

Hello everyone and I hope this email finds you well.

“Power in the power trend.”

Last week: Stocks rallied strongly on trade/tariff de-escalation gaining traction. Following US-China trade talks in Switzerland last weekend, US tariff on China goods to plummet from 145% to 30% while China tariffs on US goods plunge from 125% to 10%. US also close to agreements with Japan and S. Korea and Trump said India offered to remove all tariffs. US and EU also agreed to intensify trade talks. President Trump’s Middle East tour has yielded some \$2trillion in announced investment commitments and/or significant commercial transactions (for example, Nvidia (NVDA) announced it would sell more than 18,000 advanced GPUs to Saudi Arabia). The broader market indices finished solidly above the 200-day moving average every day last week and are back in power trend. A power trend signals a more bullish outlook (more details below).

The week ahead: Futures down Sunday evening. Late Friday, Moody’s downgraded US sovereign debt from its highest level of Aaa to Aa1 as debt and interest payment ratios are “significantly higher than similarly rated sovereigns.” Fitch and S&P had already cut US government debt from their top credit ratings. US Treasury Secretary Bessent aid on Meet the Press on Sunday that the current administration is determined to reduce Federal spending. However, the Congressional activities currently in process are expected to add to federal deficits. Nonetheless, Moody’s rating decision is not expected to impact US borrowing costs.

Due out this week are leading indicators index for April (-0.85% expected), Markit PMI for May in manufacturing (51.6 preliminary) and services (52.0 preliminary). Existing home sales for April (4,075k expected) and new home sales for April (678k expected vs 724k prior month).

Sunday night futures: S&P500 down -0.65%, Nasdaq 100 futures -0.7% and Dow Jones Industrials futures -0.6%.

Last week major stock indices rose sharply as shown in the table below. Market averages were above the 200day moving average every day last week, the 10dma and 21ema are above the 50dma. The decisive move above the 200dma is a significant bullish signal that the averages are back in power trend. Final confirmation would be for the 50dma to move above the 200dma. Every other one of the 14signals for bull market are in place. Recall, most money in the markets are made when the averages are in a power trend. Still, investors should always be thinking about exit strategies as the White house still has their hands on the wheel with regard to trade/tariff policy.

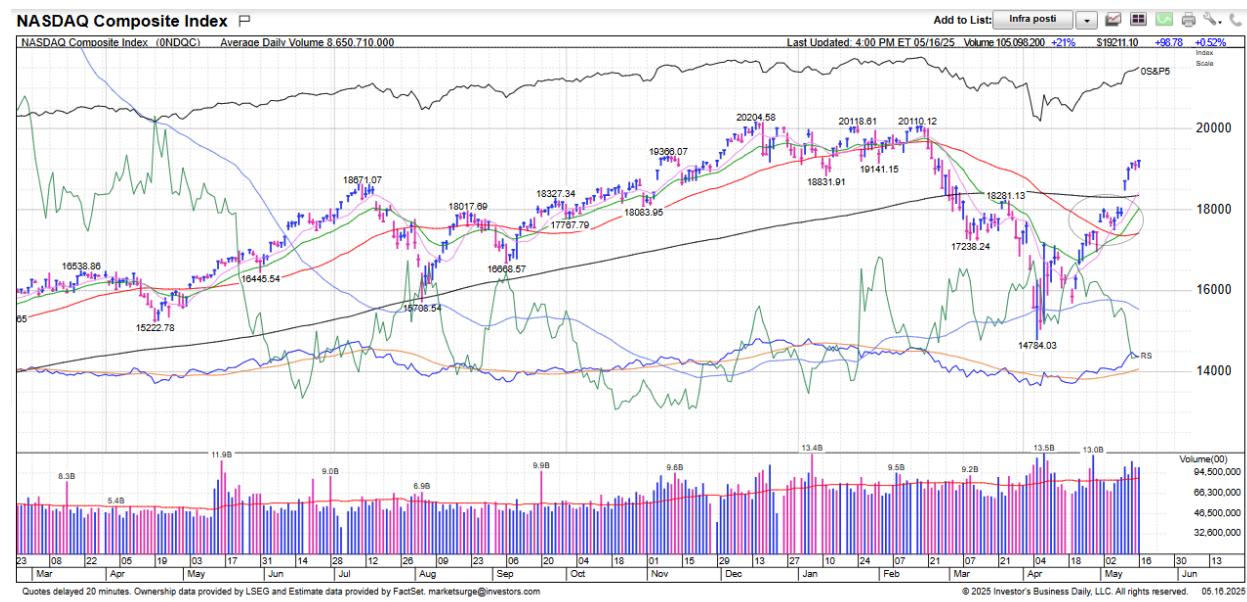
Weekly Market Recap: May 12-16, 2025

Index	Closing Level (May 9)	Weekly Change
S&P 500	5,660	+5.3%
Nasdaq Composite	17,928	+7.2%
Dow Jones Industrial Avg.	41249	+3.4%

Source: Factset

Market now pricing in about 75% probability of 3 cuts by end of the year [Fed watch tool](#). The US 10-year rate rose slightly from 4.37% to 4.44% or 7bps during the week.

Technical indicators details on gaining traction: Regarding market technical indicators, the averages remained above the key 21-day exponential moving average as well as the 50dma. The 21ema crossing the 50dma another positive. The 200dma is no longer an obstacle in terms of sustaining the rally with more confidence and seeing the 10, 21, and 50dma's moving above the 200dma.



Sectors higher across the board: Technology very strong (XLK, +7.95%) as was Retail (XRT, +8.65%). Health Care (XLV, +0.3%) lagged again. Magnificent Seven (MAGS, +9.5%) and Semiconductors (SMH, +10.3%) both rocketed. Risk indicators sharply higher: **IBD 50 ETF (FFTY, +5.7%), ARK Innovation ETF (ARKK, 13.7%).** Among Infrastructure sub-sectors **Utilities/Electric Power producers (+11.3%) and 5G/Networks/AI (+12.7%) boomed** paced by **NRG Energy (NRG, +33.4%) and Credo Technology Group (+18.4%)** while **Environmental Services (-0.8%) lagged.**

The bull-bear debate: Bullish pointing to better-than-expected de-escalation in the US-China trade talks and the AI tailwind and investment commitments in the US coming from President Trump's Middle East diplomatic/trade tour including bid Saudi GPU order for Nvidia chips. Third straight month of cooler inflation data with headline April CPI lowest since Feb 2021. Solid US comps from Walmart of +4.5% in Q1 and Q2 guide of +3.5-4.5% solid. Trump executive order to achieve most favored nation pricing of pharmaceuticals in US not nearly as bad as feared.

The bears point to highest US tariff rate 16%+ despite US-China de-escalation the highest since 1937. Walmart said it would have to raise prices on tariffs would start hitting consumers in June. NFIB small business optimism fell for a 4th straight month in April and net percent of companies planning to raise cap ex over near term fell to lowest level since Covid. UMich consumer sentiment survey lowest in nearly three years. Despite positive points on AI, Meta reportedly to delay release of its AI large language model. House spend/tax bill could be delayed by Speaker Johnson over disagreements on SALT and Medicaid and total savings as well as reaching consensus with Senate Republicans.

Risks: Easy to forget the ongoing risks while the markets are in a confirmed rally. Markets could fall once again on a Truth Social post from the President. Over the last decade the forward multiple on the S&P500 has averaged just below 20x. Assuming the current 2025E EPS of \$264 and 2026E EPS of \$300 are correct, then the market is trading on the rich side (22.4x 2025E EPS and 19.7x 2026E EPS). However, with an effective tariff rate still over 16%, even with the pause, EPS estimates could wind up in the \$250s range implying low

5000s on the S&P500. If the multiple comes down at all to discount for policy uncertainty would imply further downside risk. Numbers get sloppier if there is retaliation instead of resolution on the horizon. The Trump put that we saw last month suggests a 4800s downside threshold to the S&P500 except it wasn't the S&P500 that triggered the Trump put but instead it was interest rates on US Treasury Securities that were blowing out this week with an increase in the US 10 year of 51bps.

The coming week: Light data week: preliminary PMI data, home sales.

May 19: Leading indicators index for Apr: -0.85% vs -0.7% for Mar.

May 20: N/A

May 21: N/A.

May 22: Initial Jobless claims for W/E 5/17: 230k vs 229k prior week. Markit PMI (prelim) for mfr 51.6 and services 52.0 for May vs 50.2 and 50.8, respectively for April. Existing home sales for Apr: 4,075k vs 4,020 for Mar.

May 23: New home sales for Apr: 678k vs 724k for Mar.

Company Events Calendar: Investor conferences. Eagle Materials (EXP), EnerySys (ENS), container shipping companies,

May 19: ZIM GSL

May 20: EXP

May 21: ENS AMSC

May 22: LPG

May 23:

What to do now: Raising exposure.

Appendix:

What kind of positive technical confirmations for a power trend per IBD ("Webby's rules"):

1. Follow through day (FTD)
2. Subsequent FTDs.

3. Close above 21-day exponential moving average (EMA).
4. Low above 21EMA.
5. 3 consecutive days with low above 21EMA.
6. Close above 50 day moving average (DMA).
7. Low above 50dma.
8. 3 consecutive days with low above 50dma.
9. Close above 200dma.
10. Low above 200dma.
11. 3 consecutive days low above 200dma.
12. 21ema moves above 50dma.
13. 21ema moves above 200dma.
14. 50dma moves above 200dma.

In the current rally as of 5/16/2025 every condition has been met except #14.

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Make it a good week,

John D. Edwards, CFA