"The only constant is change." - Heraclitus

The markets have been pulling in two directions. The excitement of AI has continued lifting certain growth names, while rising economic and geopolitical worries are currently driving money back into safer, income producing sectors. Over time the AI trade has also narrowed and rotated — early leadership clustered in a few marquee names, then moved into chip and infrastructure suppliers, and more recently shifted again as investors chase the next beneficiaries. By contrast, the current value trade is broader, with more sectors participating and market breadth generally favoring value over a concentrated growth rally.

The factors driving these movements from growth to value and vice versa are the market's expectations for future levels of interest rates, inflation and the dollar. In today's market, the Iran-U.S War influences these the most. As tensions rise, this results in higher energy prices, higher interest rates and a higher dollar and this combination does not tend to favor growth but does favor tried-and-true value stocks. Additionally, the realization that companies implementing AI into their daily practices are finding the costs of doing so expensive and, sometimes, shockingly so is weighing on the AI trade as well. Some large companies have curtailed or stopped their employees from accessing these expensive AI programs as they did not see the productivity gains.

As we enter the third quarter, market participants will begin to factor in the mid-term elections into their forecasts. Historically, the party in control of the Presidency tends to lose significant seats in the House of Representatives during these mid-terms. The Senate hangs in the balance as well with a slight advantage favoring Republicans, but the margin is low. Market participants hate uncertainty and the mid-terms introduce another uncertain outcome. The next few months may also see a short-term challenge to the AI trade. Could we see a bit of a hiccup in this growth sector? It's certainly possible if more and more companies question the costs of implementing and using the technology. The companies building out the AI models are suddenly beginning to feel some price push back at a time that they are spending large amounts of money building out the infrastructure.

Over the last several years, the stock market, at times, has acted like a zero-sum game, but not entirely. At moments, it has appeared that there is not enough money to rally both growth and value stocks at the same time, while in other periods both have risen and fallen together. When growth has appeared to be unfavorable, defensive and more value oriented sectors like regional banks, healthcare, industrial, transportation and

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other value areas have performed well. When growth has been favorable, the hyperbolic AI trade of the last few years has resumed. Given the shifting markets, we have found that diversification has allowed portfolios to participate in either market. We remain constructive for the foreseeable future, but there may be bumps along the road in the short term.

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