Market Strategy
by STRATEGAS A BAIRD COMPANY

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Private Wealth Management

# Market Gauge

July 2025

## GAUGE REMAINS NEUTRAL, THOUGH WITH A POSITIVE TILT

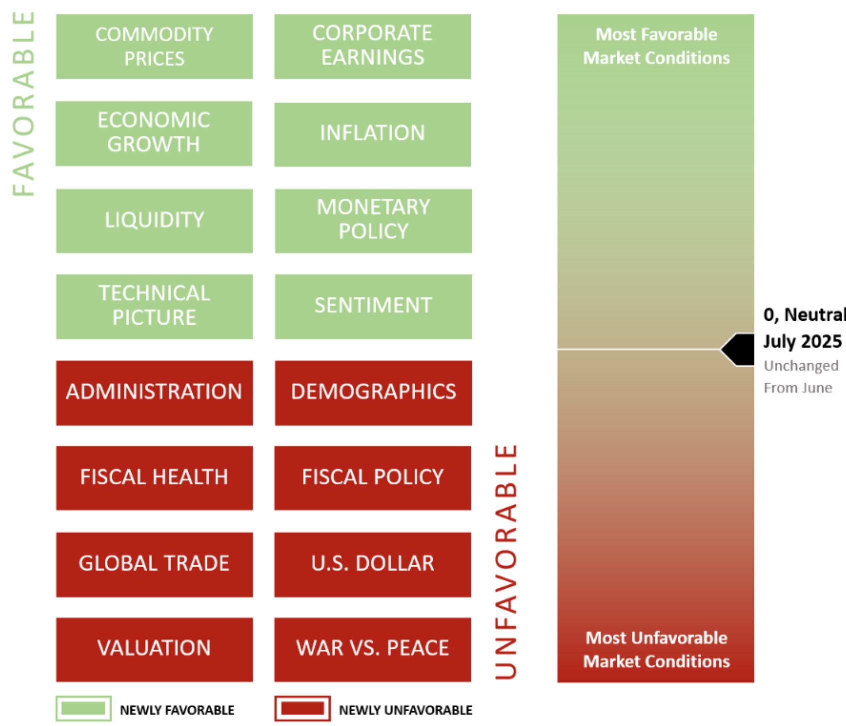
The Market Gauge is Neutral in its latest edition, though with a positive bias given the strength of highly important categories: a backdrop of solid economic growth and corporate earnings, a still-muted investor sentiment picture, a flush liquidity environment, and a Fed still aiming to cut rates multiple times this year.

U.S. shares broke to new all-time highs in June, a welcome contrast to the sharp drawdown that ushered in the quarter.

Much of the market's recovery can be traced to five macro positives: **1)** Easing of concern for the short- and intermediate-term effects of new tariffs and trade policy, **2)** growing visibility on the details of an extension of expiring tax cuts, **3)** the relative stability of economic growth and corporate earnings plus a healthy resetting of expectations for the second half of 2025), **4)** the avoidance (knock on wood) of a credit event, and, **5)** the limited nature and apparent success (knock on wood, harder) of U.S. involvement in the conflict between Israel and Iran.

These are big issues and uncertainties abound, but the weight of the evidence suggests that the market, for now, is in good shape, and we remain bullish on momentum in our 4 key themes: Deglobalization, Artificial Intelligence 2.0, the Industrial Power Renaissance, and Cash Flow Aristocrats.

As always, investors are wise to be aware of areas of concern. While the Administration has taken strides to articulate a clearer vision for its trade ambitions and negotiations, there is a long way to go. Many of the advertised trade agreements could be more accurately described as negotiating frameworks. The ultimate details (and some have been agreed upon) will need follow-through and enforcement mechanisms. Moreover, supply chain uncertainty is likely to manifest in more sluggish economic growth with a higher price level profile. Not stagflation, but enough stagnation and inflation to warrant concern. Lastly, policymakers aren't done yet. Beyond the tax deal lies the debt ceiling, a budget, and the Fed's ongoing debate on the timing and magnitude of interest rate cuts.




### FAVORABLE or UNFAVORABLE?

This table shows the 16 factors we monitor to understand the current environment for U.S. stocks. Eight factors in each group represents a neutral market environment. Our latest count puts the Gauge at **Neutral, or 0** (the sum of +8 and **-8,** as seen in the table above). Positives include a solid economic growth backdrop and strong technical picture. Negative factors include high valuations and trade issues.

*The Strategas Market Gauge is meant to be a snapshot of a moment in time, and not a predictive tool.* ***See page two for more on our 16 building blocks, and what we look for to label each one "Favorable" or "Unfavorable."*** *This assessment is as of June 27, 2025.*

## BREAKDOWN OF THE GAUGE'S FAVORABLE AND UNFAVORABLE ELEMENTS

**COMMODITY PRICES** ***(Do they reflect growth or contraction?)*** Energy prices have fallen (Crude spiked on conflict in the Middle East, but quickly erased its gains). Gold and Silver continue to perform very well; while the long-term trend in Gold is up, we wouldn't be surprised to see it pause into 2H as the risk-on trade moderates. There's concern higher commodity prices will reignite inflation, but so far only pockets of commodities agree.

**CORPORATE EARNINGS** ***(Are they growing or falling? Are margins expanding or contracting?)*** Full-year S&P 500 EPS estimates currently reflect 8% growth, which likely accounts for the full impact of tariffs. Most of the downward adjustments are concentrated in Q2 2025 but given the ongoing lack of progress on tariffs and tax policy, Q3 estimates are also at risk. Strong Q1 results showing ~13% EPS growth indicate corporate resilience.

**ECONOMIC GROWTH** ***(Is the economy growing? Are leading indicators rising or falling?)*** With the tariff shock in April, the odds of a U.S. recession rose. Still, for now economic data are benefiting from the pull forward of activity, as firms and consumers get ahead of looming duties. Tariff delays are encouraging, indicating that the worst case does not need to come to pass. Geopolitics are a risk, but thus far have not been that impactful.

**INFLATION** ***(Is it rising or falling? Is it near the Fed's target?*** The first U.S. inflation wave appears over. A second wave could happen, but there's little evidence yet. Tariff shock will affect pricing if nothing changes.

**LIQUIDITY** ***(What do money stock growth, real rates, credit spreads, and financial conditions look like?)*** Credit spreads have tightened. The economy has absorbed higher real interest rates so far. Govt. policy (including emergency help for banks) has helped avoid a crisis and so far, 2025 has not seen a systemic credit event.

**MONETARY POLICY** ***(Are interest rates accommodative or restrictive?)*** U.S. monetary policy is pivoting from restrictive toward neutral, slowly. More rate cuts are likely, though the pace of easing has slowed.

**What impacts market health the most?**

| |
|---|
| **Important** |
| Administration<br>Demographics<br>Fiscal Health<br>Global Trade |
| **More Important** |
| Commodity Prices<br>Fiscal Policy<br>Inflation<br>Monetary Policy<br>Technical Picture<br>US Dollar |
| **Most Important** |
| Corporate Earnings<br>Economic Growth<br>Liquidity<br>Sentiment<br>Valuation<br>War vs. Peace |

*(ranking of categories is based on Strategas analysis and opinion)*

**SENTIMENT** ***(Are investors optimistic or pessimistic? Pessimism is a positive.)*** Our package of investor sentiment data is much more supportive than at the start of the year. Equity ETF flows continue to suggest hesitancy among investors.

**TECHNICAL PICTURE** ***(What does price action tell us? What do market breadth, trend, and momentum look like?)*** Equities continue to trend higher on a global basis. Leadership also maintains a pro-cyclical tilt with Semiconductors, Industrials, and Capital Markets working. Small caps are well off their low, but have more work to do to break out of a multi-year slump.

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**ADMINISTRATION** ***(Is the White House "market-friendly" on taxes, regulation, and trade?)*** Broad tariffs, including a 10% universal tariff on nearly every country and 25-50% sectoral tariffs, raised the odds of a recession before President Trump began to walk them back. Congress is moving forward on a tax bill that will provide tax relief for consumers in 2026 and tax cuts for businesses to encourage investment. Passage of the bill before higher tariffs potentially hit on July 9 would be a positive and would help to mitigate the tariff impact overall.

**DEMOGRAPHICS** ***(Are population trends growth-positive or -negative?)*** An aging population is a headwind for U.S. labor supply, creating pressure on the Fed via higher wages. Aging demographics also fuels investor preference for income over capital gains.

**FISCAL HEALTH** ***(Is the deficit growing or shrinking? Is federal spending in line with economic growth?)*** Strong tax revenues this tax season and increasing tariff revenues have led to three consecutive months of declines in the U.S. deficit. Nevertheless, the U.S. fiscal picture remains negative as entitlement spending continues to climb and as the U.S. debt servicing cost remains high at 18% of tax revenues.

**FISCAL POLICY** ***(Is government policy market-friendly?)*** Policymakers are focused both on reining in spending and addressing the U.S. deficit and extending tax cuts. However, to offset the cost of the tariffs, Congress has included several pro-growth tax provisions in the new tax bill: immediate expensing of R&D costs and capex and immediate depreciation for manufacturing facilities. Those provisions will boost investment in the near-term, though we are still in a net austerity environment with more spinach (spending cuts, tariffs) than candy (tax cuts).

**GLOBAL TRADE** ***(Are attitudes more "free trade" or more "protectionist"?)*** While the U.S. is negotiating with trading partners to secure deals ahead of July 9, those deals have been tough to come by and there is a risk that tariffs rise on some countries. The 10% reciprocal tariff rate is unlikely to be removed as part of any negotiations, and tariffs on semiconductors and pharmaceuticals (as well as other sectors) remain a threat. We remain of the view that it's important to distinguish between tariffs on China and tariffs on the rest of the world.

**U.S. DOLLAR** ***(Is it strengthening or weakening vs. other currencies?)*** Global investors appear to have lost appetite for the currency. Even if that reverses, any flight to quality is likely to be a headwind for U.S. exporters and emerging market economies.

**VALUATION** ***(Are stocks expensive or cheap vs. historical averages?)*** Multiples have returned back to the highs while the outlook for earnings growth has softened. Currently, the market trades at 23x trailing 12-month earnings, well above the post-1950 average of 16x.

**WAR vs. PEACE** ***(Are tensions inhibiting global economic growth?)*** It remains unclear whether an Israel/Iran ceasefire will hold, while ceasefires in the Russia-Ukraine conflict and in the Gaza Strip remain elusive. As signs that the U.S. does not see geopolitical threats diminishing, the U.S. is increasing its defense spending by $150bn in FY25-FY29 and NATO members are discussing raising defense and defense-related spending to 5% of GDP. The U.S. has been particularly focused on increasing its defenses and securing the Arctic region.

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