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

A big reason for the S&P 500's V-bottom (and 30% gain in 60 days) to new highs was, not only worst-case fears on tariffs being rolled back to a degree but, optimism on a tax bill.

Last Friday, the One Big Beautiful Bill was signed into law and is a key offset to the economic impact of tariffs. With the bill, the 2017 tax cuts are made permanent (among other tax breaks) and new stimulus comes in the form of investment incentives. For example, immediate depreciation of new manufacturing facilities, equipment, software, and R&D will accelerate capital spending, boost cash flows, and stimulate economic growth. This stimulus should also have an immediate impact given retroactive features. **The tax bill, along with investment spending, deregulation, and lower oil prices, provide some cushion to the economy as we deal with tariffs ahead.**

Now, the focus shifts back to trade. This week, the Administration sent out letters to 14 countries with rates mostly at the original "Liberation Day" announcement, including Japan and South Korea at 25%, while also delaying the implementation of these tariffs to August 1st. We think investors should take the Administration seriously, but not literally. The 25-40% announced rates are intended to put pressure on negotiations, rather than being the end goal. Notable absences from those receiving letters are the EU, India, Taiwan, Brazil, Turkey, and Australia- raising the odds that negotiations are in a better place with them. Also, some "deals" are set to be announced. We expect most countries to fall between Vietnam's 20% rate and the UK's 10% rate with a renewed focus on transshipment (i.e. 40% for Vietnam- in line with China's rate). **All in all, tariffs are probably going up from here (not down) and the uncertainty is not going away any time soon.**

We believe that the net effects of tariffs and their offsets leaves a manageable situation fundamentally. This supports our positive outlook for stocks over the next 12 months, though likely with more moderate gains (or a grind) from current levels. A number of risks could rear their head over the coming months and be a headwind to stocks, i.e. trade rhetoric/tariff announcements, tariff impacts to growth and inflation, and Fed expectations. Q2 earnings season is an upcoming catalyst to monitor; and with pre-tariff inventories being drawn down, it will be a good update to assess where things stand (and where they may be headed).

Technically, it's normal to see a digestion phase with choppy trading following sharp V-bottoms out of a bear market. The 2018 trade war is a good example, and this year's market action has been fairly similar to that time period so far. In the 2018 trade war, after rebounding to prior highs, the S&P 500 had a few 7-8% pullbacks over the next several months on trade, Fed, and economic jitters- though all within an upward trend. We would not be surprised to see something similar transpire this time around.

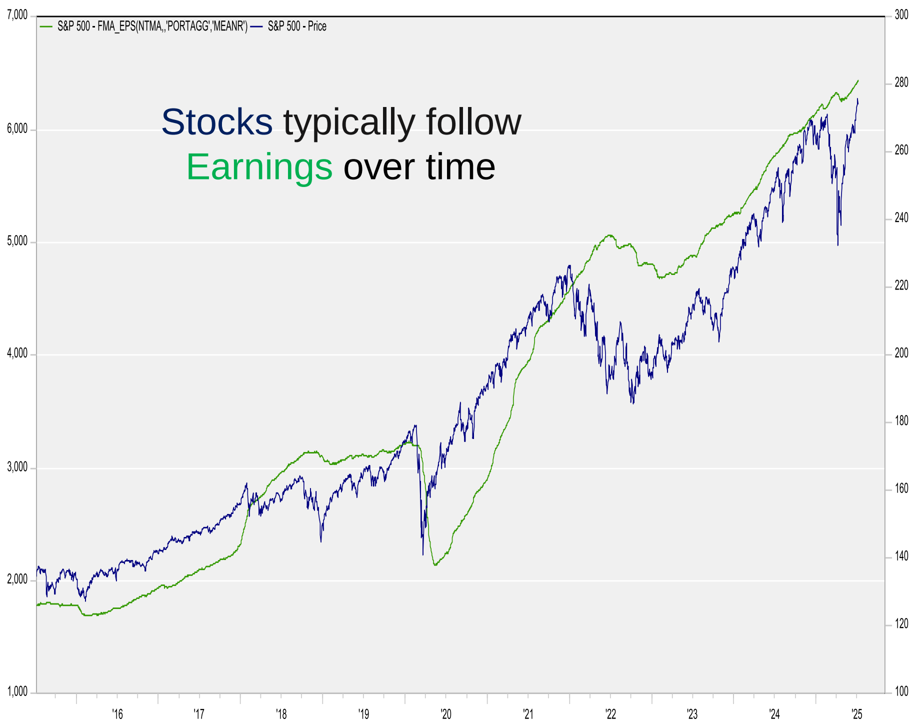
Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	4.0%	12.4%
S&P 500	5.8%	11.7%
S&P 500 (Equal-Weighted)	5.1%	12.3%
NASDAQ Composite	5.7%	10.9%
Russell 2000	-0.1%	9.3%
MSCI All-Cap World	9.3%	12.4%
MSCI Developed Markets	16.8%	11.9%
MSCI Emerging Markets	14.5%	11.2%
NYSE Alerian MLP	3.3%	4.7%
MSCI U.S. REIT	-2.3%	4.6%

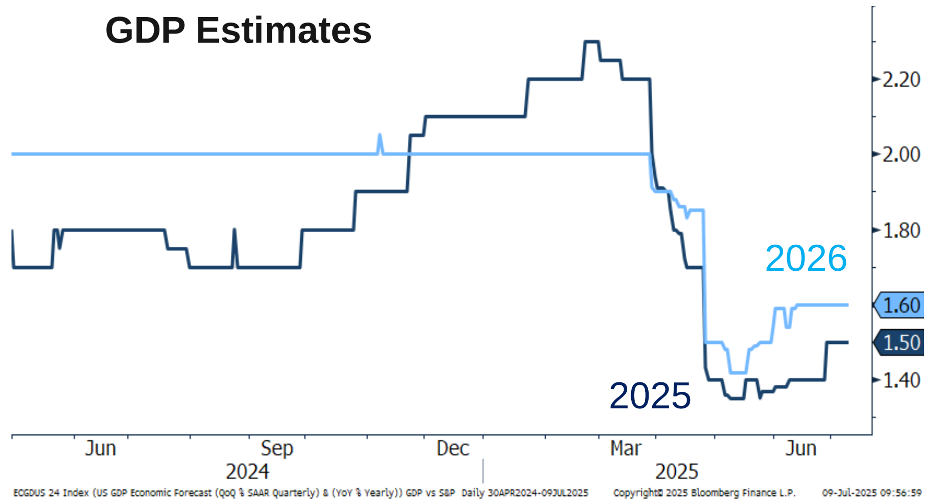
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Industrials	13.0%	8.6%
Information Technology	8.8%	33.3%
Communication Svcs.	8.5%	9.6%
Materials	8.2%	1.9%
Financials	8.0%	13.9%
Utilities	7.0%	2.4%
S&P 500	***5.8%***	-
Consumer Staples	5.0%	5.5%
Energy	3.5%	3.1%
Real Estate	1.0%	1.9%
Health Care	-1.9%	9.3%
Consumer Discretionary	-4.4%	10.3%

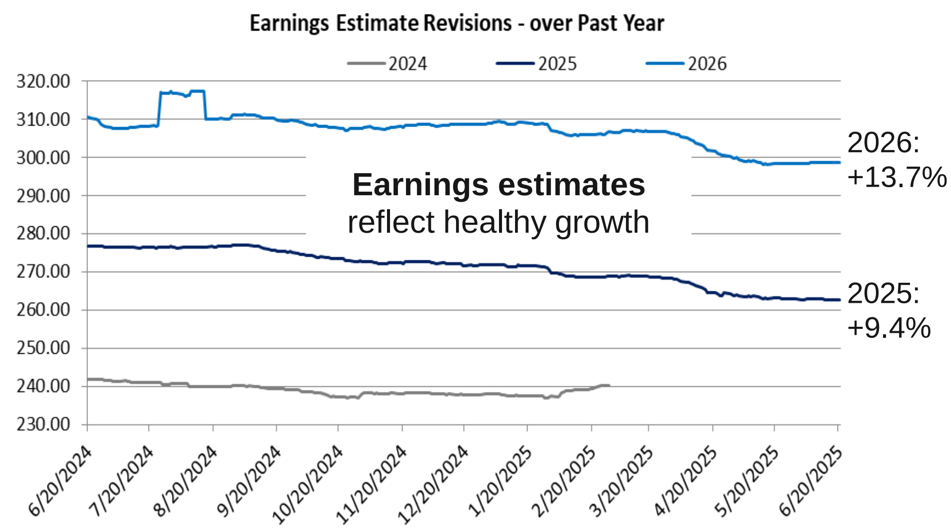
Source: FactSet

Earnings Are The Long-Term Driver of Equities

When the noise gets loud and there are so many moving parts, it's beneficial to remember the long-term driver of stocks- corporate earnings. In assessing the potential tariff impacts and offsets, we believe the economy is likely to hold up (with potential upside to 2026 GDP estimates) and leave a manageable situation fundamentally. This supports our positive outlook for stocks over the next 12 months, though likely with more moderate gains from current levels.



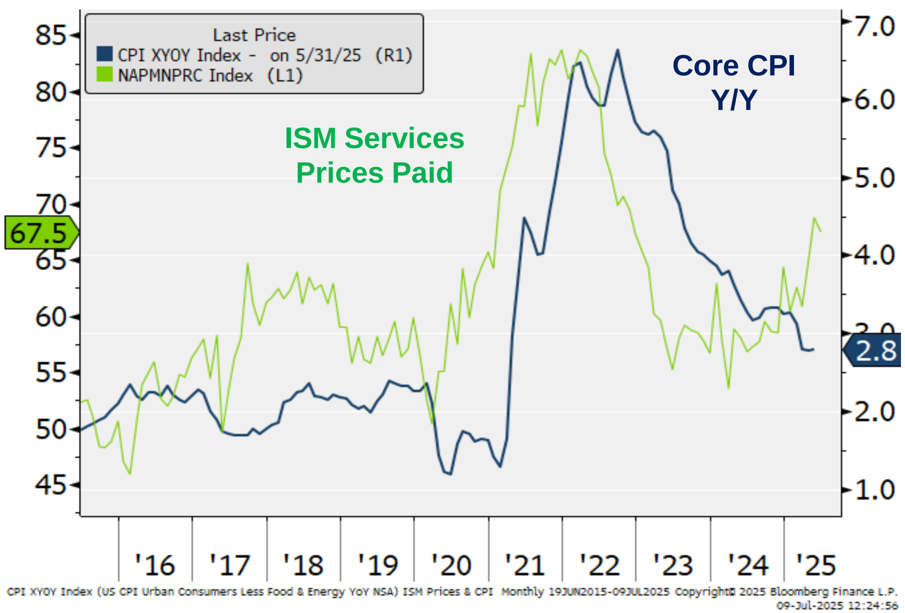


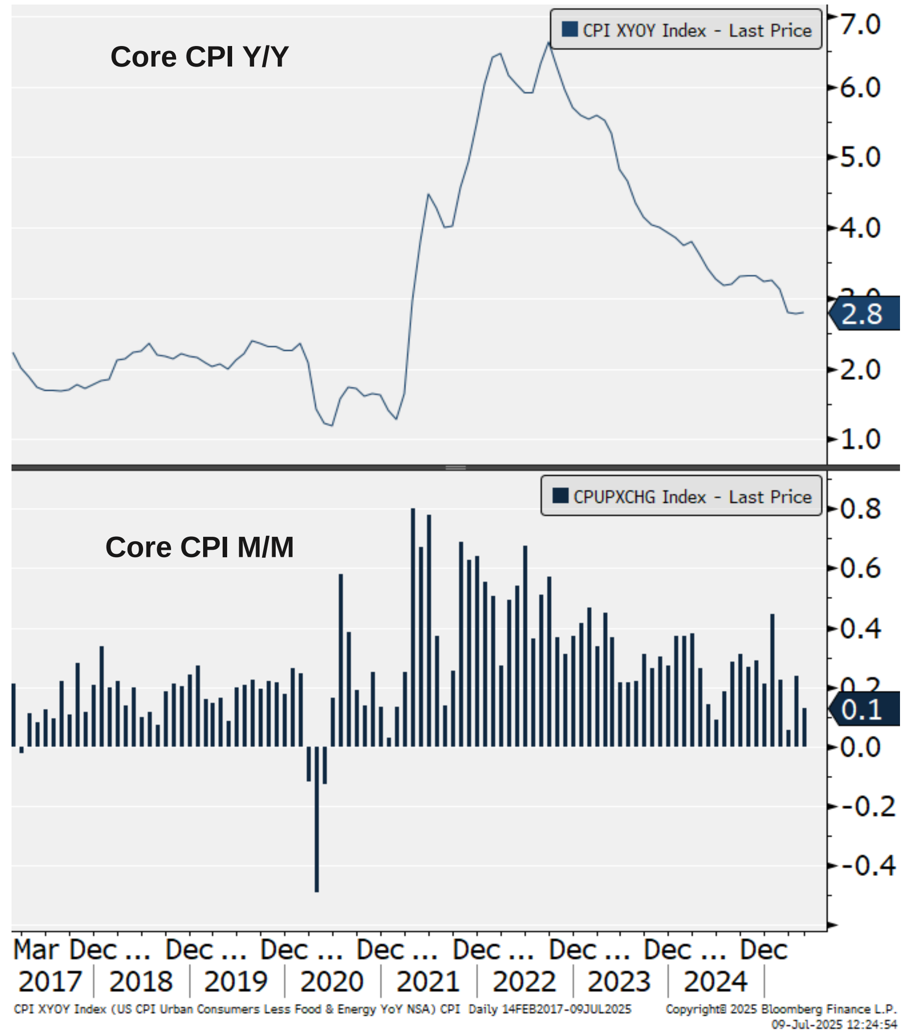


Source: Bloomberg, FactSet

Inflation

A risk to monitor is inflation. There was a surge in imports ahead of the April tariff announcement, and that pre-buying has acted as a buffer to corporate tariff impacts thus far. Accordingly, there have been four consecutive months of low inflation reports. With inventories being drawn down over the past few months (and increased tariffs coming on August 1st), we may start to see some inflationary impacts enter into the monthly data. ISM Services Prices have been a good leading indicator to Core CPI over the past few years and suggests some upside ahead. June inflation gets reported next Tuesday, July 15th and will be an important update for investors (with potential effects on Fed expectations and valuation).





Source: Bloomberg, FactSet

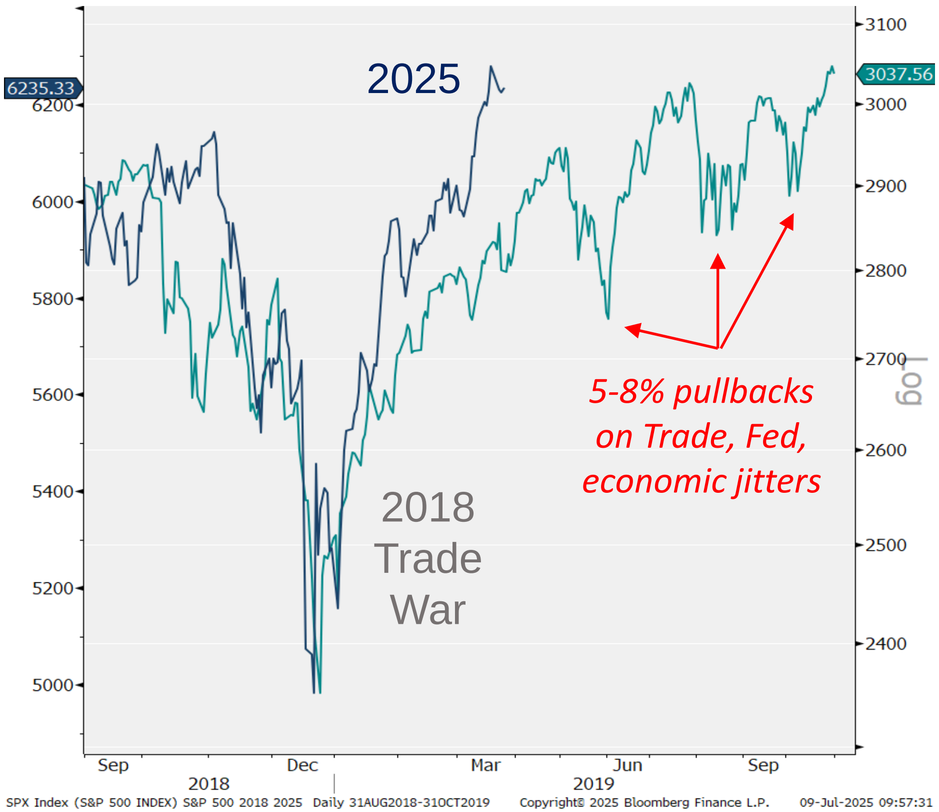
Trade Uncertainty

Trade uncertainty has had an inverse correlation to the S&P 500 year-to-date. Not only was the tax bill a big reason for one of the sharpest S&P 500 rallies in history, but so were worst-case tariff fears being rolled back to a degree. As you can see, the S&P 500 bottomed at the same time Trade Uncertainty peaked- and equities climbed while Trade Uncertainty decreased. With investor focus shifting back to trade now that the tax bill has been passed, along with the Administration ramping up trade rhetoric again, we believe this may act as a headwind to equities in the short-term. A “cool off” period for equities would be normal and healthy technically.

Source: Bloomberg, FactSet

Parallels to 2018 Trade War

Now that the S&P 500 has V-bottomed (30% gain in just 60 days) back to new highs, we looked at prior V-bottoms out of bear markets for clues on what may happen next (those periods are highlighted on the bottom right). In general, it's normal to see choppy trading as equities digest the sharp volatility and investors gain further clarity on the issues at hand. The 2018 trade war is a good example, and this year's market action has been fairly similar to that time period so far (chart overlay on bottom left). In the 2018 trade war, after rebounding to prior highs, the S&P 500 had a few 5-8% pullbacks over the next several months on trade tensions, Fed expectations, and economic jitters- though all within an upward trend. We would not be surprised to see something similar transpire this time around.



Recessionary Bear Markets

Market Top	Market Bottom	Total Months	Bear Market Decline	Months to return to high from bottom	New High Date	Forward 1mo	Forward 3mo	Forward 6mo	Forward 12mo
Jul-57	Oct-57	3	-20%	11	9/16/1958	4.15%	9.53%	15.64%	18.75%
Jan-60	Oct-60	10	-18%	3	1/25/1961	3.82%	8.68%	9.37%	16.36%
Nov-68	May-70	18	-36%	22	3/6/1972	0.83%	0.20%	3.10%	7.93%
Jan-73	Oct-74	21	-48%	69	7/17/1980	3.97%	9.68%	13.72%	13.07%
Feb-80	Mar-80	1	-21%	4	7/14/1980	4.81%	11.41%	13.96%	13.45%
Nov-80	Aug-82	21	-27%	3	11/3/1982	-2.53%	2.20%	16.30%	19.67%
Jul-90	Oct-90	3	-21%	4	3/1/1991	0.44%	6.10%	8.45%	14.88%
Mar-00	Oct-02	31	-49%	55	7/19/2007	-6.74%	-2.93%	-13.76%	-17.09%
Oct-07	Mar-09	17	-59%	49	4/10/2013	3.06%	4.64%	7.76%	17.89%
Feb-20	Mar-20	1	-34%	5	8/21/2020	-3.28%	5.15%	15.90%	32.72%
Average		***13***	***-33%***	***23***		**0.85%**	**5.46%**	**9.04%**	**13.76%**

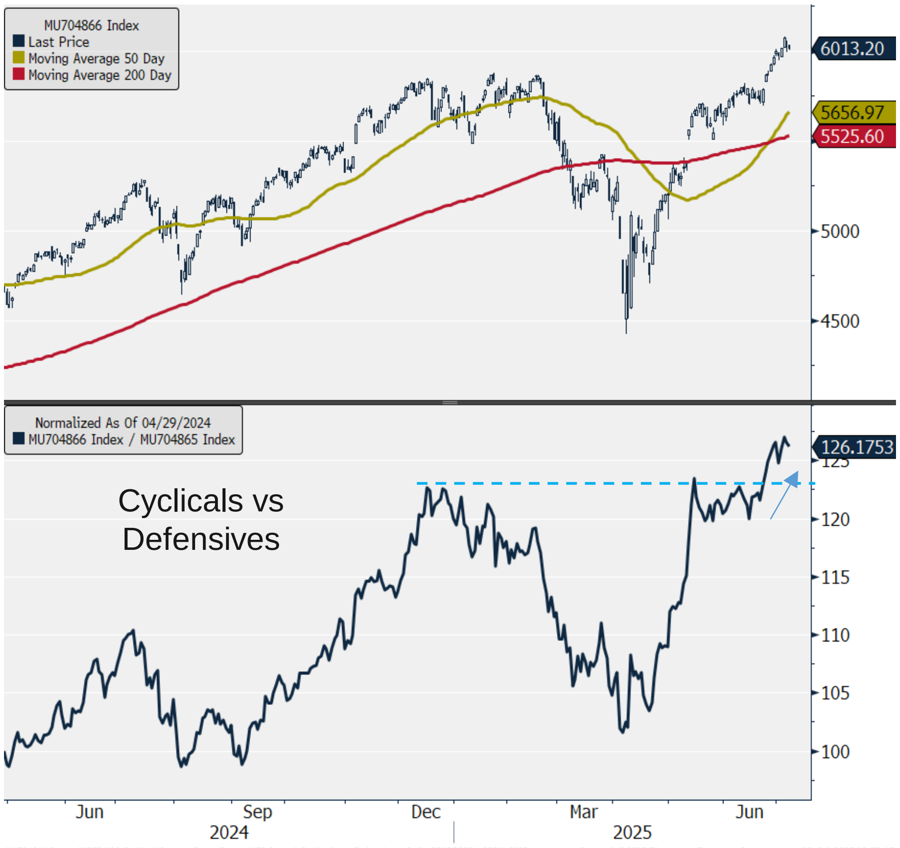
Non-Recessionary Bear Markets

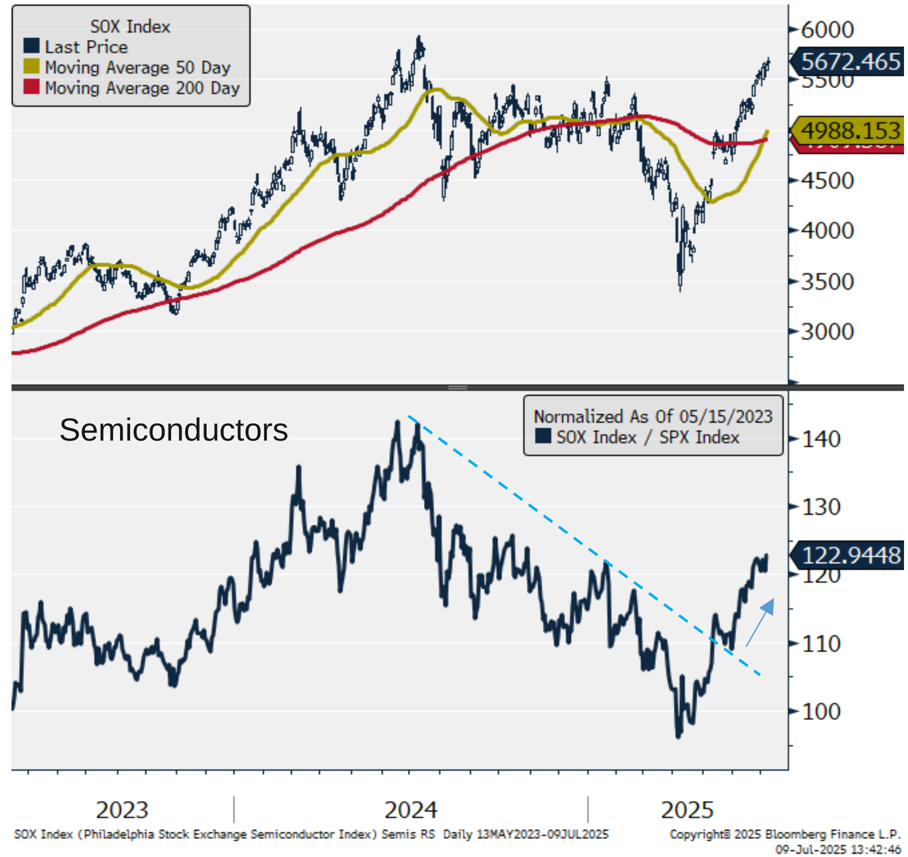
Market Top	Market Bottom	Total Months	Bear Market Decline	Months to return to high from bottom	New High Date	Forward 1mo	Forward 3mo	Forward 6mo	Forward 12mo
Dec-61	Jun-62	6	-28%	15	9/4/1963	1.02%	2.33%	9.25%	17.51%
Feb-66	Oct-66	8	-22%	7	5/4/1967	-4.80%	2.40%	-1.21%	7.94%
Sep-76	Mar-78	18	-19%	18	8/15/1979	0.91%	-2.49%	9.54%	22.68%
Aug-87	Oct-87	2	-34%	20	7/27/1989	2.86%	-1.22%	-3.16%	6.89%
Jul-98	Oct-98	3	-23%	2	11/27/1998	2.93%	4.19%	8.17%	20.31%
May-11	Oct-11	5	-19%	5	2/28/2012	2.60%	-3.48%	3.82%	12.92%
Sep-18	Dec-18	3	-20%	4	4/29/2019	-5.24%	3.16%	4.22%	1.88%
Jan-22	Oct-22	9	-25%	15	1/19/2024	3.56%	3.00%	14.54%	25.58%
Average		***7***	***-24%***	***11***		**0.48%**	**0.99%**	**5.65%**	**14.46%**

Source: Bloomberg, FactSet

Leadership

In the market's advance, we have seen a growing percentage of stocks participating in the upside and leadership from the more risk-on areas of the market. Relative strength for the Cyclicals vs. Defensives is at new highs, along with High Beta vs. Low Volatility. Moreover, Technology, Financials, and Industrials have all broken out to new highs with underlying momentum. These are positives for the overall uptrend, and support our view that equities are likely to grind higher over the next year. However, in the short-term, the recent strength does leave many stocks at overbought levels. We would not be surprised to see some consolidation but would view weakness as opportunity.





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.