

Hello everyone and I hope this email finds you well.

Summary: S&P 500 posted a flattish week (-0.1%) despite a weak Friday (-0.7%) and positive August (+1.9%).

Slight pause in the ongoing rally for week even as the S&P500 reached a new ATH during the week. Sectors were mixed without direction. Defensives such as Consumer Staples (XLP, -2.1%) and Health Care (XLV, -0.5%) fell. However, risky sectors mixed as ARK Innovation (ARKK, -2.0%) fell while the Innovator IBD50 (FFTY, +1.5%) gained. The Mag 7 (MAGS, -0.08%) were flat on the week but with significant divergence as NVDA pulled back -2.3% while Alphabet (GOOGL, +3.3%) gained. The key event was NVDA earnings which became a non-event mostly by posting a modest beat and in-line guide that left out China revenue as management seeks to confirm export policy with the White House. Long term demand strength confirmed as cap ex over the last two years has doubled to \$600B/year just in the hyperscalers and CEO Jensen Huang confirmed 50% CAGR for the AI market and that the world is in the early innings of the AI revolution. Revenue from AI start-ups have grown 10x in the last year to \$20B and he said that “next year being 10x higher than this year is not inconceivable.” Nvidia chips are sold out and CSPs are renting capacity from other CSPs. The next gen Blackwell and Rubin AI factor platforms are scaling into the \$3trillion to \$4trillion global AI factory buildout through the end of the decade. “The age of physical AI has arrived, unlocking entirely new industries in robotics, industrial automation. Every industrial company will need to build two factories: one to build the machines and another to build their robotic AI.” Late Friday, the a US Court of Appeals ruled that most of President Trump’s tariffs are illegal and that the President exceeded his authority in invoking the International Emergency Economic Power Act. The ruling struck down the 10% baseline tariff on countries in general as well as larger amounts on Canada, Mexico, and China. The ruling will not affect sector-related tariffs such as copper and steel. The court sent the tariff back to the lower court to determine if the ruling applied to everyone or just the parties to the case. The tariffs remain in force until October 14. The Trump Administration is expected to appeal to the Supreme Court. If President Trump ends up losing a Supreme Court appeal, many of the tariffs that were struck down could be replicated under other established trade authority but there would be uncertainty for several months. The Federal Government may have to reimburse billions to importers that paid the impacted tariffs. In early trading this morning the S&P500 is down -0.9%, the Nasdaq is down -1.0%, and the Dow Jones Industrial Average is down -0.66%. The US 10 year rose 5bp to 4.27% in early trading and yields are up 3 to 5bp across most of the yield curve for durations longer than 2 years.

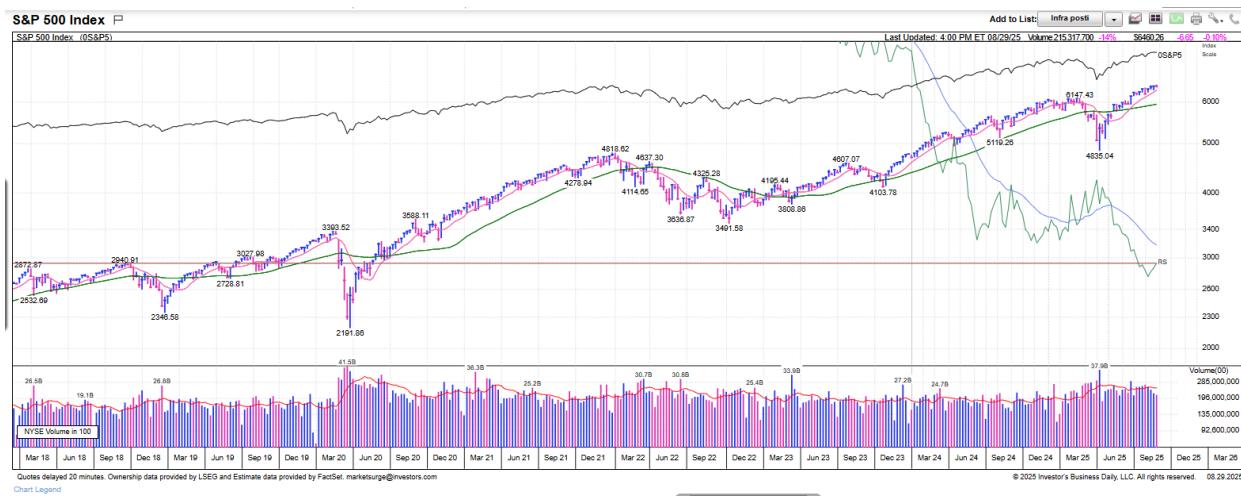
Key events for the week ahead: Credo Tech Group (CRDO) and Broadcom (AVGO) earnings and guidance Wednesday and Thursday, respectively. Ciena (CIEN) also due to report on Thursday.

Stock Market Today/Week: Aug 29, 2025:

Index	Level	Day change	Week Change
S&P 500	6,460.26	-0.64%	-0.10%
S&P500 Equal Weight	189.49	-0.09%	-0.47%
Nasdaq Composite	21,455.55	-1.15%	-0.2%
Dow Jones Industrial Avg.	45,544.88	-0.2%	-0.2%
US 10 year	4.22%		-0.03bp

Source: Factset, Capital Ideas estimates.

All three market averages remained above the key 21-day exponential moving average and continue to be in a power trend. Neither the Nasdaq nor the S&P500 are particularly extended in that both are low single digits above the 21-EMA and low to mid-single digits above the 50-day moving average. What was encouraging is that both the Nasdaq 100 and the SPY closed near the top of the daily range on Friday.



Source: 

Movers in the infrastructure space were mixed. Leading positive action came from MongoDB (MDB, +44.1%), Pure Storage (PSTG, +33.1%), Semtech (SMTC, +13.7%), Credo Technology Group (CRDO, +7.9%) on resolving a patent dispute, Service Now (NOW,

+3.5%), Ciena (CIEN, +4.6%), Oklo (OKLO, +4.6%), Primoris (PRIM, +3.6%), Global Star (GSAT, +12.1%). On the down side, Marvel (MRVL, -13.9%), Super micro (SMCI, -5.3%), Oracle (ORCL, -4.3%). But as mentioned above, the key event with market moving potential is Broadcom (AVGO) earnings Wednesday AMC. Its report could have particular impact on technology-related names which are connected to tech-related infrastructure.

This Past week bull-bear debate:

Bulls: Fourth consecutive positive month for S&P500 and 5th straight positive for Nasdaq. Q2 earnings season +12% y/y growth with 82% beat rate and surprises in the 8% range. More dovish comments out of the Fed with Fed Governor Waller expressing support for 25bps cut in September and more cuts the following 3 to 6 months. Consumer resilience as tariffs not negatively impacting consumer behavior. AI secular growth strength confirmed in the Nvidia earnings release and conference call. Solid economic data as Q2 GDP growth revised higher by 0.3pp to +3.2%. Initial jobless claims and continuing claims fell. July new home sales beat expectations. US-EU trade progress and US-Mexico trade progress.

Bears: Tariff headlines on furniture with potential White House investigation and 50% punitive tariffs on India. Hormel and Smucker indicated price hikes in response to tariffs, and corporate negative impact on profits such as Caterpillar and Gap taking down FY margin guidance. Retail underperformance despite a number of beat and raise earnings reports. Nvidia beat and raise underwhelmed. Marvell saw Datacenter miss. AI leading to fewer jobs for younger workers and new college grads. Alibaba designing new chips to train AI models using DeepSeek and Huawei chips. Trump firing Fed Governor Cook.

The week ahead: Credo Tech, Broadcom, Ciena, Argan are the key reports.

Days that earnings due are shown below.

9/2

9/3 CRDO CHPT AEO

9/4 CIEN AVGO AGX DOCU

9/5

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 \$259 and 2026E EPS of \$300 are correct, then the market is trading on the rich side (24.9x 2025E EPS and 21.5x 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 earlier this year 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.

What to do now: Market rally looking a little fatigued but still time to be heavily or fully invested.

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 8/29/2025 every condition has been met.

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