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Weekly Market Guide

After a sharp gap-down on August 1st, the S&P 500 has rebounded well to breakout to new all-time highs. Use a time filter to see if 6427 resistance can hold over the coming days, as sometimes the index can "head fake" around obvious levels. Typically, sharp declines (like August 1st) after long runs higher can result in a digestion phase where the index chops sideways for a period of time. The odds are usually low that the market completely brushes off that gap-down.

Under the hood, participation has been one-sided recently (favoring a narrow sleeve of Tech/AI-oriented names). With good setups in other areas, rotation would be a positive even if it comes in conjunction with a grind for the index.

Upcoming notables to watch:

- **Economic data:** Yesterday's CPI report (Core CPI +0.3% m/m) did little to change the growing expectation of a September Fed rate cut. The Fed has a balancing act to achieve low inflation and maximum employment. Last week's employment report (containing large negative revisions), along with other recent sluggish/soft-patch economic data, likely tips the scales toward a rate cut. With the market discounting 96% odds of a September rate cut, the upcoming data will be closely monitored. This includes July PPI Thursday, Retail Sales Friday, and a full slate of August economic data before the September 17th rate decision.
- **Late Q2 reporters:** Over the next couple of weeks, investors will hear from a number of consumer companies. It will be interesting to hear their tariff thoughts and views on consumer trends. Additionally, there are a handful of tech reports, including the world's leading semiconductor company reporting on 8/27. These will be key influences on the current narrative and market momentum.

Big picture: There are a lot of moving parts- inflation data, Fed expectations, trade negotiations/tariffs, geopolitics (Trump/ Putin meeting Friday). **While it's easy to get pulled into the day-to-day headlines and potential volatility, the most important thing for long-term investors- Corporate Earnings- remains supportive.** The US economy is likely to hold up well- supported by tax bill stimulus, domestic capex/investment, deregulation efforts, and other tariff offsets (i.e. lower oil prices). This is pushing earnings estimate revisions upward at already healthy levels. 2025-2027 consensus S&P earnings growth reflects low double-digit growth annually.

In sum: The path of least resistance remains higher, but we would not be surprised to see the market experience a consolidation phase at some point in the short term- in conjunction with soft historical Aug-Sep seasonality and parallels to the 2018/19 trade war trading pattern, following its strong run from April lows. Longer-term, we remain positive on overall market trends and would view potential weakness opportunistically.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	4.5%	13.0%
S&P 500	9.6%	20.6%
S&P 500 (Equal-Weighted)	5.5%	11.5%
NASDAQ Composite	12.3%	29.2%
Russell 2000	2.4%	10.7%
MSCI All-Cap World	12.6%	20.3%
MSCI Developed Markets	19.1%	18.2%
MSCI Emerging Markets	16.9%	17.6%
NYSE Alerian MLP	2.1%	11.6%
MSCI U.S. REIT	-3.0%	-2.7%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Communication Svcs.	16.9%	10.0%
Information Technology	16.6%	34.5%
Industrials	15.2%	8.5%
Utilities	13.6%	2.4%
S&P 500	***9.6%***	-
Financials	8.3%	13.6%
Materials	7.1%	1.8%
Consumer Staples	6.6%	5.4%
Consumer Discretionary	-0.6%	10.3%
Real Estate	-0.7%	1.8%
Energy	-1.2%	2.9%
Health Care	-4.8%	8.7%

Source: FactSet

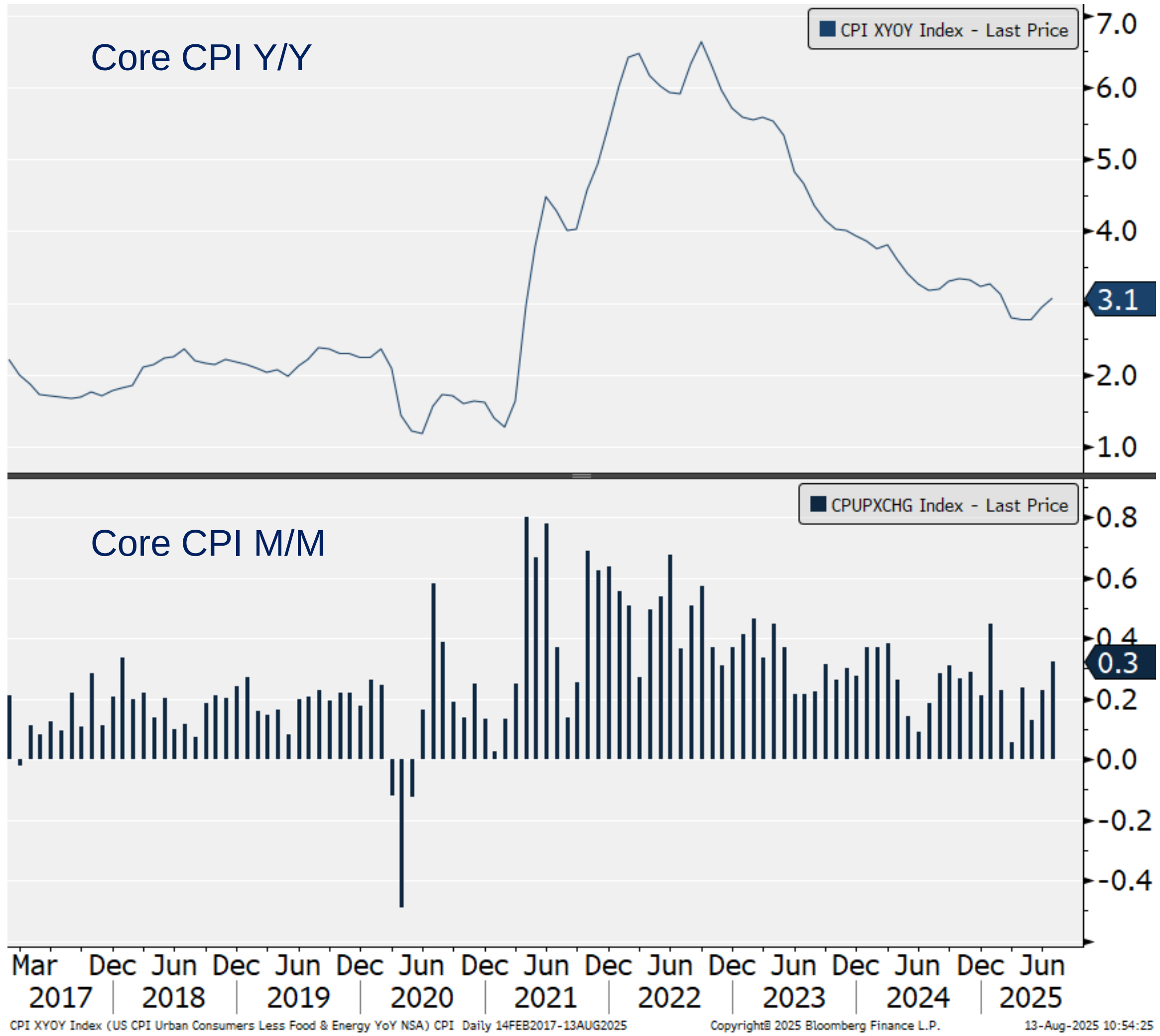
July CPI Takeaways

Core CPI rose +0.3% m/m in July (in line with consensus) and +3.1% y/y.

Core Goods had a modest lift +0.32% m/m with household furnishings +0.7% and used vehicles +0.48% showing some tariff effects. However, there were some reverses too as appliances contracted -0.9% and tech communication -1.2%.

Core Services were firmer at +0.36% m/m. Airlines was the standout up +4% m/m, however this came after five consecutive declines. Medical care +0.79% and recreation +0.41% also showed upside. Rent (big weight within Core Services) remained relatively low at ~0.26%.

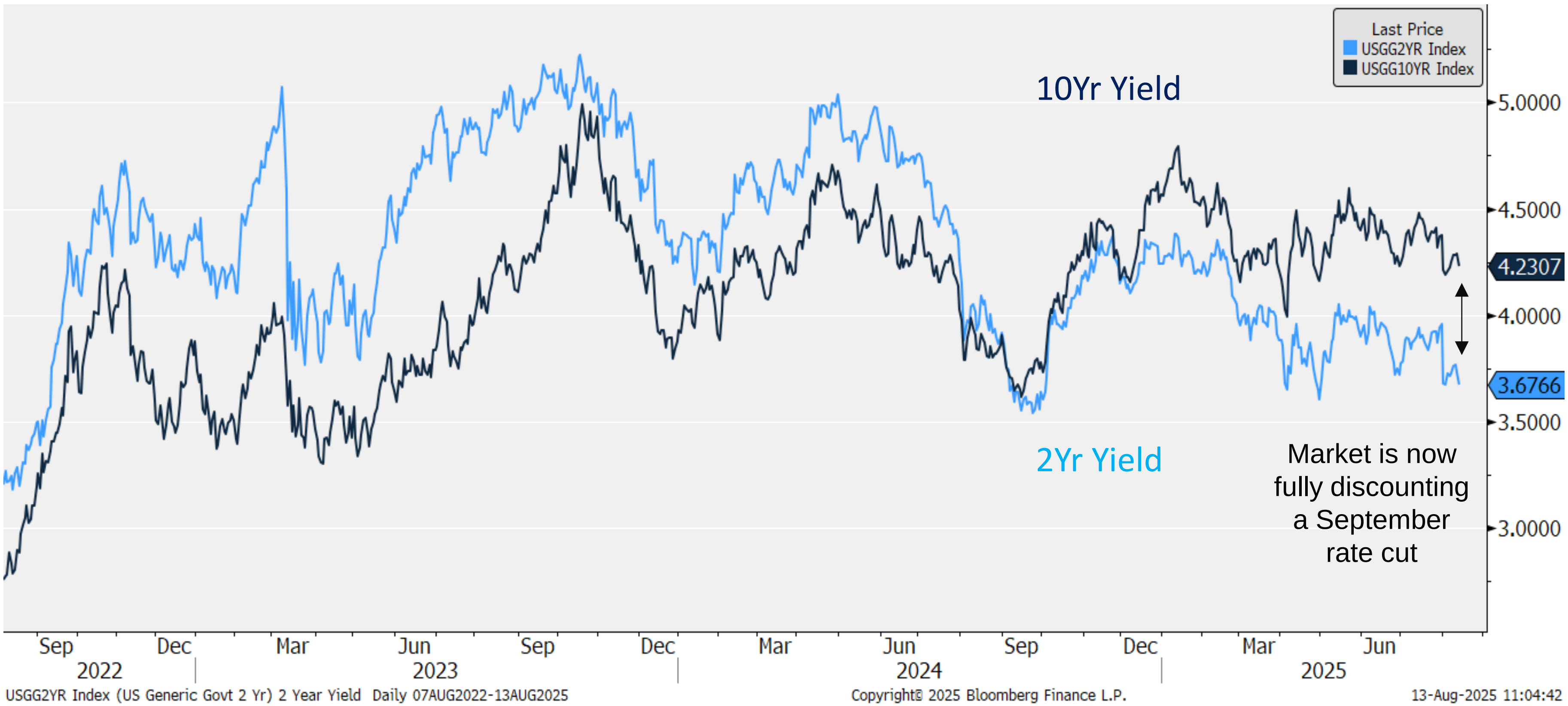
The report does little to change the growing market narrative of a September rate cut. If Thursday's PPI comes in line with consensus at +0.2%, Core PCE (the Fed's favored measure of inflation) should come out near 0.3% in July (+2.8% y/y). Above the Fed's 2-2.5% ideal range, but close enough to shift more focus toward the sluggish/soft-patch economic data of late.



Source: Bloomberg, FactSet

Fed Expectations & Interest Rates

The Fed has a balancing act to achieve their dual mandate of low inflation and maximum employment. Last week's employment report (containing large negative revisions), along with other recent sluggish/soft-patch economic data, likely tips the scales toward a rate cut. With the market now fully discounting a September rate cut, the upcoming data will be closely monitored. This includes July PPI on Thursday, Retail Sales on Friday, and a full slate of August economic data before the September 17th rate decision. Interest rates are likely to move on the expectation changes, which can have effects on valuations and market movements across sectors.

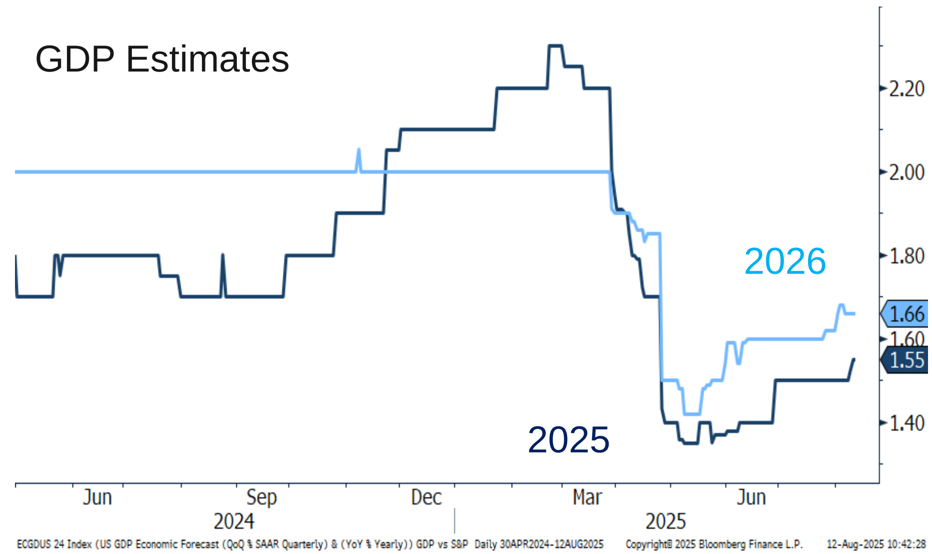


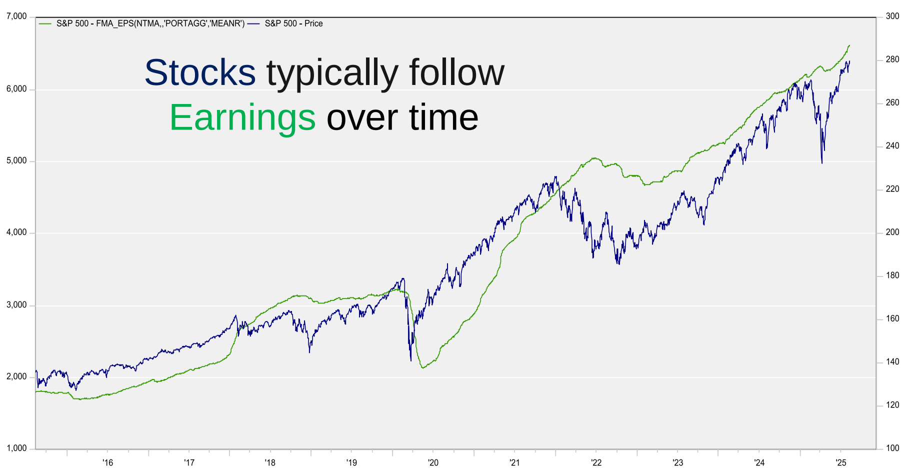
Source: Bloomberg, FactSet

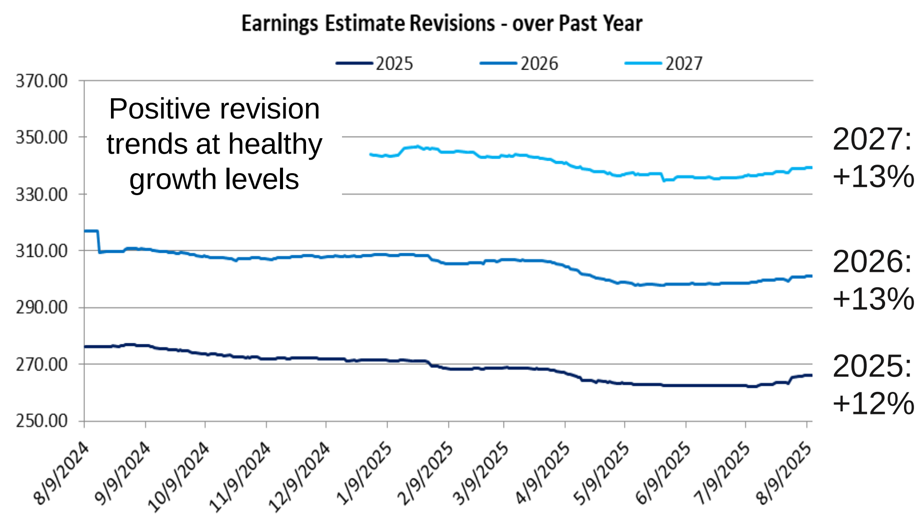
Economy & Earnings

There are a lot of moving parts- inflation data, Fed expectations, trade negotiations/tariffs, geopolitics (Trump/Putin meeting Friday). While it's easy to get pulled into the day-to-day headlines and potential volatility, the most important thing for long-term investors- Corporate Earnings- remains supportive.

The US economy is likely to hold up well- supported by tax bill stimulus, domestic capex/investment, deregulation efforts, and other tariff offsets (i.e. lower oil prices). This is pushing earnings estimate revisions upward at already healthy levels. 2025-2027 consensus S&P earnings growth reflects low double-digit growth annually. A strong Q2 earnings season that saw results beat estimates by 8.4% in aggregate, margin guidance hold steady (at high levels), along with increased tax bill benefits and decreased tariff uncertainty, is a boost to to earnings momentum.



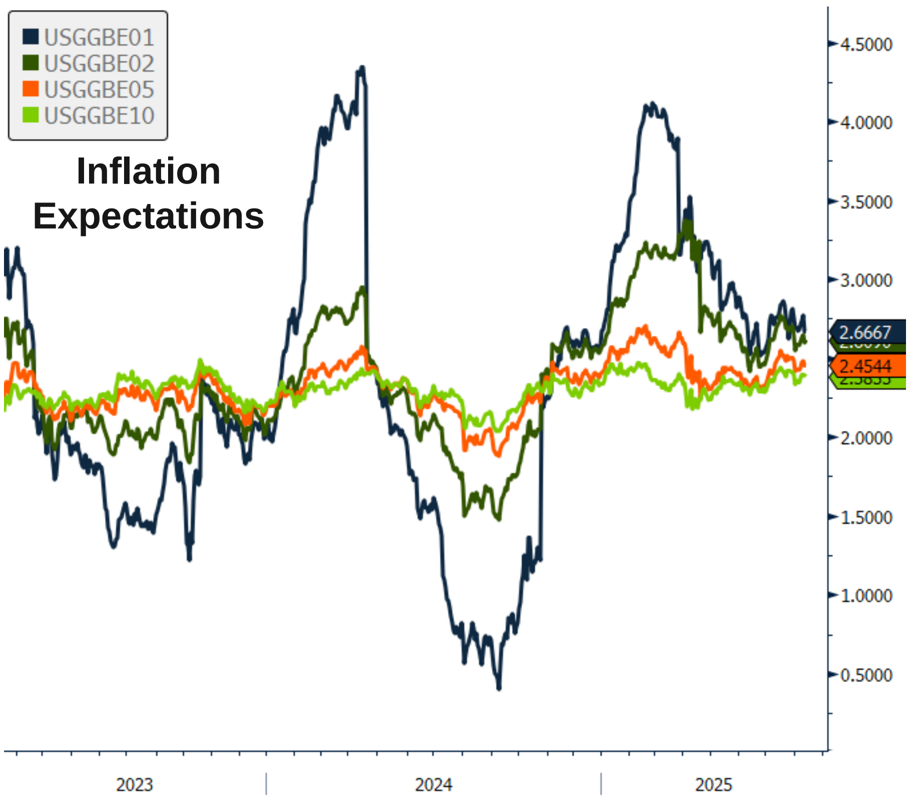


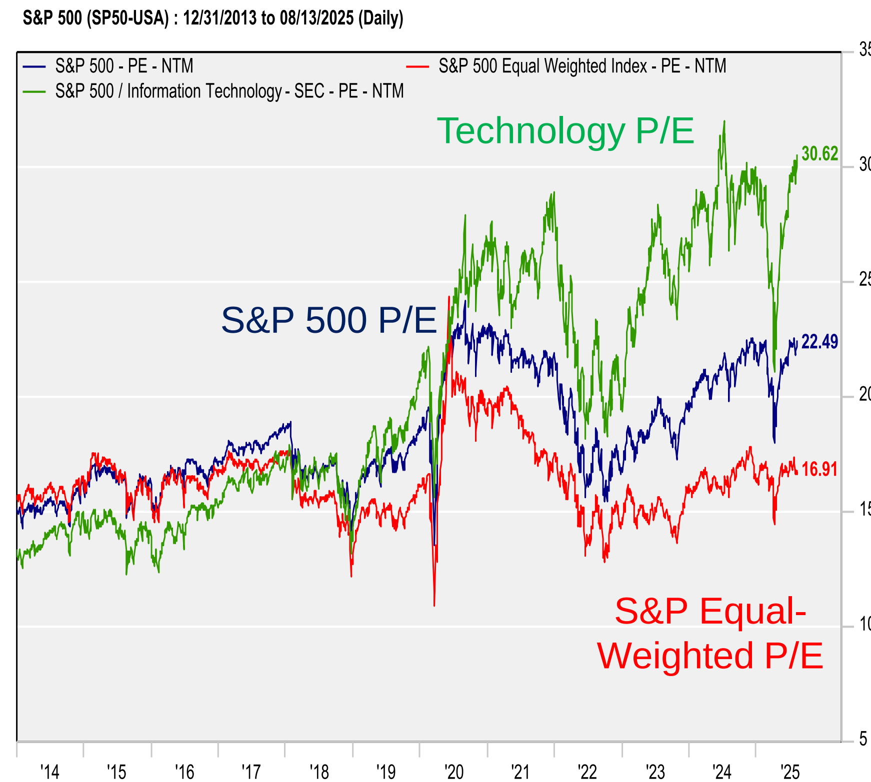


Source: Bloomberg, FactSet

Inflation & Valuation

While the tariff situation is fluid and most of the effects have likely not been felt yet, it is comforting to see the market's long-term inflation expectations anchored in the Fed's 2-2.5% target range. This is typically where you see the highest valuation multiples historically. Additionally, the market multiple is relatively high at 22.5x due to what is going on in Tech/AI. To be sure, the bar is high for that group, but the fundamentals have justified it thus far (i.e. strong growth and positive revisions). Importantly, the majority of companies are trading at normal/reasonable valuations historically, i.e. the equal-weighted S&P P/E is just 16.9x.





Source: Bloomberg, FactSet

Technical: S&P 500

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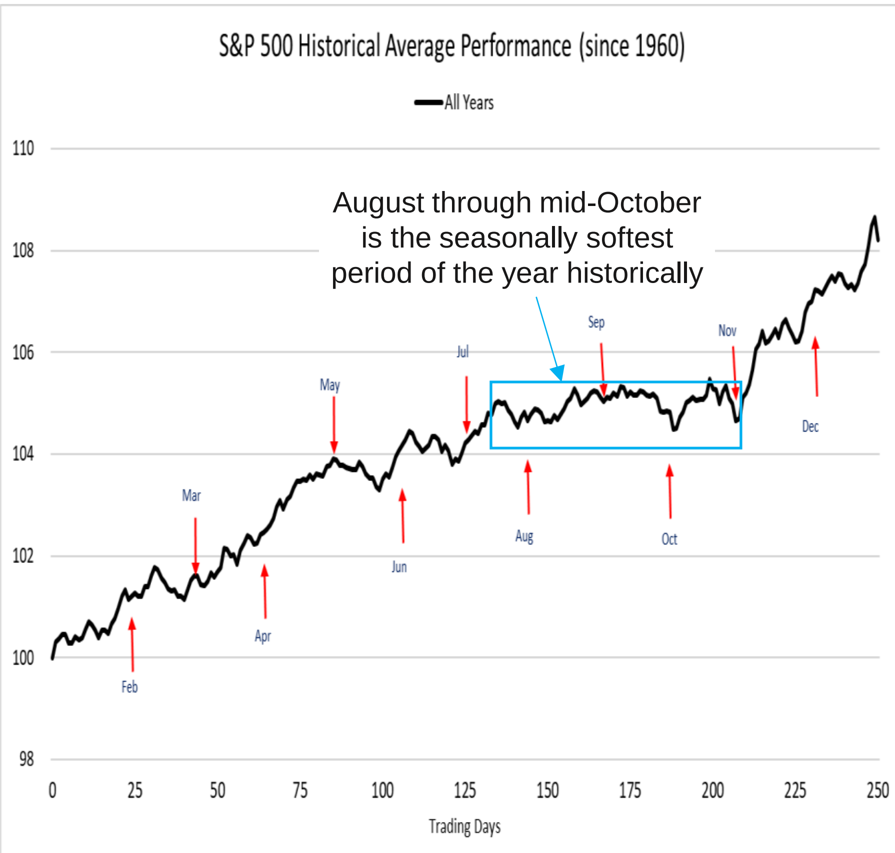
Typically, sharp declines (like August 1st) after long runs higher can result in a digestion phase where the index chops sideways for a period of time. The odds are usually low that the market completely brushes off that gap-down.

Nonetheless, intermediate term trends are positive and the path of least resistance remains higher. We would look to use potential weakness opportunistically.

Source: Bloomberg, FactSet

Seasonality & 2018 Trade War Parallels

We would not be surprised to see the market experience a consolidation phase at some point in the short term- in conjunction with soft historical Aug-Sep seasonality and parallels to the 2018/19 trade war trading pattern, following its strong run from April lows. To be sure, the totality of underlying technical trends remains positive overall, but these items do hold some weight in our shorter-term market thoughts.



Source: Bloomberg, FactSet

Market Participation

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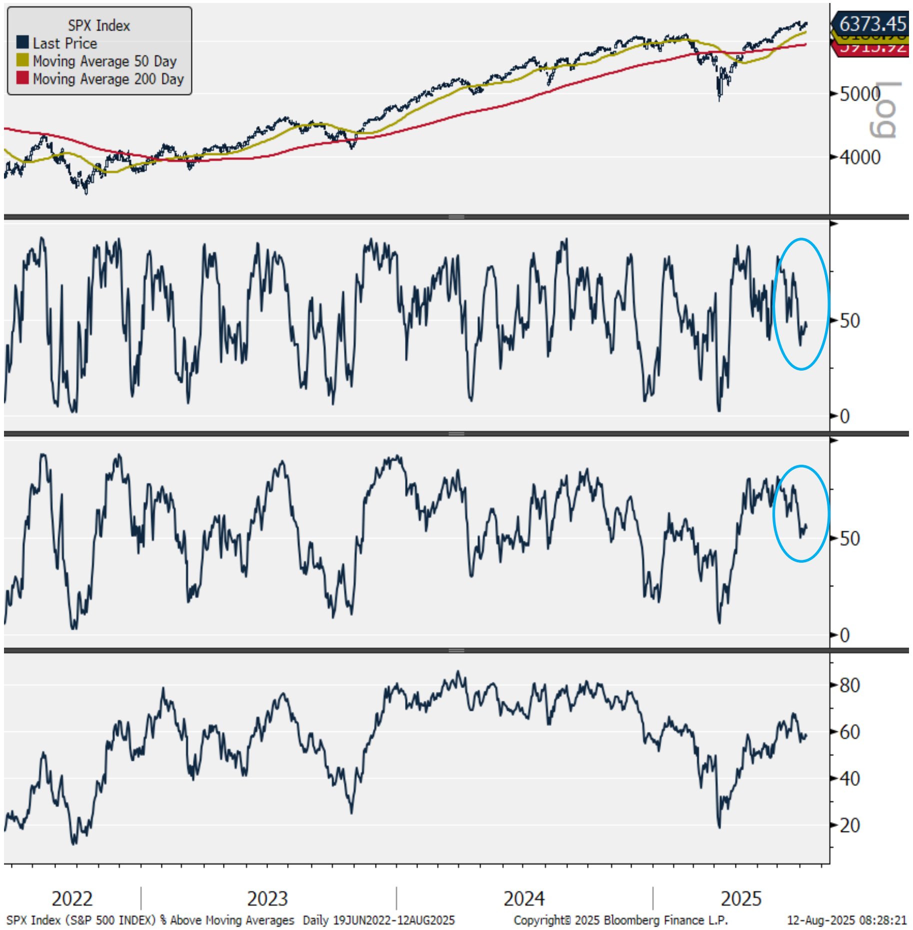
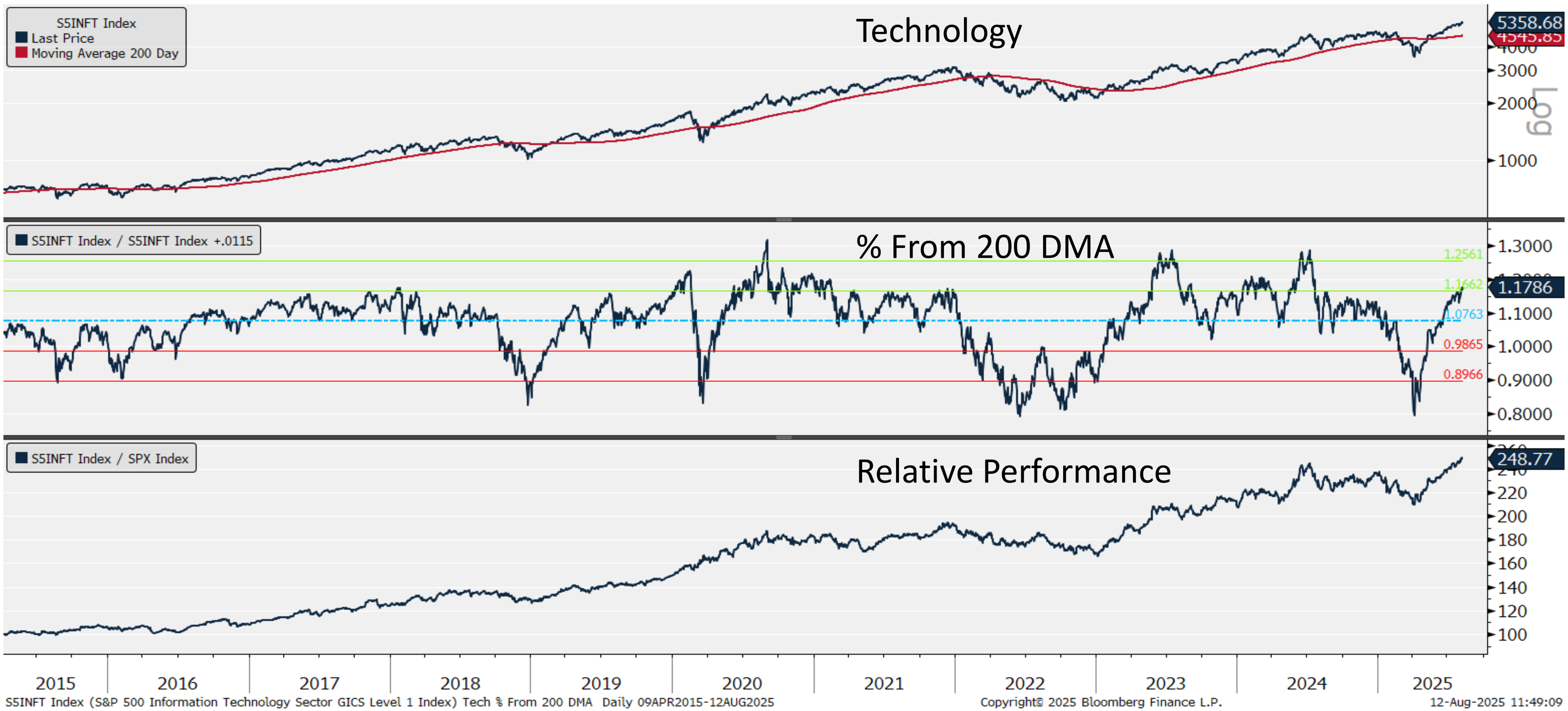


Source: Bloomberg, FactSet

Technology

Technology has been extremely strong over the past few months, breaking out to new price and relative highs in the process. And the move has been supported by fundamental strength and AI optimism on forward trends. In looking at how strong is "too strong," there are a couple of things that stand out right now. The Tech sector is now 1-standard deviation above its 200 DMA and 65-day Tech fund flows are also at the upper-bound of their historical range. While it is actually a good thing to see overbought strength following oversold weakness, we do need to be open to the possibility of some consolidation or give-back in Technology. It is not uncommon to see relative performance slow-down or become more choppy in the weeks-to-months ahead after similar overbought readings historically.



Source: Bloomberg, FactSet

Small Caps

With the tick down in interest rates over recent days, the Small Caps have broken above resistance to their highest levels since February. Relative strength is just now bouncing from its lows and has a long way to go to build a sustainable relative strength uptrend vs. the large caps. The same goes for relative earnings, which has not shown much improvement in the overall trend. Nonetheless, it is an encouraging price move for a group that has been severely out-of-favor.

Source: Bloomberg, FactSet

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Index Definitions

The **S&P 500** is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

The **Dow Jones Industrial Average (DJIA)** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The **NASDAQ Composite** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

The **MSCI World All Cap Index** captures large, mid, small and micro-cap representation across 23 Developed Markets (DM) countries. With 11,732 constituents, the index is comprehensive, covering approximately 99% of the free float-adjusted market capitalization in each country.

The **MSCI EAFE (Europe, Australasia, and Far East)** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 21 developed nations.

The **MSCI Emerging Markets Index** is designed to measure equity market performance in 23 emerging market countries. The index's three largest industries are materials, energy, and banks.

The **Russell 2000** index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks.

The **NYSE Alerian MLP** is the leading gauge of energy infrastructure Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).

The **Barclays Intermediate Government/Credit Bond** index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

The **Euro Stoxx 50 Index** is a market capitalization weighted stock index of 50 large, blue-chip European companies operating within Eurozone nations. Components are selected from the Euro STOXX Index which includes large-, mid- and small-cap stocks in the Eurozone.

The **China CSI 300** is a capitalization-weighted stock market index designed to replicate the performance of top 300 stocks traded in the Shanghai and Shenzhen stock exchanges. It had a sub-indexes CSI 100 Index and CSI 200 Index.

The **S&P 500 Futures** is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **DJIA Futures** is a stock market index futures contract traded on the Chicago Mercantile Exchange`s Globex electronic trading platform. Dow Futures is based off the Dow 30 stock index.

The **Nasdaq 100 Futures** is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international companies listed on the NASDAQ.

Europe: DAX (Deutscher Aktienindex (German stock index)) is a blue chip stock market index consisting of the 40 major German companies trading on the Frankfurt Stock Exchange.

Asia: Nikkei is short for Japan's Nikkei 225 Stock Average, the leading and most-respected index of Japanese stocks. It is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

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