

# **CLUTINGER, WILLIAMS & VERHOYE, INC.**

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## **Economic and Market Outlook**

**June 30th, 2025**

### **The Investing Game**

*Games are won by players who focus on the playing field – not  
by those whose eyes are glued to the scoreboard*

- *Warren Buffett*

#### **Section I. Introduction**

The Oracle of Omaha gives us a cryptic message with our quote for this report, but what does he mean?

To keep your focus on the playing field of investing means a few things. You need thorough research of your investment choices and their earnings potential. You also need concrete or “hard data” about the economy. You need extensive knowledge of stock market history. Most importantly, you need time and patience.

Those that are glued to the scoreboard put too much weight on the news headlines of the day. They allow opinion polls or “soft data” to guide their thinking. They react to daily moves in the stock market, up or down, emotionally with fear or greed and, most of all, they are impatient. Winning the investment game is a marathon, not a sprint.

Short term movements in the stock market, up or down, do not have a single cause and cannot be explained by a single narrative. Equity markets swing wildly from day to day, and year to year, on the smallest of news, rally and retreat on sentiment and emotion, and celebrate or vilify the most inane data points. In reality, market prices result from billions of shares being bought or sold in reaction to each investor's

perception. It's important not to get caught up in the madness and instead to stay rational and patient.

There are always reasons stock market investments can be considered risky and may tempt investors to sell their holdings. We continue to advocate for a long term perspective as part of our investment strategy. We manage risk through position size and sector allocation and understand that successful investing is a lifetime endeavor where fear and greed cannot be allowed to affect our decisions.

## **Section II. The Bull Market**

The first six months of 2025 has exhibited heightened volatility in markets. While the media tries to provide reasons for this, the reality is this occurs whenever a new administration enters the White House, regardless of party affiliation. As new policies have become familiar, some degree of uncertainty has dissipated as witnessed by the correction and quick rebound just experienced.

The S&P 500, after reaching an all-time closing high of 6144.15 on February 19<sup>th</sup>, experienced an 18.9% pullback on a closing basis. It has since rebounded to 6100. Remember that a bear market is defined by a pullback of at least 20%. Therefore the bull market is still intact.

Bull markets do not die of old age. We are approaching 32 months in this bull market. Since World War II there have been 13 bull markets and the average gain was 164%, and on average they lasted 57 months. It is also true that recent bull markets have generated higher returns over longer periods of time. On average, the last five bull markets since 1980 have seen stocks advance about 240% over a period of 70 months.

Bull markets end because of Black Swan events or because of recessions in the economy. By definition, Black Swan events cannot be predicted. For reasons cited later in this report, we do not see a recession coming in the near future.

To be clear, in the short term we fully expect some type of correction or consolidation in the market from time to time. Corrections of less than 10% are part of normal volatility, and are healthy for the market. In addition, corrections are historically quick and sudden pullbacks while Bear Markets are slow and rolling like a dripping leaky faucet.

In the December 31<sup>st</sup> report we forecast a 6% to 9% return for this year. At the halfway point, The S&P 500 is up 3.5% as of this writing, right on track. Chart #1 shows

how bull markets slow in year three. The average return on the S&P 500 for the last 10 years is around 11%, and over last century the stock market is up on a yearly basis 76% of the time.

Despite recent market fluctuations and uncertainties, the momentum behind AI-driven technologies remains strong. The energy demands of AI will create other opportunities. As companies across industries continue to embrace AI to drive innovation and efficiency, investors are presented with unique opportunities to capitalize on the transformative power of artificial intelligence. The AI revolution is not just a fleeting trend but rather a fundamental shift that is poised to reshape industries and create new opportunities for growth and innovation. In our view this could be the next economic revolution.

### **Section III. Inflation**

Currently the Consumer Price Index (CPI) is up 2.4% on an annual basis, and core CPI, which excludes food and energy, is up 2.8%. Both readings are for May 2025. CPI has dropped since our last report by 0.4%. Core CPI dropped by 0.3%. While the CPI reading peaked in June of 2023 at 9.1%, the core rate actually peaked in September of 2023 at 6.6%. This is still above the Federal Reserve's 2% target. As expected, the move from 3% to 2% will continue to be slow and difficult.

Average hourly earnings are up 3.9% year over year in May and overall inflation up 2.8% as previously stated. This is a positive for the economy because it means real wages are rising.

The Federal Reserve prefers to use a measure called the Personal Consumption Expenditures (PCE) Price Index to gauge inflation. The reading for PCE in April was 2.1% and the core rate was 2.5%. May data will be released June 27<sup>th</sup>. Inflation in the Euro Zone was running at 1.9% on an annual basis in May. This is solid evidence why the Euro Zone is cutting rates and the Federal Reserve is not.

Remember that containing inflation is not about lower prices, but about stable prices. It appears that the Fed's previously aggressive approach has somewhat had its desired effect. The resilient economy continues to mute the effects of restrictive Fed policy.

There has been concern that tariffs would kick inflation back up. If tariffs are implemented it would only be a one-time bump and would have a minimal effect. Imports only account for 11% of Gross Domestic Product (GDP).

#### **Section IV. The Federal Reserve and Interest Rates**

The Federal Reserve continues to alter their previous monetary policy path. After holding rates steady at 9 of 10 meetings, Federal Reserve Chairman Jerome Powell and the committee cut rates at the next 3 meetings. The first cut was by 50 basis points in September, and then by 25 basis points in November and December, for a total of 100 basis points. Since then they have held rates steady at the last 3 meetings. At the June meeting Powell felt the economy "continues to be in a good place". He also expressed that economic uncertainty "diminished but remains elevated".

They continue the roll off \$40 billion from the Fed balance sheet each month. By shrinking the Fed balance sheet slowly they will improve the odds of navigating a soft landing for the economy. This is reflected by the fact that growth in M2 money for May year over year increased to 2.1% from 1.0% at our last report. It also brings us closer to the end of Quantitative Tightening (QT).

We continue to expect the Fed will cut interest rates only one time in 2025. Remember that cutting rates is usually a sign that the economy is slowing, which is not the case currently. The economy and employment continues to show resiliency. The Federal Reserve must remain restrictive until inflation cools further.

Rates in most European 10-year bonds are steady because of a strengthening European economy. The U.S. 10-year bond still remains relatively more attractive to international investors for its yield and AA+ credit rating, though the spread is narrowing. The U.K. 10-year yields 4.48% (AA), German 10-year yields 2.54% (AAA), France 10-year yields 3.25% (AA), Italian 10-year yields 3.49% (BBB) and Swiss 10-year yields 0.37% (AAA). These compare to our 4.30% 10-year yield.

#### **Section V. The Recession Model**

As we have discussed in past reports, earnings and the economy are the true long term influences on the stock market. Recessions, or fear of recessions, are the major reason we experience corrections of more than 10%. Corrections of less than 10% are just part of normal volatility and tend to happen multiple times each year.

The official arbiter of recessions in the U.S. is the National Bureau of Economic Research (NBER). They determine when our economy enters and exits recessions. The problem is that usually by the time they declare the official start date of the recession the economy is probably coming out or already done with that recession, in other words no predictive value.

At Clutinger, Williams & Verhoye we have developed what we view as a recession indicator which tracks 5 data sets on a monthly basis. If 3 of the 5 indicators are negative and the S&P 500 is below its 40 week moving average, it is a very strong indication that a recession is near or may already be underway.

Indicator number one compares the current monthly unemployment rate to its 12 month moving average. As of May, the unemployment rate was 4.2% and the 12 month moving average was 4.15%. By being above the moving average this indicator has stayed negative.

Indicator number two is represented in Chart #2. This represents the year over year percentage change of Advance Real Retail and Food Service Sales. This is one method to measure the strength of the consumer. Currently the reading is 0.89% for May, so this indicator remains positive and improved since our last report.

Indicator number three is represented in Chart #3. This shows the year over year change in Industrial Production. This indicator has remained positive. It currently sits at 0.60% for May 2025.

For indicator number four (Chart #4), we look at Total Nonfarm Payrolls divided by the Civilian Labor Force Level on a year over year percentage change basis. This indicator stands at -0.51% showing a slight weakness in employment. Therefore this indicator is negative.

Indicator number five (Chart #5) represents the Average Weekly Hours of Production and Nonsupervisory Employees-Manufacturing on a year over year percentage basis. Currently the reading is 0.24%, so this indicator remains positive.

Currently three of the five indicators are positive and the S&P 500 Index is 2.36% above its 40-week moving average as of June 20<sup>th</sup>. The S&P 500 is above its forty week moving average so this model is not giving a recession warning sign. We will be closely monitoring these indicators in the coming months.

The above indicators are only updated on a monthly basis. To offset this situation we also track two other indicators. They are both indicators that are updated more frequently (on a weekly or daily basis) and we consider them as early recession indicators. Both are somewhat volatile so we track three month moving averages. These two indicators are separate and independent of the first five and either one can indicate the possibility of recession on its own.

The first one is the Aruoba-Diebold-Scotti Business Conditions Index which is updated on a daily basis and published by the Philadelphia Federal Reserve. The 91 day moving average is at -0.22 currently. The divining line for entering and exiting recessions is -0.8.

The second indicator for recessions is the Chicago Fed Business Activity Index. It is reported weekly and the divining line for entering recessions is -0.7. The three month moving average stands at 0.05.

In summary, the two "early warning signs" are not predicting recession at this time.

## **Section VI. Market Psychology**

For decades we have measured market psychology using price and volume data in the short and long term from the Dow Jones Industrial Average as well as a 17 week moving average of advancing and declining stocks on the New York Stock Exchange.

Currently, 9 out of 12 of our price/volume indicators are positive. The S&P has returned to 6100. But that doesn't necessarily mean the end of the rally. The market needs corrections from time to time in the short term to stay healthy and growing over the long term.

Our advance/decline line has been positive for the last six weeks and sits at 51.0%, and is reflecting the recent rally while expressing there may still be some room to the upside by not being overextended.

Our technical model measures the first and second derivative of price and volume for the market. We have developed this model to recognize patterns and spot buy and sell signals from reviewing years of historical data. This model is providing positive signs and our proprietary charting is reflecting a pattern seen during past bull markets as previously sighted in this report. After moving to the negative side of the model during this pullback, the model repeated an important buy signal over the last couple weeks. In the previous thirteen times we received this signal the market was positive twelve times six months later with an average gain of 11.79%.

## **Section VII. The Economy**

Indexes that measure manufacturing data are mixed. The Philly Fed Manufacturing Index has turned slightly negative. It slipped to -4.0 in June of 2025. The Empire State Manufacturing Index fell to -20.0 in March, the lowest since May of 2023. The reading for June improved slightly to -16. The national ISM manufacturing index slipped to 48.5% in May and the ISM services index was 49.9% (above 50 is considered growth, above 55 is considered exceptional growth). Most these readings reflect a moderating economy. Weather could be affecting the Empire State reading.

Multiple Wall Street and Federal Reserve predictions for Gross Domestic Product (GDP) have stayed around 1.7%. GDP for the first quarter was -0.5%. This was skewed by abnormally large gold imports as stated in our previous report. GDPNow is estimating a GDP of 3.4% for the second quarter.

## **Section VIII. Conclusion**

While volatility has increased, it is mostly a reaction to various sentiment readings or, in other words, "soft data" and emotions. The facts and history indicate that patience is in order.

We continue to be optimistic moving forward. As previously stated we expect a positive, but more muted, return for 2025. Over the short term, directional moves in the stock market are always going to be somewhat unpredictable. Though a correction, like we just experienced, always remains within the realm of possibilities, given what history tells us about market valuations, the historic data on market returns and economic growth it is crystal clear that investing for the long haul is a winning formula.

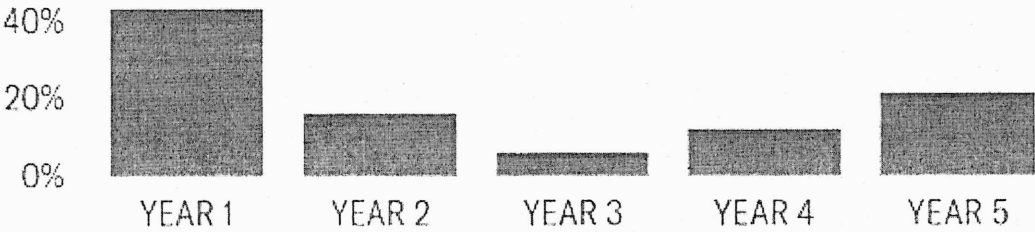
Enjoy our nation's birthday,

Scott B. Williams, CFA, CFP

Kent Edwin Stone

# BULL MARKET THIRD-YEAR RETURNS HAVE BEEN THE LOWEST

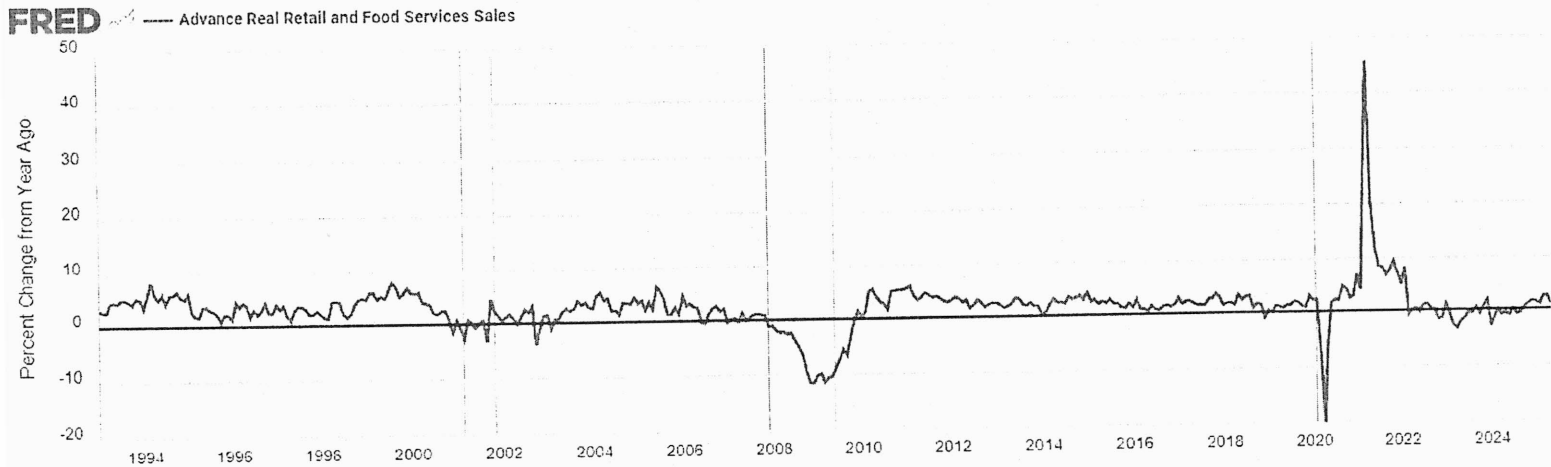
Average bull market returns over last 50-years



SOURCE: BMO CAPITAL  
MARKETS  
INVESTMENTSTRATEGY GROUP,  
FACTSET

**yahoo!finance**

Chart 2





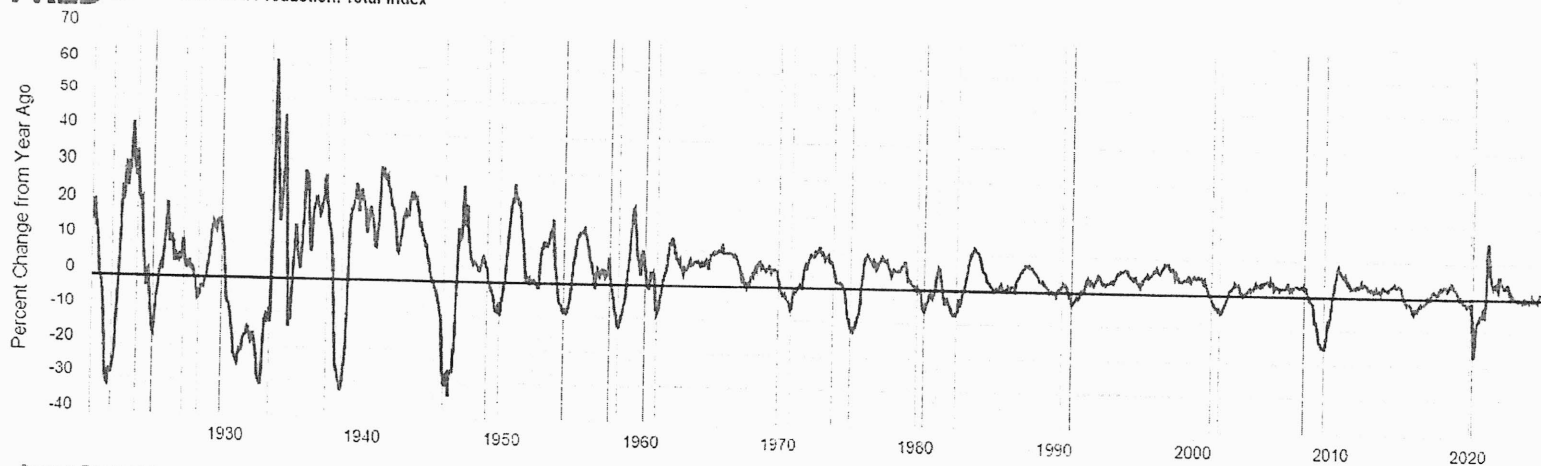
**FRED** — Industrial Production: Total Index


Chart 4

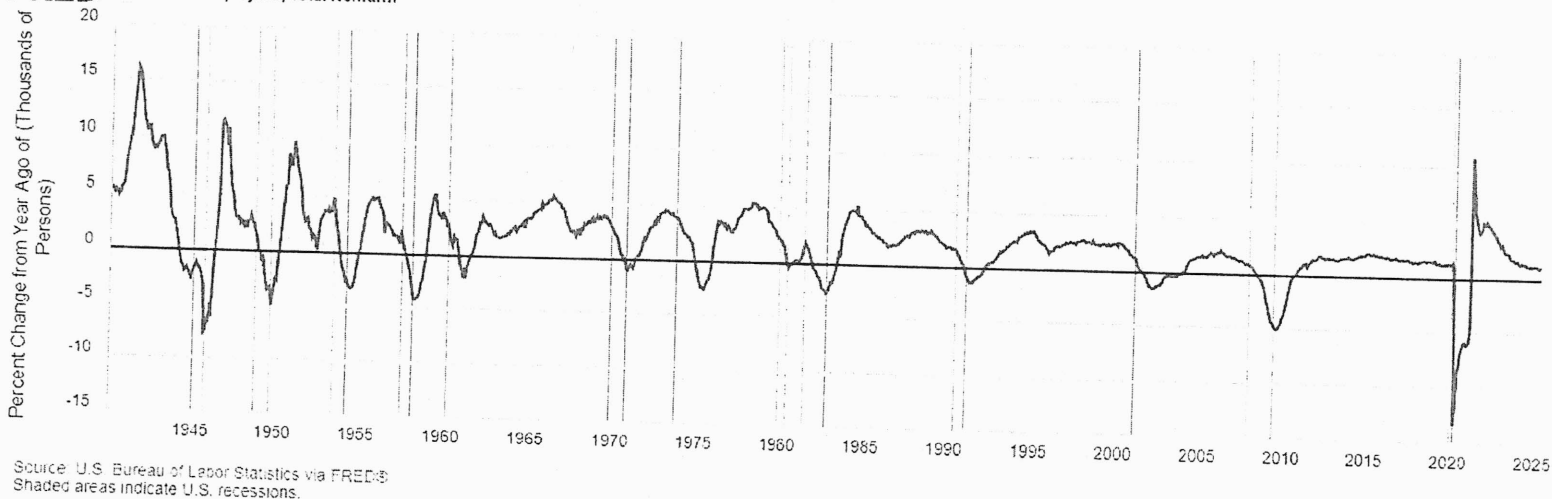
**FRED** — All Employees, Total Nonfarm


Chart 5

**FRED** — Average Weekly Hours of Production and Nonsupervisory Employees, Manufacturing
