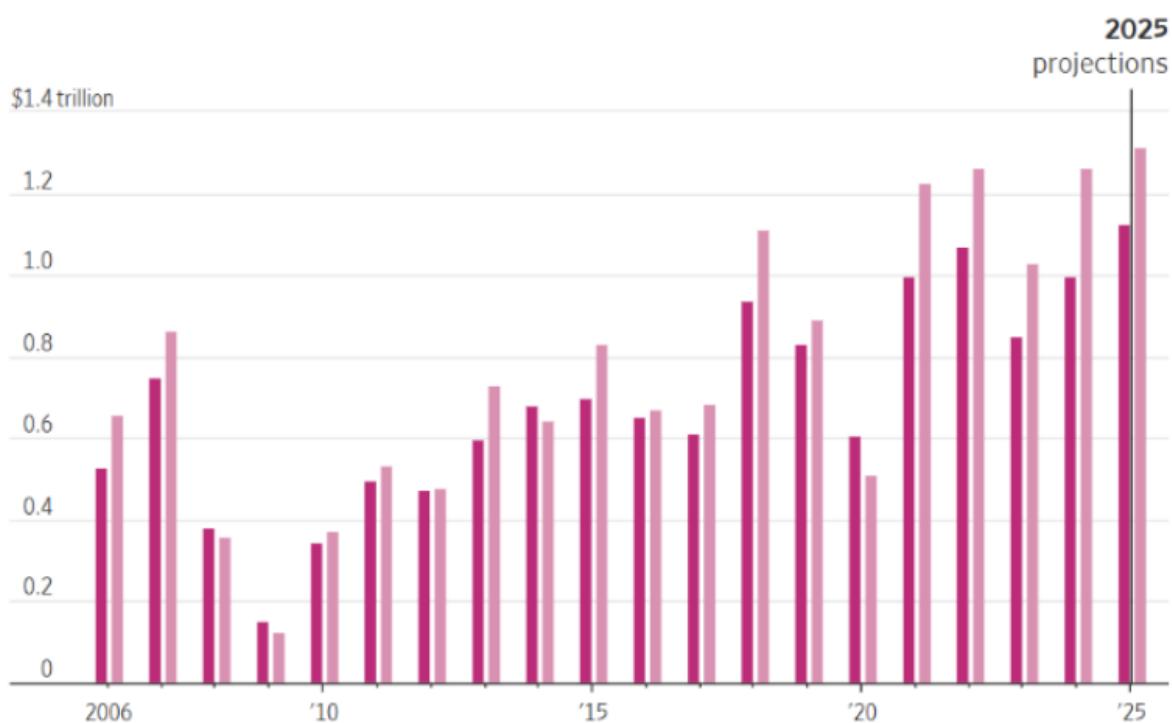


Stocks finished the week on a strong note. On Friday, Fed Chair Jay Powell stuck a dovish tone during his speech at Jackson Hole, which jolted the S&P 500 1.5% higher for the day. The market is now pricing in a likely September rate cut, and is expecting another to follow before the year is over. While there are signs inflation is trending higher, the PMI data released on Thursday suggested both the manufacturing and services sectors are now firmly in expansion territory. Both readings were above expectations and a welcome signal for investors fearing the elevated risk of a recession given the weakening labor market.

Despite somewhat elevated valuations, public U.S. companies are on pace to set a new record for share repurchases in 2025. I believe this reflects a high degree of confidence regarding the go-forward prospects for the largest American businesses. This is firmly supported by the underlying data; the S&P 500 earnings growth forecast is now 11% this year followed by 16% growth in 2026.

U.S. stock buybacks, yearly

■ Completed ■ Announced



Source: *A Wealth of Common Sense*, Birinyi Associates

Investors should always remember that valuation is a function of both the stock price relative to underlying earnings (i.e. the P/E ratio) as well as future growth expectations. As growth forecasts trend higher, valuation levels should increase and vice versa. Looking at the current state of the market through this lens, I believe it is appropriate to assign a

premium valuation for many companies which are expected to generate accelerated growth over the near to medium term. Notably, it's not just the largest technology companies that are part of this trend; sectors such as industrials are expected to boost profits meaningfully over the next several quarters as demand ramps higher. Should earnings expansion broaden across sectors, this suggests the next leg of this bull market may include a meaningfully higher level of participation compared to the largely tech-led rally we've experienced since late 2022.

While there are strong reasons to remain bullish, there are also causes for concern. The deteriorating jobs picture hangs over the economic outlook like a dark cloud. The number of people receiving unemployment benefits just reached the highest level since late 2021 while job growth has become anemic. Should consumer spending decline meaningfully due to rising unemployment, this would become a significant economic headwind given that roughly two-thirds of the U.S. economy is driven by consumption. Furthermore, significantly elevated tariffs are increasingly driving up costs, denting corporate margins and straining consumer wallets. Goldman Sachs estimates that roughly 67% of tariff costs will be absorbed by consumers which, if true, implies an additional roughly \$300 billion of strain annually. Given the softening labor market, the go-forward health of consumers is a significant point of concern over the near term.

Division of Tariff Costs as of June



Eventual Division of Tariff Costs by October
After All Announced Tariffs Through
June Are In Place For More Than Four Months



*The share of tariff costs borne by US businesses is a net amount. Some businesses probably absorbed a larger share of tariff costs, while other businesses that competed with imported goods likely raised their prices.

Source: Goldman Sachs

Looking at the big picture, the secular tailwind from technology-related capital spending will likely remain a dominant theme for years to come. The economic outlook is currently clouded by a worsening jobs market, however there are green shoots showing healthy, accelerating growth across business sectors. I continue to favor companies and sectors that exhibit promising growth prospects, defensible margins, and modest amounts of leverage.

Over the medium to longer run, corporate fundamentals win out; and investing across a portfolio of strongly positioned businesses has typically been a successful recipe for investors seeking to build long term wealth. Both within and outside of the “Mag 7,” I believe investors have the opportunity to be selective regarding where they allocate capital. In essence, it’s my view that this is an ideal stock picker’s market, and expect performance to deviate meaningfully across and within sectors going forward. Companies that successfully defend or gain market share over time, deliver strong growth, and maintain fiscal discipline are likely to be the winners.

Next week, investors will be treated to the quarterly bellwether event, Nvidia’s earnings release on Wednesday afternoon. Management’s commentary has become a key focal point for investors seeking clues regarding trends across AI-related spending and end customer demand. All of the indicators we have seen suggest technology-related capital spending remains robust and is likely to expand further for the foreseeable future. We expect the company’s comments to reflect that reality, and will be watching the market’s broader reaction following the release.

Andrew P. Kerai, CFA® - Chairman & Managing Partner

Capital Ideas, Inc.

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