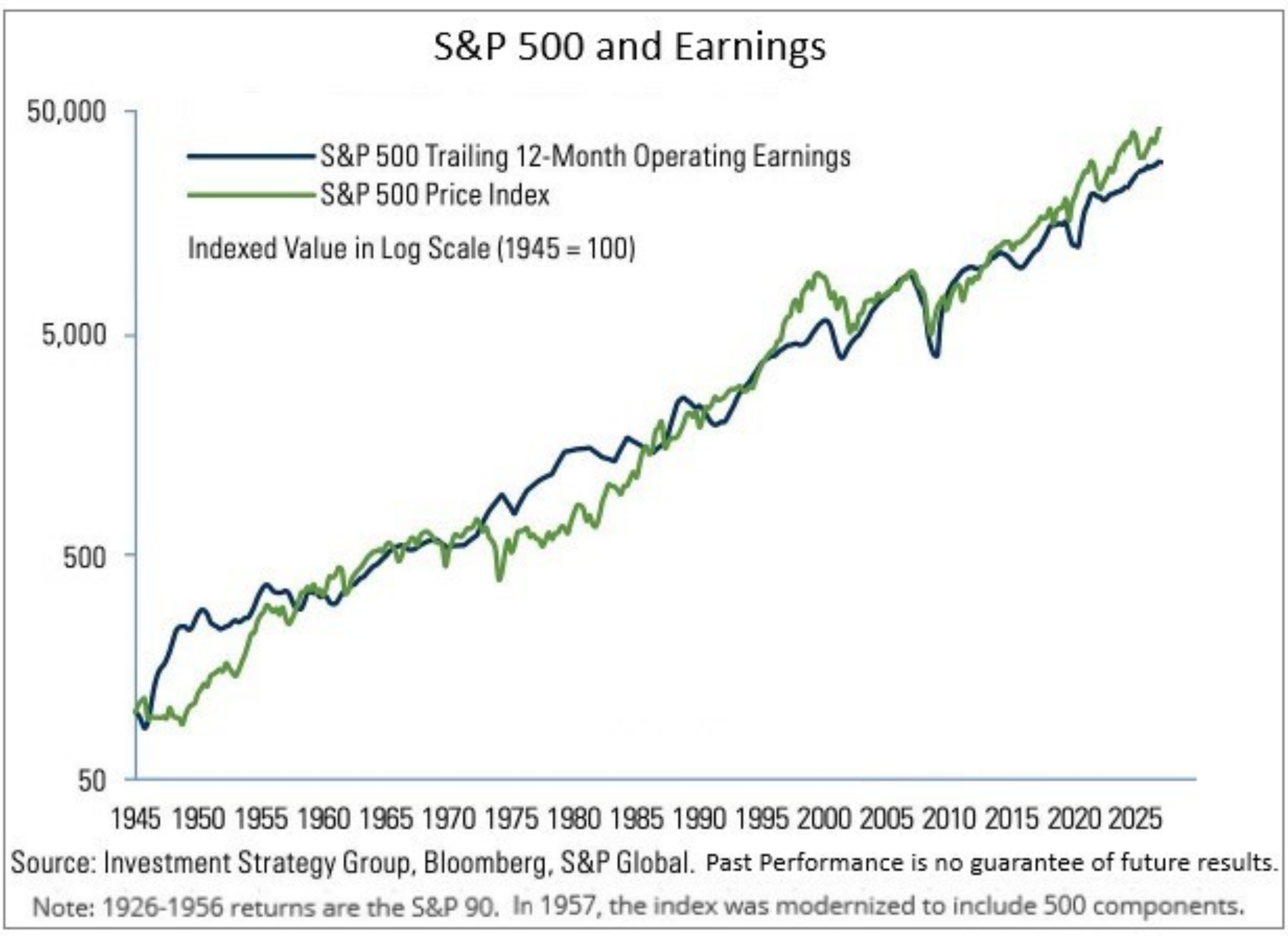
CHART OF THE MONTH

AUGUST 2025



Source: Investment Strategy Group, Bloomberg, S&P Global. Past Performance is no guarantee of future results.
Note: 1926-1956 returns are the S&P 90. In 1957, the index was modernized to include 500 components.

One of the most fundamental tenets of the stock market is the correlation between stock prices and earnings. As displayed in the graph above, the S&P 500 (green line) has followed the path of earnings (blue) up and down over time. Generally speaking, stock prices rise when earnings are increasing and fall when earnings are declining.

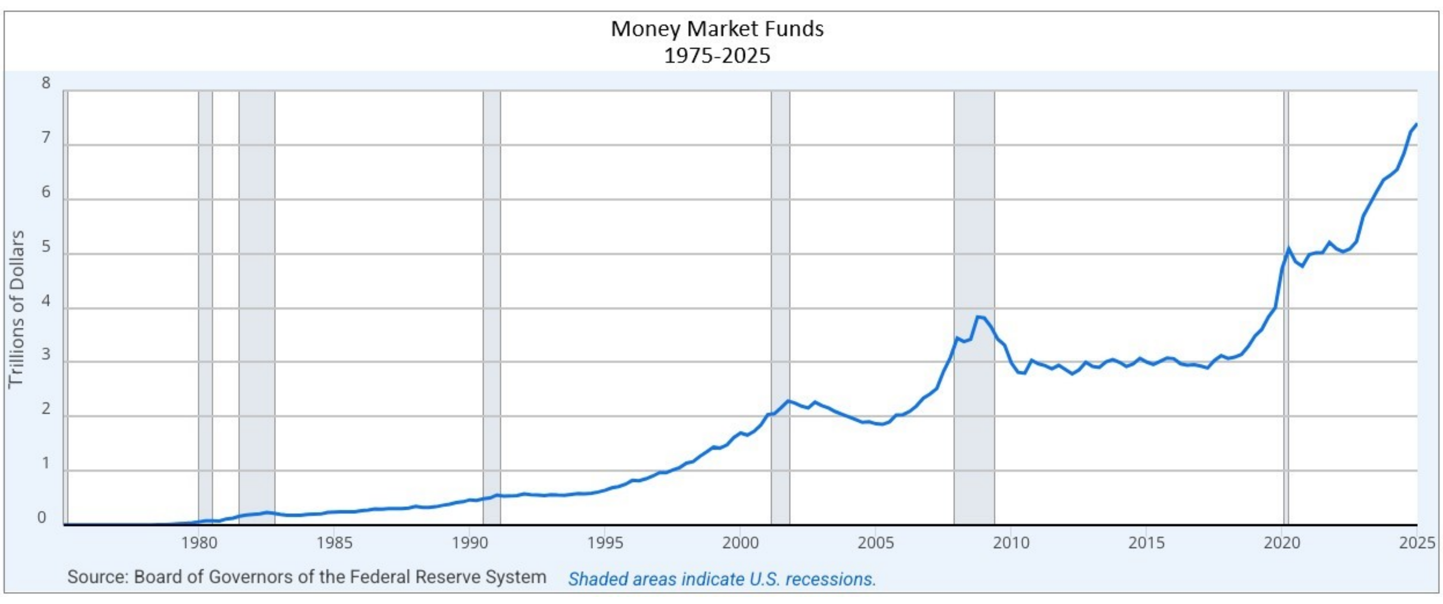
The U.S. economy and corporate profits have been expanding, underpinning our favorable outlook on the market. In fact, year-over-year earnings for the S&P 500 rose 10.6% through June to a record high, the eighth straight quarter of positive growth.

In addition to the above, there has been a more casual relationship between the S&P 500 and the money supply (defined by M2 as currency, checking and savings deposits, money-market funds, and CDs). M2 is a broad measure of the money circulating in the economy. The latest reading was $22 trillion as of June, including an all-time high of more than $7 trillion in money funds (see below).

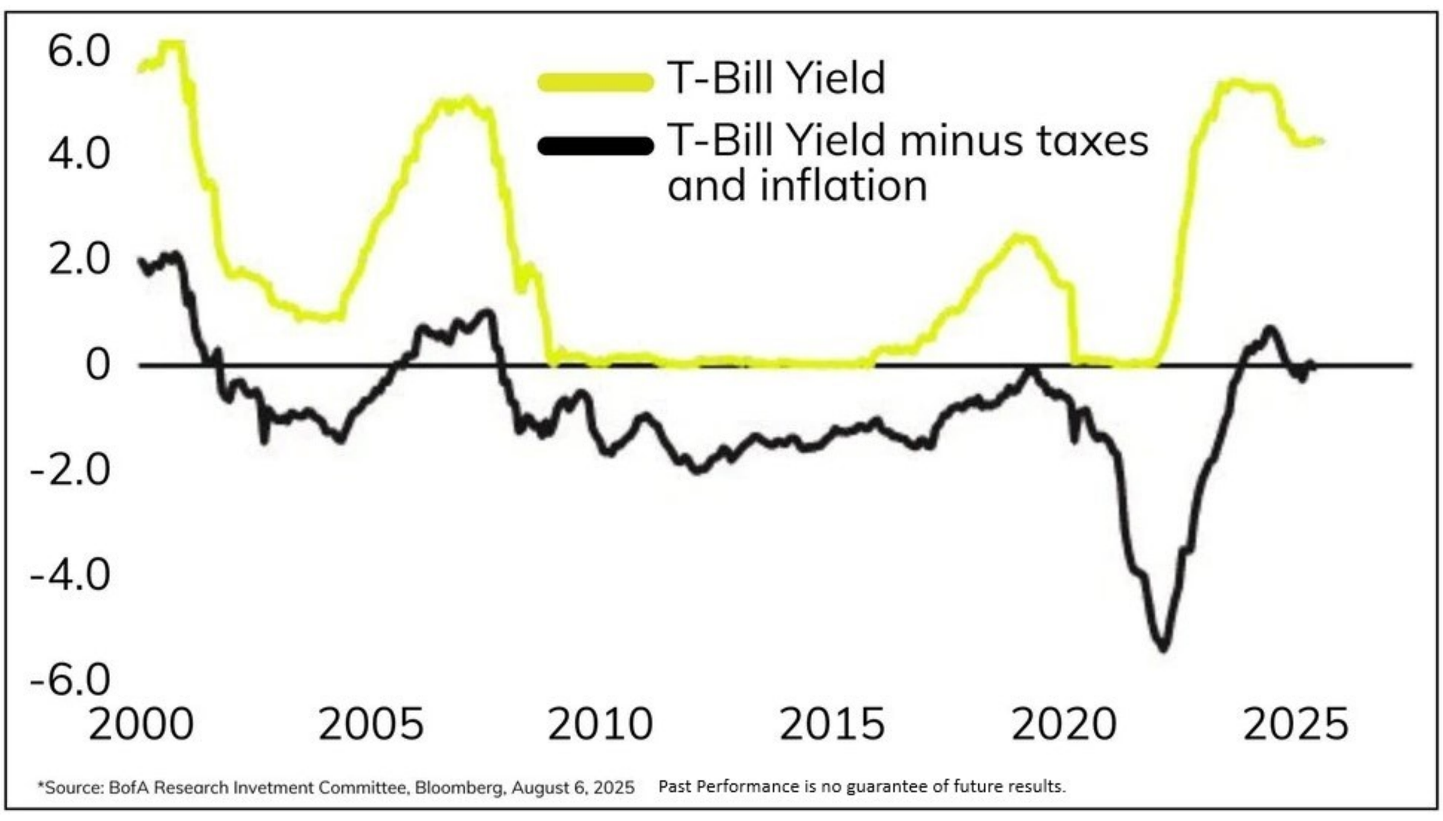
This massive pile of cash represents “dry powder” that could potentially rotate into stocks, especially if the Federal Reserve cuts the fed funds rate (as Chairman Jerome Powell indicated in his speech at Jackson Hole last Friday) and the yields on cash equivalents drop accordingly. The futures market is pricing in an 88% probability of a 0.25% reduction at the Fed’s next meeting on September 17.

Using U.S. Treasury Bills as a proxy for money-market funds, the current yield is approximately 4% (as shown in the middle graph at the bottom). After taxes and inflation, the net yield is roughly 0%. Since 2000, the latter has usually been negative, making it difficult to get ahead by holding cash.

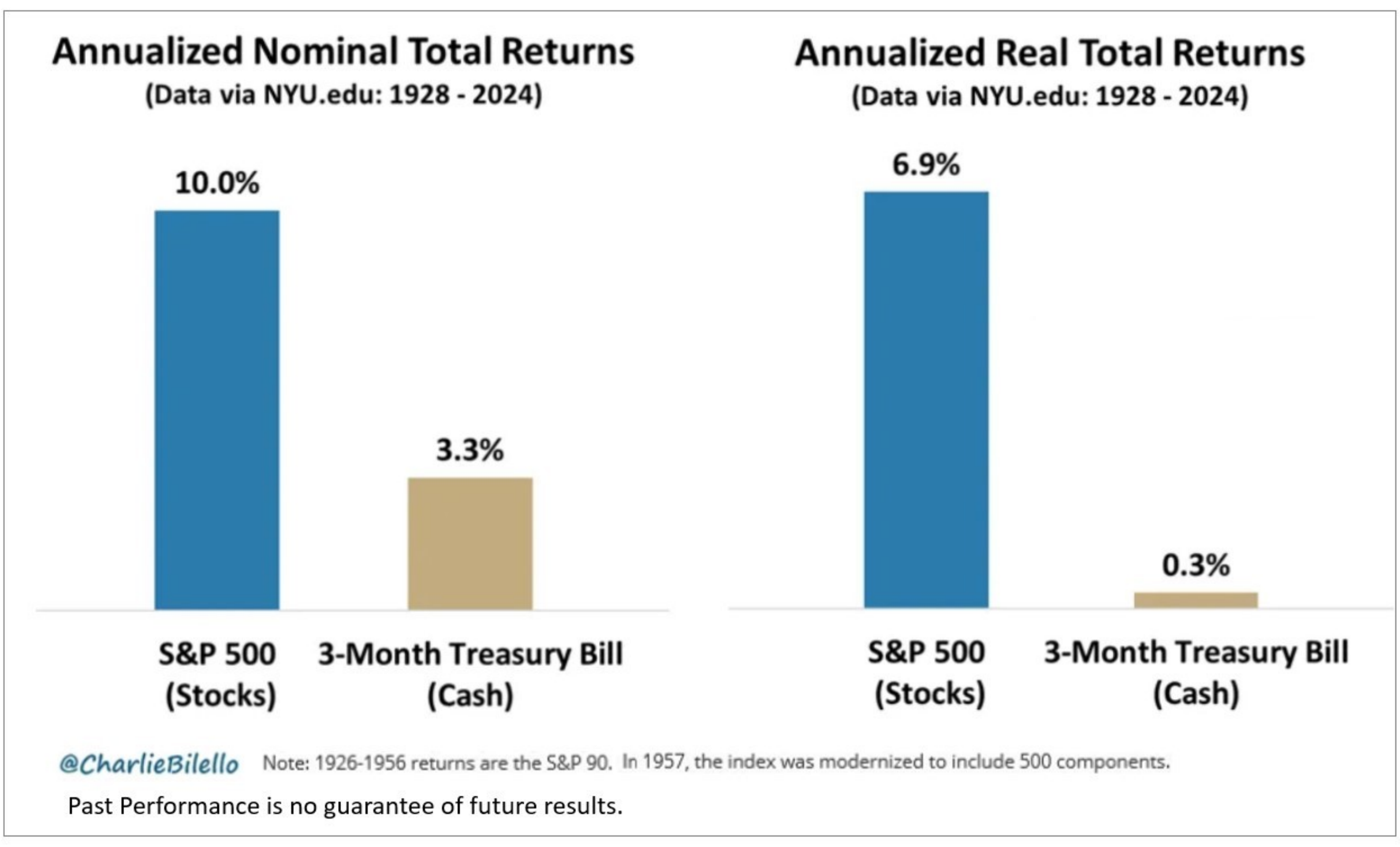
Historically, as summarized in the bar chart at the bottom, the difference in the annualized returns between stocks (using the S&P 500) and cash (3-month Treasury Bills) has been about 6.6%-6.7% in both nominal (before inflation) and real (after inflation) terms, a significant give-up for long-term investors willing to accept volatility and invest in “risk” assets.



Source: Board of Governors of the Federal Reserve System *Shaded areas indicate U.S. recessions.*



*Source: BofA Research Invetment Committee, Bloomberg, August 6, 2025 Past Performance is no guarantee of future results.



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LEDERER & ASSOCIATES
INVESTMENT COUNSEL
5305 East 2nd Street, Suite 201, Long Beach, California 90803
Tel: (562) 434-5305 ▲ Fax: (562) 434-5306
www.lederer-associates.com