

CJ'S WEEKLY MARKET COMMENT

June 22, 2025

What a week it's been. As I sit down to write this note on a quiet Sunday morning, the events of the past few days have fundamentally changed the investment landscape in ways we haven't seen since the early days of the Gulf War. President Trump's decision to launch overnight strikes on Iran's nuclear facilities—hitting Fordow, Natanz, and Isfahan—represents exactly the kind of black swan event that separates thoughtful investors from the crowd.

Let me share what I'm seeing and where I believe we're headed.

When the Stars Align: Technical Meets Fundamental

You know I've always said that our most accurate market calls come when the technical picture lines up with what's happening in the real economy. Right now, that convergence is telling us something important, even amid all this geopolitical noise.

The Conference Board's Leading Economic Index dropped another 0.1% in May to 99.0, following that sharp 1.4% decline in April. On paper, that's flashing recession warning signs. But here's what's interesting—the employment picture remains surprisingly stable. We added 139,000 jobs in May, unemployment held steady at 4.2%, and jobless claims actually improved to 245,000 in mid-June.

This disconnect between leading indicators and employment data suggests the economy has more resilience than the headlines indicate. It's precisely these nuanced readings that create opportunities for patient investors.

The Middle East Game Changer

Let's be frank about what happened overnight. Trump's strikes on Iran aren't just another military action—they represent a complete strategic pivot that reshapes everything we thought we knew about Middle Eastern stability. When B-2 bombers are hitting underground nuclear facilities, you're not dealing with symbolic gestures anymore.

Make no mistake—this changes the risk calculus for every portfolio. Energy infrastructure, defense contractors, and cybersecurity names suddenly look a lot more attractive. Consumer discretionary and interest-sensitive plays? Not so much.

Fed in the Fog, Congress in the Weeds

Jerome Powell's comment about operating in "a very foggy time" couldn't be more apt. The Fed's already dealing with tariff-induced inflation pressures, and now they've got potential

oil supply disruptions to worry about. Meanwhile, Trump's calling for rate cuts after Wednesday's hold decision, adding political pressure to an already complex monetary policy environment.

But here's another concern weighing heavily on my analysis—Congress is stalling on what Trump calls "the big beautiful bill," and sources tell me this legislative gridlock could drag on until the mid-September debt ceiling deadline. That's a recipe for sustained market choppiness right through the heart of earnings season.

Think about the timing: we're already dealing with Middle Eastern volatility, Fed uncertainty, and tariff disruptions. Now layer on potential government shutdown fears and debt ceiling theatrics heading into September. The last time we had this many moving parts simultaneously was during the 2011 debt ceiling crisis, and that didn't end well for equity markets.

This fog creates both challenges and opportunities. When uncertainty reigns, quality companies with strong balance sheets and predictable cash flows tend to outperform. It's basic portfolio theory, but it works. However, the Congressional wildcard adds another layer of complexity to our positioning strategy.

Three Phases for the Rest of 2025

Looking ahead, I see three distinct chapters unfolding:

Summer Volatility (July-August): Markets will remain choppy as we digest the implications of Middle Eastern developments and Q2 earnings. Energy sector premiums should expand, and we'll likely see continued rotation toward defensive positions.

Fall Clarification (September-October): Assuming geopolitical tensions don't escalate further, we should see some technical consolidation. The Fed's September meeting becomes crucial—their policy response to current events will set the tone for year-end positioning.

Year-End Positioning (November-December): This is where things get interesting. If monetary policy shifts dovish and geopolitical risks stabilize, we could see meaningful opportunities in large-cap names with accelerating earnings. Tax considerations will drive institutional flows, creating selective opportunities in quality growth companies.

Where I'm Putting My Focus

The current environment rewards patience and selectivity. I'm looking at companies that benefit from increased defense spending, energy infrastructure plays that can handle supply disruptions, and technology names with genuine cybersecurity capabilities.

Conversely, I'm cautious on consumer discretionary, tariffs are already pressuring household budgets, and energy price volatility adds another headwind. Real estate and utilities need careful evaluation given interest rate uncertainties.

The technical picture suggests we're trading near fair value, perhaps at a modest 3% discount. That's not screaming "buy everything," but it's reasonable enough for continued positioning in quality names.

The Bottom Line

These are the moments that test investment discipline. The overnight strikes on Iran represent a genuine inflection point, but markets have handled the initial shock with surprising composure. That tells me professional money managers are thinking strategically rather than emotionally.

Our approach remains unchanged: careful analysis of where technical indicators align with economic fundamentals, patience and unwavering focus on long-term value creation. The convergence of oversold technical conditions with stabilizing employment metrics is creating opportunities for those willing to look beyond the headlines.

As always, we'll continue monitoring these developments closely and adjusting our positioning as conditions warrant. These challenging periods often create the best long-term opportunities for disciplined investors.

CJ Brott
Chairman Emeritus

The material presented is for informational purposes only and is believed to be accurate. Sources include but are not limited to publications by Dow Jones and Bespoke Investment Group. All expressions of opinion reflect the judgment of the author as of the date of publication and are subject to change. The author may hold securities mentioned in this commentary. Nothing in this report should be construed as investment advice and does not take into consideration your specific situation. All investments involve risk. Past performance does not guarantee future results.