

Hello everyone and I hope this email finds you well.

“Power trend survives downside reversal showing continuing strength.”

Last week: Stock market rally continued. The main concern was the sharp downside reversal Thursday only to see a rally day on Friday, a sign of market strength. The **S&P500 (+1.5% w/w) held above the 10-day moving average as did the Nasdaq (+2.2% w/w)**. The market averages continue to confirm they are in power trend. A power trend signals a more bullish outlook. **The AI theme remains a tailwind** with hyperscaler cap ex forecasts up +16% since the beginning of the year according to Bloomberg. **Taiwan Semiconductor (TSM)** CEO said that AI demand remains strong, and **Broadcom (AVGO)** guided AI revenues to grow +60% in both FY25 and FY26. **Constellation Energy (CEG)**, one of the largest owners of nuclear power generation in the US inked a 20-year agreement with Meta.

The week ahead: US-China trade officials meeting in London today (beginning 7:30 a.m. ET) following President Trump-President Xi Jinping call last Thursday. A US delegation extending its meeting in India, a sign that the talks are progressing well, according to a Bloomberg report Sunday. Jensen Huang, CEO of Nvidia (NVDA) has two keynote speeches per JPMorgan and had stronger than feared earnings report the prior week owing to export restrictions on its H20 GPU.

On the economic front, the NY Fed survey of inflation expectations survey coming out today and the CPI for May and PPI for May due out Wednesday and Thursday, respectively. The US Federal budget is due out Wednesday as well and unemployment data also due out Thursday. The May inflation expectations showed that inflation expectations declined to 3.2% from 3.6% in April for the year ahead and 2.6% for the five years ahead down from 2.7% last month. The CPI data Wednesday will provide clues on how Trump's tariffs are impacting inflation. In April the rise was in core CPI (ex-food and energy) was 2.8% y/y and consensus expectations are for +2.9% y/y for core CPI in May. Earnings growth expectations rose to 2.7% in May from +2.5% in April. The PPI due out Thursday could show that deflation in Asia is offsetting tariff-related price increases. Consensus is for +2.6% y/y vs +2.4% in April. With respect to the US Federal budget, the Senate is set to work over the “Big Beautiful Bill” so big changes could be on the way. In April the budget was \$258.4B. Regarding key economic news this week, due out Friday is PCE deflator m/m for April (+0.1% m/m and +2.5% y/y expected).

Stock Market Today: June 9, 2025

Index	Intra-day Change	
S&P 500	6,006	+0.1%
Nasdaq Composite	19,584	+0.3%
Dow Jones Industrial Avg.	42,763	+1.05%

Weekly Market Recap: May 30 to June 6, 2025

Index	Closing Level (June 6)	Weekly Change
S&P 500	6,000	+1.5%
Nasdaq Composite	19,530	+2.2%
Dow Jones Industrial Avg.	42,763	+0.5%

Source: Factset

Technical indicators confirming power trend: Regarding market technical indicators, the Nasdaq rebounded from the downside reversal that happened Thursday and is holding so far today. Both are positive signals. The 21ema has crossed well above the 200dma, another positive. The 50dma is trending positive and final confirmation would be for it to cross above the 200dma.



MARKET SURGE
BY INVESTOR'S BUSINESS DAILY

Sectors mostly higher today: Materials leading (XLB, +1.04%) as well as Energy (XLE, +1.03%). Financials (XLF, -0.5%) lagging. Magnificent Seven (MAGS, +0.7%) and Semiconductors (SMH, +1.9%) both advancing. Risk indicators mixed: IBD 50 ETF (FFTY, -0.05%), ARK Innovation ETF (ARKK, 1.3%). Among Infrastructure sub-sectors most are modestly lower. **Constellation Energy (CEG, +1.4%) and Taiwan Semiconductor (TSM, +1.3%)** showing strength. Last week **Credo Technology Group (CRDO, +19.7%)** surged on earnings and guidance that beat by wide margins. **Marvell Technology (MRVL, 13.6%), Vistra Corp (VST, +8.1%), Vertiv Holdings (VRT, +6.9%), Comfort Systems (FIX, +6.8%)** all also very strong. **Ciena (CIEN, -9.2%)** lagged last week on earnings despite an impressive y/y +56% earnings increase as it missed expectations that we even higher.

The bull-bear debate: Bulls pointing to Trump and Xi finally talking trade last week. The USTR also said trade negotiations with the EU on fast track with “very constructive” meeting EU counterpart. Non-farm payrolls rose 139k above consensus for May after softer macro data points prior. JOLTS job openings for April rose defying expectations. AI demand tailwind per TSM, AVGO, Credo Technology (CRDO). Meta signed a 20-year nuclear power deal with CEG. Senate to address Section 899 “revenge tax bill” over Wall Street concerns. Fed Governor Waller dovish citing transitory nature of tariff-related inflation.

The bears highlighting Trump doubling of tariffs on imported steel and aluminum to 50% and US and China accusing one another of breaking temporary agreements reached in Geneva, China restrictions on rare-earth exports and last week Trump-Xi call lacking details. Musk-Trump fallout and public argument could derail budget deal. ISM manufacturing contracted further to lowest level since last November while prices index elevated. ISM services unexpectedly contracted in May while prices rose to highest since November 2022. May household survey and ADP private payrolls weaker than expected. US yields rose despite softer economic data. US equities saw third consecutive week of outflows. Weak demand for JGB auction as bond investors signaling less willingness to support global sovereign spending.

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.

Company Events Calendar: No earnings of consequence due out.

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 6/9/2025 every condition has been met except #14.

Make it a good week,

John D. Edwards, CFA

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