

## **CJ'S WEEKLY MARKET MEMO**

May 19, 2025

The market is in "Cruise Control" as we enter the summer months, with stocks having pulled off an impressive recovery from April's tariff-induced selloff. The S&P 500 now sits within 4% of all-time highs despite the roller coaster ride we've experienced since the beginning of the year. This remarkable resilience comes as the Trump Administration has walked back the most extreme tariff proposals, particularly the 145% duties on Chinese imports, which have been reduced to about one-quarter of that level.

### **NAVIGATING THE TARIFF MINEFIELD**

Market participants have quickly recalibrated their expectations, recognizing that there is now less downside risk since there appears to be a deserved belief that the President will reverse course if his trade policies hurt stocks too severely. This policy flexibility has allowed the market to rapidly price out some risk premium, though the possibility of renewed "reciprocal" tariffs against other trade partners like Japan and the EU remains a concern.

The real question remains: who pays for tariffs? Recent data gives us some clarity. PPI for core goods surged relative to core services in April, even with limited implementation of tariffs. Import prices from China are down only 1% year-to-date, far less than the average 26% effective tariff as of March. The evidence suggests American consumers, not foreign producers, are absorbing most of these costs.

### **TECH AND AI LEAD THE CHARGE**

The earnings season that just wrapped up provided strong support for the AI investment boom, with tech companies delivering the strongest sector performance in both EPS and revenue beat rates. This helped fuel the NASDAQ's official exit from bear market territory, with the index now up over 25% from its April 8th lows.

An impressive 70.1% of companies beat EPS estimates this quarter – the strongest showing since Q3 2021 and above any beat rate from 2004-2020. Revenue beat rates were less impressive but still solid at the 78th percentile historically.

The market's recovery pattern has some notable historical parallels. The NASDAQ's trajectory since ChatGPT's release in November 2022 has tracked remarkably similarly to the market's behavior following Netscape's release in late 1994. If this pattern continues, significant upside remains before we need to worry about a "Dot Com" style collapse.

### **OUR CORE HOLDINGS**

**NVIDIA (NVDA):** With the tech sector leading the market recovery and AI investment showing no signs of slowing, NVIDIA remains well-positioned heading into its upcoming earnings report. Earnings estimates for the broader market have been relatively flat, but companies integral to the AI boom continue to see strong demand. The Bespoke AI Baskets, while currently looking extended at around 2 standard deviations above their 50-DMA, still have room to run before reaching their all-time highs, with the Implementation Basket (which includes NVIDIA) sitting just 7% below its February peak.

**ASTERA LABS (ALAB):** As a critical provider of semiconductor connectivity solutions for AI and data centers, Astera Labs sits at the nexus of the AI infrastructure buildout. The company's specialized chips help eliminate data bottlenecks in high-performance computing environments, positioning it as a key beneficiary of the ongoing AI investment boom. With tech stocks gaining 12.1% since the April 2nd lows and the sector posting a 78.2% EPS beat rate this quarter, Astera's role in the AI ecosystem provides significant tailwinds as data center expansions continue at a robust pace.

**MICROSOFT (MSFT):** Microsoft's cloud business and AI integration efforts continue to drive growth. The tech sector's 78.2% EPS beat rate and 79.5% revenue beat rate were the strongest of any sector this quarter. With tech stocks gaining 12.1% since the April 2nd lows, Microsoft's fundamental positioning in cloud infrastructure and AI implementation makes it a cornerstone holding in our current environment.

**PFIZER (PFE):** Healthcare had a mixed earnings season with a 72.1% EPS beat rate but weaker price reactions. The sector fell 7.8% on earnings this quarter, underperforming the broader market. While Pfizer faces headwinds as COVID-related revenues normalize, its recent acquisitions and pipeline developments offer potential catalysts. The defensive characteristics of healthcare stocks may become more valuable if market volatility increases or economic data weakens further.

## **LOOKING AHEAD TO YEAR-END 2025**

The remainder of 2025 is likely to be marked by continued volatility but ultimately positive returns. Given the emerging parallels with the post-Netscape rally of the mid-1990s, we anticipate the current AI-driven bull market has substantial room to run, potentially for several more years before reaching the excessive valuations that characterized the Dot Com peak.

However, several warning signs bear watching. Consumer sentiment just hit its second-lowest reading in history, with inflation expectations rising sharply (median 1-year expectations hit 7.3%, the highest since 1981). A record 69% of households expect their

real income to decline over the next 1-2 years. Initial jobless claims, while not showing a sharp increase, are running somewhat above last year's levels.

The Congressional budget deadlock also presents risk, as the House Budget Committee recently failed a procedural step in their quest for tax cuts. With a fractured coalition and narrow margins, negotiating large fiscal packages remains extremely challenging.

Market valuations are already aggressive relative to recent history, with estimated earnings yields for the S&P 500 about the same as the 10-year Treasury yield. Without earnings growth (which has stalled so far in 2025), market gains will be harder to sustain.

Our strategy remains focused on maintaining exposure to secular growth trends, particularly in AI and technology, while selectively increasing defensive positioning in high-quality companies with pricing power and strong cash flows. We continue to believe that prudent risk management and tactical flexibility will be paramount in navigating what promises to be an eventful conclusion to 2025.

CJ Brott Chairman Emeritus

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