STONEHAGE FLEMING

GLOBAL EQUITY PERSPECTIVES 29 AUGUST 2025

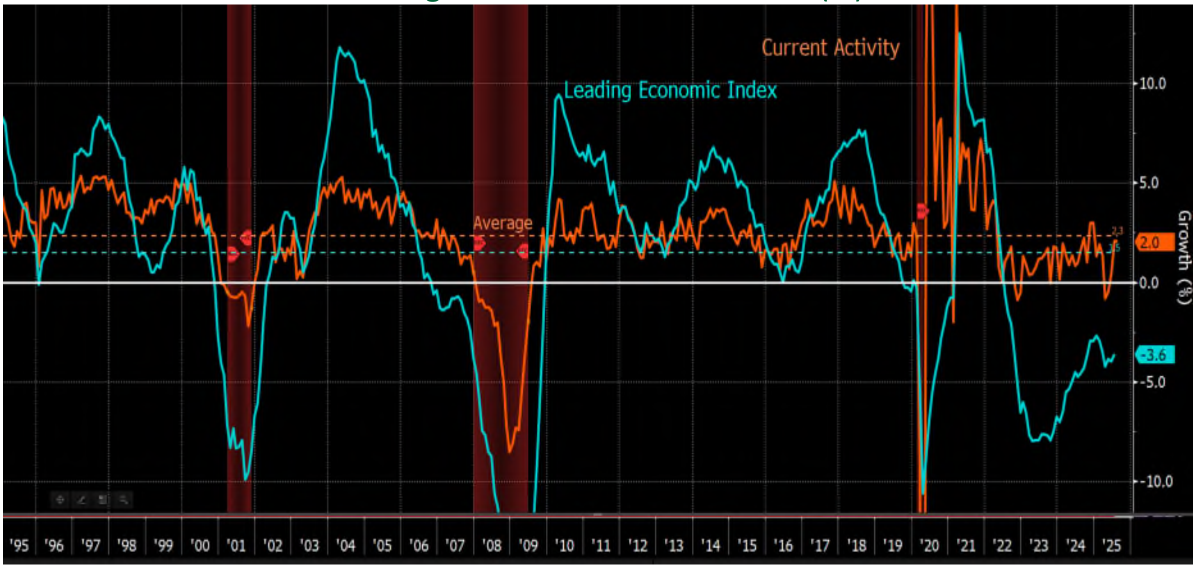
"Without data you are just another person with an opinion."

William Deming

1. US ECONOMY

The immediate outlook for the US economy seems somewhat dampened with softening new employment data, both Services and Manufacturing PMI Indices dropping and Consumer Confidence drifting lower. Against this, current economic activity remains resilient, as reflected in the most recent Q2 GDP print of 3.3%:

US – Goldman Sachs Current Economic Activity Indicator vs Conference Board Leading Economic Index – Growth (%)



The Current Activity Index (the orange line) has recently bounced back close to its long-term average level. Along with this, whilst the Leading Economic Index (the blue line) is in negative territory, its current positive trend provides some comfort (considering the historic relationship with Economic Activity in the chart).

US – Wage growth vs Unemployment Level (%)

In our view, the main support for the economy comes from the low unemployment levels (the orange line) and continuing good wage growth (the yellow line, leading to consumption staying strong).

2. HOUSEHOLD BALANCE SHEETS

A feature amongst US households is the fact that they have materially addressed their balance sheets since the Financial Crisis. That can stand them in good stead when necessary.

US Households – Average Asset Value

The orange line reflects their gross asset values, with the green line their net asset values. The blue line reflects the ratio of net / gross asset value. Both the asset values and the ratio are currently at record levels. The ratio indicates only a 11% debt level.

US Households – Debt / Income Ratio vs Debt Service Ratio

The average Debt / Income ratio is currently at 80%, below average and at levels last seen before the turn of the century. The Debt Service Ratio at 10% is close to record low levels (barring the Pandemic era).

Overall, US households are in strong financial health and may not need to sacrifice much of their lifestyle, should economic circumstances change for the worse.

3. FED CUT

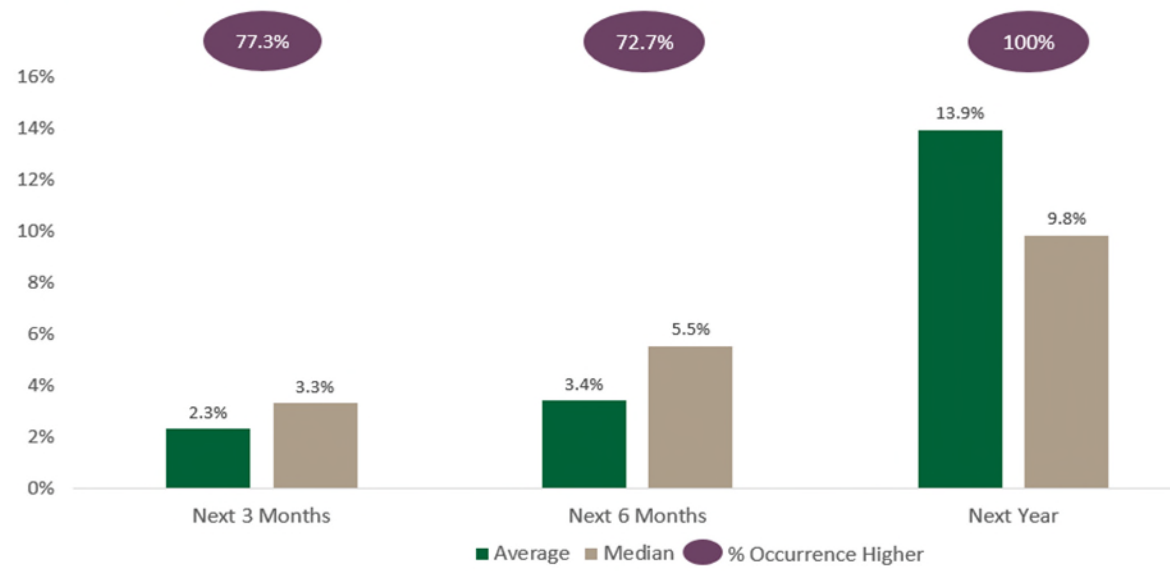
Some have concluded from the 21-23 August Jackson Hole Economic Symposium speeches that Federal Reserve Chair Powell's language reflects more dovishness than earlier, and that the next cut may come as soon as this September.

US – 10 Year Treasury Yield vs Implied Number of Fed Cuts Remaining in 2025

Despite many market comments in the above context, the above chart of further expected cuts in 2025 (the green line) has not changed since the meeting. Nevertheless, the next cut is getting closer and we can again consider historic market reactions in this context, this time with the stock market close to record levels:

S&P 500 Returns Following Fed Cuts, when being within 2% of an All-Time High

22 observations since 1980



Past performance is not a guide to future returns. Source: Carson Investment Research, FactSet 12/08/2025.
If the information is not displayed in your base currency, then the return may increase or decrease due to currency fluctuations.

The above chart reflects positive returns over the following 3, 6 and 12 month periods after a cut in at least 72.7% of observations (see the purple bubbles). 100% of the observations had a positive return over 12 months, with an average return close to 14%. US tariffs are a different factor this time, though they are currently being well received by the capital markets.

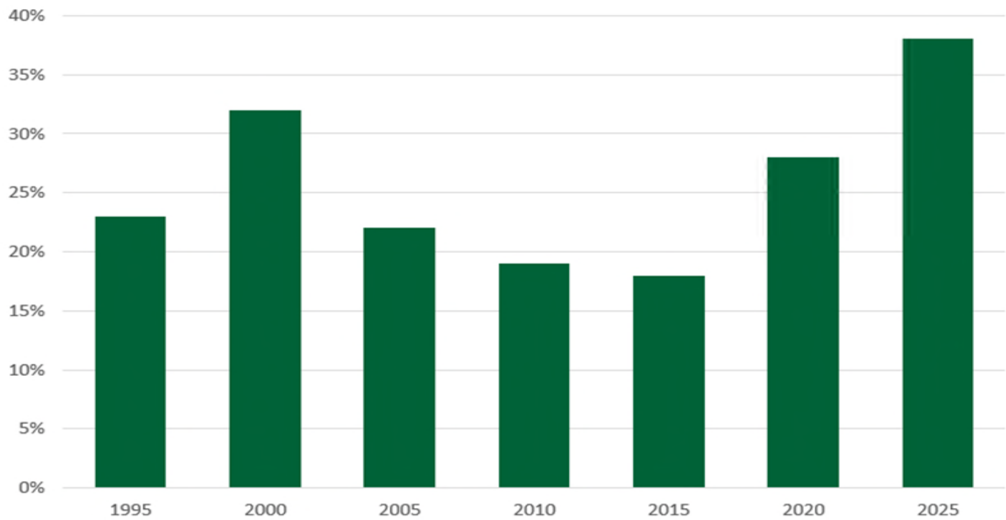
4. MARKET CONCENTRATION

The high market concentration of a relatively small number of stocks dominating index performance remains to be an issue, as it was last year:

S&P 500 - % of Members Predominantly Affecting Performance

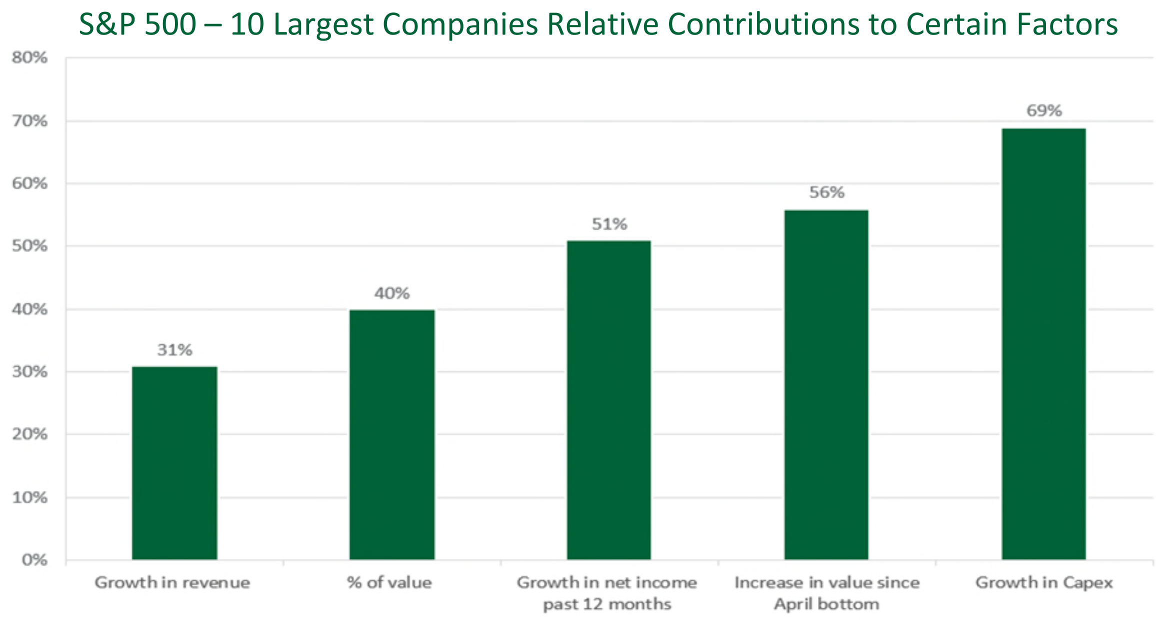
The above chart reflects the number of S&P 500 constituents that predominantly affect the index's performance. The current reading of less than 10% is even worse than last year when it was a main topic for active managers. Therefore, even more so this year, those stocks attract disproportionate fund flows away from the other 90% of members. Active managers should also focus on opportunities that may follow from this concentration.

S&P 500 – Market Capitalisation of Largest 10 Companies vs Overall Market Capitalisation



Source: S&P Capital IQ, Unhedged calculations, August 2025.

As the above chart reflects, the top ten S&P 500 constituents currently represent 37% of the total index capitalization. This is a record level, exceeding that of the Dot-com technology bubble. We believe the current top-ten members have stronger fundamental support than was the case in Y2000, though. The following chart supports this point:



Source: Financial Times. August 2025.

These companies contribute less than a third of the Revenue, but over half of the Growth in Earnings of the S&P 500 Index. In terms of companies investing for their future growth and earnings potential, they make up over two thirds of the Capex. This emphasizes the fascinating business phase we live in and effectively the dominance of investing in AI in many businesses already. Investors should, though, make very sure about the risks accepted in the process and chances of earning appropriate returns.

5. TECHNICAL INDICATORS

The below Fear & Greed Index from CNN is based on seven technical factors, providing a balanced overall score. They are as follows:

- Market momentum
- Net stock price 52-week highs and lows
- Stock price breadth
- Put and Call options
- Market volatility
- Safe haven demand
- Junk bond demand

The current reading of 63 is at the lower end of the Greed segment, lower than the reading of 73 reached a month ago. This reflects Confidence in the market, rather than Exuberance (when readings are above 75).

S&P 500 – Euphoria Index

Bringing valuations into the equation, the above Euphoria Index chart adjusts the S&P 500 earnings valuations with the market volatility. We also divide its readings into five segments, from an Armageddon environment to a Mania one at the extremes. Its current reading is in the Disciplined segment (close to the Complacent segment), also reflecting Confidence rather than Exuberance.

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