Richard Rose Wealth Management August 11, 2025

WEEKLY COMMENTARY **Richard Rose AIF®**

Good morning,

What's in this week's Report:

- Weekly Market Preview: More Clarity Coming on Geopolitics, Trade, and Inflation? (If so, it'd be Positive for Stocks.)
- Weekly Economic Cheat Sheet: Inflation and Growth Updates via CPI and Retail Sales
- AI Bubble Watch, Part II

Futures are slightly higher following a mostly quiet weekend of news.

News flow was minimal over the weekend, but investors are looking forward to another important week for geopolitics (Russia/Ukraine ceasefire?), trade (China tariff extension?), and stagflation (CPI and Retail Sales).

Economically, the only notable number overnight was Italian CPI, which met expectations (0.4% m/m, 1.7% y/y).

Today, there are no economic reports, so the focus will be on geopolitics and trade. Any headlines that hint at a ceasefire in Ukraine and/or confirm an extension of current Chinese tariff rates will be a mild tailwind on stocks.

Market	Level	Change	% Change
S&P 500 Futures	6,425.50	12.00	0.19%
U.S. Dollar (DXY)	98.47	0.29	0.30%
Gold	3,407.10	-84.20	-2.41%
WTI	64.21	0.33	0.53%
10 Year	4.265%	-0.018	-0.42%

Stocks

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

Stocks bounced back from the early August pullback last week as investors shrugged off some soft semiconductor earnings and more stagflationary economic data and instead focused on easing geopolitical tensions and more positive progress in tariff negotiations. The S&P 500 gained 2.44% on the week.

Investors stepped in to buy the early August dip last Monday, and meaningfully so as the S&P 500 jumped 1.47% to effectively recover all of the declines from the prior Friday that were fueled by the ugly July jobs report. Newswires were mainly quiet, but a better-than-feared Factory Orders release paired with reports that the EU would suspend countermeasures to U.S. tariffs were both well received.

The market pulled back on Tuesday thanks to another noteworthy "whiff" of stagflation delivered via the July ISM Services report, which carried a materially disappointing headline pointing to stagnating growth, but a prices subindex that spiked to the highest reading since fall 2022. President Trump's mention of new tariffs on semiconductors also weighed on the market, and the S&P 500 ended the session down 0.49%.

Stocks turned back higher Wednesday as investors shrugged off disappointing guidance out of major semiconductor manufacturers AMD and SMCI and instead cheered news that tech-giant AAPL would commit another $100B of investment in U.S. technology advancement. At the same time, the Fed's Kashkari reiterated that two 25-bp rate cuts are his base case for H2'25. A soft 10-Yr Treasury Note auction in the afternoon poured cold water on the rally, but the S&P 500 still added 0.73%.

On Thursday, the major indexes gapped higher on semiconductor tariffs that were not nearly as bad as feared and news that the deadline for a U.S.-China trade deal was very likely to be extended another 90 days. The early gains were short-lived, however, as the Fed's Waller, one of the two dissenters at the July FOMC meeting (in favor of a 25-bp cut), was revealed to be the Trump administration's top pick to replace Powell, news that rekindled worries about "Fed independence." The S&P recovered from the lows but still ended down 0.08%.

Stocks were little changed at the open Friday as investors digested Trump's replacement choice of Stephen Miran for retiring Fed Gov. Adriana Kugler amid mostly quiet newswires. The market turned higher in midmorning trade as news broke that the U.S. and Russia were on the brink of a deal that would end the war in Ukraine. The S&P 500 continued to march towards record highs in afternoon trade but fell just short of settling at a new all-time high.

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

Last Week

There were only two notable economic reports last week, and while neither was a "bad" report, neither did much to push back the uptick in economic anxiety stemming from the weak jobs report. The most important report last week was the ISM Services PMI, and it missed expectations. The ISM Services PMI declined to 50.1 vs. (E) 51.5, and the details were equally as soft. New Orders fell to 50.3 from 51.3, while Employment dropped further into contraction territory, dropping to 46.2 from 47.2. Finally, inflation metrics rose as Prices Paid rose to 69.9 from 67.5.

The ISM Services PMI stayed (barely) above 50, so it wasn't a terrible print, but at the same time, clearly this was softening, and it made the "big three" monthly economic reports (Jobs Report, ISM Manufacturing PMI, and ISM Services PMI) all "misses" vs. expectations. Positively, none of them are implying recession, but they did serve to remind investors that there is pressure on the economy.

The other notable report last week was weekly jobless claims, and they rose more than expected, to 226k vs. (E) 220k. That's a mild uptick, but claims around 220k are still very low, and that does push back against the negative signal from the most recent jobs report. Continuing Claims, however, rose to 1.974k, solidly above expectations and close to a three-year high. Bottom line, the jobless claims data wasn't "bad" per se, and it shouldn't make anyone concerned that the labor market is dramatically weakening. Still, it does reinforce that the dynamic in the labor market is "not laying off, but not hiring, either." That's ok in general, but it's one step away from outright layoffs, so we'll continue to watch the labor market closely.

Important Economic Data This Week

This is an important week for Fed rate-cut expectations and economic growth, as we get key inflation and consumer spending updates.

The key report this week is tomorrow's CPI, and the stakes here are clear: If CPI prints hotter than expected, you will see September rate-cut expectations fall (possibly sharply) as the Fed will be concerned that tariffs are now starting to push inflation higher. Given that expected rate cuts have helped stocks rally for weeks now, that would be a new negative influence on the markets. Bottom line, the market needs a benign inflation report to reinforce September rate-cut expectations and help support stocks even if growth metrics are lackluster.

Speaking of growth, Friday's retail sales report is the most important growth metric this week, and this is important because Consumer Spending is the engine of growth for the U.S. economy. So far in 2025, retail sales have stayed remarkably resilient, but with tariffs now in place and much of the "front running" behind us, we will see if tariffs are going to impact consumer spending negatively. If retail sales are particularly weak, it will increase economic anxiety, which will put a new headwind on stocks.

Other notable data points this week include PPI, weekly jobless claims (Thursday), and the Empire Manufacturing Survey. Inflation readings that are slightly underwhelming, combined with better-than-expected economic data, are what stocks need to push back on the uptick in stagflation concerns (and help boost stocks).

However, if we get a hot CPI report (again, Core CPI above 3.0%) and weak retail sales, you're going to see stagflation fears move higher, and that could pressure stocks solidly, similarly to what we saw two Fridays ago. Bottom line, there's no reason to be nervous that the economy is about to contract, but with the S&P 500 solidly above 6,300, there's no allowance for even a slight growth scare, and if we get one this week, don't be surprised if the S&P 500 drops 1%-2%.

Special Reports and Editorial

AI Bubble Watch, Part II

We recently published a special section regarding an increasingly asked question facing investors and markets in 2025: "*Has an AI Bubble Inflated in the Stock Market?"* That analysis was centered around the idea that if a bubble had indeed formed in the stock market, and the "narrative" behind that bubble was the new and fast-evolving artificial intelligence technology, which is widely seen as having the capacity to supercharge growth across industries, then what should we be monitoring as a leading indicator or gauge of the state of the bubble?

As a refresher, the key indicator to watch, in our opinion, is the semiconductor index (SOX). It is not flashing an optimistic signal for the potential sustainability of the current bull market as the SOX index started to lag the S&P 500 last summer, falling more than 40% from last summer's highs through the intraday lows established in April 2025. With the SOX still notably hovering *below* last summer's record highs, and technically threatening to roll over right now, a critical follow-up question to ask is: *Where are we in the economic cycle?*

Why? Because, historically speaking, almost every major market bubble has been "inflated" in a late-stage environment of the economic cycle. So, if we have 1) A narrative that could be driving irrational exuberance among investors, sending stocks into "bubble territory" (AI), then we need to take a closer look at 2) The state of the economic cycle. Reason being, if there is an AI bubble, then cycle risks are as elevated as they have been in nearly two decades; and if that is the case, then a greater sense of caution is warranted regarding equity exposure in H2'25.

While bubbles form in late-cycle environments, they tend to “pop” into economic recessions (often acting as one of the major negative economic catalysts in and of themselves). Right now, the consensus on Wall Street remains that the U.S. economy is chugging along towards a soft landing. However, looking at the latest economic data trends, mainly since last Friday’s July jobs report, cracks have emerged in the soft-landing narrative, which notably challenge both critical components of the Fed’s dual mandate, a potentially “cycle-ending” development for the economy.

Takeaway: If we acknowledge that a soft-landing/no-landing scenario is not the *only* possible outcome for the economy in the months and quarters ahead, and consider a hard-landing in the realm of possibility, then stretched valuations in the wake of the S&P 500’s rapid ~85% trough-to-peak rally since the October 2022 lows were established leaves the broader equity market vulnerable to considerable downside in the quarters ahead, pending economic resilience.

The following are sources of concern about the current economic cycle that warrant monitoring in the future:

- Continuing jobless claims have been trending higher since the cycle lows of 2022, just hitting fresh four-year highs in yesterday’s weekly release. As a proxy for the official U3 unemployment rate, and one that notably has leading characteristics, the steady rise and multi-year highs suggest risks to the labor market could be underappreciated, and that would threaten the sustainability of the current economic expansion in H2’25.
- An upward turn in both “hard” and “soft” **inflation** measures, such as the June Core PCE uptick and fresh multi-year highs in the latest ISM Services PMI report, respectively, highlights greater than previously appreciated upside risks to inflation in H2’25. That is a problem because if we do see further weakness emerge in the labor market, the Fed will be faced with a serious policy dilemma as to whether they cut rates to keep the economy in its “soft-landing lane” or stay *on hold*, putting the jobs market at risk to ensure inflation returns to their 2% target.
- While the term has largely disappeared from financial market headlines, the dynamics of the Treasury yield curve still warrant attention, because going from a state of inversion back to a normal, upward-sloping state is a development that has arguably preceded every recession since WWII (depending on which spreads one is focused on).

Bottom line, following up on our analysis of a potential AI bubble being in place, it is critical to keep close tabs on economic data right now, as, historically, bubbles come to a head at the end of economic cycles. And there is building evidence that, even if an AI bubble is not in place, the economy is at risk of a slowdown, while upside risks to inflation have just materialized. That dynamic presents a potential major challenge for Fed policy makers in H2’25, one that is a risk to the stock market, and the bond market for that matter, whether an AI bubble is in place or not.