

## **CJ's Market Memo**

**July 18, 2025**

The American equity markets continue their methodical ascent, yet beneath this seemingly orderly progression lies a profound structural recalibration that merits careful examination. The S&P 500's advance to 6,312 points represents more than numerical progression, it signals the complex interplay of policy-driven forces reshaping global capital allocation patterns. Although I still believe in American exceptionalism and investing mainly in domestic markets the Bespoke Research analysis raises reasons to consider international diversification as many of the current macro-economic trends play out. I thought this would be well worth writing about this week.

### **The Great Rotation Revisited**

After more than a decade of American equity dominance, we are witnessing what I believe represents a fundamental shift in global market leadership reminiscent of the great rotations of previous decades. The historical precedent of 2000-2009 offers instructive parallels, when international equities meaningfully outperformed domestic markets amid shifting economic centers of gravity.

European equities have emerged as this year's unexpected leaders, with Greece, Poland, Czech Republic, and Spain demonstrating remarkable resilience. This performance reflects not merely cyclical rotation, but deeper structural advantages in valuations and earnings dynamics. The MSCI EAFE Index's outperformance relative to the S&P 500 echoes patterns we've observed during previous epochs of international leadership.

The Bespoke research illuminates this phenomenon with characteristic precision: Rest of World equities benefit from accelerating earnings growth relative to the United States, coupled with more attractive multiple expansion. When earnings revisions turn constructive abroad while deteriorating domestically, experienced investors recognize the signals of shifting market leadership.

### **The Inflation Imperative**

The tariff regime's inflationary consequences are now manifesting with undeniable clarity. Consumer prices advanced 2.7% annually in June, the steepest increase since February, as trade policy effects permeate the economic fabric. This represents not merely a statistical uptick, but confirmation of economic theory in practice.

According to our analysis of the Bespoke data, effective tariff rates approach 12% through July, creating what amounts to a comprehensive tax on American consumption. The price level increase of 2.3% from all 2025 tariffs translates to an average household impact of

\$3,800, a meaningful erosion of purchasing power that reverberates through economic decision-making.

The Federal Reserve's response reflects sophisticated understanding of these cross-currents. Current market expectations for a single rate reduction in 2025, followed by three to four cuts in 2026, demonstrate recognition that policy normalization must navigate treacherous inflationary undercurrents.

### **Labor Market Dynamics: The Hidden Variable**

Perhaps the most underappreciated risk factor involves potential labor market reacceleration. The Bespoke analysis identifies a compelling narrative: immigration policy changes removing significant labor supply while job openings stabilize create conditions for wage pressure intensification. This dynamic, if realized, would compound tariff-induced inflation and fundamentally alter the Federal Reserve's calculus.

Such labor market tightening would echo the wage-price spirals of previous decades, when supply constraints met persistent demand. The implications for equity valuations would prove particularly acute given current elevated multiples.

### **Credit Market Resilience**

The credit markets continue to provide crucial economic lubrication. Cumulative private credit issuance exceeding \$800 billion over five years, combined with traditional banking sector competition, creates remarkably accommodative financial conditions. This credit availability serves as a critical buffer against tightening monetary policy and suggests economic resilience in the second half.

### **Strategic Outlook: Navigating Complexity**

My assessment for the remainder of 2025 centers on what I characterize as "structural divergence under surface stability." Domestic equity markets should continue their measured advance, though at more modest rates as policy effects permeate economic activity. The revised J.P. Morgan target of 6,000 for the S&P 500 reflects this more tempered outlook.

International markets present compelling relative value propositions. Superior earnings trajectories, attractive valuations, and dollar weakness create favorable conditions for sustained outperformance. This environment reminds me of previous cycles when patient international diversification rewarded disciplined investors.

The commodity complex offers intriguing inflation hedge opportunities, particularly in agricultural products where prices remain compressed and precious metals where silver appears undervalued relative to gold on historical metrics.

### **Technical-Economic Convergence**

The most reliable market prognostications emerge when economic fundamentals align with technical market conditions. Currently, this convergence appears most pronounced in international markets, where improving fundamentals coincide with technical breakouts across European and emerging market indices.

Conversely, domestic markets exhibit technical fatigue despite continued economic resilience, suggesting the path of least resistance trends sideways to modestly higher. This technical-fundamental divergence has historically preceded meaningful rotation phases.

### **Investment Implications**

This environment demands strategic sophistication rather than tactical maneuvering. The domestic market's steady progression masks significant cross-currents favoring broader global diversification than we have witnessed in recent years. Successful navigation requires balancing analytical precision with strategic patience—hallmarks of enduring investment success.

The market's current configuration represents neither crisis nor euphoria, but rather transition. Such periods, while lacking dramatic narratives, often prove most rewarding for disciplined investors who recognize structural shifts before they become consensus views.

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Chairman Emeritus

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