

Hello everyone and I hope this email finds you well.

“Rally likely to pause further as US attacks Iran nuclear facilities.”

This Past week: Weekend attacks by US on Iranian nuclear facilities likely overshadows other events during last week such as the hawkish Fed meeting despite slowing US GDP growth. The Fed's SEP was unchanged showing two rate cuts for 2025 but lowered its economic growth estimate to +1.4% for 2025 from +1.7%. Its inflation estimate rose to +3.0% from 2.7%. Our view is that the Fed is misinterpreting tariffs as inflationary instead of tax (which economists say is what it is) and as such the Fed is way behind the curve. The main surprise in futures market and Asian start to Monday trading is that they are only modestly lower. S&P 500 futures are down only -0.35% while the Nikkei up slightly (+0.05%). Nasdaq futures only slightly lower (-0.2%) while Dow slightly higher (+0.08%). Crude oil was up 2% Sunday evening. Key question being asked from investors is Iran's response particularly with the Strait of Hormuz where 20% of global oil passes. Given President Trump's hawkish rhetoric regarding Iranian escalation and volume of China's oil purchases from Iran, we doubt that Iran blocks the Strait of Hormuz. Last week indexes were fractionally lower.

The AI theme remains the key tailwind with hyperscalers committed to outsized capital spending with forecasts up +16% since the beginning of the year (per Bloomberg). Stocks that have made significant moves last week include Credo Technologies (CRDO, +16.4%), ARM Holdings (ARM, +7.0%), Super Micro Computer (+9.0%), Vistra Corp (VST, +6.5%), **Advanced Micro (AMD, +10.4%), Marvel Technologies (MRVL, +9.4%), Vertiv Holdings (VRT, +6.8%), MP Materials (MP, +23.5%), Sterling Infrastructure (STRL, +7.4%), Dell Technologies (DELL, +9.0%)**. Most are above 200 daily moving averages and/or finding support at 21-day exponential moving averages.

The week ahead: World focus on the Israel-Iran-US conflict. Tesla said it was launching its robotaxi today in Austin, TX. They will have a safety monitor and a safety car following behind. Two Fed governors give speeches on Monday and Fed Chair Powell to give testimony before the US House Financial Services Committee on Tuesday as well as the Senate Finance Services Committee on Wednesday. Core PCE data due out Friday.

Stock Market Today/Week: June 20, 2025

Index	Level	Day change	Week Change
S&P 500	5,968	-0.22%	-0.15%
Nasdaq Composite	19,447	-0.51%	-0.21%
Dow Jones Industrial Avg.	42,207	-0.10%	+0.02%

Source: Factset

The bull-bear debate

Bulls pointing to lack of explicit threat to the Strait of Hormuz. Core retail sales positive surprise in May, rising +0.4%. Median dot plot from Fed still shows two rate cuts in 2025. EU is making progress in trade talks with the US ahead of July 9 deadline. Soft landing most likely the outcome for global economy since last October in B of A Global Fund Manager Survey. Japan planning larger than expected reduction of superlong JGB issuance in response to recent market turmoil China retail sales grew at fastest rate in 16 months in May.

The bears highlighting US involvement in Iran. Growth concerns on Fed's cut in outlook and Hawkish Fed meeting and rhetoric last week. Lack of trade deal traction with July 9 deadline looming. Concerns over AI resulting in cuts in workforce at the largest companies. Reversal of Trump policy on immigration raids.

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 \$256 and 2026E EPS of \$296 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 at that time with an increase in the US 10 year of 51bps.

Company Events Calendar: No earnings of consequence due out.

What to do now: Pausing on 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 6/20/2025 every condition has been met except #14.

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