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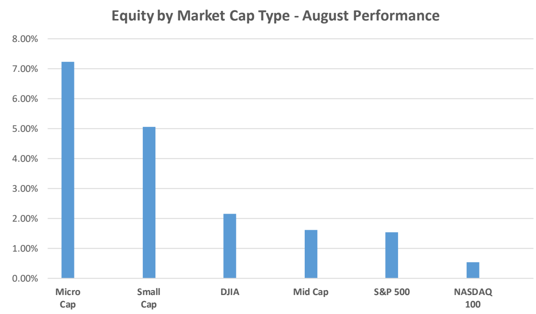
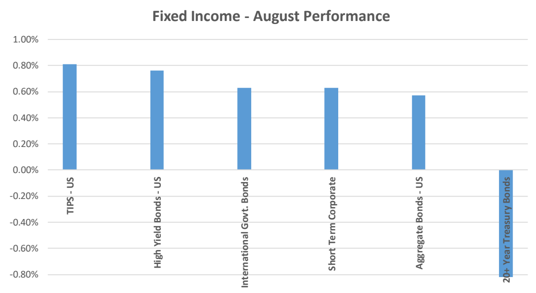
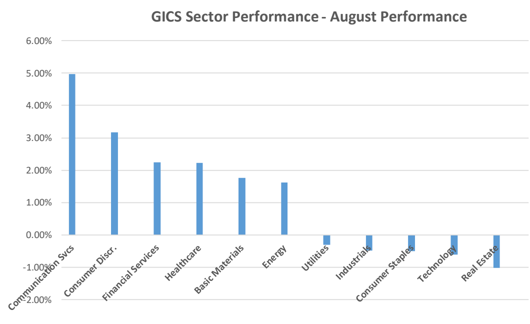
August 2025 - Market Comments

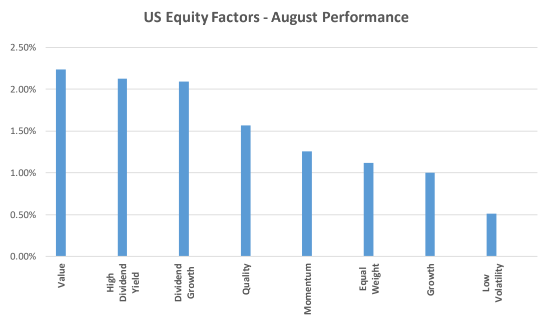
Markets in a Glimpse

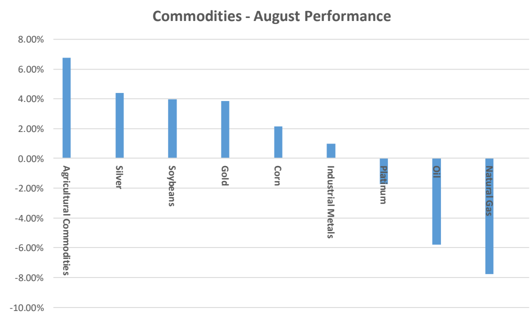
- **Fed-Driven Market Bullishness**: U.S. small capitalization stocks led gains as financial markets cheered Powell's hint at a September rate cut since small companies typically benefit from looser credit conditions.
- **Fed's Dovish Pivot Amid Tariff Pressures**: Fed Chair Powell signalled a dovish shift despite acknowledging tariff-driven inflation but expects its impact to be temporary and, despite political pressures, Powell emphasized the Fed's data-driven independence.
- **Inflation Refuses to Back Down**: U.S. inflation readings exceeded consensus, placing the Fed in a challenging position. With several reports indicating further inflationary acceleration in the coming months, the higher likelihood that tariff-driven wholesale inflation will be passed through to consumers complicates the Fed's policy outlook.
- **Cooling Job Market**: Non-farm payrolls data below consensus, along with substantial downward revisions to May and June data, marked a significant deceleration in job creation and suggests the job market is losing momentum.
- **Ethereum Non-Stop Rally:** Bitcoin saw a mid-month rally that quickly reversed into a technical correction. Ethereum, on the other hand, became the focal point of investor interest, supported by strong institutional inflows and heightened network activity.

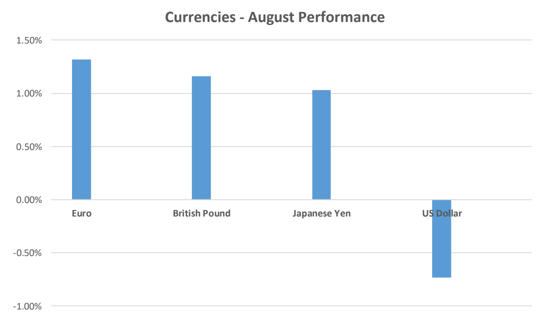












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In-Depth Market Review

Financial Markets

Equities

U.S. equities finished August in positive territory, though momentum faded toward month-end. Early in the month, strong earnings and a dovish tone from the Federal Reserve at Jackson Hole supported optimism. Market breadth improved as small-cap stocks surged, with the Russell 2000 delivering high-single-digit returns, outpacing large-cap tech, which saw profit-taking late in August pressured by renewed weakness following fresh US-China technology tensions. Global markets showed divergence with European indices cautiously higher amid slower growth expectations, while Emerging markets lagged overall, particularly Latam, due to escalating U.S. tariffs.

Fixed Income

U.S. Treasury yields were less volatile with the 10-year yield hovering around 4.1%, rising mid-month as risk sentiment improved but easing again after softer inflation data reinforced expectations for a September Fed cut. The yield curve flattened slightly, reflecting uncertainty over the policy path. Unlike July's hawkish stance, Chair Powell's Jackson Hole remarks were interpreted as cautious but less restrictive, keeping markets hopeful for easing later in 2025. In contrast, Japanese Government Bond (JGB) yields remained steady, but the yen strengthened, partly due to investors' safe-haven demand amid emerging-market turbulence and tariff escalation. Japan's position as the largest holder of U.S. Treasuries (about $1.13 trillion) remained a focal point for global bond flows.

Commodities

Early August gains in Oil from OPEC+ supply cuts and geopolitical risks faded as weaker U.S. and Chinese demand weighed. With regards base metals, Copper prices came under pressure, impacted by the 50% U.S. tariff on imports starting August 1 and weaker Chinese industrial activity. In contrast, precious metals like gold held steady near $3,500 per ounce, supported by inflation concerns. Lastly, Soft Commodities remained stable due to favourable weather conditions and no major supply shocks reported in August.

Currencies

The U.S. dollar weakened modestly in August, reflecting growing conviction that the Fed will cut rates in the coming months. A BoA fund manager survey showed broad repositioning away from dollar assets. In the crypto space, Bitcoin suffered a technical correction fuelled by weakness in spot ETF flows. Ethereum, on the other hand, became the focal point of investor interest, supported by strong institutional inflows and heightened network activity that pushed Ethereum to a fresh peak.

Monthly Key Takeaway

August 2025 was a month of contrasts: U.S. equities extended gains but showed sector rotation, with small caps outperforming. Treasuries traded in a narrow range, guided by shifting Fed expectations. Commodities delivered a mixed picture: oil retreated, copper sagged, but gold steadied at high levels. The U.S. dollar weakened, while the yen and select emerging market currencies moved sharply on domestic and geopolitical factors.

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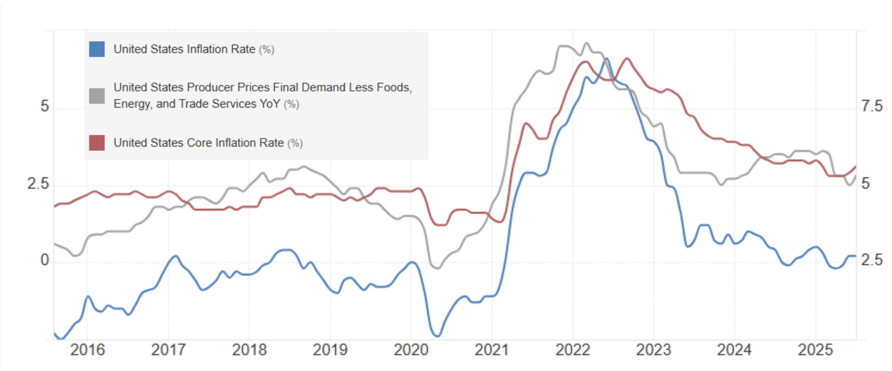
Macroeconomy & Financial Markets

August 2025 saw inflation remain elevated as tariffs pushed prices higher, while job growth slowed and unemployment rose despite firm wage gains. Fed Chair Powell's dovish Jackson Hole remarks lifted markets, with rate-cut hopes gaining traction. Corporate earnings stayed resilient, led by tech giants leveraging AI to offset tariff pressures:

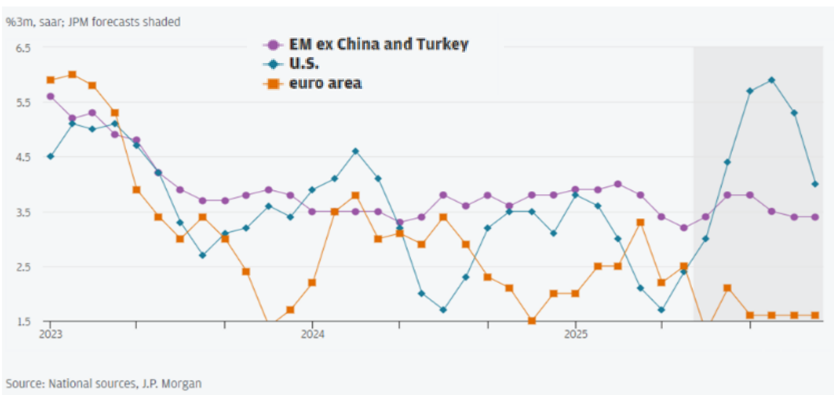
- **Inflation Data Refuses to Back Down**: In July, the Producer Price Index (PPI) advanced by 0.9% on a month-over-month basis - the most substantial increase since mid-2022 - reflecting broad-based inflationary pressures across both goods and services. On an annual basis, headline PPI rose 3.3%. Core PPI, which excludes food, energy, and trade services, climbed 0.6% from the prior month, indicating a notable acceleration in underlying wholesale inflation. Concurrently, the Consumer Price Index (CPI) for July showed a 2.7% year-over-year increase in headline inflation. Core CPI, which excludes food and energy, rose to 3.1% year-over-year, the highest reading in six months, surpassing market consensus expectations, which had projected a more moderate increase.

US Inflation YoY Metrics – 2015 2025



- **Tariff-Related Inflation to Accelerate**: U.S. tariffs are to become the main driver of inflation in the second half of 2025, with their peak effect on prices appearing two to four months after implementation, similar to the 2018–19 pattern. For instance, consensus projects that core PCE inflation will reach an annualized rate of 4.6% in the third quarter of 2025 before moderating to a still elevated 3.4% by year-end (source: JP Morgan).

Global Core Inflation YoY Forecasts



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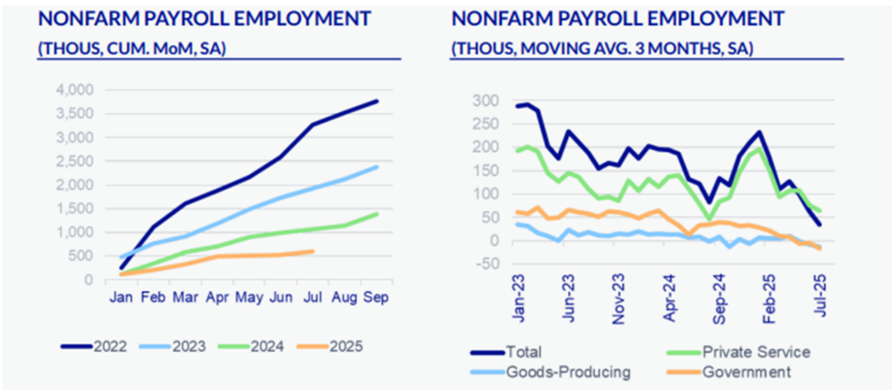
- **Tariff Burden Shifting to U.S. Consumers**: U.S. businesses have borne the majority of tariff-related cost increases in the first half of the year, absorbing approximately 64%, while 22% of the burden has fallen on consumers, and the remaining has been absorbed by foreign exporters. However, top-tier US banks and most of the consensus projects a significant shift in the months ahead with two-thirds of the tariff costs to be passed through to US consumers, U.S. companies' share declining to roughly 8%, and exporters' share rising modestly to about 25% (source: Goldman Sachs).

Group	Share of Tariff Cost Absorbed (1H25)	Projected Share (2H25)
U.S. Companies	~ 64%	~ 8%
U.S. Consumers	~ 22%	~ 67%
Foreign Exporters	~ 14%	~ 25%

- **Job Market Weakness Confirmed**: The U.S. job market showed marked weakness with nonfarm payrolls rising by just 73,000 and prior months revised down significantly bringing the three-month average to just 35,000 jobs. Unemployment edged up to 4.2%, while labor force participation dropped to 62.2%, its lowest since November 2022. Despite slowing job growth, wage pressures persisted at 3.9% year-over-year, with the three-month annualized rate climbing to 4.1%. The persistence in wage growth appears inconsistent with labour market softening and may reflect tightening immigration-related labour supply constraints. Lastly, employers are pulling back, with nearly one in five U.S. firms planning to slow hiring in H2 2025 according to Conference Board survey data.



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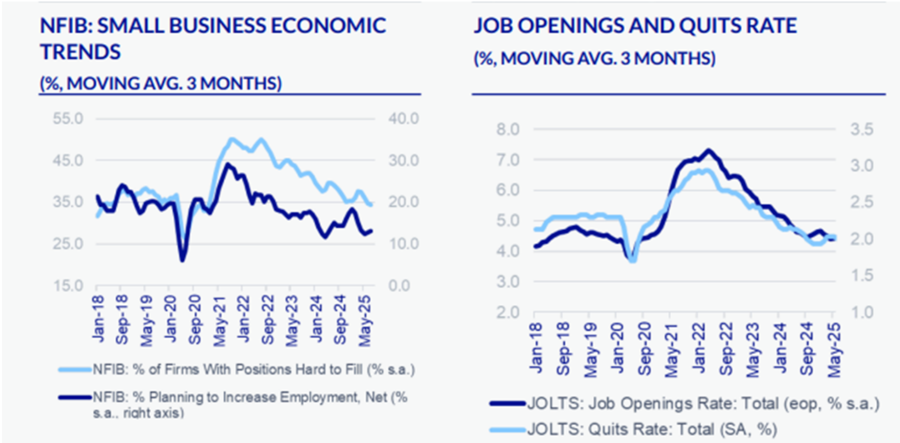
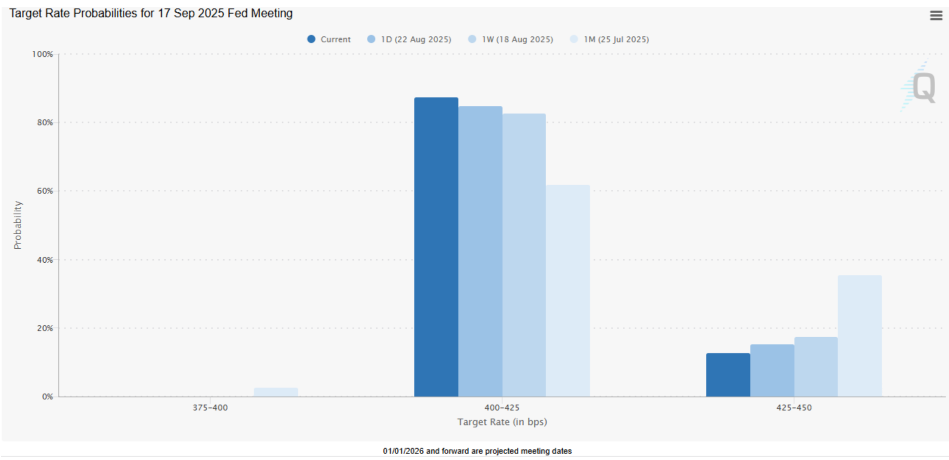


- **Powell's Dovish Pivot in Jackson Hole**: At Jackson Hole, Fed Chair Jerome Powell signalled openness to a September rate cut, citing downside risks to employment and inflation driven partly by tariffs. While acknowledging that consumer price increases from tariffs are now visible, he suggested these effects may be short-lived. Powell emphasized the Fed's independence, resisting political pressure from President Trump, who has repeatedly demanded rate cuts and attacked Powell personally. Markets rallied in response to Powell's dovish tone, though he emphasized that monetary policy decisions remain firmly data-dependent. While interest rate futures now price in an 87% chance of a 25-basis-point cut in September, up from 62% a month earlier, economists remain cautious, questioning whether the Federal Reserve will act without clearer signals from upcoming data.



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- **Corporate America Remains Resilient**: 2Q25 earnings season confirmed that despite the anticipated drag from tariffs, companies not only exceeded expectations with a beat rate above the historical average, but also raised guidance, driving upward revisions to earnings estimates for both 2025 and 2026. The standout performance from the Magnificent Seven continues to anchor overall earnings growth, with their aggressive AI-driven capital investment setting the stage for broader productivity gains across sectors. While margin pressures from tariffs are likely to intensify in the coming months, many companies have proven adept at offsetting these costs through operational efficiencies, supplier negotiations, AI capabilities, and price adjustments. However, the muted impact on margins so far, as stocks have continued their rally, suggests some risk of complacency, particularly if market participants are surprised by how much this economy slows. Going forward, the combination of AI-driven productivity, supportive fiscal policy, and easing trade uncertainty could push earnings growth beyond current forecasts.
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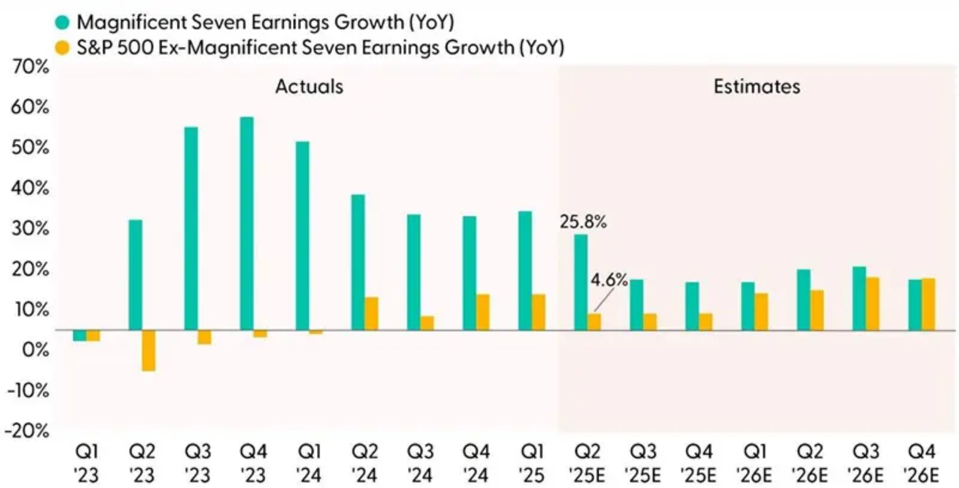

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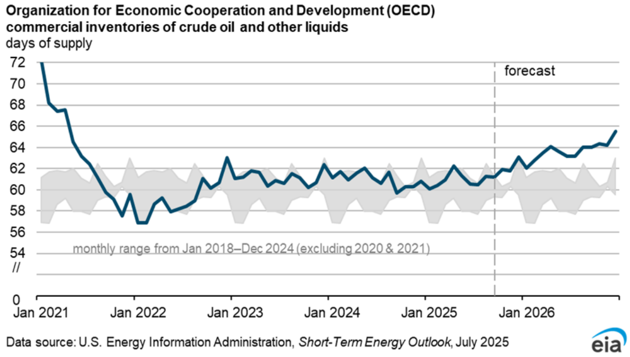
Commodities and Currencies

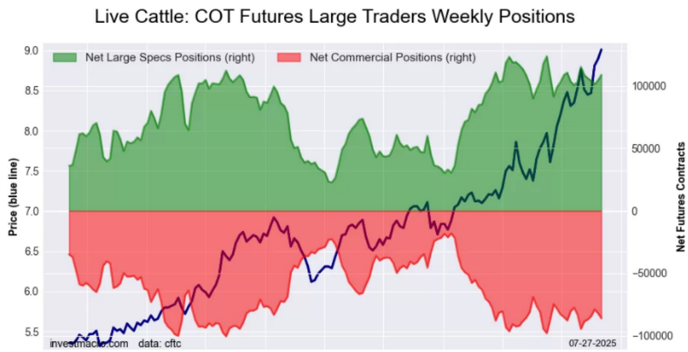
Commodities delivered mixed results in July due to muted volatility amid geopolitical tensions and weak Chinese demand:

- <u>Energy</u>: Oil prices fell in August with Brent ending at ~$78.80 and WTI at ~$73.55. Early-month gains were driven by geopolitical tensions; however, demand concerns and high inventory levels pressured prices by month-end.



- <u>Metals</u>: Copper retreated modestly over the month, with prices down slightly partly due to the U.S. implementation of a 50% tariff on semi-finished copper and copper-intensive items. This spurred volatility and prompted investor caution in industrial metals. Gold, in contrast, showed moderate resilience with technical indicators suggesting strength.

- <u>Soft Commodities</u>: Grain prices, particularly corn, eased slightly thanks to favourable crop conditions that lowered feed costs. This decline provided welcome relief for livestock producers, improving their margins. In turn, cattle futures rose steadily, supported by strong consumer demand, earlier herd liquidations that reduced available supply and by firm export demand from Asian markets. These combined factors sustained bullish sentiment in cattle futures, with traders maintaining persistent net-long positions.



- <u>Cryptocurrencies:</u> Bitcoin experienced a technical correction after peaking above $124,000 mid-August, retreating to the $109K–$110K range as downward pressure from spot-ETF outflows gained prominence. Ethereum, conversely, captured investor attention with a powerful rally underpinned by massive institutional inflows totalling roughly $3.8–$4 billion into spot ETH ETFs, record on-chain activity, and a brief new all-time high near $4,945.

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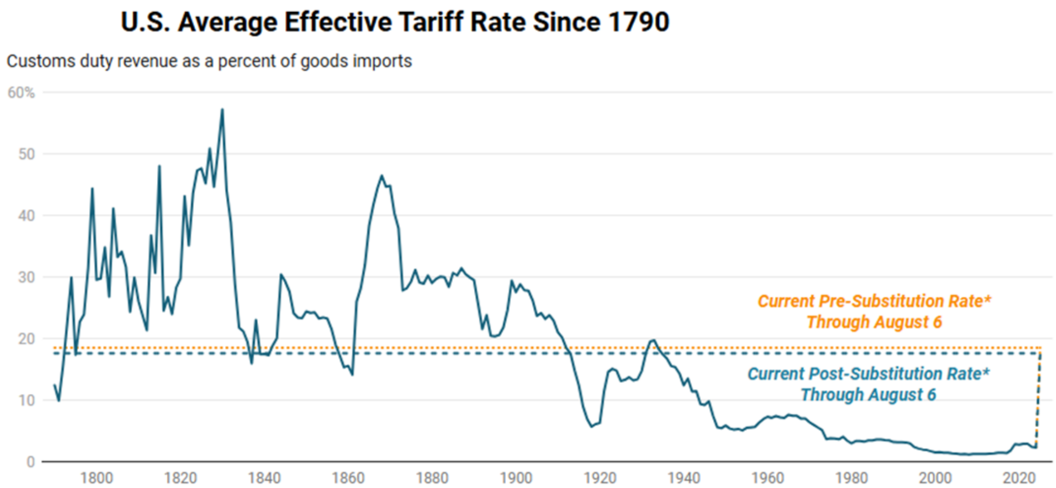
Topic of the Month: The Economic Growth Cost of Tariffs

Scope and Implementation: The new tariffs announced by President Donald Trump affect more than 90 countries and have raised the average US tariff rate to its highest level in approximately a century. The measures took effect on 8 August, following a 7 August negotiating deadline, and apply at varying rates depending on the country. Several nations reached agreements with Washington that reduced the originally proposed rates, while others face significantly higher charges.



Country-Specific Tariffs: Laos and Myanmar, both heavily reliant on exports and with close trade ties to China, face some of the highest duties at 40%. Switzerland, which failed to secure an agreement, will face a 39% tariff, a move expected to impact its economy severely. Taiwan has been assigned a 20% tariff, which its leadership has described as temporary pending further negotiations. The United Kingdom, Japan, and South Korea have negotiated lower rates, while the European Union has agreed to a 15% tariff under a new framework arrangement. Tariffs on Canadian goods have been increased from 25% to 35%, although most exports are exempt under the USMCA trade agreement, and planned increases on Mexican imports have been postponed for 90 days as talks continue.

	Share of US imports	Rate
Mexico	15.5%	25%
China	13.4%	30%
Canada	12.6%	35%
Germany	4.9%	15%
Japan	4.5%	15%
Vietnam	4.2%	20%
South Korea	4.0%	15%
Taiwan	3.6%	20%
Ireland	3.2%	15%
India	2.7%	50%
Italy	2.3%	15%
United Kingdom	2.1%	10%
Switzerland	1.9%	39%
Thailand	1.9%	19%
France	1.8%	15%

	Share of US imports	Rate
Malaysia	1.6%	19%
Singapore	1.3%	10%
Brazil	1.3%	50%
Netherlands	1.0%	15%
Indonesia	<1%	19%
Belgium	<1%	15%
Israel	<1%	15%
Spain	<1%	15%
Sweden	<1%	15%
Colombia	<1%	10%
Austria	<1%	15%
Turkey	<1%	15%
Australia	<1%	10%
Chile	<1%	10%
South Africa	<1%	30%

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Semiconductor Tariff Threat: The administration has announced plans to impose a 100% tariff on foreign-made semiconductors in order to encourage greater investment in domestic chip production. However, certain major firms, including TSMC, SK Hynix, and Samsung, are expected to be exempt from these measures due to their substantial investments in the US.

Economic and Market Impact: Initial market reactions in Asia were relatively stable following the announcement. Equity indices in Japan, Hong Kong, South Korea, and mainland China recorded slight gains, while markets in India and Australia fell. Economists have noted that the conclusion of months of uncertainty may now allow for a clearer analysis of the tariffs' economic impact. Overall, the financial markets reaction is more leaning towards US suffering the most from this Trump Tariff policy. For instance, the next table summarizes key metrics from Tax Foundation (conservative leaning) and Yale Lab (progressive leaning) with regards the impact of Tariffs on the US economy:

Metric	Tax Foundation	Yale Budget Lab
Household Cost	~$830/year	$2,400/year
GDP Impact	−0.4%	−0.5%
Tariff Revenue Impact Next Decade	$1.2 trn	$2.2 trn

Overall, the average U.S. tariff rate has risen to 13.3% in 2025 from 2.3% in January, the highest since 1939, with significant global implications as described below using the key assumption that tariffs will settle near 15%:

- **Global:** 2025 global GDP forecast lowered to 3.0% (from 3.1%), slowing further to 2.7% in 2026, causing an estimated $2 trillion hit to global GDP by 2027. World inflation expected at 3.2% end-2025 (from 5.1% end-2024), falling to 2.7% end-2026. Tariffs inflationary for the U.S., disinflationary for most other economies as weaker demand dominates.
- **United States:** 2025 GDP forecast cut to 1.5% (from 2.1% in Dec); H2 2025 growth expected at 1.0%. Inflation (core PCE) revised up to 3.0% (from 2.6%) as tariffs lift import costs but margin compression tempers consumer price impact. Fed expected to cut 25 bps in 2025 and 150 bps in 2026; GDP-weighted global central bank rate projected at 5% end-2025, falling to 4% end-2026.
- **Euro Area & UK:** Eurozone GDP hit by projected 25% tariff on pharma exports, trimming GDP by 0.3%. ECB likely to lower rates to 1.5%. UK GDP seen at 1.2% in 2025 and 1.1% in 2026; CPI forecast at 3.4% (2025) and 2.4% (2026). Bank of England expected to cut rates to 3.75% in 2025, with a further 25 bps cut in 2026.
- **China:** 2025 GDP forecast raised to 4.8% (from 4.6%), above 5% target in H1 but set to slow in H2 without more stimulus. Consumer prices likely to fall in 2025 for the first time since 2009. Tariff reductions expiring in August may weigh heavily on exports and investment.
- **Japan:** 2025 GDP forecast trimmed to 0.8% (from 1.0%) and 2026 to 0.5% (from 0.6%). Core CPI (ex-fresh food) forecast raised to 3.4% (2025) and 2.7% (2026). BOJ rate hike pushed back to October 2025; stagflationary pressures from wage gains and yen weakness.

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MG’s Message to Investors

- Risk assets held their ground through August, yet mounting tariffs and weakening consumer confidence revealed underlying fragilities. U.S. stocks closed out a fourth consecutive positive month, driven by strength in small caps, but mid-month tariff expansions—covering copper and hundreds of goods from furniture to construction materials—rekindled inflation worries and trade-related uncertainty. At the same time, both the Michigan and Conference Board sentiment surveys fell to multi-month lows, underscoring household caution. By the month’s end, investors adopted a more guarded stance ahead of key inflation updates and the September Fed decision.
- Looking into the third quarter, August’s gains face a more complicated backdrop of uneven macro signals. U.S. data highlighted both resilience and strain: second-quarter GDP was revised sharply higher, while inflation moderated, yet a wider trade deficit and tariff-driven costs clouded the outlook. The Federal Reserve’s cautious tone at Jackson Hole tempered expectations for a September rate cut, leaving markets highly sensitive to incoming inflation and job market figures. Abroad, uncertainty persists: China grapples with cooling momentum, while Japan’s shifting inflation dynamics continue to shape yen moves and Bank of Japan decisions impacting ultimately the US Treasury market.

- As September unravels, MG highlights the following tactical views:
  - <u>Equities</u>: maintaining a Neutral equity exposure with a barbell approach remains justified, emphasizing U.S. mid-caps, large-cap value, and European stocks while keeping lighter weightings in U.S. large-cap growth and small caps. Heading into September, this positioning balances resilience to policy-driven shocks with exposure to cyclical recovery trends.
  - <u>Fixed Income</u>: The model maintains a Neutral stance by trimming exposure to short-duration securities as rate-cut expectations support longer-duration assets. Full allocation to anomaly strategies like High Yield Fallen Angels is preserved. Overall, positioning emphasizes duration balance and selective credit risk to navigate September’s policy-driven backdrop.
  - <u>Alternatives</u>: Exposure to alternatives has shifted to Overweight. That said, the model is keeping a strong Underweight in Oil, due to persistent oversupply and weak demand dynamics, particularly from China. Overweight positions in Gold, IPOs and REITs are maintained to help hedge the portfolio's net underweight in equity risk.
  - <u>Outlook and Strategy</u>: These positioning shifts are tactical in nature and will be reassessed as incoming economic data, policy developments, and market dynamics evolve.

- MG reminds its investors about the importance of disciplined risk management, reaffirming the necessity of adopting a cautious, data-driven methodology focused on achieving long-term performance objectives. In this way, MG remains steadfast in its commitment to diligently monitor financial markets and actively adjust risk exposures in alignment with shifting market dynamics. The primary recommendation emphasises the preservation of a fully diversified portfolio, ensuring its structural integrity by refraining from imprudent exposure to risks or opportunities that may appear excessively favourable or unsustainable.

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MG Investment Solutions Taxonomy

- MG ETF Asset Allocation Portfolios: Multi-asset class diversified mandates employing a quantitative asset allocation framework that dynamically adjusts portfolio exposures in response to evolving market conditions and the distinct risk profile of each mandate, with the objective of effectively navigating the prevailing environment of uncertainty.
- MG ETF High Income Portfolio: A diversified ETF portfolio designed as an alternative investment vehicle for investors seeking short-duration, highly liquid exposure with the objective of generating monthly income. The strategy targets a mid-single digit yield and is recommended for investors with a minimum investment horizon of two years.
- MG Opp Portfolio: An equity portfolio managed through a quantamental investment process, selecting U.S. stocks with a higher likelihood of outperformance over the medium to long term. The portfolio maintains a strategic bias toward large-cap growth companies.
- MG Opp Dividend Portfolio: An equity portfolio constructed through a quantamental investment process, focused on the selection of U.S. stocks with a dividend yield significantly higher than the broad U.S. equity market. The portfolio emphasizes companies with high-quality balance sheet, aiming to enhance the likelihood of outperformance over the long term, with a strategic bias toward mid-cap value and quality-oriented stocks.
- MG Emerging Technologies (MGET): A Tax-efficient, annually rebalanced portfolio designed to target double-digit annualized returns over the long term by allocating capital to high-growth transformative thematic opportunities such as Artificial Intelligence, Cybersecurity, Robotics, Biotechnology, Blockchain, and Quantum Computing.
- MG Blockchain (MGBLOCK): A tax-efficient, annually rebalanced portfolio designed to target double-digit annualized returns over the long term by offering investors diversified access to the cryptocurrency sector. The strategy employs a combination of direct exposure to cryptocurrency-linked, fiat currency-denominated ETFs (focused on Bitcoin and Ether) alongside indirect exposure to publicly traded companies demonstrating high sensitivity to the blockchain ecosystem.

MG Solution	Short	Asset Class	Description
MG Asset Allocation ETF	*MGAA*	Multi-Asset Class	Multi-asset class diversified mandates employing a quantitative asset allocation framework that dynamically adjusts portfolio exposures in response to evolving market conditions and the distinct risk profile of each mandate, with the objective of effectively navigating the prevailing environment of uncertainty.
MG High Income ETF	*MGHI*	Fixed Income	A diversified ETF portfolio designed as an alternative investment vehicle for investors seeking short-duration, highly liquid exposure with the objective of generating monthly income. The strategy targets a mid-single digit yield and is recommended for investors with a minimum investment horizon of two years
MG Opp	*MGOP*	Equity	An equity portfolio managed through a quantamental investment process, selecting U.S. stocks with a higher likelihood of outperformance over the medium to long term. The portfolio maintains a strategic bias toward large-cap growth companies
MG Opp Dividend	*MGOD*	Equity	An equity portfolio constructed through a quantamental investment process, focused on the selection of U.S. stocks that prioritize a dividend yield approximately three to four times higher than that of the broad U.S. equity market. The portfolio emphasizes companies with high-quality balance sheet, aiming to enhance the likelihood of outperformance over the medium to long term, with a strategic bias toward mid-cap value and quality-oriented stocks.
MG Emerging Tech	*MGET*	Equity	A Tax-efficient, annually rebalanced portfolio designed to target double-digit annualized returns over the long term by allocating capital to high-growth transformative thematic opportunities such as Artificial Intelligence, Cybersecurity, Robotics, Biotechnology, Blockchain, and Quantum Computing.
MG Blockchain	*MGBLOCK*	Equity & Crypto ETF	A tax-efficient, annually rebalanced portfolio designed to target double-digit annualized returns over the long term by offering investors diversified access to the cryptocurrency sector. The strategy employs a combination of direct exposure to cryptocurrency-linked, fiat currency-denominated ETFs (focused on Bitcoin and Ether) alongside indirect exposure to publicly traded companies demonstrating high sensitivity to the blockchain ecosystem.