Michael Gibbs, Managing Director, Lead Portfolio Manager | (901) 579-4346 | michael.gibbs@raymondjames.com
Joey Madere, CFA | (901) 529-5331 | joey.madere@raymondjames.com
Richard Sewell, CFA | (901) 524-4194 | richard.sewell@raymondjames.com
Mitch Clayton, CMT, Senior Technical Analyst | (901) 579-4812 | mitch.clayton@raymondjames.com

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Weekly Market Guide

Equity markets have been in a slow grind over recent weeks, able to drift slightly higher toward February all-time highs (just 2% away).

Volatility perked up a bit this week, as the Israel-Iran conflict gets added to the long list of wait-and-see items. We attempt to summarize our view on some of these below:

- **Israel-Iran war:** This is a very fluid situation with Israel actively bombing Iran. Positively, Iran's response has been limited so far with signs of de-escalation (or a refrain from max escalation). There are reports today of Iran reaching out to the White House, potentially to work on a nuclear deal. The jump in oil prices appears technical (so far), as there have been no impacts to oil infrastructure or the Strait of Hormuz (of which ~20% of global oil supply passes through). Additionally, there is plenty of spare OPEC and US capacity to put downward pressure on prices. It is important for the jump in oil prices to not be sustained, as lower oil is an important offset to tariffs and it would further complicate the Fed's job.

- **Tax bill:** The Senate Finance Committee released text this week. Negotiations are ongoing toward a Senate vote that will then go back to the House. Late July-early August is the expectation for a final bill (using budget reconciliation) with the debt ceiling acting as the X date. Lower taxes, including full depreciation for manufacturing facilities, is a big deal for the economic outlook and an important offset to tariff impacts.

- **Tariffs:** The July 9th reciprocal tariff "90-day deadline" is rapidly approaching. President Trump left G-7 meetings this week with no deals (and hardened rhetoric) on Japan and the EU. Nonetheless, we remain encouraged by Treasury Secretary Bessent's tone (and balanced handling) of negotiations thus far. We expect extensions for most talks and believe the Administration is likely comfortable with a 10% universal/baseline tariff (+ for some countries), sectoral tariffs (with limited exclusions), and China ~30%. On China, the open dialogue and constructive tone between the two sides are positive, but there has not been much substance on wider economic issues. As we've seen with China, most "deals" are likely to be memorandums of understanding worked toward over time and are unlikely to be the final word. Elsewhere, the Court of Appeals extended the stay on IEEPA tariffs until at least August (the Administration has other avenues to get what they want anyway). In other words, tariffs and trade negotiations will largely be with us for a while.

Big picture: There are clearly a lot of moving parts for investors to closely monitor. Packing it all together, we believe the economy is likely to hold up. Consensus GDP estimates have stabilized around 1.4% for 2025 and have up-ticked toward 1.6% for 2026. This should support moderate/healthy earnings growth over the coming year. Inflation is unlikely to run away to the upside, valuation is not onerous (particularly ex-Tech), and AI/tech investments are going strong. Also, the Fed stands ready to

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-0.8%	8.9%
S&P 500	1.7%	9.3%
S&P 500 (Equal-Weighted)	0.9%	7.5%
NASDAQ Composite	1.1%	9.3%
Russell 2000	-5.7%	4.0%
MSCI All-Cap World	5.8%	11.3%
MSCI Developed Markets	15.2%	13.3%
MSCI Emerging Markets	11.3%	11.4%
NYSE Alerian MLP	3.3%	9.3%
MSCI U.S. REIT	-1.4%	6.8%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Industrials	7.9%	8.6%
Communication Svcs.	6.5%	9.8%
Utilities	5.4%	2.4%
Consumer Staples	3.8%	5.6%
Financials	3.6%	13.9%
Materials	3.5%	1.9%
Energy	2.9%	3.2%
Information Technology	1.8%	32.4%
S&P 500	***1.7%***	-
Real Estate	1.5%	2.0%
Health Care	-3.4%	9.5%
Consumer Discretionary	-7.1%	10.4%

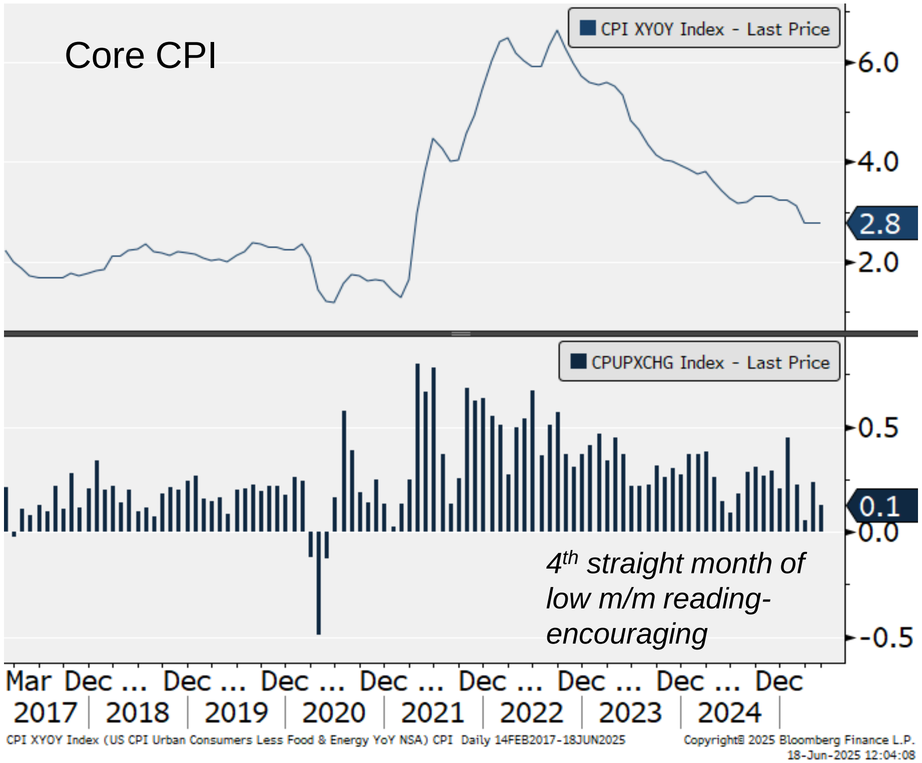
Source: FactSet

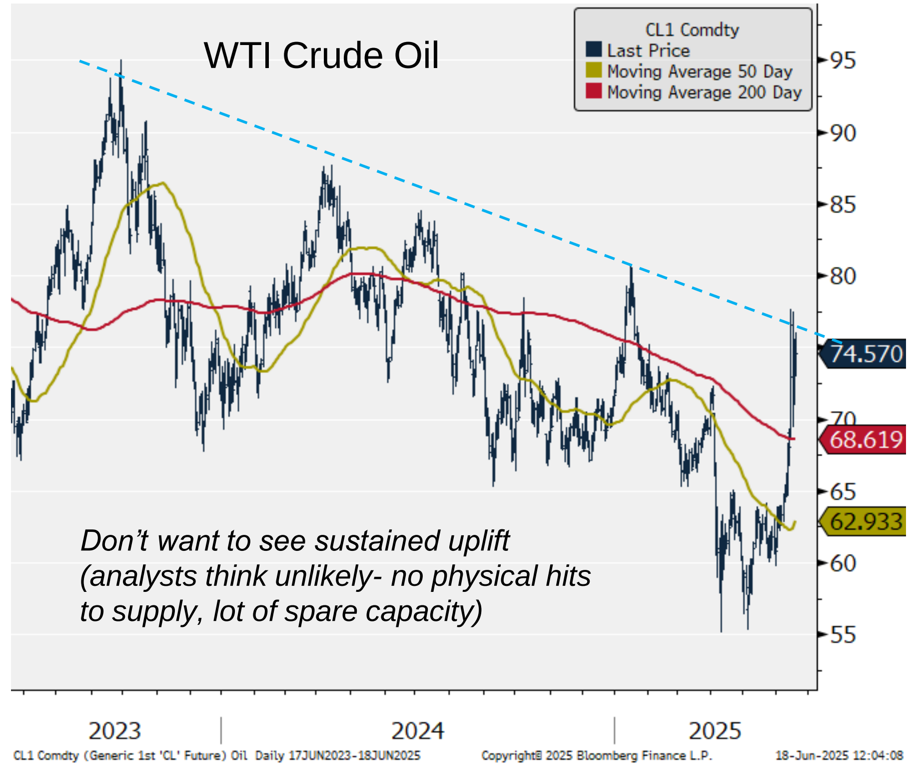
support material economic problems if needed.

All in all, we think the fundamental outlook is manageable and can support a grind higher for equities over the next year. We fully expect some give-and-take on tariffs and acknowledge the potential for negative headlines to spur volatility, particularly with the S&P 500 currently overbought and back near highs. However, we view ~5700-5800 (-3-5%) as near-term technical support, and would use weakness as opportunity.

Inflation

May was the 4th straight month of core inflation below forecasts. Core CPI rose just 0.1% m/m. Additionally, PPI was just 0.1% (following -0.2% in April). These feed into the Fed's preferred inflation measure- Core PCE- which gets reported at the end of the month and is likely to be ~0.1% m/m (and ~2.5% y/y- near the Fed's target). The string of low inflation numbers is encouraging- reflecting less pressure on the consumer so far. However, tariffs are creating some volatility in the monthly data and are likely to impact prices as inventories get worked down. For example, major appliances rose +4.3% m/m and toy prices +2.2% m/m. Elsewhere, lower oil prices have been a key offset to tariffs, which the Israel-Iran war could disrupt. Positively, there have been no impacts to oil infrastructure or the Strait of Hormuz (~20% of global oil supply passes through), and there is plenty of spare OPEC and US capacity. Nonetheless, this remains a fluid situation. It is important for the recent oil uplift to not become sustained, as it can impact inflation and further complicate the Fed's job.

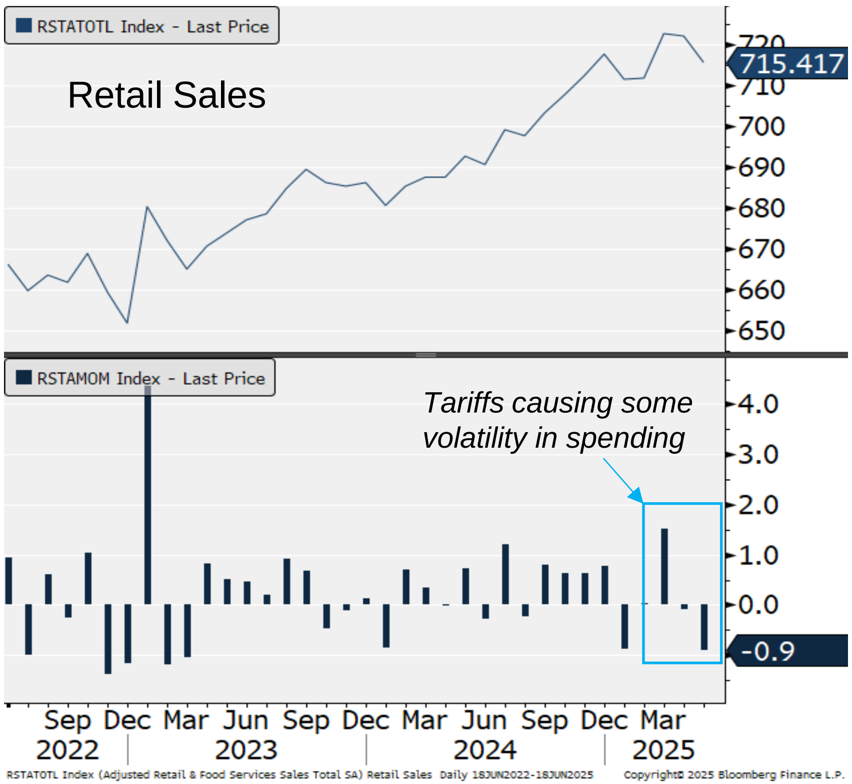




Source: Bloomberg, FactSet

Retail Sales

May retail sales came in at a weak -0.9%, however underlying consumption is not as bad as the headline. Tariffs have created some volatility in spending over recent months, i.e. part of the May decline was right-sizing from tariff front-loading in March (when retail sales jumped 1.5%). Positively, the retail sales control group rose 0.4% and non-store retailers were up again at 0.9%. Also, clothing and sporting goods rebounded. For the areas weighing most on the headline number- motor vehicle sales were down -3.5% (which is right-sizing from the 5.3% pre-tariff March jump), building material/garden equipment/supplies were down -2.7% (right-sizing from tariff front-loading, as well as weather), gasoline stations -2% (due to oil, likely to reverse in June with current WTI prices), and restaurants were down -0.9% (but after two positive months). In sum, there are a lot of moving parts as tariffs have created volatility in the monthly data. Hard to get a clear read, but the consumer seems to be holding up ok.

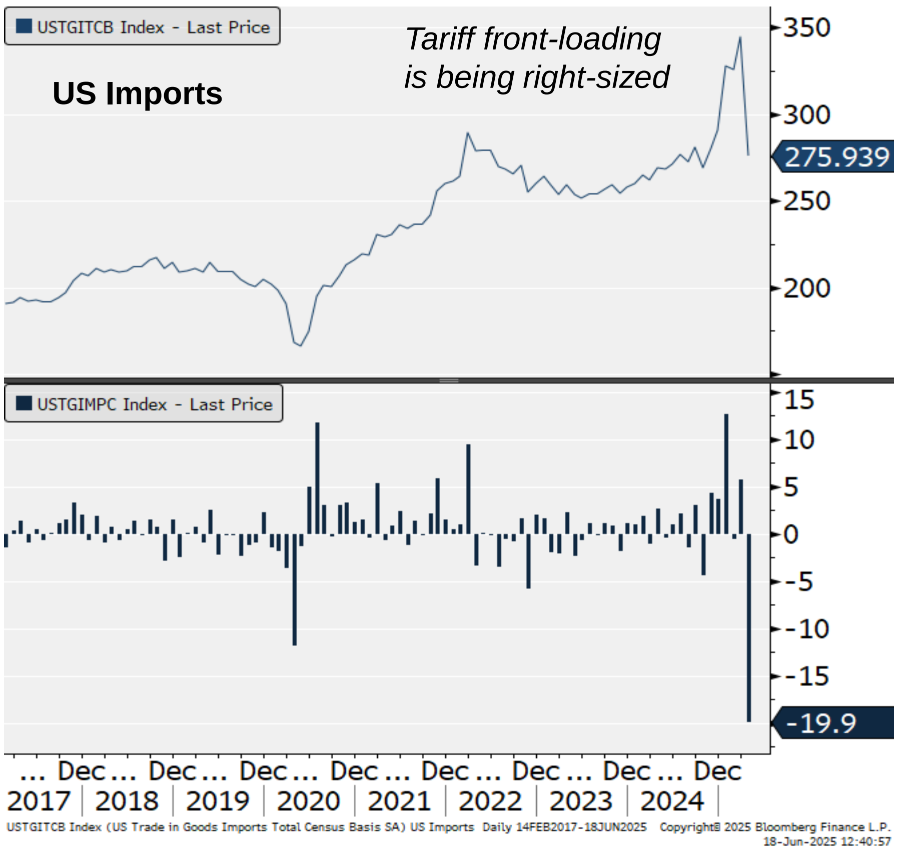


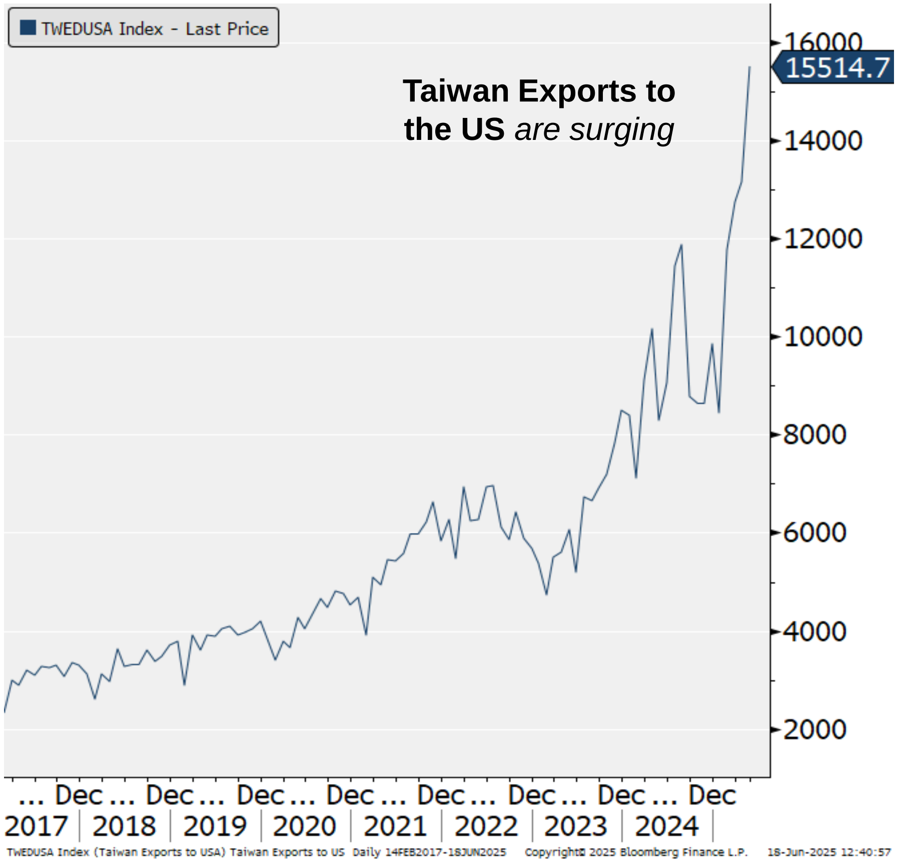
	May 2025	Apr 2025	Mar 2025
Retail Sales (Nominal/Value)	-0.9	-0.1	1.5
SPECIAL AGGREGATES			
Retail sales excluding food	-0.9	-0.2	1.4
Retail sales control group	0.4	-0.1	0.5
Retail sales excluding autos & gas stations	-0.1	0.1	1
Retail Sales Excluding Motor Parts Dealers	--	-0.1	0.3
By Industry			
Motor vehicle and parts dealers *Tariff right-sizing*	-3.5	-0.6	5.3
Furniture Home Furnishing Electronics and Appliance stores	0.5	0.5	0.6
Furniture and home furnishings stores	1.2	0.7	0.1
Electronics and appliance stores *Weather*	-0.6	0.1	1.4
Building material and garden equipment and supplies dealers	-2.7	0.3	2
Food and beverage stores	-0.7	0	0
Health & personal care stores	-0.1	-0.3	1.1
Gasoline stations *Oil*	-2	-0.7	-2.8
Clothing and clothing accessories stores	0.8	0	1.1
Sporting goods, hobby, book, and music stores	1.3	-3	3.8
General merchandise stores	0.1	-0.1	0
Miscellaneous store retailers	2.9	-3.7	1.3
NONSTORE RETAILERS	0.9	0.4	0.5
Food Services and Drinking Places *Restaurants weak but after 2 good months*	-0.91	0.83	2.53

Source: Bloomberg, FactSet

US Imports

As mentioned on the previous pages, there has been a lot of volatility in the economic data which is affecting monthly numbers. US imports are a good depiction of this, as they contracted -19.9% in May! However, this is following the surge in imports earlier in the year as corporations raced to build inventories ahead of tariffs. In essence, this is right-sizing the import trend. Also interestingly, despite the contraction in overall imports, Taiwan exports to the US (i.e. semiconductors) surged in May. This not only indicates the rapid demand of AI-related investments in the US but also supports the Tech sector's current momentum.

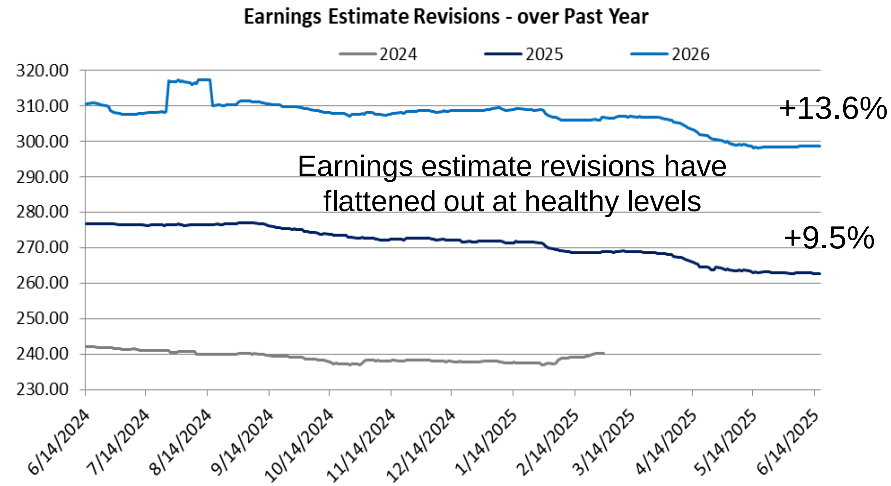


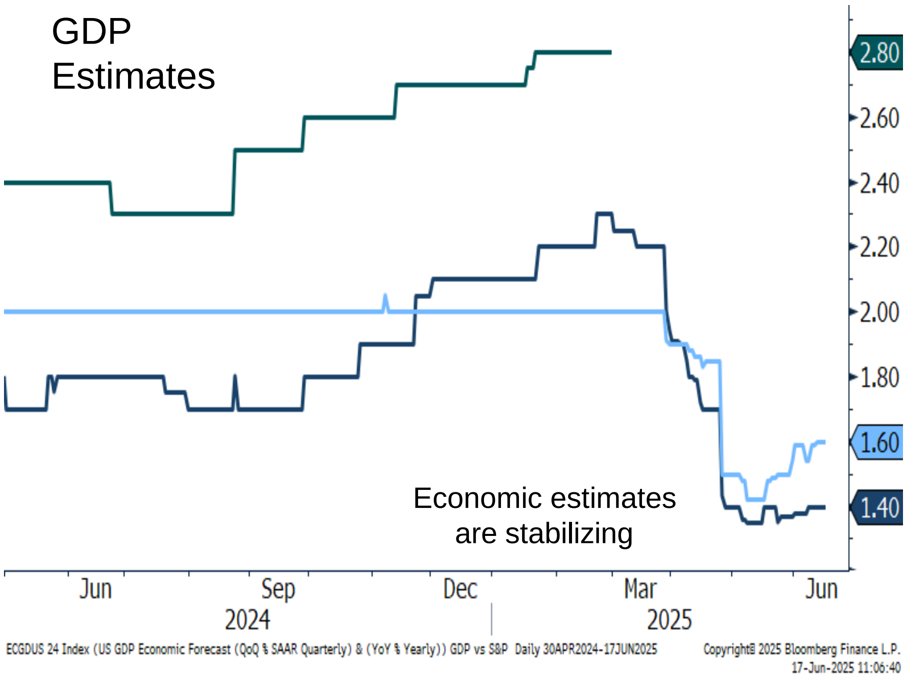


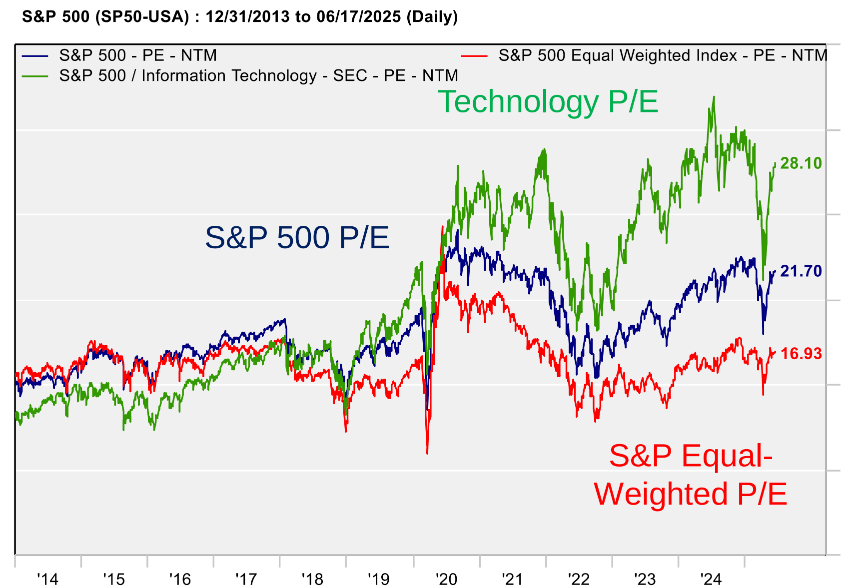
Source: Bloomberg, FactSet

Fundamentals

When packing together the long list of variables driving economic uncertainty, our base case expectation is that the economy holds up ok. Consensus GDP estimates have stabilized around 1.4% for 2025 and have up-ticked toward 1.6% for 2026. This should support moderate/healthy earnings growth over the coming year. Inflation is unlikely to run away to the upside, valuation is not onerous (particularly ex-Tech), and AI/tech investments are going strong. Also, the Fed stands ready to support material economic problems if needed. All in all, we think the fundamental outlook is manageable and can support a grind higher for equities over the next year.

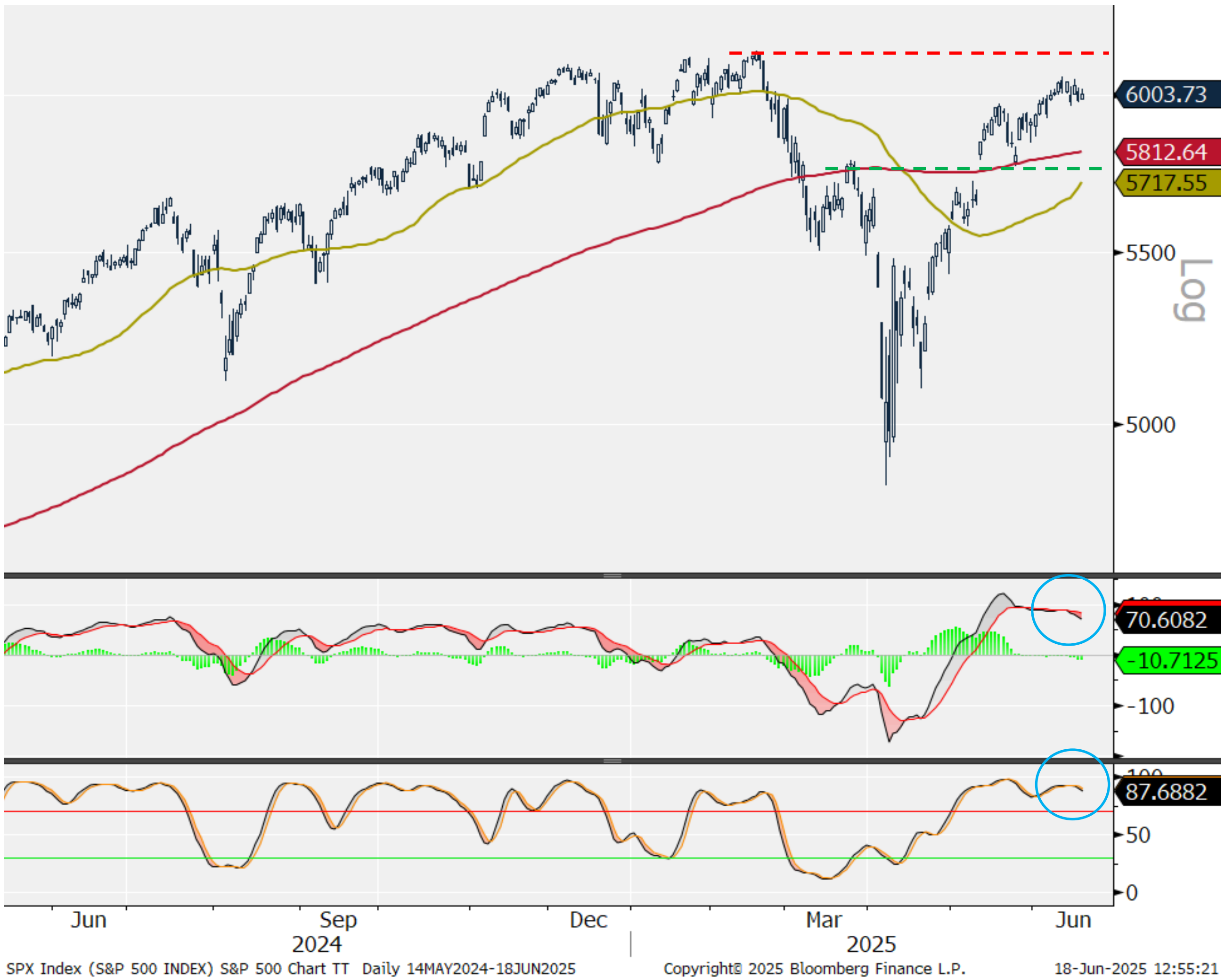






Source: Bloomberg, FactSet

Technical: S&P 500



Equity markets have been in a slow grind over recent weeks, able to drift slightly higher as the S&P 500 approaches all-time highs (just 2% away).

Technically, the recent price action is a positive at overbought levels. The ability for the S&P 500 to break above the 200 DMA in May and then hold that level as support was also encouraging.

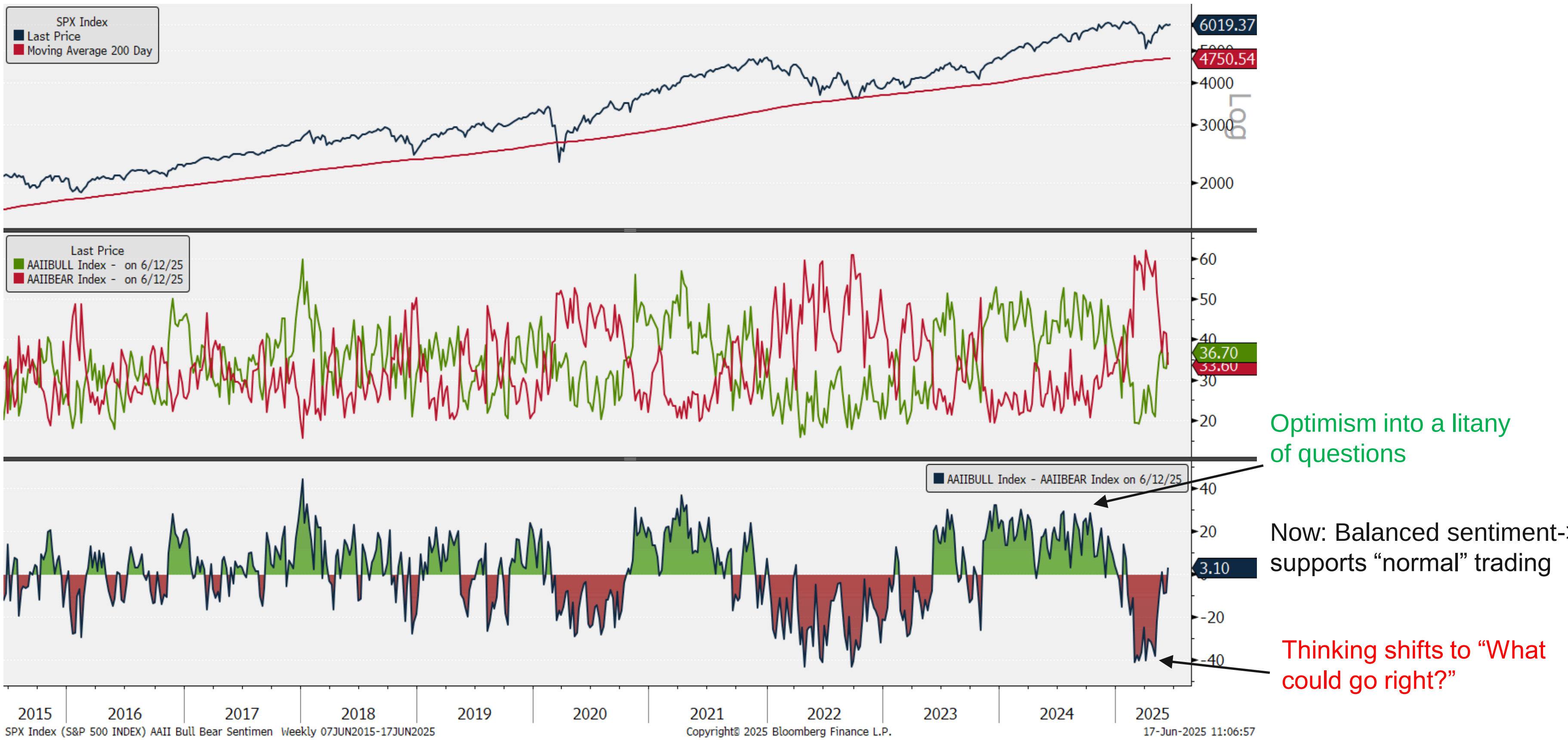
We fully expect some give-and-take on tariffs and acknowledge the potential for negative headlines to spur volatility, particularly with the S&P 500 currently overbought and back near highs.

However, we view ~5700-5800 (-3-5%) as near-term technical support, and would use weakness as opportunity.

Source: Bloomberg, FactSet

Investor Sentiment

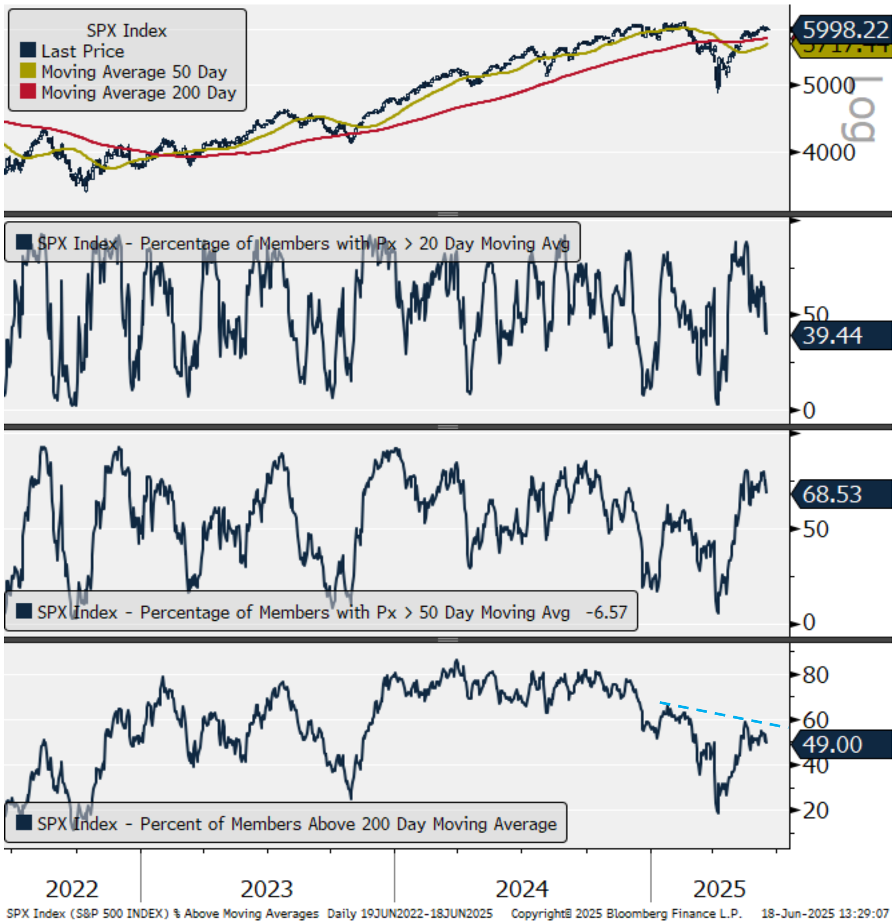
Investor sentiment has been a key contrarian influence this year. In late-2024 (following back-to-back ~25% annual gains for the S&P 500), investor optimism was high on the outlook despite the long list of variables that could impact volatility. As tariff volatility set in, investor sentiment flipped to extremely bearish- shifting our thought process from “what could go wrong” to “what could go right.” The Administration has done a good job of trickling out some good news since the market lows and walking back worst-case scenarios. With the S&P 500 now back near highs, investor sentiment appears balanced. We believe this supports more “normal” trading ahead- with normal pullbacks and setbacks within an overall positive trend.



Source: Bloomberg, FactSet

Narrowing Participation

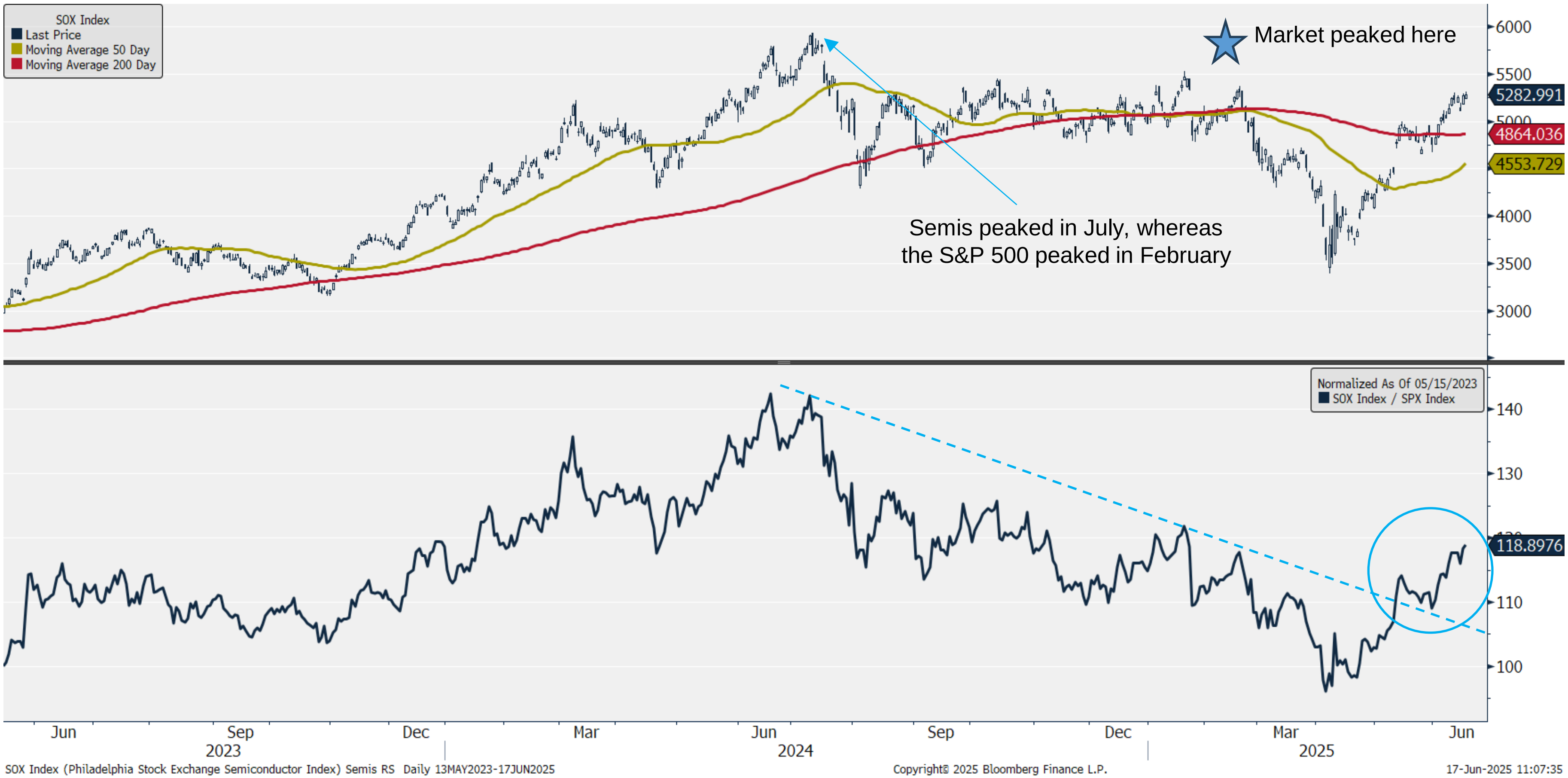
A negative divergence in the recent uplift for equities is narrow participation. As the S&P 500 has drifted above May highs, the percentage of stocks above their 200 DMA has not expanded and the equal-weighted S&P 500 is back near relative lows. This provides some pause for short-term momentum.



Source: Bloomberg, FactSet

Semiconductors

Most of the recent market upside has been driven by Tech/AI strength (given strong earnings growth and positive estimate revisions). The semiconductors offer an important barometer, given their widespread use across the economy, so it is supportive to see the group trading much better. Just as semiconductor weakness preceded the broad market decline, we are encouraged to see the group now acting as a leader in the recovery.



Source: Bloomberg, FactSet

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Index Definitions

The **S&P 500** is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

The **Dow Jones Industrial Average (DJIA)** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The **NASDAQ Composite** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

The **MSCI World All Cap Index** captures large, mid, small and micro-cap representation across 23 Developed Markets (DM) countries. With 11,732 constituents, the index is comprehensive, covering approximately 99% of the free float-adjusted market capitalization in each country.

The **MSCI EAFE (Europe, Australasia, and Far East)** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 21 developed nations.

The **MSCI Emerging Markets Index** is designed to measure equity market performance in 23 emerging market countries. The index's three largest industries are materials, energy, and banks.

The **Russell 2000** index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks.

The **NYSE Alerian MLP** is the leading gauge of energy infrastructure Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).

The **Barclays Intermediate Government/Credit Bond** index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

The **Euro Stoxx 50 Index** is a market capitalization weighted stock index of 50 large, blue-chip European companies operating within Eurozone nations. Components are selected from the Euro STOXX Index which includes large-, mid- and small-cap stocks in the Eurozone.

The **China CSI 300** is a capitalization-weighted stock market index designed to replicate the performance of top 300 stocks traded in the Shanghai and Shenzhen stock exchanges. It had a sub-indexes CSI 100 Index and CSI 200 Index.

The **S&P 500 Futures** is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **DJIA Futures** is a stock market index futures contract traded on the Chicago Mercantile Exchange`s Globex electronic trading platform. Dow Futures is based off the Dow 30 stock index.

The **Nasdaq 100 Futures** is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international companies listed on the NASDAQ.

Europe: DAX (Deutscher Aktienindex (German stock index)) is a blue chip stock market index consisting of the 40 major German companies trading on the Frankfurt Stock Exchange.

Asia: Nikkei is short for Japan's Nikkei 225 Stock Average, the leading and most-respected index of Japanese stocks. It is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results. Future investment performance cannot be guaranteed, investment yields will fluctuate with market conditions.