

CJ'S WEEKLY MARKET COMMENT

May 12, 2025

The financial markets find themselves in a fascinating state of flux this week – aptly characterized as "Limbo" in the recent Bespoke Report. Markets are currently sandwiched between their 200-day moving averages above and 50-day moving averages below, having broken their downtrends from earlier year highs but still trading below late-March levels. It's a classic technical conundrum with oscillating signals.

This market environment reminds me of a poker player who has received half their cards – enough to see potential, but not enough to know whether to hold or fold. We're waiting for clarity on three critical fronts:

1. **Economic Direction:** The dichotomy between exceptionally weak soft data and relatively resilient hard data continues to perplex analysts. This tension must resolve one way or another.
2. **Trade Relations:** The encouraging UK deal and Saturday's upcoming meeting between "Scott B" and Vice Premier He will be pivotal moments. Markets crave resolution on trade issues that have introduced significant uncertainty.
3. **Technical Breakout:** All three major indices have spent a month trading between critical technical levels. The direction of the eventual breakout will likely establish the intermediate-term trend.

April's impressive market rebound was accompanied by exceptional breadth measurements, lifting markets from "extreme" oversold conditions. However, this extraordinary breadth momentum appears to be moderating, as 10-day A/D lines have started "coming off the boil." History suggests this doesn't necessarily indicate an imminent pullback – in fact, periods following similar breadth extremes have typically produced above-average returns over the following 6-12 months.

Another fascinating historical observation: the recent 14.5% one-month rally following April's tariff-induced decline represents the strongest one-month advance since April 2020's post-COVID rebound. Contrary to intuition, markets have historically performed quite well following such dramatic recoveries. When looking at prior instances of 10%+ monthly gains (especially those occurring within a month of 10%+ declines), forward returns have consistently exceeded long-term averages.

Inflation data merits close attention in the coming week. With crude oil down over 18% in April (reaching a two-year low), we have a potential tailwind for consumers. Analyzing historical data, substantial oil price declines have typically coincided with more moderate

CPI readings. This relationship, combined with seasonal gas price patterns showing unusually small YTD increases, suggests next week's inflation reports could come in lighter than expected.

The Federal Reserve appears committed to a "wait and see" approach, with Powell emphasizing during last week's FOMC meeting that rates are "well-positioned" despite acknowledging increased economic uncertainty. The market has adjusted accordingly, significantly reducing expectations for a June rate cut (now below 18% probability) while pushing rate cut expectations further into the future.

Earnings season has delivered some genuine positive surprises. Of the more than 1,500 companies reporting since April 10th, 70% exceeded EPS forecasts and 64% topped sales expectations. Perhaps most remarkably, despite the tariff-induced uncertainty, more companies raised guidance (6%) than lowered it (5%) – a stunning development few anticipated.

For strategists positioning portfolios, several tactical observations merit consideration:

1. **Lower energy prices** historically provide a boost to Consumer Discretionary sectors while creating headwinds for Energy stocks.
2. **Homebuilders** remain under pressure despite broader market gains, with all six major homebuilders underperforming the S&P 500 YTD as housing inventories continue rising.
3. **Investor sentiment** has reached extremely bearish levels according to multiple measures, with retail investors registering as significant net sellers in April – often a contrarian indicator.
4. **Crypto assets** have shown remarkable strength, with Bitcoin surging 34% from its April 8th low and recrossing the six-figure threshold. Ethereum has posted even more dramatic gains with a nearly 28% two-day rally.

The collective "three-headed monster" of oil prices, dollar strength, and 10-year yields all remain relatively subdued – a condition that has historically provided a favorable backdrop for equity appreciation.

We will continue monitoring these developments closely, maintaining discipline in our positioning while recognizing that current sentiment and technical patterns suggest the path of least resistance may be higher, despite obvious macroeconomic uncertainties.

Prudent risk management remains our priority as we navigate these cross-currents.

CJ Brott, Chairman Emeritus

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