Fed to cut rates by 0.50% by year-end, with interest rates eventually moving toward 3.00%.
- Lower interest rates disproportionately benefit small- and mid-cap stocks; these areas have outperformed recently in anticipation of rate cuts, but earnings growth is yet to materialize.
- Earnings growth, the key driver of stock returns, has been concentrated in the Tech sector; we hope to see growth broaden to other sectors as AI productivity gains are realized.
- Non-US stocks have rallied strongly in 2025 after years of underperformance, partially due to currency strength versus a weakening US dollar; earnings forecasts are rising, but declining trade is likely to negatively impact global growth.

Volatility is likely to continue. Stay diversified!

Disclaimer:

ACIMA Private Wealth LLC (“ACIMA” or the “Firm”) is a federally registered investment adviser based in Richmond, Virginia since January 2016. The Firm is a fee-only investment advisory firm with the intent to provide exceptional service to high-net-worth individuals, families, trusts, charitable foundations and institutions. ACIMA’s purpose is to implement integrated wealth management solutions that meet the financial needs and reflect the personal values of our clients. For additional important information regarding ACIMA, its investment management services, compensation, conflicts of interest, and other matters, is contained in its disclosure document, Form ADV Part 2A and Wrap Fee Brochure. A copy of which is available on through the Firm’s website or upon request to the Chief Compliance Officer at (804) 422-8450.

The information and views contained in this document were prepared and compiled by ACIMA. The statements provided herein are based solely on the opinions of ACIMA and are solely for informational purposes only. It is not a research report, as such term is defined by applicable law and regulations, and is not a solicitation or an offer to buy or sell any security or other financial instrument or to participate in any trading strategy. Any opinions provided herein should not be relied upon for investment decisions. The information contained herein was obtained from sources believed are reliable but has not been independently verified by ACIMA and for which no guarantee of accuracy is proffered.