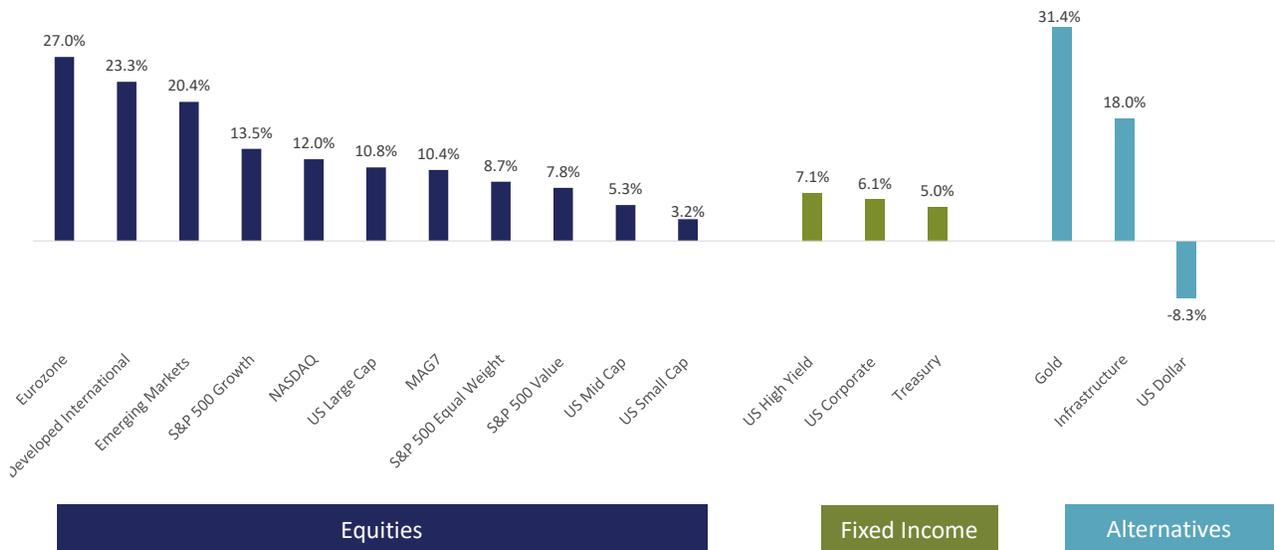


Expecting Rate Cuts Ahead

Equity Markets Nearing All-Time Highs

U.S. equities sit near all-time highs as we go to press, with the S&P 500 Index closing at 6,460 to finish out the month of August. Despite the tariff-induced volatility and nearly -20% drawdown in April, markets have rebounded sharply, with the S&P 500 +10.8% year to date through August. International equities have outperformed, with Developed (EAFE) and Emerging (EM) Markets returning +23.3% and +20.4%, respectively. Gold has surged, with the shiny metal up +31.4%, nearing an all-time high. Fixed Income also posted strong returns, as interest rates have fallen and credit spreads have tightened, pushing the Bloomberg US Aggregate Bond Index up +5.0% for the year. Fed Chair Jerome Powell’s dovish remarks at the Federal Reserve Bank of Kansas City’s 2025 Jackson Hole Economic Policy Symposium¹ opened the door for rate cuts in September, sending risk assets higher.



Returns in US Dollars. Indices used are as follows: Magnificent 7: Bloomberg Magnificent 7 total Return Index; Nasdaq: Nasdaq Composite Index; S&P 500 Growth: S&P 500/Citigroup Growth Index; Eurozone: MSCI EMU Index; U.S. Large-Cap: S&P 500 Index; EAFE: MSCI EAFE Index; S&P 500 Value: S&P 500 /Citigroup Value Index; US Mid Cap: S&P 400 Index; US Small Cap: S&P 600 Index; Emerging Markets: MSCI EM Index; Treasury: Bloomberg Barclays US Government Index; US High Yield: Bloomberg Barclays US Corporate High Yield Index; US Corporates: Bloomberg Barclays US Corporate Index; Gold: Bloomberg 'GOLDS Comdty'; Infrastructure: S&P Global Infrastructure Index; US Dollar: BBDXY, S&P 500 Equal Weight: 'SPW Index'

All Returns 1/1/2025 – 8/31/2025

International equities have propelled Nottingham portfolio strategies year to date. As a reminder, Nottingham's equity exposure is Global, incorporating U.S. Large-, Mid-, and Small-Caps, as well as Developed International (i.e. Europe, Japan) and Emerging Markets. European markets have surged this year, helping to boost Developed International equities. Europe has a long list of potential catalysts and tailwinds moving forward, including favorable policy dynamics such as:

- **Monetary Policy:** The European Central Bank (ECB) has cut interest rates at a pace ahead of the Fed and other global Central Banks, which has proved stimulative.
- **Fiscal Policy:** Germany approved unlimited spending on defense, setting aside its balanced budget amendment, and initiated \$500 billion in infrastructure spending. Expansionary fiscal policy is a welcome change from Europe's most conservative member.
- **NATO Spending:** Defense and defense-related infrastructure spending is now targeted at 5% of GDP, up from 2% prior.

International equities continue to look attractive across a broad range of measures. As we have written about in the past, U.S. equity markets remain highly concentrated, tilted heavily toward Large-Cap Technology and Communication Services sectors (think Magnificent 7 & Artificial Intelligence related themes). According to JP Morgan, the top 10 stocks in the S&P 500 made up 39.4% of the Index as of August 31, well above dotcom-era concentration levels.

NVIDIA stands out as the world's largest market capitalization company with a current market capitalization of over \$4 trillion and a weight in the S&P 500 Index of over 7%. This level of concentration highlights the risks tied to the Artificial Intelligence (AI) theme. NVIDIA has had runaway success in the picks and shovels arms race for AI, selling the premier AI chip into the market. However, concerns over the adoption and return on investment surrounding AI remain. A recent MIT study noted that 95% of firms investing in generative AI have yet to see a return on their investment. Sam Altman, CEO of ChatGPT company OpenAI recently called AI a "bubble" and launched GPT-5 to muted fanfare and a high degree of skepticism.² Meta CEO Mark Zuckerberg has reportedly been offering to "acquire" top AI talent by dangling pay packages in the hundreds of millions and even billions of dollars.³ AI-related capital expenditures have driven Magnificent 7 stocks (ex-NVIDIA) to negative free cash flow growth, underscoring the AI infrastructure arms race at hand. While the future of AI looks promising, it is far from certain as to when businesses will see an adequate return on their investment, which could put AI-related company valuations under more scrutiny in the near term.

International equities currently sport multi-decade relative valuation lows when compared to U.S. equities, supporting the notion that current valuations are only starting to reflate, despite the policy catalysts and early signs of rebounding expectations for earnings growth. A weaker U.S. Dollar could be an additional tailwind, adding to U.S. investor returns. Foreign currency should be

viewed as a third driver of total return after price appreciation and dividends. The U.S. Dollar closed August down over -8% for the year, boosting international returns. It should be noted that Eurozone outperformance in the first half of the year was not solely due to currency implications, as Eurozone assets outperformed in local currency (EUR) terms as well.

Powell's Pivot

After Federal Reserve Chair Powell & Co. left interest rates unchanged at the Fed's June and July meetings, he opened the door for a September rate cut at the Kansas City Fed's annual symposium in Jackson Hole. Powell noted in his speech that "with policy in restrictive territory... the balance of risks appears to be shifting" and may warrant adjusting current policy¹. Markets interpreted his speech as dovish, sending probabilities for a September rate cut to nearly 90%, and expectations for cuts in both October and December directionally higher. A reduction in the Fed Funds target range, which has stood at 4.25%-4.50% since last December, would be welcome news for investors and consumers alike. The September release of the Fed's Summary of Economic Projections (SEP) will likely shed further light on the coming path of monetary policy for 2025 and beyond.

Rising unemployment could lead to lower spending and, in turn, slower economic growth. Powell underscored that while inflationary impulses are "certainly visible," he expects the long-term impact to be "short-lived." Powell views recent labor market weakness and associated downside risks as a front-burner issue, and potentially more impactful than the recent uptick in inflation as noted in the July FOMC meeting minutes⁴ just released. The change in tune comes on the heels of a weaker than expected jobs report in August, when non-farm payrolls gained a scant +73K jobs. Significant downward revisions to the prior two months further dragged down the 3-month average gain to +35K. Put simply, the data appears to have changed, with the Fed Chair now siding with Governors Christopher Waller and Michelle Bowman, who dissented against the July decision to hold rates steady.⁵

Additionally, Powell noted "curious" developments under the surface contributing to a labor market slowdown with the supply and demand for labor falling in tandem. He also opined that "downside risks to employment are rising," potentially masked by a historically low 4.2% unemployment rate. Job openings have been falling since the height of the pandemic, which many have attributed to labor hoarding. After Powell's speech, all eyes will surely turn to the August jobs report due out September 5. Given last month's significant downward revisions and broad weakness, a strong labor report could give the Fed pause, whereas another weak report would likely add fuel to market calls for future rate cuts.

Not all Fed officials are on board, with some skeptical of the risks that inflation poses. Cleveland Fed Governor Beth Hammack has been vocal that price pressures are moving in the wrong direction, and that the Fed should prioritize fighting inflation,⁶ highlighting competing views within the Fed. The latest reading of the Consumer Price Index (CPI) is due on September 11 and continued rising prices could be cause for additional concern.

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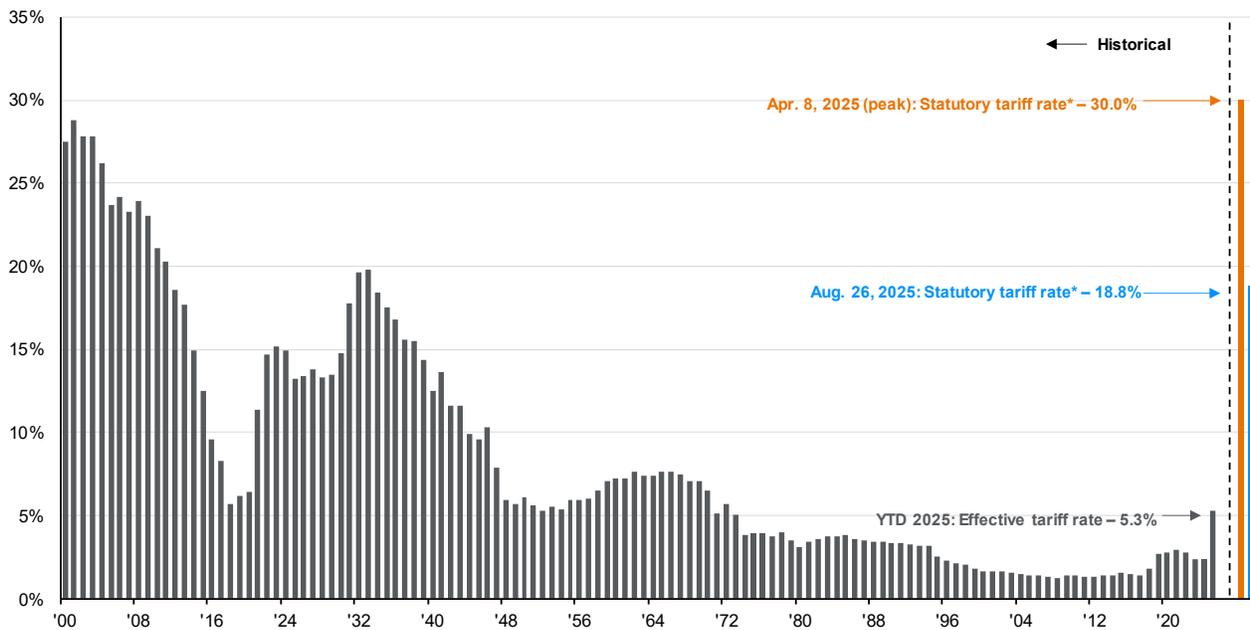
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Pressure on the Federal Reserve to ease have only been amplified after President Trump “fired” Fed Governor Lisa Cook⁷ and looks to completely reshape the Board of Governors. If Cook’s firing holds up in court, the President would be in position to appoint a new Governor and have appointed 4 of 7 members, giving the appearance that he has control of the Fed. The Board of Governors has final approval over Federal Reserve Bank President selection and re-appointment of current Presidents (whose terms expire in February), as well as broader scope around bank regulation.

While inflation has remained “stuck” in the 2-3% range, the lagged impact of said tariffs may not be felt until the fall, if at all. Given that tariff collections by the government are up sharply compared to last year, it would suggest companies have absorbed any impact of higher prices or have yet to pass them on to consumers. Total tariff revenue collections in July totaled \$28 billion, with higher tariffs kicking in earlier this month. Recent earnings reports from Home Depot and Walmart have emphasized trying to hold prices steady, all while trying to manage the price increases that are happening behind the scenes.

Average tariff rate on U.S. goods imports for consumption

Duties collected / value of total goods imports for consumption



Source: Goldman Sachs Investment Research, United States International Trade Commission, J.P. Morgan Asset Management. For illustrative purposes only. The estimated weighted average U.S. tariff rate includes the latest tariff announcements. Estimates about which goods are USMCA compliant come from Goldman Sachs Investment Research. Imports for consumption: goods brought into a country for direct use or sale in the domestic market. The estimate does not consider non-tariff barriers, such as value-added taxes. *Figures are based on 2024 import levels and assume no change in demand due to tariff increases. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.

Guide to the Markets – U.S. Data are as of August 26, 2025.

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Portfolio Positioning – Key Themes & Tactical Allocations

Nottingham's dynamic asset allocation models continue to emphasize three key tenets of our investment philosophy:

- **Global Multi-Asset Diversification:** Exposure to U.S. Large-, Mid-, and Small-Caps, as well as both International Developed and Emerging Markets, help to diversify equity exposure globally, while Fixed Income and Alternatives exposure help diversify volatility through lesser correlated asset classes.
- **Income Generation:** Emphasizing income generation across asset classes also helps to dampen portfolio volatility, as well as provide additional cash flows that add flexibility to portfolio decision making (i.e. reinvestment, distribution, tax planning, etc.). Income generation comes from equity strategies (i.e. covered call writing strategies, international equities, and high dividend equities), as well as both traditional and non-traditional Fixed Income (see below) and Alternatives (i.e. infrastructure).
- **Focus on Quality:** Fixed Income exposure continues to emphasize high quality and higher yielding investment-grade securities such as Mortgage-Backed Securities (MBS), Asset-Backed Securities (ABS), and Collateralized Loan Obligations (CLOs), in addition to core staples such as Treasuries and Corporate Bonds. With Corporate Bond spreads at historic tights (i.e. expensive), we continue to overweight the securitized credit portion of the portfolio. On the equity side, portfolio exposures to Small- and Mid-Caps emphasize quality in their inclusion screens (i.e. profitability, positive earnings, etc.).

Thematically speaking, Nottingham portfolios are tactically positioned to benefit from ongoing trends in:

- **Infrastructure:** Exposure through Utilities (U.S.) and Global Infrastructure that add income generation while offering tangential growth upside to key themes of power generation & AI data-center buildouts across the United States and Europe.
- **Small- and Mid-Caps:** Global exposures emphasizing quality and value, given attractive relative valuations versus Large-Caps globally. We continue to view Small-Caps, specifically Small-Cap Value, as the cheapest corner of the market on a global basis and poised to benefit from improving growth dynamics, a steepening yield curve, and future Fed rate cuts. It should be noted that the equal weighted S&P 500 Index hit an all-time high after Powell's Jackson Hole speech, showing the breadth of the market's rally expanding. Small-Caps were the top-performing corner of the equity market in August.
- **Gold:** Potential portfolio benefits include hedging properties and low correlations to traditional asset classes, while offering potential upside through increased central bank buying, lower interest rates, a weaker U.S. Dollar, and heightened geopolitics. Gold remains a strong hedge in a potentially stagflationary environment, and against other potential policy risks. The shiny metal has outperformed the S&P 500 over the past three years ending August 31, propelling the alternative exposure within Nottingham portfolios.

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As the yield curve continues to steepen, with short end rates lower (i.e. rate cuts expected) and long end higher (i.e. uncertainty over inflation, tariffs, deficits, etc.), we continue to think Gold serves as a valuable portfolio hedge when compared to the historical benefits of long-duration bonds during periods of market drawdowns.

Moving Forward

With markets near all-time highs, continued weakness in the labor market or upticks in inflation would clearly be viewed negatively by markets. The ongoing fight for control of the Fed will likely remain front page news with President Trump's recent attempt to fire Fed Governor Lisa Cook.

Valuations remain elevated, and markets remain concentrated. Corporate earnings remain robust, with earnings exceeding analyst expectations in both the first and second quarters. As we go to press, a Federal Appeals Court has invalidated President Trump's use of tariffs under the International Emergency Economic Powers Act (IEEPA),⁸ to which the President is sure to appeal to the Supreme Court. Should the Supreme Court invalidate the IEEPA tariffs, earnings estimates for 2025 and 2026 may need to be revised *higher*. Easier monetary policy, capital spending incentives in the One Big Beautiful Bill, as well as a deregulatory push that is gaining steam, stand to be supportive as well. September is packed full of potentially market-moving events, including the August payrolls and CPI reports, all due ahead of the September FOMC meeting.

Here at Nottingham, we continue to filter through the noise of daily headlines to better understand what is driving markets and assess potential impacts on portfolio positioning. The seasons are starting to turn here in Western New York, with cool mornings proving that summer is in the rear-view mirror and fall is just around the corner. To schedule a portfolio review, or just check in, please feel free to give our office a call.

Thank you for your continued trust in our Team, and your continued support of Nottingham Advisors.

Matthew J. Krajna, CFA
Chief Investment Officer
September 2025

- 1 <https://www.federalreserve.gov/newsevents/speech/powell20250822a.htm>
- 2 <https://www.cNBC.com/2025/08/18/openai-sam-altman-warns-ai-market-is-in-a-bubble.html>
- 3 <https://www.reuters.com/business/sam-altman-says-meta-offered-100-million-bonuses-openai-employees-2025-06-18/>
- 4 <https://www.federalreserve.gov/monetarypolicy/fomcminutes20250730.htm>
- 5 <https://www.barrons.com/articles/fed-bowman-waller-rates-dissent-715b1e5b>
- 6 <https://www.msn.com/en-us/money/markets/cleveland-fed-pres-hammack-inflation-is-too-high-and-trending-higher/ar-AA1L2xbo?ocid=socialshare>
- 7 <https://www.cnn.com/2025/08/25/business/trump-fire-fed-governor>
- 8 <https://www.reuters.com/legal/government/most-trump-tariffs-are-not-legal-us-appeals-court-rules-2025-08-30/>

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