Richard Rose Wealth Management July 7, 2025

WEEKLY COMMENTARY **Richard Rose AIF®**

Good morning,

What's in this week's Report:

- Updated Market Outlook: Positive News, but Investor Complacency is Surging
- Weekly Market Preview: Tariff Updates – Is TACO Still Valid?
- Weekly Economic Cheat Sheet: More Focus on the Labor Market This Week
- Would New Highs in the Dow Jones Industrial Average Be a Positive for Stocks? (Not Necessarily)

Futures are moderately lower due to increased trade anxiety as the July 9th reciprocal tariff deadline approaches.

President Trump threatened a 10% tariff for any countries that align with "anti-American" BRIC policies, and that is reminding investors of ever-present trade tensions.

Regarding reciprocal tariffs, Secretary Bessent stated that tariff rates won't increase until August 1st, but several countries will be notified of higher tariff rates this week.

Economically, UK retail sales & German IP beat estimates.

Today, there are no economic reports or Fed speakers, so the focus will be on trade headlines. Any reports of further trade "deals" ahead of the July 9th deadline will be a positive for markets and help stocks recoup their early losses.

Market	Level	Change	% Change
S&P 500 Futures	6,313.75	-10.50	-0.17%
U.S. Dollar (DXY)	97.41	0.23	0.24%
Gold	3,312.30	-34.20	-1.02%
WTI	67.05	0.55	0.83%
10 Year	4.368%	0.052	1.20%

Stocks

Last Week (Needed Context as We Start a New Week)

Stocks maintained strong bullish momentum to hit a set of record highs last week, thanks to more evidence of a resilient domestic labor market and optimism surrounding the passage of Trump's tax bill. The S&P 500 advanced 1.75% on the week.

U.S. equities began last week with a solid rally on Monday thanks to enthusiasm about the likely imminent passage of the business-friendly "Big, Beautiful Bill," which was already progressing through the legislative process in Washington. Chinese PMIs also slightly beat expectations, helping to support risk-on money flows globally, while U.S. investors continued to shrug off simmering geopolitical tensions. The S&P 500 rallied 0.52% to close at a new all-time high.

Tuesday saw early weakness in mega-cap tech stocks weigh on the broader tape following a renewed spat between Trump and Elon Musk. Still, upbeat economic data (notably stronger JOLTS and ISM Manufacturing figures) and dovish remarks from Fed Chair Powell helped stocks rebound by midday. Volatility was reignited in the final hour as Trump floated the possibility of aggressive tariffs on Japan. The renewed sense of trade war uncertainty led the market to roll over, and the S&P 500 closed down 0.11%.

On Wednesday, stocks initially declined, extending the midweek pullback that started early Tuesday as a -33K headline decline in the ADP employment report's private payrolls figure poured some cold water on economic sentiment. A strong rebound in TSLA shares, amid a better-than-expected production and orders report, bolstered big-tech shares. A trade deal announced between the U.S. and Vietnam saw risk-on money flow resume through the closing bell, with the S&P 500 ending higher by 0.47%.

Stocks gapped up to record highs Thursday as traders digested a "hot," but moderately misleading, headline to the June jobs report (+147K vs. E: +110K) as only half the jobs adds were from the critical private sector, while the other half were concentrated in healthcare and state/local government education (jobs less sensitive to the economic cycle). Traders saw the latest jobs report as Goldilocks and shrugged off hawkish money flows in the Treasury, driving the S&P 500 higher by another 0.83% into the holiday-shortened session's close.

<u>Near-Term Outlook Positive, But Guard Against Complacency</u>

The near-term outlook for the markets improved last week as economic data pushed back against fears of a slowdown; a trade framework was signed with Vietnam (which further reduces trade risks broadly in investors' minds), and the Big, Beautiful Bill became law, and that legislation will provide some fiscal stimulus to the economy in the short term.

Markets reacted accordingly to these near-term positives by rallying to new highs and, appropriately, continuing to broaden the rally that, over the past few weeks, had been led predominantly by the tech sector. These positive headlines are combining with momentum and "FOMO" (fear of missing out) to send stocks higher and in the near term, the outlook for markets remains positive given: 1) Still-Goldilocks data, 2) No more legislative risk (at least for the next year and a half) and 3) The market's continued dismissal of tariff impacts/trade threats.

While these near-term positives are legitimately driving stocks higher, I want to strongly caution against the growing sense of complacency that seems to be taking hold among investors. More to that point, just as investors were much too pessimistic back in March and April, I am becoming concerned that the pendulum is swinging to the other side, where investors are focused on short-term positives and that's helping them ignore the potential medium- and longer-term negatives of current policies.

Starting with trade, no one in the markets is afraid of the July 9 deadline or the "letters" the administration will send to countries declaring tariff rates following the lack of trade deals. In the end, the headlines may be temporarily scary, but investors wholly assume tariffs won't be punitive. However, the reality is that tariffs are already coming in higher than markets expected and much higher than anything in decades.

Vietnam signed a trade deal with 20% baseline tariffs and 40% tariffs on goods shipped to Vietnam (mainly from China). That joins 30% Chinese tariffs, 10% UK tariffs, and a soon-to-be host of other countries with tariffs. The impact of these tariffs over the coming months and quarters cannot be as easily dismissed as we're seeing right now. Yes, they could have no impact. However, these are significant numbers, and the market is overlooking the longer-term implications, given the near-term better-than-feared outcome.

Turning to growth, the jobs report was solid and importantly pushed back against fears of a legitimate loss of momentum. That said, growth is slowing. Compared to earlier this year, Claims are higher, job adds are lower, and the ISM PMIs are lower. Growth is losing momentum, and while it's not enough to imply a slowdown (and a soft landing is still likely), a hard landing is entirely possible, especially given the lack of Fed rate cuts. Point being, after being convinced of a tariff-induced slowdown earlier this year, investors are now dismissing that risk.

Finally, regarding the Big, Beautiful Bill, it will bring some fiscal stimulus in the near term. However, it will also increase deficits in the coming years. For now, investors are ignoring this, yet the reality is that the U.S. government has shifted to a policy of running crisis- or war-level deficits in perpetuity. At a minimum, that would keep yields elevated (if not high), which will impact valuations.

Bottom line, the near-term outlook for stocks improved last week, but I want to stress that while the near-term path is higher (thanks to better-than-expected news and momentum), real risks are building. While they may not materialize as negative, we should not become complacent. The outlook for the economy and markets is not as one-sidedly positive as markets are implying right now.

Economic Data (What You Need to Know in Plain English)

Last Week

Economic data released last week was mostly solid and, importantly, pushed back against the notion that the U.S. economy was starting to lose momentum quickly. This implied that a soft economic landing was still the most likely economic outcome. This solid data helped stocks extend their rally last week and hit new highs, as it implied solid growth, but didn't push back against growing expectations for a rate cut in the next two months.

The key report last week was Thursday's jobs report, and it was almost perfectly "Just Right." Job adds were 147,000, and there was a mild upward revision to the May data. The results were better than the 111,000 expectation and much better than feared after the ADP jobs report showed a decline of 33,000 jobs. The other details of the report were also solid, as the unemployment rate slipped to 4.1% vs. (E) 4.3% and wages rose less than expected, gaining 3.7% vs. (E) 3.9%. Bottom line, this was an important report that pushed back against other labor market data that implied the job market was worsening, and, as long as the labor market remains broadly this strong, the chances of a broad economic slowdown will remain low (and that's good for risk assets like stocks).

The other two important economic reports released last week sent a similar signal to the jobs report, as the ISM Service PMI rose back above 50, to 50.8, compared to (E) 49.9. The details were solid, as New Orders rose to 51.3 from 48.2 (importantly back above 50, which signals expansion), while the Price Index declined to 67.5 from 68.9.

This was a particularly impactful report because it prevented a second straight month of both ISM PMIs printing below 50, implying that the service part of the economy, which is the majority of the economy, is holding up well. Additionally, the solid ISM Services offset a still-lackluster ISM manufacturing PMI, as it rose to 49.0 vs. (E) 48.8 but saw New Orders fall to 46.4 from 47.6, while Prices rose to 69.7 from 69.6.

Finally, turning to the Fed, Powell spoke at the ECB's Sintra conference and provided two important points. First, he explicitly stated that if it weren't for tariffs, the Fed would already be cutting rates. This is important because it indicates that the Fed wants to cut rates; it's just waiting for the "all clear" from the inflation data following the tariffs. Second, Powell didn't directly push back on the idea of a rate cut in July (he did say he wants to see a few months of more data before cutting, but he didn't rule out July).

The net market impact of last week's data and Fed speak was Goldilocks: Solid growth (which importantly pushed back on any slowdown narrative) and a Fed that is allowing the market to get more aggressive in rate-cut expectations (the market now expects two or three rate cuts this year, up from two). That's a stock (and bond) positive set of events, and the data and Fed speak supported stocks last week.

Important Economic Data This Week

The economic calendar is relatively light this week, with only two notable events scheduled. The most important economic report this week is Thursday's weekly jobless claims. Following last week's solid jobs report, investors will want to see further stability in the data (numbers staying in the 240k range or below and, importantly, not jumping above 250k towards 260k).

The second notable event this week is the release of the FOMC minutes from the June meeting. In light of recent Fed commentary that reinforces expectations for a September rate cut (and leaves a July rate cut possible, but unlikely), the minutes will be somewhat stale. However, they are still important for markets to gauge how open the Fed is to cutting rates and as long as the minutes don't contain any substantial hawkish surprises (which is very unlikely), they shouldn't reduce rate-cut expectations (and that's important because rising rate-cut expectations have been a reason behind the rally).

Special Reports and Editorial

Would New Highs in the Dow Jones Industrial Average Be a Positive for Stocks? (Not Necessarily)

The Dow Industrials have certainly accelerated higher over the last week or two, and that is a positive development for the stock market outlook, as the better each index performs, the better it is for the broader market outlook. That is especially true right now with the S&P 500 and Nasdaq already trading at new records.

However, the DJIA trending towards all-time highs is not necessarily a "bullish gamechanger" or a reason (by itself) to add equity market exposure right now, and there are a few measurable reasons why. First, regarding market breadth and the growing chorus of analysts and strategists calling for improved participation in the rally, the Dow Industrials comprises only 30 stocks, which traditionally have some of the largest market capitalizations in the U.S. market. Realistically, it would be a much stronger source of optimism to see the Russell 2000 or the equal-weight S&P 500 index hit new highs, as opposed to the Dow, with its relatively small 30 constituents.

Second, the performance of the DJIA can be misleading because it is price-weighted and not cap-weighted (and certainly not equal-weighted). So, for example, Goldman Sachs is the highest priced stock in the DJIA at over $700/share but it is ranked 20th by market capitalization at ~$200B, meaning that GS carries 3.5X more weight in the DJIA than AAPL, which is nearly 17X with a market cap of over $3.36T.

Finally, regarding Dow Theory, as we interpret the century-old investment signal practice, the respective sets of lower lows and lower highs on the weekly time frame charts established in both the Dow Industrials and Dow Transports in H1 '25 currently leave Dow Theory bearish. A new high in the DJIA would be a positive step towards a bullish reversal in Dow Theory, however, it would only "check" one of four necessary Dow Theory reversal "boxes" as the Dow Industrials has not yet established a higher-low (because of the V-shaped bottom), while the Transports have still most-recently made lower-highs and lower-lows on the weekly charts.

There is one provisional rule in Dow Theory: if both the DJIA and DJT make new record highs in the same period (say, a couple of weeks), no higher lows are needed for a bullish reversal to be confirmed. That is the fast-track path to a bullish reversal, following the Dow Theory's turn bearish on March 14.

Bottom line, potential new highs in the DJIA would be positive for markets and add to the bullish equity market narrative right now with the benchmark S&P 500 and tech-heavy Nasdaq already trading at records of their own.

Richard Rose AIF®
917-597-7432
rrose@nationwideplanning.com