Stock prices climb a wall of worry

Geremy van Arkel, CFA | Director of Strategies

Markets are shifting, and with them comes both opportunity and risk. After years of U.S. large-cap dominance, 2025 is shaping up differently. Diversification is paying off, small caps are gaining ground, and international equities are outpacing domestic markets.

In this Monthly Briefing, we'll look at how these shifts are playing out across asset classes, why capital markets appear to be returning to fundamentals, and what the Fed's latest rate dilemma could mean for investors. We'll also highlight Avantis International Small Cap Value — a timely addition that's already delivering meaningful results.

Through it all, Frontier remains grounded in the same principles that guide us across every market cycle: risk management, diversification, and independent money manager selection.

HERE'S WHAT'S UP!

Monthly overview

Diversification is back in style.

— *Geremy van Arkel, CFA*

Diversification is back in style.
Here's what stood out last month:

- **Frontier strategies are performing well** – Year-to-date results reflect the benefits of our risk-managed, diversified approach.
- **Market leadership is shifting** – From S&P 500® and Mag 7 trend-chasing to a market environment that favors broader diversification and undervalued, higher expected return assets.
- **International stocks are outperforming domestic** – A notable reversal of recent years, with global markets taking the lead.
- **U.S. small caps are breaking through** – The much-ignored asset class was the top performer this month.
- **The Fed is under pressure** – Rate cuts aren't straightforward; too much, too soon could actually push long-term rates higher.
- **Little to no changes in Frontier strategies** – We remain broadly diversified, risk-managed, and tilted toward undervalued asset classes and skilled active managers.

FRONTIER ASSET MANAGEMENT

Performance highlights

The **Balanced Strategy**, which represents a diversified mix of asset classes that is currently approximately 55% equity / 45% non-equity, is performing in line with the S&P 500 year-to-date. It is also ahead of its benchmark year-to-date and over the past 12 months ending August 30.

The **Conservative Income Strategy** continues to have an attractive yield (which is currently approximately 6%). Through August 30, the Income strategy has already returned 6% total return year-to-date, with four months still to go.

The **Global Opportunities Strategy**, which has struggled over the past couple of years, came alive this quarter. This strategy, which is overweight to small-cap stocks and international stocks relative to its competitors, is responding well to the newfound performance of small-cap stocks this quarter. For quarter-to-date, small-cap stocks have approximately doubled the return of the S&P 500 Index. Something to consider: if small-cap stocks outperform large-cap stocks by even just 0.5% a year, then this positioning added value.

Conservative Income Strategy

			Annualized Returns						*Standard Deviation*		
	1-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Inception	Cumulative Return	5-Yr	Inception	Inception Date
Conservative Income											
Gross of an advisory fee	1.8%	6.0%	7.1%	6.3%	3.9%	4.0%	3.5%	52.2%	5.4%	4.7%	05/01/2013
Cap Pres Bench	1.3%	6.3%	6.6%	7.0%	4.5%	4.4%	3.6%	53.9%	7.4%	6.2%	
Net of max advisory fee	1.8%	3.6%	3.9%	3.1%	0.8%	1.0%	0.4%	4.9%			

Past performance is no guarantee of future returns.

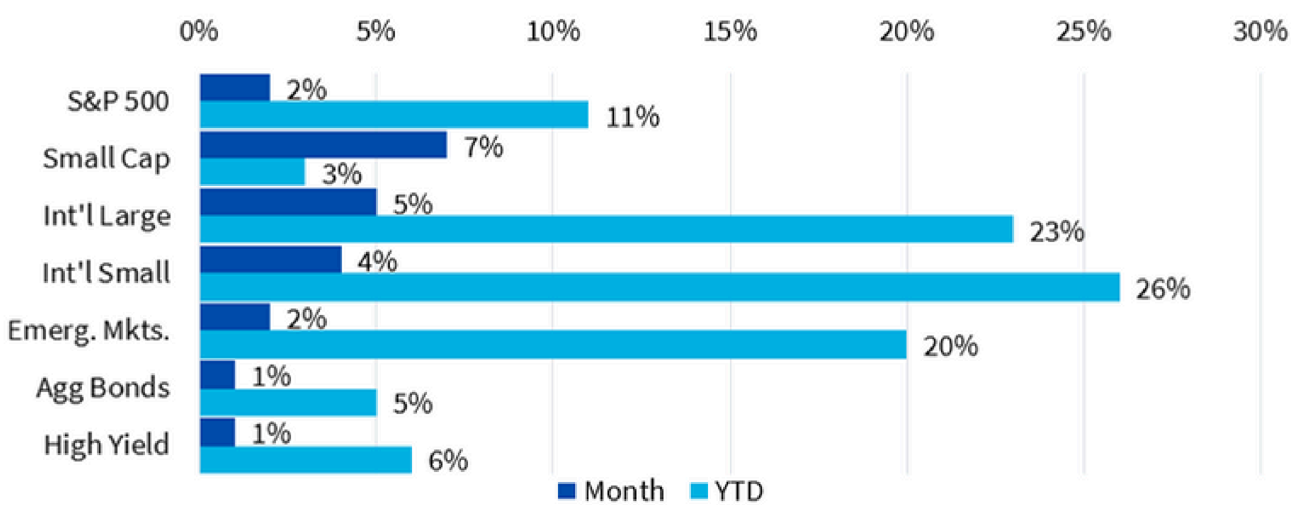
Our differentiated exposures are currently in favor, especially in overlooked areas like small caps and international. This is important right now given that most of the industry is highly focused on the Mag 7, large-cap indexes, and risk-seeking.

Capital markets: Return to fundamentals

Capital markets in 2025 are experiencing what we are calling a ‘return to fundamentals’. The post-COVID capital markets environment has been one of risk seeking, trend following, and leadership was focused on U.S. large-cap stock indexing and thematic technology stories. In that environment, there has been only one way to get ahead: own more S&P 500 Index or Mag 7 stocks. Managers that performed well from COVID to 2024, most likely did so by simply owning more S&P 500 Index or Mag 7; it was that simple. But history is littered with market leadership changes and risk events. The trend is your friend, until it is not. This is a story that is as old as time. Will these managers adjust their positioning when the market leadership changes? That would be my number one question at this time.

To endure and thrive through multiple market environments, risk events, and leadership changes, Frontier relies on the principal portfolio building blocks of risk management, diversification, buy low/sell high, and security selection to manage our strategies. In 2025, Frontier strategies performed well through the April tariff tantrum and diversified into undervalued or buy low asset class opportunities, which has been beneficial to our investors this year.

1-MONTH AND YEAR-TO-DATE ASSET CLASS RETURNS – ENDING AUGUST 30, 2025



Source: Morningstar

Frontier positioning & changes

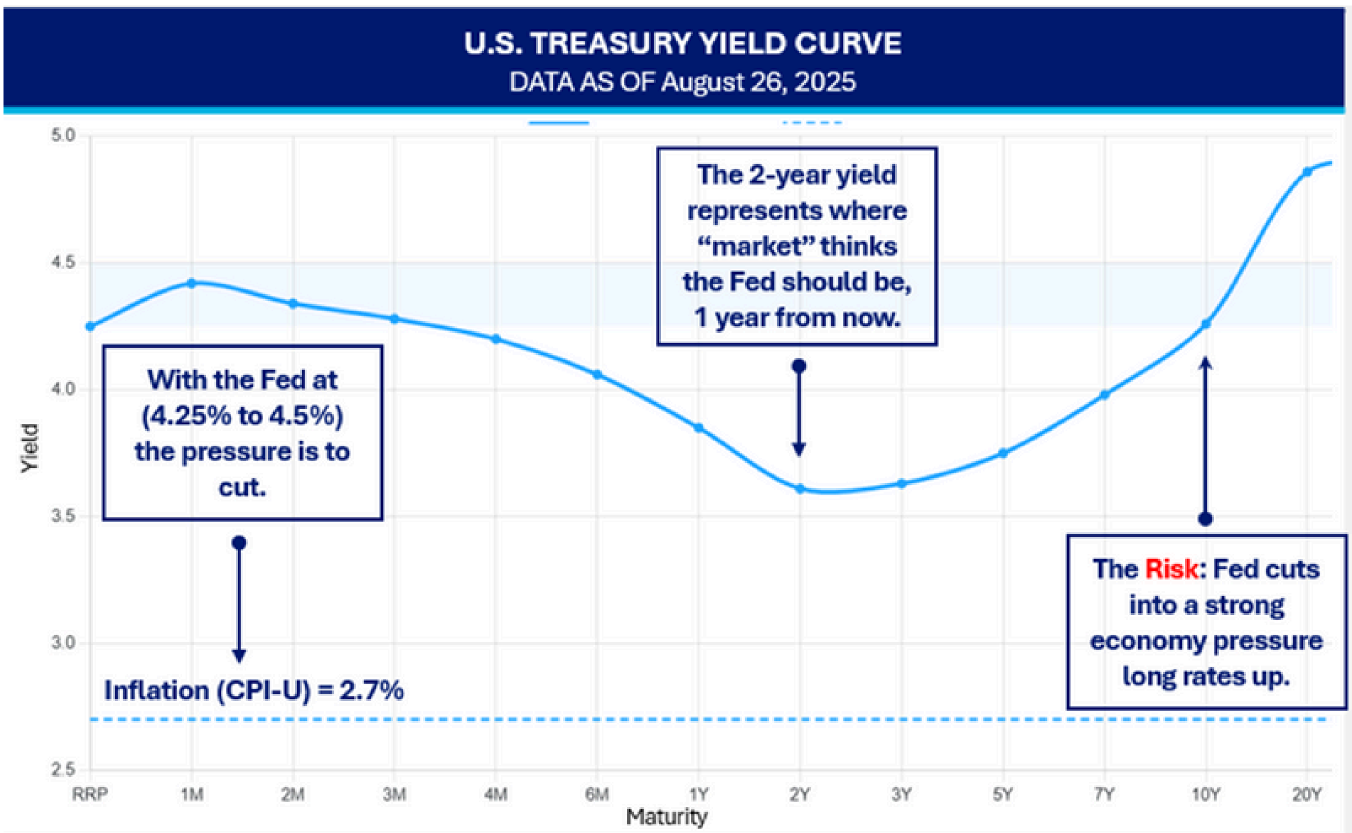
We have had little to no change in the positioning of our strategies over the past month. The following are our current positioning points:

- **Less downside exposure vs. peers –** We believe our strategies are currently exposed to less downside risk than most competitors in similar categories.
- **Less U.S. large-cap / S&P 500; more small-cap & international –** We tend to hold less U.S. large-cap S&P 500 Index-type exposure than most of our competitors and are tilted toward areas with higher expected returns (i.e., small-cap stocks and international stocks).
- **More (and more diverse) asset classes –** We hold more asset classes, and more diversifying asset classes such as alternative investments and broader bond positioning than most of our competitors.
- **Active fixed income –** Our fixed income positioning remains predominantly driven by active bond managers.
- **Active managers + ETFs –** Our strategies are constructed using independent actively managed mutual funds as well as ETFs, which enables us to hold a wider variety of added value active security selection strategies than almost all our competitors.

Headline of the month:
"The Fed under pressure"

As you are well aware by now, the Fed is under a lot of public pressure to lower the Fed Funds Rate.

In the first quarter of this year, we reported that the Fed should lower rates in 2025. This was a recognition that the Fed Funds Rate of 4.25% is far above the current rate of inflation at that time of about 2.7%. Historically, for reference, the Fed has – on average – kept the Fed Funds Rate at about a half a percent above the realized inflation rate. Using that logic, the Fed should cut the Fed Funds Rate by 1%, down to 3.25%. However, there is obviously more to this story than this simple logic.



Source: www.ustreasuryyieldcurve.com

Headline of the month: "The Fed under pressure" (continued)

What to know:

- The Fed influences the 3-Month T-bill rate, which is effectively the savings rate. When the Fed raises or lowers the Fed Funds Rate, this moves the 3-month T-Bill yield (most left-hand side of the chart) up or down, and money market rates, bank rates, and CD rates move in tandem.

- The money market rate represents the interest rate *earned* on savings. The longer dated yields/interest rates represent the interest *paid* on debt, because most people borrow for five years and beyond. Longer rates also heavily influence credit card rates.

- The yield/interest rate of bonds with a maturity of about two years or longer is determined by market participants buying or selling bonds. **The Fed does not control longer-dated interest rates; market participants do.**

- In the fourth quarter of 2024, the Fed cut the Fed Funds Rate by 1%, and the 10-year yield/interest rate *rose* by about 1%. The Fed tried to provide interest rate relief, but in turn actually raised interest rates for borrowers.

- Why is that? When the Fed cuts interest rates during a strong economy, investors (who control longer-dated interest rates) could interpret the rate cuts as stimulus, which could lead to future inflation.

- Most importantly, the Fed appears to be concerned that tariffs could lead to higher import prices for consumers, which is inflationary. However, I am not sure that a higher or lower Fed Funds Rate can change that.

All that being said, the Fed will likely cut the Fed Funds Rate by about 0.25% in September. However, since this is expected, it will likely have little impact on capital markets. On the other hand, if continued Fed cuts are perceived by the "market" as being too aggressive – watch out – as this could trigger long-dated rates to actually rise. Rising interest rates at this juncture could be the single most important risk to asset prices.

Fund story of the month: Avantis International Small Cap Value

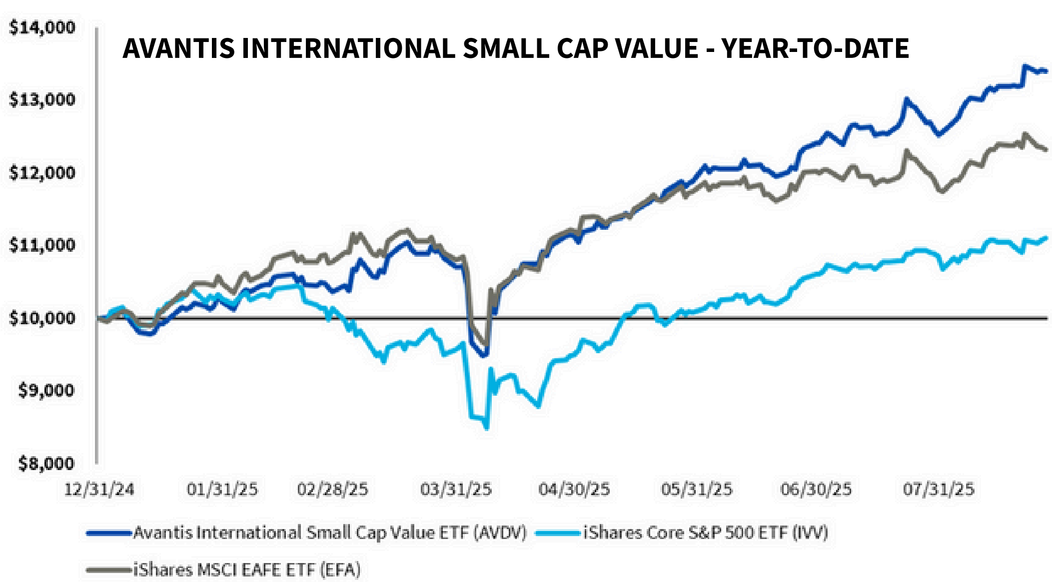
The most relevant active decision that occurred this year was adding to out-of-favor and undervalued international asset classes in January and February in many of our strategies. A highlight of this buy-low decision was purchasing Avantis International Small Cap Value in early January. Why was this so distinctive?

- Our process favors higher expected return asset classes. That being said, we don't often see the level of instant gratification that the Avantis International Small Cap ETF provided to our strategies. This ETF is currently up about 34% year to date through August 27.

- Members of the Avantis team broke away from DFA – the pioneers of factor-based investing – to manage portfolios in a manner that they believe is more effective than most factor-based strategies.

- At the time of purchase, the ETF's historic performance was nothing outstanding; it was the strategy and asset class exposure that we were investing in.

- **Bonus:** Avantis is owned by American Century, which in turn is owned by the Stowers Institute for Medical Research, which is focused on cancer research. Upwards of 40% of the profits of American Century go to the Stowers Institute every year. It could be construed that American Century, as a firm, exists to fund cancer research, and that's pretty cool.



Source: YCharts

For more information, visit frontierasset.com.

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Inflation is the decline of purchasing power of a given currency over time. A quantitative estimate of the rate at which the decline in purchasing power occurs can be reflected in the increase of an average price level of a basket of selected goods and services in an economy over some period of time. The rise in the general level of prices often expressed as a percentage, means that a unit of currency effectively buys less than it did in prior periods.

It is generally not possible to invest directly in an index. Exposure to an asset class or trading strategy, or other category represented by an index is only available through third-party investable instruments (if any) based on that index.

S&P 500 Index: Tracks the stock performance of 500 leading companies listed on stock exchanges in the United States.

The "Current Yield" is either an annualized number of the underlying funds' most recent distributions, trailing twelve-month yield, or previous five years depending on the volatility of the fund distributions. The current yield of individual portfolios may vary. Different share classes may have different current yields. The holdings of model strategies may vary from the strategies managed by Frontier, as such current yields may also vary.

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