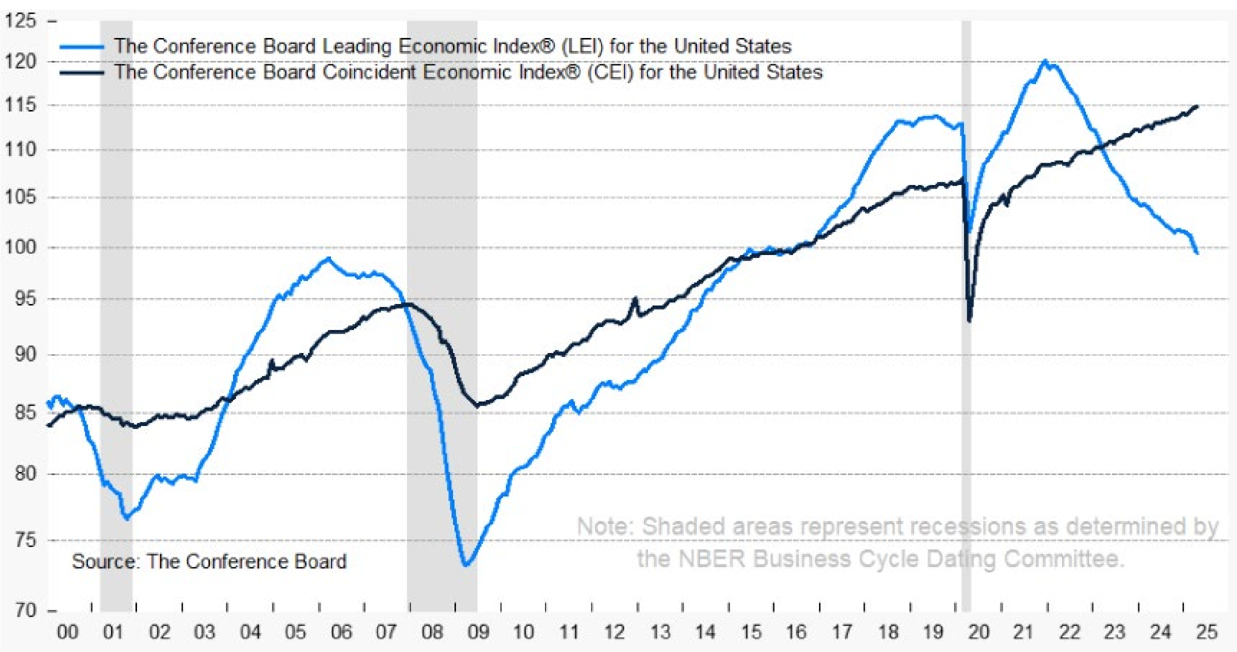
Andrew's Weekly Comment – June 9, 2025

Economic data was mixed this week. ISM PMI May indicators (measure of economic activity) for both the manufacturing and services sectors came in below expectations and are now within contraction territory (below 50). S&P's May PMI reading for the services sector, however, was revised meaningfully higher and is signaling an economic expansion. Furthermore, on Wednesday, the ADP employment report showed a sharp decline in private sector hiring, while the jobs report released on Friday morning showed an increase in private sector payrolls that was meaningfully higher than expected. In short, this week ushered in a range of indicators that were somewhat inconsistent and contradictory, making it more difficult for investors to assess the current health of the broader economy. Furthermore, taking a longer and higher-level view of the economic landscape, The Conference Board's leading and coincident economic indices have been moving in opposite directions since the end of 2021, suggesting many have been expecting a recession for several years that has yet to materialize.

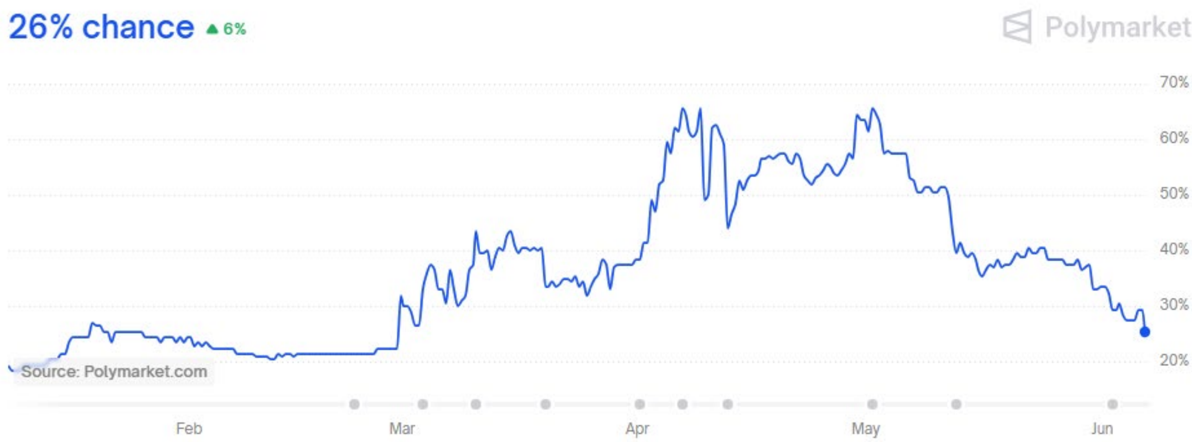


Despite the mixed messaging we saw this week regarding the economic releases, it is our view that the economy, while perhaps slowing, is not signaling an imminent recession. The Atlanta Fed's GDP forecast model (GDPNow) is currently estimating 2.6% inflation-adjusted growth in consumer spending during the second quarter after 1.2% growth in Q1. This likely reflects a consumer that is still increasing their spending levels, albeit perhaps being more selective regarding their purchases. This is consistent with data and commentary provided by the credit card companies which track customer spending patterns. Given that consumer spending accounts for roughly two-thirds of U.S. economic output, we believe this is reflective of a slower but still growing economy.

Against this macro backdrop, stocks have continued to hold up well, again finishing in positive territory for the week. Earnings growth during the second quarter is expected to remain strong, driven by further revenue expansion for the largest technology companies fueling the current AI revolution. This suggests a healthy backdrop for corporate profits that are likely to grow at a faster clip compared to overall economic output for the foreseeable future, which is bullish for the market's prospects. That's being reflected in somewhat elevated valuation levels currently. Aside from a Black Monday fueled decline in 1987, we haven't experienced a sustained bear market that wasn't also accompanied by an earnings recession since the mid-1960s. We expect that trend to remain in place, and believe the market may remain somewhat range bound over the near term as investors continue to digest the sharp rally off the lows we saw early in April.

Following Broadcom's earnings announcement on Thursday afternoon, we are in somewhat of a quiet period until companies report their second quarter results and provide forward guidance starting in July. In the meantime, investors will continue to assess fresh economic indicators, as well as any developments coming out of DC (i.e. progress on trade negotiations, new tariff threats, status of the tax bill, etc.). Odds of a recession have declined meaningfully in recent weeks, which has been reflected by recent price action across the market. Polymarket (a prediction marketplace where bettors can wager on events such as election results or economic outcomes), for example, is now reflecting only a 26% chance of a recession in 2025, the lowest level since late-February, compared to peak odds of 66% in April and early May. Looking at the bigger picture, a somewhat slow but still expanding economy coupled with strong corporate fundamentals are a welcome cocktail for the bulls, who have been leading the charge lately.

Odds of a U.S. Recession in 2025 (Polymarket)



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