DATA DEPENDENCY TAKES CENTER STAGE

As we move into the coming weeks, two key themes are shaping the investment landscape: the tug-of-war between U.S. macro deceleration and inflation risks, and the sustainability of the AI-driven market rally. Here is what we're monitoring:

U.S. Macro Deceleration vs. Inflation Upside. The U.S. economy is showing signs of slowing, particularly in the labor market. Job openings have softened, and wage growth is moderating—both signals that economic momentum is cooling. However, inflation remains sticky in certain components, raising the question: Will job market weakness outweigh any upside surprises in inflation?

The Federal Reserve is currently priced to resume its easing cycle in September. Any data that challenges this expectation—such as hotter-than-expected inflation data or resilient employment numbers—could derail markets in the short term. Advisors should prepare clients for potential volatility around key economic releases.

Key data to watch ahead of the September Federal Reserve policy meeting include nonfarm payrolls, the unemployment rate, personal consumption expenditures inflation, another consumer price index release, minutes from the prior Fed meeting, and Fed commentary.

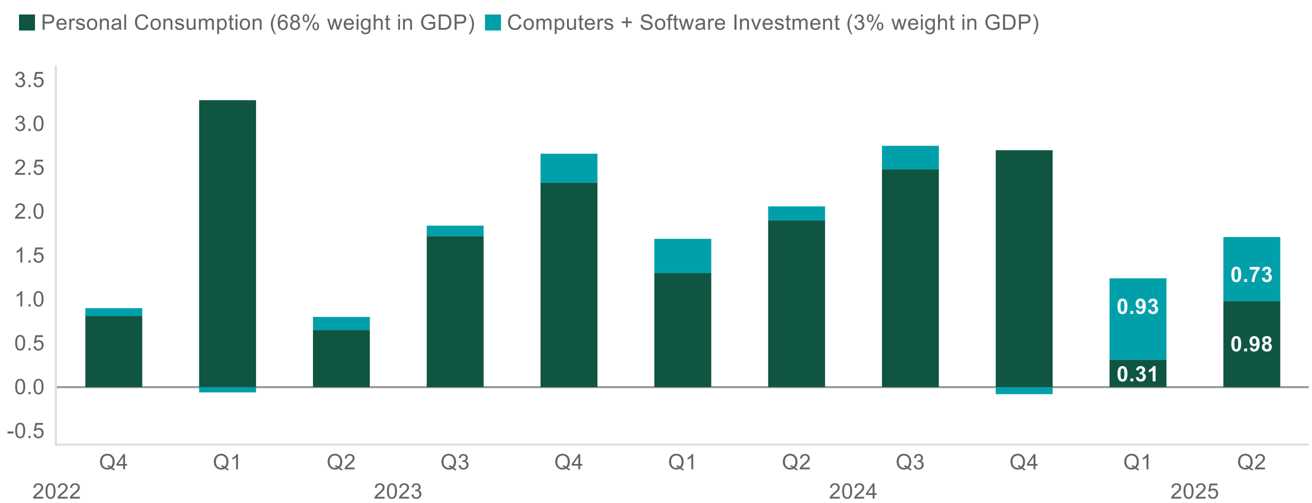
AI Theme: Growth Driver or Valuation Ceiling? The AI narrative has been a dominant force in equity markets, driving significant gains in tech and related sectors. The question now is whether this momentum can continue amid macro uncertainty. Valuations in AI-related names are elevated, and any disappointment—whether in earnings or broader economic conditions—could trigger a pullback.

For investors, this means balancing client enthusiasm for AI exposure with prudent risk management. Diversification and valuation discipline remain critical. On this front, we believe it is important to monitor earnings guidance from major AI players, capital expenditure trends in cloud and semiconductor sectors, and broader market sentiment toward growth vs. value.

Bottom Line: The upcoming month or so is all about data dependency. Markets could be highly sensitive to signals that confirm or challenge the Fed's September easing timeline. At the same time, thematic plays like AI remain powerful but increasingly vulnerable to macro headwinds.

AI-RELATED INVESTMENT HAS SUPPORTED MORE THAN JUST THE MARKETS

CONTRIBUTION TO QUARTER-OVER-QUARTER ANNUALIZED REAL GDP (%)



Source: Northern Trust Asset Management, Macrobond, U.S. Bureau of Economic Analysis (BEA). Q = quarter; GDP = Gross Domestic Product. Data as of 6/30/2025. Historical trends are not predictive of future results.

POSITIONING SCENARIOS

Reflation (20% probability)

Policies of the U.S. administration have a net stimulative effect, leading to above-trend growth, persistent inflation and a pause in the Fed rate-cutting cycle.

Soft Landing (40% probability)

Global growth slows but remains positive via two potential paths: i) tariff policy eases; ii) the U.S. economy is more resilient than expected and avoids a major deterioration in the consumer backdrop.

Supply Restraint (30% probability)

Supply-side shocks from higher tariffs in addition to broader policy uncertainty weigh on consumer and corporate activity while halting the disinflationary process until a recession takes shape.

Stagflation (10% probability)

Initially similar to the Supply Restraint scenario, but the rise in inflation is more persistent. As a result of slower monetary policy support, the recession is deeper and longer.

Note: Probabilities are assumed from proprietary research and are subject to change.

DEFINITIONS

S&P 500 Index: The index, a gauge of the large-cap U.S. equity market, includes 500 companies that represent approximately 80% of the market capitalization of publicly traded U.S. equities.