



August was yet another month in 2025 where any number of geopolitical events could have derailed the stock market. Stubbornly high inflation data, ongoing trade issues, the annual economic symposium in Jackson Hole, and the potential firing of Federal Reserve Governor Lisa Cook were among the issues that might have led the crowd to take some chips off the table. Instead, investors decided to change seats, rather than head for the exits.

Rotating out of outperforming stocks and industries and into overlooked or underperforming alternatives is a positive trend. August illustrated this well. Smaller market cap, value-focused, and more economically cyclical companies that have lagged this year led the gains. The combination of steady, and in some cases accelerating, economic data, along with the potential for interest rate cuts and resilient consumer spending, was enough to counteract the macro-economic headlines.

Throughout the year, there has been an expectation that inflation would jump once the impact of tariffs becomes more fully integrated into company operations. While prices have remained above the Federal Reserve's 2% target, a widespread or severe increase in prices has not occurred. Meanwhile, corporate earnings were expected to compress, but the opposite has happened. Profit growth of 11% in the second quarter is well ahead of the 4% expected when the second quarter reporting season began. Companies have done an admirable job containing costs, adjusting supply chains, and increasing productivity to offset the tariffs.

The end of second quarter earnings season featured releases from a large segment of the consumer retail industry, and the largest publicly traded company in the world, semiconductor and AI-bellwether Nvidia. Although some of the details generated negative reactions, the broad theme from retailers was better-than-expected sales growth on the back of robust consumer spending. Nvidia affirmed the extraordinary demand environment for building out the infrastructure needed to support artificial intelligence.

Investors remain skittish that inflation and economic data are on the verge of significant deterioration. Cautious sentiment produces conditions ripe for positive surprises, and they continue to come through. Until or unless the labor market, consumer spending, or inflation data takes a notable turn for the worse, the backdrop remains favorable.

While September has been notoriously bleak for returns and adds a short-term seasonality headwind, climbing the wall of worry is a positive environment for stocks.

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Sincerely,

A handwritten signature in blue ink that reads "Ward Brown".

Ward Brown, Director of Portfolio Engagement (wbrown@argencapital.com)