

**July 13, 2025**

### **Special Update on the Nattering Nabobs**

The market's current behavior recalls those profound observations from Richard Russell, the distinguished Dow Theorist, who understood that markets often ascend amid skepticism rather than euphoria. His phrase about the "nattering nabobs of negativity" captures perfectly the persistent chorus of doubt we encounter today—a chorus that, paradoxically, provides the very foundation for continued market advancement.

What emerges from our analysis is a fascinating study in market psychology and structural dynamics. The data reveals a market climbing its proverbial wall of worry with methodical precision, yet doing so in a manner that defies conventional behavioral patterns.

Consider the sentiment constellation before us: bearish readings persist at 35.6% (70th percentile historically), while bullish sentiment remains contained at 41.4% (64th percentile). This creates a tepid Bull/Bear Spread of merely 5.7%—a reading that suggests neither capitulation nor exuberance, but rather a market suspended between conviction and caution.

The technical underpinnings tell a more encouraging story. The S&P 500's positioning 5.5% above its 50-day moving average and 7.0% above its 200-day average reflects genuine strength, not speculative excess. More significantly, the advance-decline ratio at 1.79 indicates broad market participation—nearly two advancing issues for every declining one. This breadth contradicts the prevalent narrative of narrow, concentrated leadership and suggests deeper structural health.

The valuation discourse requires nuanced interpretation. The CAPE ratio at 37.31 places us in the 92nd percentile historically—territory that understandably generates concern among experienced investors. Yet the Fed Model at -0.87 reveals that while equities appear expensive in absolute terms, their relative attractiveness versus fixed income remains within reasonable bounds. The 87-basis-point gap between Treasury yields and earnings yields actually sits below historical medians, providing some fundamental justification for current pricing.

The volatility landscape presents perhaps the most intriguing paradox. The VIX at 13.70 represents extraordinarily calm conditions—the 17th percentile historically. This isn't the complacency-driven tranquility of market peaks, but rather the measured stability of a market that continues advancing despite widespread skepticism.

Historical perspective illuminates the path forward. We've witnessed similar dynamics during significant market transitions: the 1997-1998 period when elevated bearish

sentiment persisted for eighteen months while markets gained another 45%; the 2013-2014 post-crisis environment where skepticism coexisted with improving fundamentals; and the 2017 period when low volatility and high valuations maintained an uneasy equilibrium for an entire year.

The common thread across these episodes suggests that such conditions often persist longer than conventional wisdom expects, yet resolve more suddenly than participants anticipate. The current environment—with its unique synthesis of extreme valuations, elevated pessimism, positive breadth, and suppressed volatility—appears to represent another such transitional moment.

### **Structural Observations for the Remainder of 2025**

My analysis for the balance of 2025 centers on understanding the interplay between persistent structural forces and evolving market dynamics.

The technical foundation remains constructive. Historical analysis suggests continued market strength while the advance-decline ratio maintains readings above 1.0, volatility remains contained below 20, and bearish sentiment exceeds 30%. These conditions currently align favorably for equity performance.

Corporate fundamentals provide measured support. Earnings growth projections of 11% for 2025 offer solid, if not spectacular, fundamental backing. The recent record-setting \$293 billion in Q1 buybacks demonstrates corporate confidence and provides technical support through supply reduction.

Yet we must acknowledge the inherent tensions within current market structure. The persistence of bearish sentiment despite repeated market strength suggests deeply embedded skepticism that, while currently supportive through reduced speculative excess, creates its own resolution risks. When sentiment eventually capitulates—and market history suggests it will—the resulting dynamics could trigger meaningful adjustments.

Goldman Sachs Research's recently revised price/earnings target of 22x supports an S&P 500 level near 6,500 by year-end, representing measured additional gains from current levels. This target appears achievable given current fundamental and technical conditions, though the journey will likely include periodic volatility episodes necessary for market health.

The resolution catalyst will likely emerge from three potential sources: earnings disappointment that validates persistent bearish concerns, a volatility spike that disrupts current calm conditions, or paradoxically, a surge in bullish sentiment above 55% that

signals speculative exhaustion. Each scenario carries distinct implications for portfolio positioning.

The broader market breadth picture offers particular encouragement for sustained advance. While headline indices have reached new highs, the median stock within the S&P 500 trades more than 10% below its 52-week high, suggesting considerable catch-up potential should sentiment shift constructively. This creates conditions where market leadership could broaden substantially, providing fuel for continued gains across a wider array of securities.

My base case envisions the market reaching Goldman's 6,500 target by December, representing roughly 4% additional appreciation from current levels. This trajectory assumes continued economic stability, moderate earnings growth, and the gradual resolution of trade policy uncertainties that have periodically disrupted market rhythm throughout 2025.

However, sustainable market advance requires periodic adjustment mechanisms. I anticipate a possible correction of 5-10% during the autumn months—not driven by fundamental deterioration, but by the natural market requirement for consolidation after extended advance. Such corrections serve essential functions in maintaining long-term market health and creating more attractive entry points for patient capital.

The nattering nabobs will undoubtedly maintain their vigilant pessimism, and history suggests they may ultimately prove prescient regarding timing. Yet their consistent forecasting errors regarding market direction underscore the complexity of translating macro concerns into successful market timing strategies.

In this environment, patience emerges as perhaps the most valuable investment attribute. The market continues its methodical climb amid persistent skepticism—conditions that historically characterize sustainable, if modest, bull market phases. Understanding these dynamics, rather than predicting their precise timing, offers the most reliable foundation for long-term investment success.

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