

Portfolio Management, LLC

Building Wealth Wisely

Registered Investment Advisor | Certified Financial Planner
500 West 2nd Street, Suite 1900, Austin, Texas 78701 | 512-222-4035 | www.portmgmt.com

Every Picture Tells a Story

July 2025

In 1971, Rod Stewart released one of his classic rock songs, “Every Picture Tells a Story.” Borrowing on this theme, we would like to tell the current financial story by sharing nine “pictures” with you. Our thanks go out to J.P. Morgan Asset Management for providing the following illustrations.

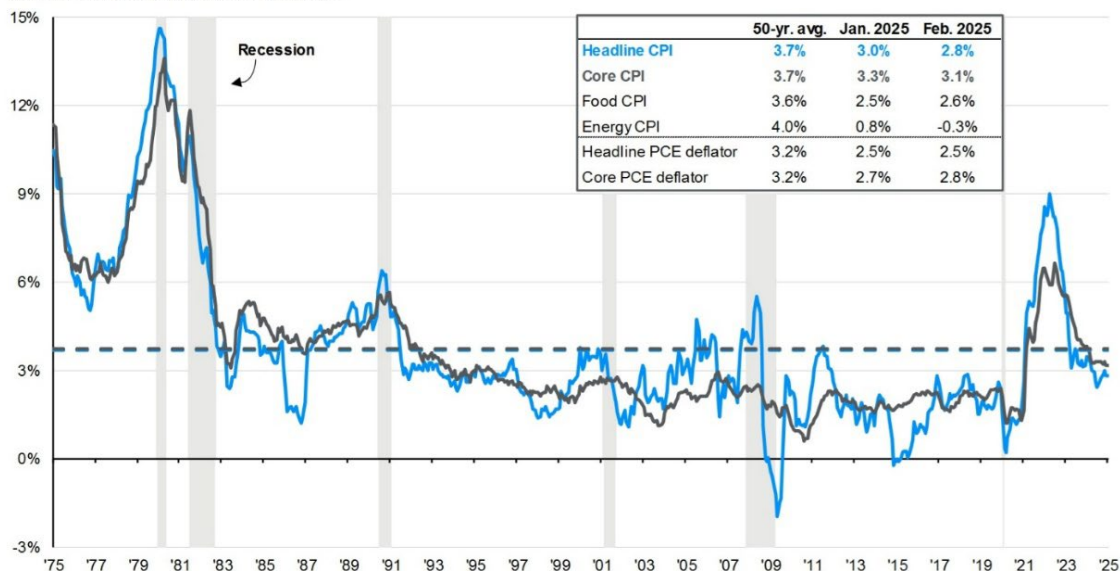
To start our story, let’s look at the first image – inflation. Many commentators, politicians, and news stories have expressed concerns about the prospects for higher inflation. For some perspective, here is an updated picture of inflation.

Inflation

GTM U.S. OTB

CPI and core CPI

% change vs. prior year, seasonally adjusted



Source: BLS, FactSet, J.P. Morgan Asset Management.
CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations.
Guide to the Markets – U.S. Data are as of March 31, 2025.

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Observers will note that inflation has averaged over 3% for the past 50 years. So, the current inflation rate of 2.7% shouldn't be raising so many exaggerated alarms. Most of the economists that we respect indicate the link between tariffs and inflation is overrated.

Specific items that are tariffed might rise in price, but that often just means less money is left over to buy other goods and services, which reduces those prices. There is some evidence that tariffs cause a one-time increase in inflation, but long-term tariffs just shuffle the deckchairs on the inflation ship – they don't change how high or low the ship sits in the water. That's up to the money supply.

Milton Friedman famously stated, "Inflation is always and everywhere a monetary phenomenon." We tend to agree. Most inflationary spirals are caused by too much money chasing too few goods. The most recent rise in inflation directly correlates to the massive increase in money supply created by the Federal Reserve during the pandemic.

To right the ship, the Federal Reserve dialed back the money supply. Currently, with the exception of housing, most prices have moderated across the board. While tariffs could temporarily push inflation higher in the coming months if consumers spend down savings, over the long run inflation should stay under control unless the Federal Reserve goes on another bender.

It can be argued that monetary policy is now tight, and the economy is ready for a modest cut in rates.

*Remember one thing,
don't lose your head
to [someone] who will spend your bread.
-Rod Stewart*

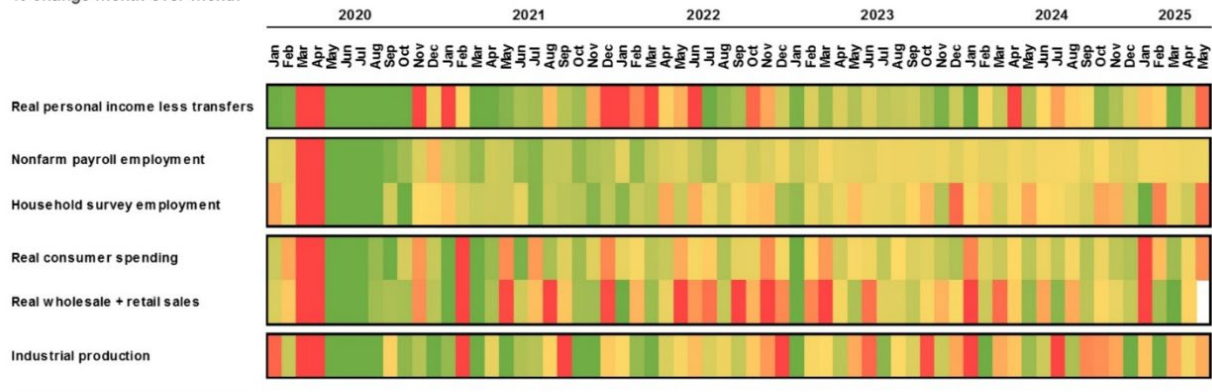
The following heatmap shows the factors that the National Bureau of Economic Research uses to measure the health of the economy. Green means that these variables grew month-over-month and red means that they fell. The shading or boldness of the color illustrates how strong the gain or loss was relative to history.

Recession determinants

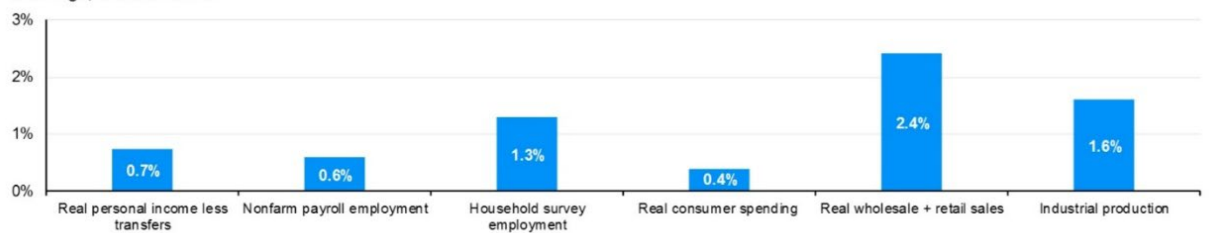
GTM U.S. 19

Variables used by the NBER in making recession determination*

% change month-over-month



% change, last six months



Source: BEA, BLS, Census Bureau, NBER, J.P. Morgan Asset Management. Heatmap shading based on data back to 2020, with green and red reflecting a range of +/- 0.5 standard deviations from a baseline of 0% monthly growth. *The NBER's definition of a recession involves a significant decline in economic activity that is spread across the economy and lasts more than a few months. Specifically, they consider real personal income less transfers, nonfarm payroll employment, employment as measured by the household survey, real personal consumption expenditures, wholesale-retail sales adjusted for price changes and industrial production. There is no fixed rule about which measures contribute to the process or how they are weighted, but the committee notes that "in recent decades, the two measures we have put the most weight on are real personal income less transfers and nonfarm payroll employment." Six-month percent change is calculated from the latest month's data, which may differ by indicator.
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The heat map suggests that the U.S. economy is not in or near a recession. Economic growth has held up well so far this year, supported by a resilient labor market and solid consumer spending. However, mounting policy uncertainty has raised some recession concerns in 2025. Both business and consumer surveys show rising pessimism.

As previously noted, one area of concern is tariffs. We are not proponents of tariffs. They serve as taxes on consumers. They are regressive in nature and cause the most harm to those who can least afford to absorb them. Long term, tariffs do not lead to strong industries. Companies shielded from competition by tariffs often become complacent, failing to innovate or improve efficiency. America thrives on competition and innovation, not protectionism.

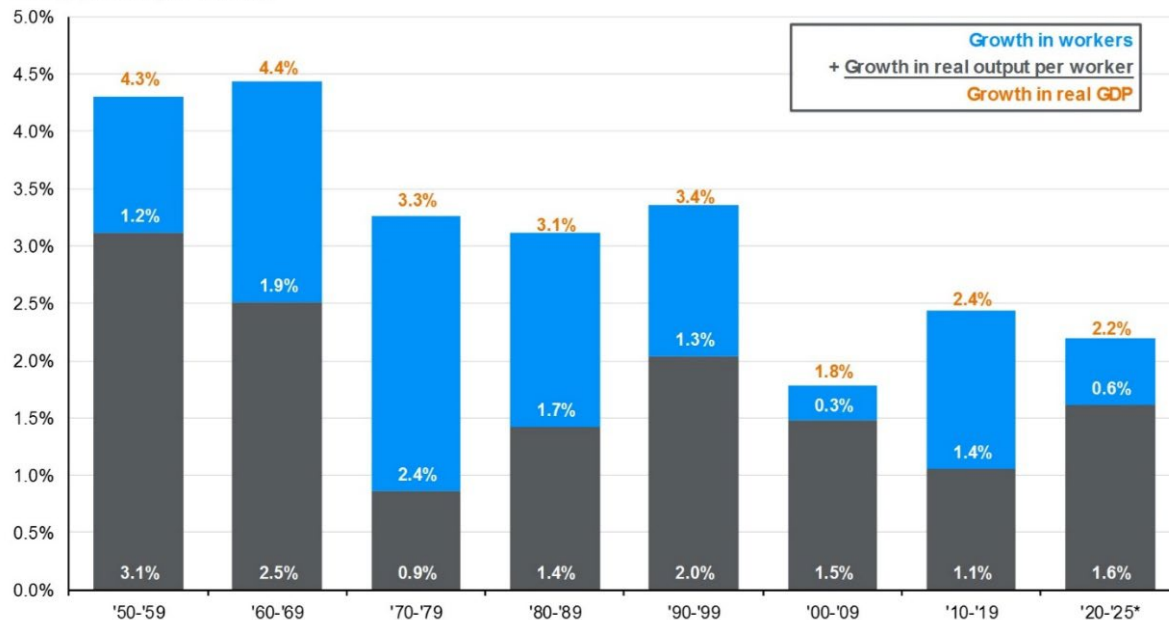
Another area of concern to monitor is the cost of borrowing. Not only does our government have to pay more interest on the growing federal debt, but consumers also face higher borrowing costs, which are showing up in slightly higher delinquency rates for auto loans, credit card debt, student loans, and mortgages.

Long-term growth drivers

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Drivers of GDP growth

Average year-over-year % change



Source: BEA, BLS, FactSet, J.P. Morgan Asset Management.
 GDP drivers are calculated as the average annualized growth in the 10 years ending in the fourth quarter of each decade. *The latest period reflects 4Q19 to 1Q25.
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The above illustration breaks U.S. GDP growth into two components - labor force growth and productivity - by decade, going back to the 1950s. Each stacked bar shows how much of that decade's growth came from an expanding workforce versus gains in real output per worker.

While most of President Trump's policies are pro-business and pro-growth, there is an economic cost to lower immigration and the disruption caused by tariffs. With weak domestic demographics putting pressure on labor force growth, stronger economic growth will likely need to come from increased productivity – and at some point, the president's mercurial approach to tariff policy will need to find a stable path so companies can make sound long-term decisions about capital.

Productivity in the U.S., as measured by how much the average worker gets done in an hour, has been on the rise. Artificial Intelligence, innovation, and robotics can also help fill in labor gaps. But it would help tremendously if our nation could come up with a more productive way to promote legal immigration of skilled and educated workers.

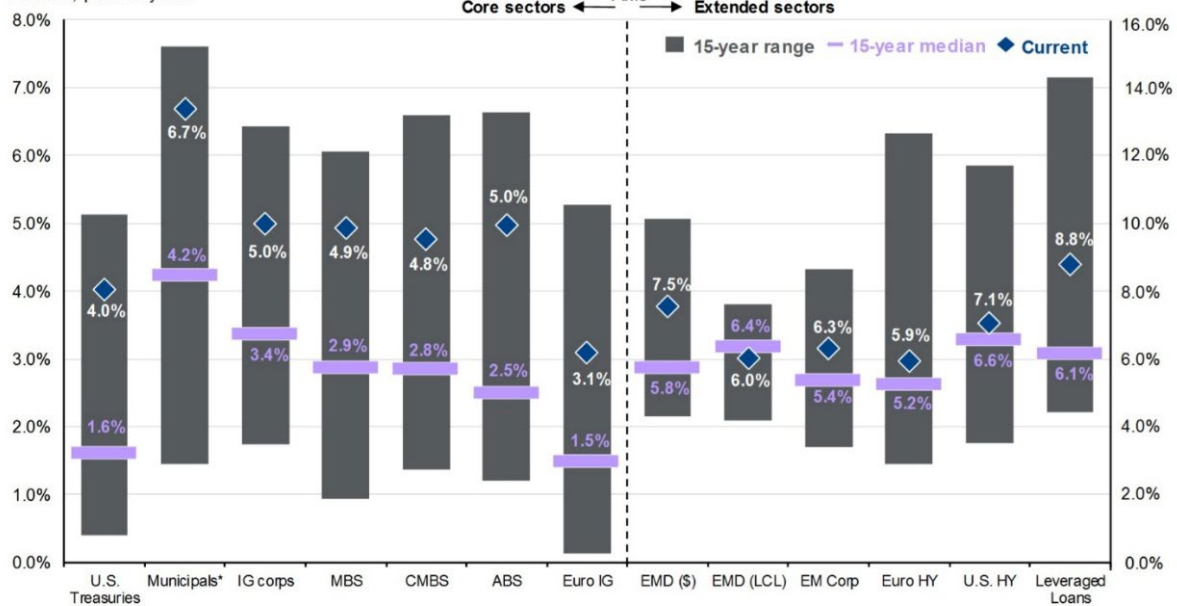
*Got arrested for inciting a peaceful riot,
 When all I wanted was a cup of tea.
 -Rod Stewart*

Fixed income yields

GTM U.S. 40

Yield-to-worst across fixed income sectors

Percent, past 15 years



Source: Bloomberg, FactSet, J.P. Morgan Credit Research, J.P. Morgan Asset Management.

Indices used are Bloomberg except for ABS, emerging market debt and leveraged loans: ABS: J.P. Morgan ABS Index; CMBS: Bloomberg Investment Grade CMBS Index; EMD (USD): J.P. Morgan EMIGLOBAL Diversified Index; EMD (LCL): J.P. Morgan GBI-EM Global Diversified Index; EM Corp.: J.P. Morgan CEMBI Broad Diversified; Leveraged Loans: JPM Leveraged Loan Index; Euro IG: Bloomberg Euro Aggregate Corporate Index; Euro HY: Bloomberg Pan-European High Yield Index. Yield-to-worst is the lowest possible yield that can be received on a bond apart from the company defaulting and considers factors like call provisions, prepayments and other features that may affect the bonds' cash flows. ABS data begins in 2012. *All sectors shown are yield-to-worst except for Municipals, which is based on the tax-equivalent yield-to-worst assuming a top-income tax bracket rate of 37% plus a Medicare tax rate of 3.8%. Guide to the Markets - U.S. Data are as of June 30, 2025.

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The above chart looks at the yields of different fixed-income sectors relative to their 15-year ranges and medians. For investors, current coupon rates look attractive relative to recent history, illustrating that fixed income offers meaningful returns, yield protection, and relatively attractive valuations. Our firm is particularly pleased that competitive coupons can be found in high quality bond categories. This has allowed us to capture solid coupons without taking undue credit risk.

Asset class returns

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2010–2024		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	YTD
Ann.	Vol.																
Large Cap 13.9%	Small Cap 20.6%	RBTs 27.9%	RBTs 8.3%	RBTs 19.7%	Small Cap 38.8%	RBTs 28.0%	RBTs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	RBTs 41.3%	Comdty. 16.1%	Large Cap 26.3%	Large Cap 25.0%	DM Equity 19.9%
Small Cap 10.3%	EM Equity 17.9%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	RBTs 28.7%	EM Equity 18.7%	Large Cap 28.7%	Cash 1.5%	DM Equity 18.9%	Small Cap 11.5%	EM Equity 15.6%
RBTs 9.4%	RBTs 16.8%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	RBTs -4.0%	Small Cap 25.5%	Large Cap 18.4%	Comdty. 27.1%	High Yield -12.7%	Small Cap 16.9%	Asset Alloc. 10.0%	Asset Alloc. 7.0%
Asset Alloc. 7.2%	DM Equity 16.5%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	Small Cap 14.8%	Fixed Income -13.0%	Asset Alloc. 14.1%	High Yield 9.2%	High Yield 6.8%
High Yield 5.9%	Comdty. 16.1%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	Asset Alloc. 13.5%	Asset Alloc. -13.9%	High Yield 14.0%	EM Equity 8.1%	Large Cap 6.2%
DM Equity 5.7%	Large Cap 15.1%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	RBTs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	RBTs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	DM Equity 11.8%	DM Equity -14.0%	RBTs 11.4%	Comdty. 5.4%	Comdty. 5.5%
EM Equity 3.4%	Asset Alloc. 10.4%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	RBTs 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	High Yield 1.0%	Large Cap -18.1%	EM Equity 10.3%	Cash 5.3%	Fixed Income 4.0%
Fixed Income 2.4%	High Yield 9.4%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.5%	Cash 0.0%	EM Equity -19.7%	Fixed Income 5.5%	RBTs 4.9%	Cash 2.1%
Cash 1.2%	Fixed Income 4.7%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Fixed Income -1.5%	Small Cap -20.4%	Cash 5.1%	DM Equity 4.3%	RBTs 1.8%
Comdty. -1.0%	Cash 0.9%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	RBTs -5.1%	EM Equity -2.2%	RBTs -24.9%	Comdty. -7.9%	Fixed Income 1.3%	Small Cap -1.8%

Source: Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.
 Large Cap: S&P 500, Small Cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Global HY Index, Fixed Income: Bloomberg U.S. Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg 1-3m Treasury. The "Asset Allocation" portfolio is for illustrative purposes only and assumes annual rebalancing with the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg U.S. Aggregate, 5% in the Bloomberg 1-3m Treasury, 5% in the Bloomberg Global High Yield Index, 5% in the Bloomberg Commodity Index, and 5% in the NAREIT Equity REIT Index. Annualized (Ann.) return and volatility (Vol.) represents the period from 12/31/2009 to 12/31/2024. Please see the disclosure page at the end for index definitions. All data represent total return for stated period. Past performance is not indicative of future returns.
 Guide to the Markets – U.S. Data are as of June 30, 2025.

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The quilt chart above shows the annual returns for a range of different asset classes across a 15-year period. It includes everything from stocks and bonds to commodities and cash. On the far left side of the chart, it displays both the annualized return and annualized volatility over the last 15 years for each asset class.

Cutting through the middle of the chart in the white boxes is a hypothetical diversified portfolio composed of different weights of these asset classes. With U.S. large caps dominating returns in most years – and bonds and international stocks badly lagging – diversification was out of favor for an extended period.

With bond yields back to normal and international stocks making a long-awaited comeback, diversification is finally back in favor. Despite the volatility in U.S. equities, our client portfolios have performed well this year thanks to our allocation to bonds and international equities.

Global equity performance and the U.S. dollar

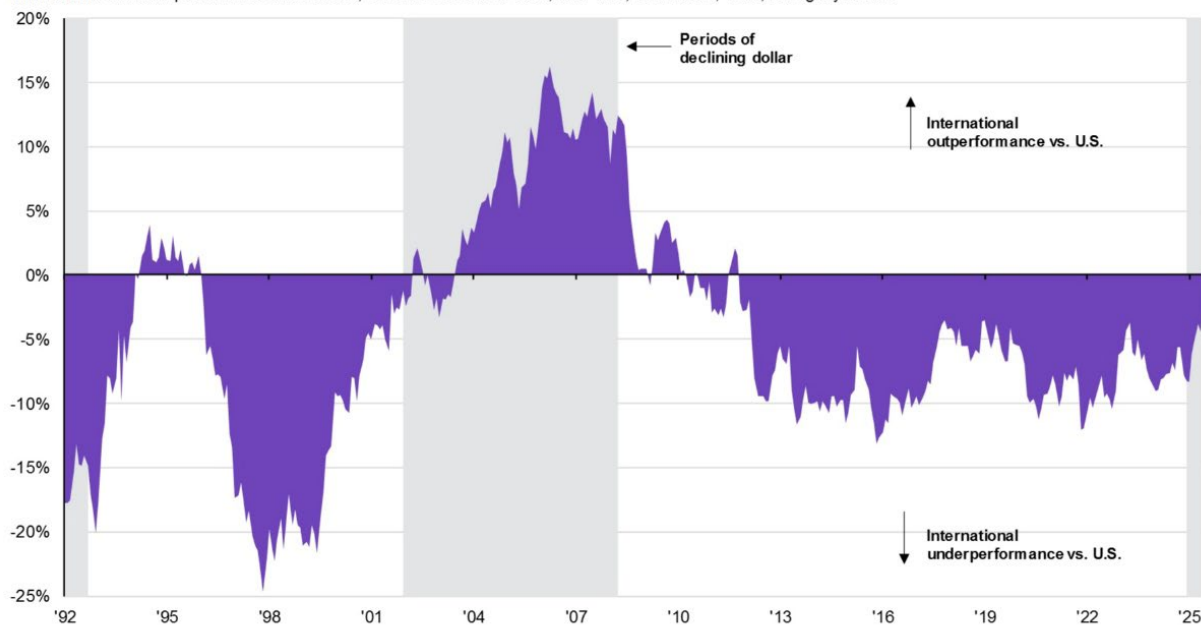
GTM

U.S.

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Cycles of international outperformance and the U.S. dollar

International out/underperformance versus U.S., MSCI AC World ex-U.S., S&P 500, total return, USD, rolling 3-yrs. ann.



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results.
Guide to the Markets – U.S. Data are as of June 30, 2025.

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The above chart examines the relative returns between U.S. and international equity markets, using the S&P 500 and MSCI All Country World ex-U.S. indices. International outperformance often coincides with periods of a declining U.S. dollar. All diversified portfolios should have exposure to international equities. Over the past 15 years, U.S. equities have delivered higher returns, but this has led to expensive valuations and an overvalued U.S. dollar.

Recent dollar weakness and strong international performance suggest a new cycle could be emerging, with cheaper valuations and currencies supporting returns. Stocks in Europe, India, and Japan are experiencing stronger earnings growth and are still trading at significant discounts compared to U.S. stocks. We welcome the shift to broader returns and more opportunities in international markets.

Daddy said, "Son, you better see the world."
-Rod Stewart

Returns and valuations by style

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10-year annualized				YTD			
	Value	Blend	Growth		Value	Blend	Growth
Large	9.2%	13.6%	17.0%	Large	6.0%	6.2%	6.1%
Mid	8.4%	9.9%	12.1%	Mid	3.1%	4.8%	9.8%
Small	6.7%	7.1%	7.1%	Small	-3.2%	-1.8%	-0.5%
Since market peak (January 2022)				Since market low (October 2022)			
	Value	Blend	Growth		Value	Blend	Growth
Large	24.5%	36.4%	42.0%	Large	50.8%	80.7%	108.2%
Mid	15.6%	17.6%	24.9%	Mid	44.0%	53.9%	80.3%
Small	1.3%	0.7%	-1.0%	Small	27.5%	34.2%	40.5%

Forward P/E vs. 20-year avg. P/E			
	Value	Blend	Growth
Large	16.9 / 13.9	22.0 / 16.0	28.7 / 19.5
Mid	15.8 / 14.5	18.1 / 16.4	30.0 / 21.1
Small	16.8 / 16.9	23.9 / 22.3	38.7 / 31.3
Forward P/E as % of 20-year avg. PE			
	Value	Blend	Growth
Large	122.0%	137.5%	147.0%
Mid	109.2%	110.6%	142.5%
Small	99.3%	107.0%	123.8%

Source: FactSet, FTSE Russell, Standard & Poor's, J.P. Morgan Asset Management.
 All calculations are cumulative total return, including dividends reinvested for the stated period. Returns are not annualized. Since market peak represents the period from January 3, 2022, to June 30, 2025. Since market low represents the period from October 12, 2022, to June 30, 2025. For all time periods, total return is based on Russell style indices except for the large blend category, which is based on the S&P 500 index. Forward P/E ratio is the most recent S&P 500 index price divided by consensus analyst estimates for earnings in the next 12 months, provided by FactSet. Past performance is not indicative of future returns.
 Guide to the Markets - U.S. Data as of June 30, 2025.

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The second quarter of 2025 was quite a roller coaster. In early April, the S&P 500 Index plunged close to bear market territory, only to bounce back to new highs to end the quarter. While there were a number of winners and losers over the past six months, most investment categories delivered positive returns.

The left side of the above illustration shows returns by investment style for the U.S. equity market. Return periods include: the last 10 years annualized, year-to-date, since the January 2022 peak, and since the October 2022 low. The right side shows the forward P/E ratio of each style relative to its 20-year average.

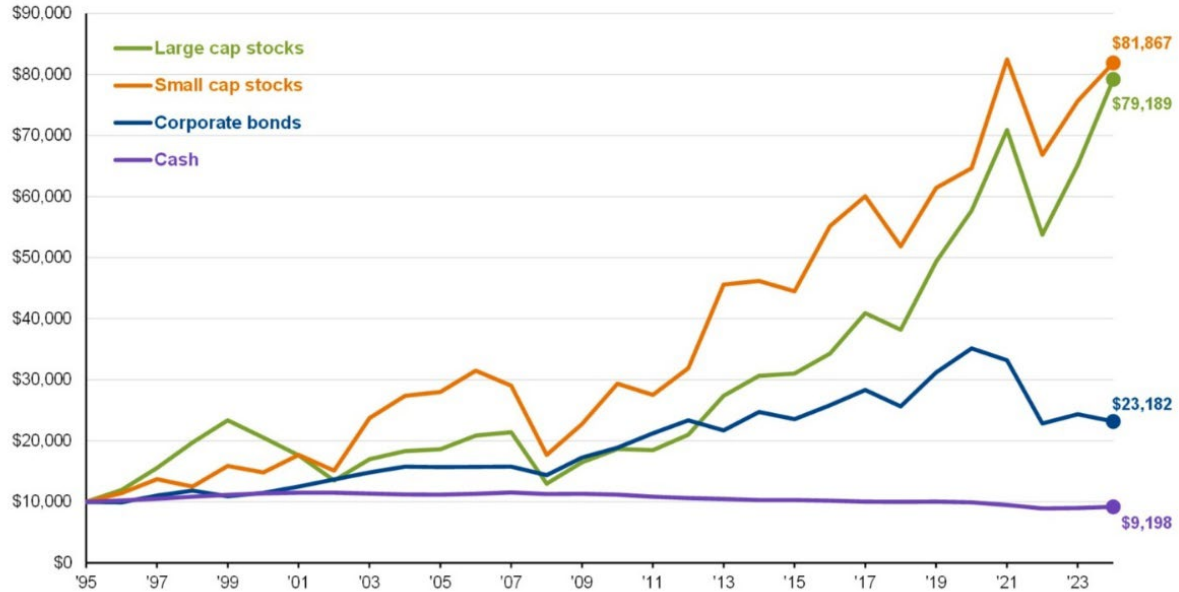
Most small cap and mid cap stocks look relatively attractive compared to their large cap counterparts, which remain stubbornly overvalued.

Risk investing and the power of compounding

GTM U.S. 60

Change in purchasing power by investment in major asset class

Growth of \$10,000, adjusted for inflation, from 1995-2024, annual returns



Source: Bloomberg, Bureau of Labor Statistics, Ibbotson, J.P. Morgan Asset Management.
Large cap stocks: IA S&P 500 Large Cap TR Index; Small cap stocks: IA S&P 500 Small Cap TR Index; Corporate bonds: Bloomberg Long U.S. Corporate Index; Cash: IA S&P 500 T-bill Index. All returns are inflation-adjusted total returns, using annual average headline CPI inflation.
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This chart illustrates the inflation-adjusted growth of a \$10,000 investment across various asset classes over the past 30 years, including large cap stocks, small cap stocks, corporate bonds, and cash. Whether you are young or old, history has proven that all investors need some equities in their portfolios if they have any expectation of building or maintaining the purchasing power of their wealth.

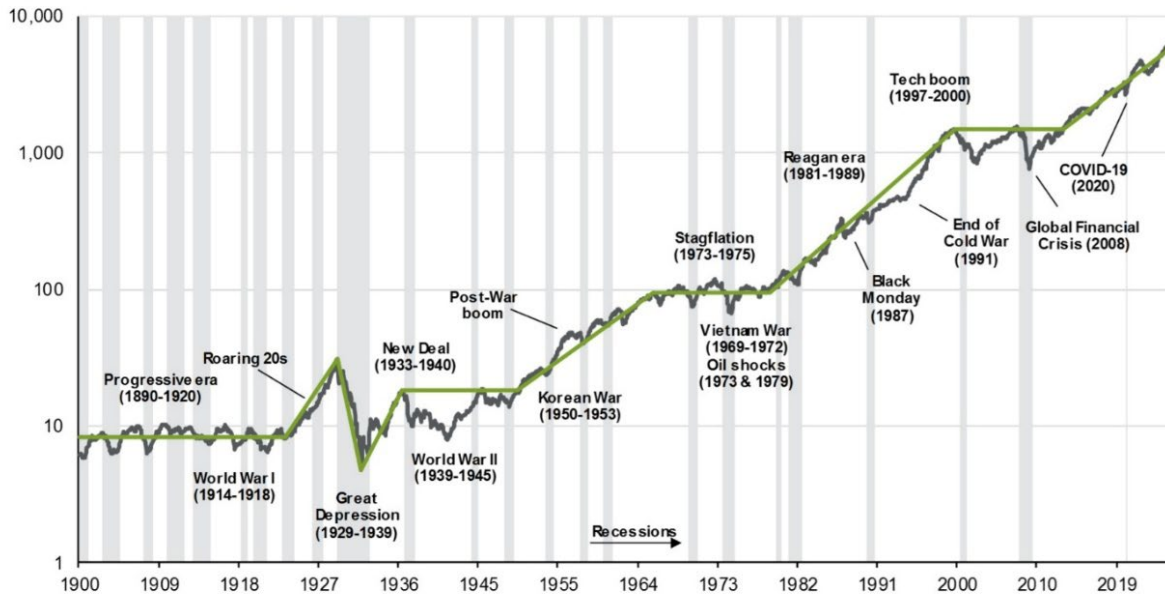
*I sincerely thought I was so complete,
Look how wrong you can be.
-Rod Stewart*

Stock market since 1900

GTM U.S. OTB

S&P Composite Index

Log scale, annual



Source: FactSet, NBER, Robert Shiller, J.P. Morgan Asset Management.
Data shown in log scale to best illustrate long-term index patterns. Past performance is not indicative of future returns. Chart is for illustrative purposes only.
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Despite the continued strength of the U.S. stock market, some have questioned whether American exceptionalism has peaked, whether the U.S. dollar is no longer a safe haven, and whether America's economic might versus the rest of the world is on the wane.

In our opinion, the strength and exceptionalism of the American economy and U.S. corporations is without peer throughout the rest of the world. The U.S. remains the preeminent economic and military power. We have the deepest and most liquid capital markets.

No doubt we face many problems at this time – political division, high government debt, negative demographic trends, threats from China and Russia – but the U.S. economy and the American people have proven to be resilient.

Per the above chart, although our stock market goes through its share of ups and downs, it has always bounced back and eventually moved to new highs. At our firm, we never bet against America.

*Combed my hair a thousand ways,
But it came out looking the same.*
-Rod Stewart