

**August 15, 2025**

After decades of observing the intricate dance between price and sentiment, I find myself particularly fascinated by the market's current paradoxical behavior. The S&P 500 index's perfect trend score of 40 tells a compelling story, but the -16.3% AAI Bull/Bear Spread reveals the market's most fascinating paradox: Investors remain deeply skeptical even as equities vault to new heights. This divergence embodies the very essence of market psychology at inflection points.

The technical foundation remains robust, though nuanced warnings deserve attention. The 6,208 level (50-day moving average) represents the line between trend continuation and potential reversal. More intriguingly, the bull market for stocks continued this week, and we've even seen some rotation out of the year's biggest winners into beaten down laggards like healthcare and homebuilders. This internal rotation signals market maturation rather than deterioration.

Historical context provides perspective: The length of this bull (1,037 days) has now eclipsed both the median (522 days) and average (1,011), but if you look closely, bull markets that make it past the 1,000-day mark have historically lasted much longer than that. We've witnessed similar patterns in previous cycle extensions, where skepticism ironically becomes the fuel for continued advancement.

The Federal Reserve's positioning adds complexity to our analysis. Despite intense political pressure, The Federal Open Market Committee, the group that sets the overnight borrowing rate, voted 9-2 to stay on hold. The federal funds rate will continue to be set in a range between 4.25%-4.5%. Chairman Powell's measured stance—refusing to commit to September rate cuts while acknowledging evolving economic conditions—demonstrates institutional independence under extraordinary circumstances.

Market breadth metrics reveal a tale of two markets. The decile of stocks that were performing the worst year-to-date through Monday (8/11) gained an average of 6.66% from Tuesday through Thursday, while the decile of stocks that were doing the best YTD through Monday were up just 0.89%. This rotation represents healthy market broadening, not weakness—a phenomenon I've observed during sustainable market transitions.

The earnings backdrop provides fundamental support. Overall, 90% of the companies in the S&P 500 have reported actual results for Q2 2025 to date. Of these companies, 81% have reported actual EPS above estimates, which is above the 5-year average of 78% and above the 10-year average of 75%. Corporate America continues to demonstrate remarkable adaptability amid evolving trade policies.

Regarding tariff impacts, tariff impacts on earnings appeared limited, as companies absorbed a large part of the tariff costs (instead of passing it all along to customers) but announced future price increases. This measured corporate response suggests sophisticated strategic planning rather than reactive panic.

Political developments create both uncertainty and opportunity. President Trump's continued pressure on the Federal Reserve reflects traditional executive-central bank tensions, yet Powell called Trump's rare tour of the Fed building a "nice visit" despite the two's back-and-forth about cost overruns at the headquarters. This civility amid disagreement suggests institutional frameworks remain intact.

Looking toward the remainder of 2025, several themes emerge:

**Near-term catalysts:** Jackson Hole symposium commentary, September FOMC deliberations, and third-quarter earnings will likely determine market direction through year-end. Goldman Sachs Research raised its outlook for S&P 500 returns and valuation going into the second half of 2025.

**Sectoral dynamics:** The rotation from growth to value, from momentum to quality, suggests market maturation. For example, a 50/50 basket of the biotech ETF (IBB) and builders ETF (ITB) has mostly kept up with the S&P 500 (SPY) over the last 20 years, but the two have diverged in the last year with SPY outperforming. These previously neglected sectors offer compelling value propositions.

**Credit conditions:** High yield spreads and financial conditions are sanguine as well. This supportive credit environment provides essential underpinning for continued economic expansion.

**Economic fundamentals:** Despite political noise, underlying economic metrics suggest resilience. The consumer remains financially healthy, supported by substantial home equity accumulation and stable employment conditions.

My assessment for the remainder of 2025 leans cautiously optimistic. The convergence of reasonable valuations outside mega-cap technology, broad-based earnings growth, and potential Federal Reserve easing creates a constructive backdrop. However, investors must navigate carefully: elevated valuations in leading sectors, geopolitical uncertainties, and the inevitable rotation between market leadership groups require active portfolio management.

The most successful approach combines strategic patience with tactical flexibility. This market rewards those who can distinguish between noise and signal, between temporary

dislocations and fundamental shifts. As we've learned repeatedly, markets climb walls of worry most effectively when backed by solid fundamentals and institutional stability.

The path forward requires discerning judgment, not reflexive reactions. History suggests that periods of maximum skepticism amid rising prices often precede the most rewarding investment phases. Current conditions, while complex, embody this classic market dynamic

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