

DYNAMIC SECTOR ALLOCATION

TRADE UPDATE

July 2025

Market Review

- » Global trade policy uncertainty, which rose sharply following the April tariff announcement, has since eased from its peak. Thus far, the effects of these tariffs on the U.S. economy have been smaller than anticipated. Investors appear to be looking past the trade disputes, focusing instead on the outlook for strong economic and earnings growth. As a result, riskier assets, such as equities and high yields, rallied during the second quarter.
- » Turning to economic data, recent figures show that U.S. job openings have declined. However, a drop in workforce growth due to lower net immigration has kept the unemployment rate at 4.2%. In addition, U.S. headline CPI rose slightly below market forecasts, and long-term inflation expectations remain well-anchored. Despite weaker consumer sentiment, underlying consumer fundamentals remain solid.
- » A dovish Fed, escalating trade tensions, and budget deficit concerns have led to notable volatility in the treasury market. Long-term treasury yields have experienced significant volatility, with the 30-year bond yield at one point surging above 5%. The yield curve is widely expected to steepen as investors demand a higher premium for holding longer-term bonds in such an uncertain environment.

Moving Forward

- » **Increasing Exposure to Equities:** We believe the current macroeconomic backdrop continues to support the market's recent performance, which has been largely driven by retail investor activity. Furthermore, we anticipate that fiscal policy, such as the "One Big Beautiful Bill" Act, will likely provide an additional tailwind. By front-loading tax cuts and spending, such legislation is likely to inflate asset prices more significantly than consumer prices, reinforcing our positive outlook for equities in the near term.
- » **A Temporary Slowdown:** While recent data suggests weakness in the U.S. labor market, we do not believe this signals a negative turning point. In our view, this weakness is temporary, stemming from the April tariff shock which was reversed within a month. Should the outlook for economic and earnings growth prove more resilient than feared, investors should be positioned for potential upside.

In response to a resilient economy and decline in tariff uncertainty, the Innealta Capital investment team rebalanced the Dynamic Sector Allocation ("**DSA**") on 07/29/2025.

Position changes within the DSA

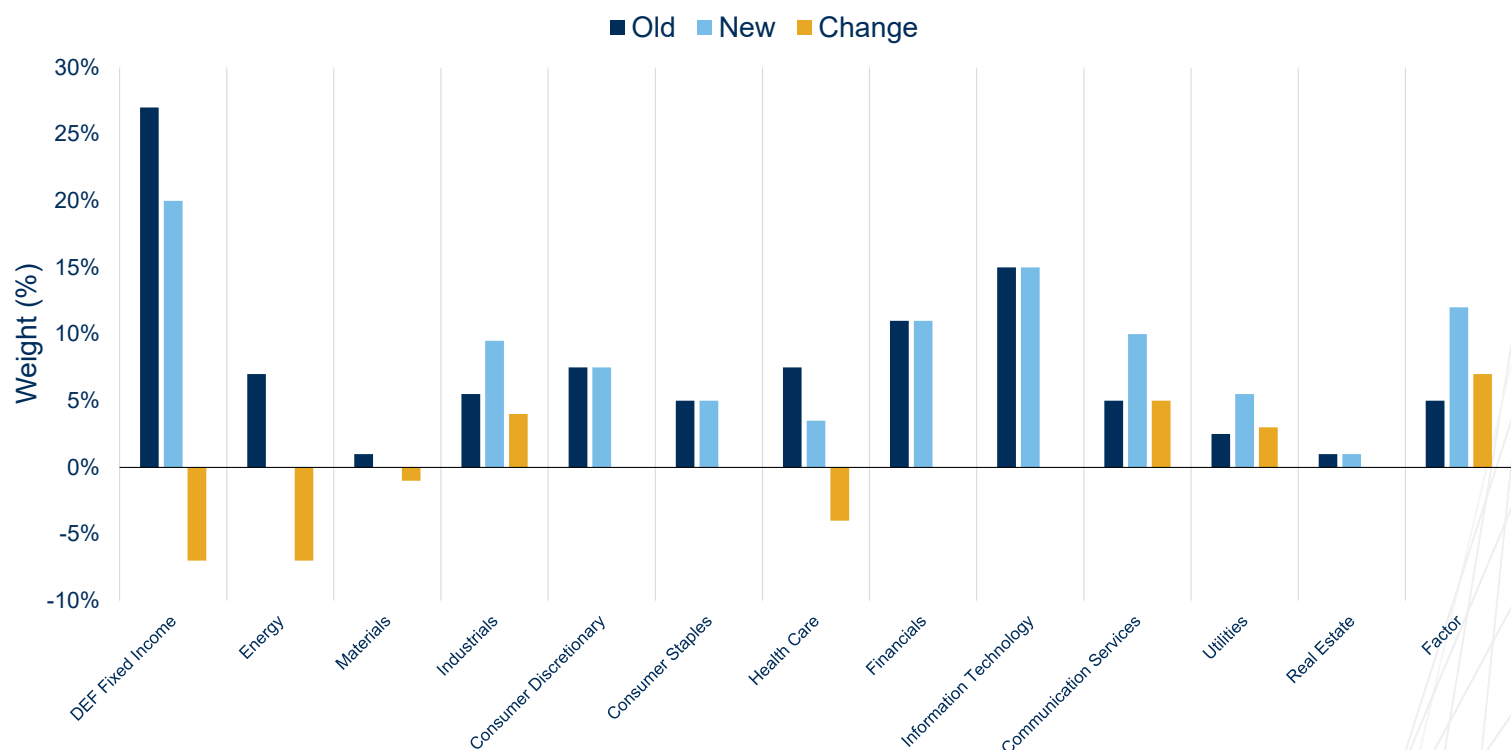
- » **Asset Allocation:** Within the strategy, the equity allocation was increased from 73% to 80%, while fixed income decreased from 27% to 20%.
- » **Equity Allocation:** Equity allocation: DSA reallocated away from defensive equity and macro-cyclical sectors towards consumer-cyclical and factor-based exposure. As part of this, DSA increased allocations to utilities, communication services, and industrials, while trimming the weights of the energy, materials, and health care sectors.
- » **Fixed Income Allocation:** DSA reduced the exposure to actively managed bonds and intermediate-term treasury.

Positioning of DSA relative to its benchmark

- » **Asset Allocation:** Relative to its benchmark, DSA is 10% overweight to equities and 10% underweight to fixed income.
- » **Equity Allocation:** Within equity sectors, DSA has overweight allocations to utilities, communication services, financials, and industrials sectors; the strategy has underweight allocations to energy, materials, health care, and information technology sectors. Across size and style tilts, the strategy has overweight allocations to small-cap value and large-cap growth securities.
- » **Fixed Income Allocation:** DSA has overweight allocations to intermediate-term bonds relative to its benchmark. The strategy has a lower effective duration than the benchmark (5.55x vs. 5.99x).

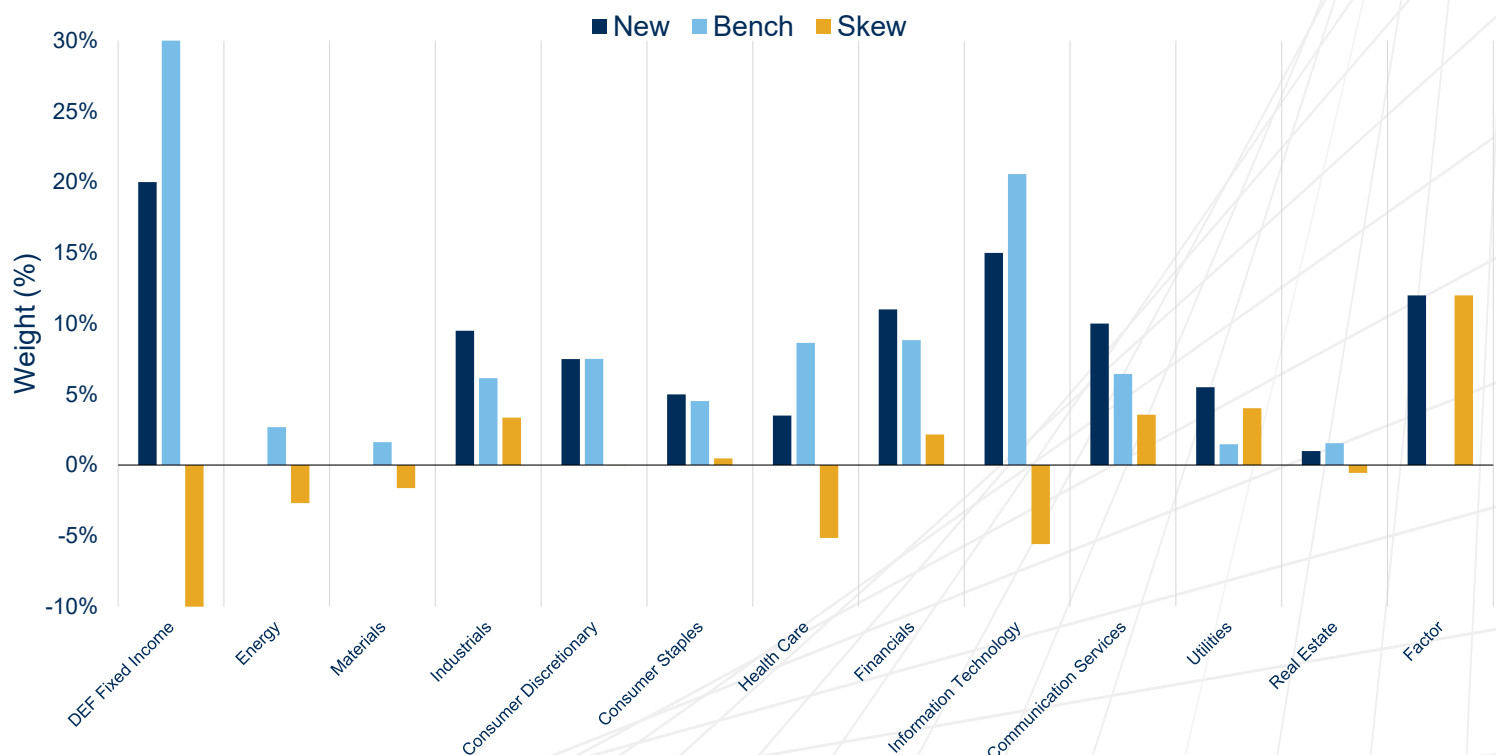
PORTFOLIO SNAPSHOT

HOLDINGS CHANGES



SOURCE: Innealta Capital, as of 07/29/2025. New refers to the portfolio as of the trade update date. Old refers to the portfolio as of previous to the trade update. Change refers to the difference between each. See disclosures for more details.

HOLDINGS RELATIVE TO BENCHMARK



SOURCE: Innealta Capital, as of 07/29/2025. Portfolio's benchmark refers to a blend of 70% S&P 500 Total Return Index and 30% Bloomberg Barclays U.S. Aggregate Index. Skew refers to the difference between the portfolio and the benchmark. See disclosure for more detailed descriptions.

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737.808.4640
consulting@innealtacapital.com

Innealta
CAPITAL

13215 Bee Cave Pkwy
Building A, Suite 240
Austin, Texas 78738
innealtacapital.com