

Monthly Intelligence Report

ZenInvestor®

Invest Smarter

July 2025

Executive Summary

- The risk of recession has increased, but remains below 50%..
- The bear market indicator improved slightly this month.
- Earnings estimates have stabilized and are beginning to move higher..
- Global GDP growth will slow from 3.3% in 2024 to 2.7% in 2025.
- US GDP growth will slow from 2.8% in 2024 to 1.6% in 2025.
- Several market strategists have lowered their year-end S&P 500 forecasts.
- My December 2025 S&P 500 target is 6140, a gain of 4.4% for the year.
- I made no changes to the asset allocation models this month.

The US Economy

The global trade war has been temporarily bumped from the front pages by the escalation of hostilities in the Middle East..The stock market is behaving as if the cease fire will hold. (It's going up.) Anything can happen, which is why I'm keeping the cash allocation in the model portfolios (near the bottom of this report) at 10%. The situation in the Middle East is destabilizing for the entire region, and eventually it will be felt here in the form of a rising VIX (volatility) level for stocks. With the US economy already slowing down, any additional costs will just make matters worse. I expect the effective US tariff rate to settle in the 12—15% range when all the negotiating is finished. That would translate, roughly, to a 2% tax on the US consumer. If that happens, inflation will almost certainly tick higher, but not so high that the Fed would begin to raise short term rates once again. The real risk to economic growth isn't tariffs, but the potential consequences of the so-called Big Beautiful Bill (if it passes the Senate). It would add a significant amount of new debt to the \$28.9 trillion that's already on the books.

Just as the stock and bond markets are experiencing higher than usual volatility driven by uncertainty, so is the economy. The effects of the tariffs and the fiscal policies being debated are creating an air of heightened uncertainty. The consensus forecast is for Real GDP growth of 1.6% in 2025 – slower than last year but not slow enough to tip us into a recession. Under this scenario, the Fed will cut short term rates at least twice, in September and November. The risk to this forecast is the unknown rate of inflation, once the full effect of the tariffs and the budget bill are factored in.

Real GDP y/y, in %

	2024E	2025E	2026E
US	2.8	1.6	1.2
Canada	1.2	2.0	2.0
Japan	0.2	0.6	0.5
Eurozone	0.8	0.7	1.0
UK	1.1	0.8	1.1
Switzerland	1.3	0.7	1.6
Australia	1.0	1.9	2.0
China	5.0	4.0	3.5
India	6.5	6.0	6.4
EM	4.5	3.8	3.7
World	3.3	2.7	2.7

Source: Bloomberg, UBS

The U.S. Stock Market

The stock market has been amazingly resilient in the face of uncertainty. As I write this. We are less than 1% from the all-time high of 6144 on the S&P 500 index. However, due to the uncertainty from tariff and fiscal policy, many economists and market strategists doubt the sustainability of this recovery rally. As of today, June 24, we are up 3.5% YTD. I expect more volatility in the coming weeks as the trifecta of uncertainty continues to bubble up from the surface of the market. Once investors have some clarity about tariff policy, the status of the Big

Beautiful Bill, and the end to the Middle East conflict, the market should begin to settle down and move higher in the second half of the year. My model forecasts an S&P 500 closing price of 6140, a gain of 4.4% for the year.

How to play your cards in an environment with so much uncertainty and volatility? I'm encouraging clients to buy the dips and sell when the market becomes overbought (which it did recently). But long-term investors needn't worry about short term trading. They can wait this out without taking any action. It's the folks in or near retirement who must pay close attention to what's going on, because their livelihood depends on the ultimate outcome.

Consensus forecasts for the S&P 500

The table below shows the consensus forecasts from strategists, asset managers, and economists at the major Wall Street firms. The individual forecasts are widely dispersed but the average has historically been close to the actual closing price.

According to these forecasts, 2025 will end at **6148**, which would represent a **5.7%** gain for the year. With the bull market intact but currently in correction mode, these forecasters have been lowering their targets. The range of forecasts is particularly wide this year. Wells Fargo, the most bullish of the forecasters, sees the S&P 500 ending the year with a **19.1%** gain. BCA Research, the most bearish forecaster, is calling for a closing price of **4450**. For the market to trade that low, we would have to be in a recession, and perhaps a deeper and longer lasting recession at that. As these forecasts change throughout the year, I will update this table accordingly.

FIRM	2025 S&P	% Change
Wells Fargo	7007	19.1%
SocGen	6750	14.8%
HSBC	6700	13.9%
FactSet	6678	13.5%
Fundstrat	6600	12.2%
Ned Davis Research	6600	12.2%
CFRA	6586	12.0%
Deutsche Bank	6550	11.4%
Morgan Stanley	6500	10.5%
Yardeni Research	6500	10.5%
Raymond James	6350	8.0%
LPL Financial	6325	7.5%
Citigroup	6300	7.1%
BMO Capital Markets	6100	3.7%
Goldman Sachs	6100	3.7%
Barclays	6050	2.9%
JPMorgan	6000	2.0%
UBS	6000	2.0%
Oppenheimer	5950	1.2%
Bank Of America	5600	-4.8%
Evercore ISI	5600	-4.8%
RBC Capital Markets	5600	-4.8%
Stifel	5500	-6.5%
T Rowe Price	5300	-9.9%
BCA Research	4450	-24.3%
AVERAGE	6148	5.7%

As of 6/24/2025

Sector preferences.

My preferred sectors right now are Technology, Healthcare, and Industrials. Technology will benefit from the ongoing buildout of AI infrastructure. Industrials will benefit from providing the tools and materials needed for the buildout. Healthcare will benefit from relatively modest valuations and the ageing U.S. population.

Least favored are the sectors that are the most vulnerable during an economic slowdown – Energy and Real Estate will likely lag as their upside is limited by receding demand from consumers and businesses. Bear in mind that these earnings estimates will change as we move through 2025, and the attractiveness rankings will change accordingly.

These leading and lagging sector forecasts are consistent with an economy that is still expanding but at a slow pace. If we have a recession, which appears more likely this year (although it's far from certain), these over- and underweights will become even more valuable from an asset allocation standpoint.

Sector	2024 Total Return (Actual)	2025 Earnings Growth (Estimate)	2025 Total Return (Estimate)
Info Tech	29.3%	18.0%	15.2%
Health Care	2.7%	14.7%	14.5%
Industrials	16.9%	8.4%	12.3%
Comm. Svc.	33.1%	15.0%	11.8%
Utilities	23.1%	7.4%	11.3%
Financials	30.5%	7.2%	10.9%
Materials	0.5%	8.1%	10.6%
Cons. Discr.	24.3%	5.6%	9.1%
Cons. Staples	13.3%	0.0%	8.7%
Real Estate	4.8%	2.0%	7.9%
Energy	6.8%	-13.8%	3.6%

Source: S&P Global; Factset; Zacks Investment Research

Earnings

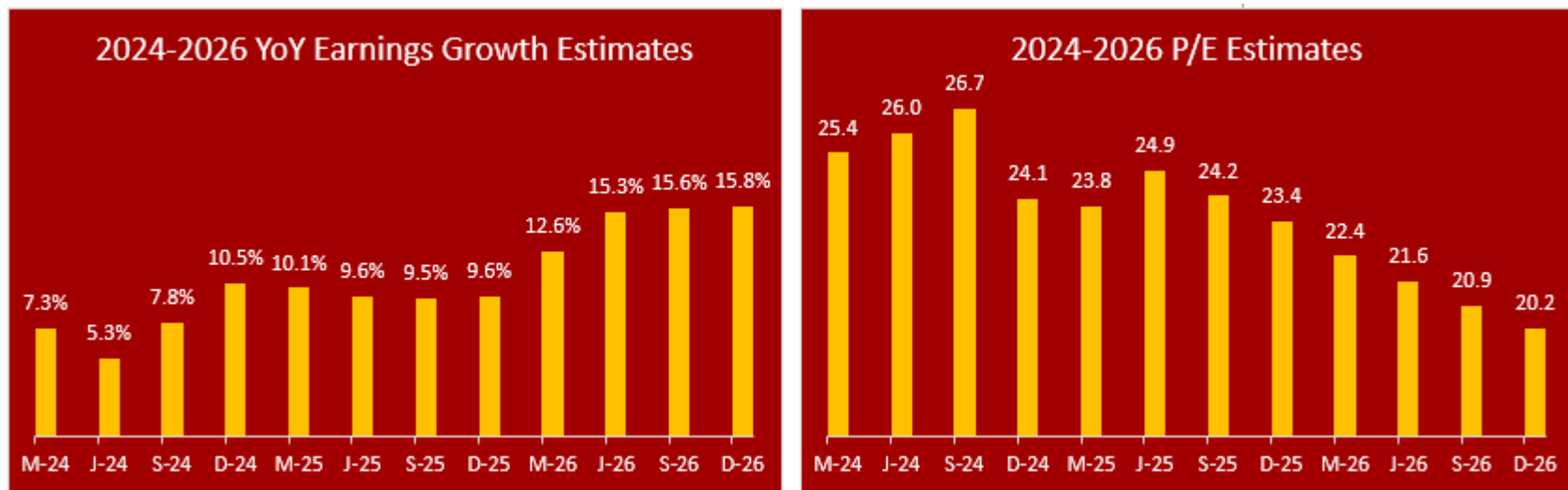
After lowering earnings estimates for this year and next, analyst consensus forecasts have been moving higher again for the past several weeks. This earnings season, many companies have reported moderate earnings beats but they are also trimming forward guidance. And because of the uncertainty over the tariff situation, several companies have decided not to give analysts and shareholders the earnings estimates for quarters to come.

The S&P 500 (the blue line on the chart below) is still above fair value, as earnings estimates for the next several quarters are still rising, albeit at a reduced pace. As a result, valuations are not as stretched as they were before the correction got underway. To bring valuations down to a level closer to the historical trend, either earnings estimates must rise, or the market must decline. I think the market will make a new high before it makes a cycle low, which is 4982 on the S&P 500 index. After that I think we will start on a long and choppy road back up.



Looking at the picture from a different angle reveals three quarters of subpar earnings growth, followed by reasonably healthy growth through 2026. According to S&P Global, year-over-year earnings growth (operating) is projected to be up by 10.5% in 2024, up % in 2025, and then up 15.6% in 2026 compared to 2025 (left chart).

My view is that Wall Street analysts are still too optimistic about the prospects for future earnings. If these optimistic earnings estimates are met or exceeded, and the market trades sideways, the market P/E (on “operating” earnings) will be flat from the September 2024 growth 10.5% to the 9.6% growth by the end of 2025. After that, earnings should pick up and show a 15.8% gain by the end of 2026 (right chart). This assumes a sideways-trending market that neither gains nor loses more than 5%.



What is more likely to happen is that the market will rise along with earnings, which will keep the P/E ratio close to where it is today. If consensus earnings estimates continue to come down modestly, as I expect, the market P/E will expand. The long-term median P/E based on “operating” earnings is 18.4.

If, on the other hand, earnings estimates should come down more sharply, it would signal an increased risk of a recession. That is not my base case, however. I believe that we will have a soft landing, and that the Fed will accelerate its easing if the market declines sharply from here.

The Models

Key Market Indicators (KMI)

The KMI traffic lights are designed to give readers a visual sense of how healthy the market is. They cover 4 groups of indicators – Fundamental ones, like revenue and earnings growth; Technical, such as relative strength and on-balance volume; Valuation, like P/E, Price-to-book; and Risk, such as recession threat and volatility. Today we have four yellows. This configuration means that the market is healthy but there are above-average risks. Valuations are stretched to the 3rd highest reading since 1950.



The **Fundamental** group light is yellow, reflecting the recent combination of rising earnings estimates and lowered forward guidance. Profit margins remain healthy. Analysts expect Q2 earnings to come in 10.5% above the same quarter one year ago, which is a little to optimistic, in my opinion. The ongoing tariff 'war of words' is starting to show up in company reports. If this trend continues, the fundamental light will likely stay yellow.

The **Technical** group light is yellow, mainly due to the recent bout of volatility and market weakness. On the plus side, the spread between the 50 day and 200 day moving averages is still moderately positive but contracting. More stocks are above their respective 200 day moving averages compared to last month.

Valuation is also yellow, reflecting above average P/E and P/B ratios. Analysts are reducing their earnings estimates for 2025 and 2026, and there have been some pockets of weakness in sectors like Technology and Construction.

Risk is yellow. Despite last year's long string of new record highs, there are some concerns investors are dealing with. Has the Fed being too timid with its rate reduction program? Is the AI trade losing steam? Will the wars in Gaza and Ukraine turn into a

wider campaigns? And, will the new administration's policies regarding the budget, tariffs, and immigration cause a resurgence of inflation? Only time will tell.

Bear Market Probability Gauge

This gauge calculates the likelihood that a new bear market will arrive sometime in the next 4-6 months. It is built on Bayesian inference, where we start with the assumption that 2025 will see the market rise by 10.2%, which is the long-term average of all years back to 1928. The model then adjusts that assumption based on current data like valuation, projected earnings growth, and market behavior during similar periods.

The probability gauge takes all the measures of market health and assigns a probability to each, based on similar conditions that were present during past bear markets.

As of today, the probability of a bear market arriving in the next 4-6 months is **38%**. This is down from last month's **41%**. The reading is based on solid (but slowing) economic data, a slowing but still robust jobs market, and healthy consumer spending. Personal income has been rising lately as compared to the historical trend. However, there has been a downtick in consumer sentiment and an uptick in inflation expectations lately.

The gauge is still below 50, which signals that this bull market will last for at least the next 4-6 months. However, if inflation begins to move substantially higher, or the economy slips into a mild recession, and the reading on this gauge moves above 50, I will again increase the cash allocation in the asset allocation models shown later in this report.



Probability of market outcomes for Year End 2025.

In this section of the report I estimate the probabilities of various market outcomes looking out to December 2025. Each market outcome shown in the table on the right has its own Bayesian probability of occurring. This table shows the weighted probability of all the possible outcomes.

The model forecasts a **gain of 4.4%** from the Decembber 31, 2024 closing price of **5881** to the December 2025 estimate of **6140** for the S&P 500. Here are the probabilities for each of the estimated market outcomes:

There is a **13%** chance that the market will be up by **20%** or more by December 2025.

There is a **21%** chance that the market will be up by **10% - 20%**.

There is an **35%** chance that the market will be up by **0% - 10%**.

There is a **15%** chance that the market will be down by **0%-10%**.

There is a **10%** chance that the market will be down by **10% - 20%**.

The most bearish outcome (**6%** probability) is a decline of **20%** or more in 2025.

The table above, when used in conjunction with the stock market traffic lights and the bear market speedometer (both shown above), offers a reasonable, data-driven expectation of where we will end on 12/31/2025. Bear in mind that these forecasts will change as more data comes in and the stock market model makes the necessary adjustments.

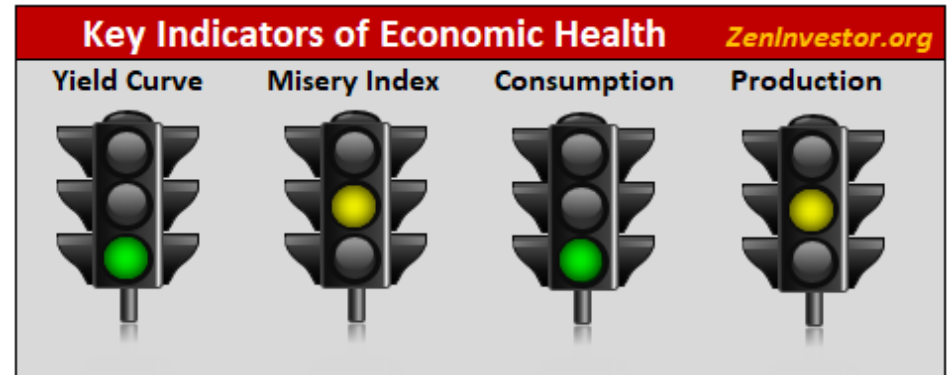
Outcome for the S&P 500 tthis year	Dec 2025 Level	Outcome Likelihood
up 20% or more	7,351	13%
up 10%-20%	6,763	21%
up 0%-10%	6,175	35%
down 0%-10%	5,587	15%
down 10%-20%	4,999	10%
down 20% or more	4,411	6%
As of 6/24/2025		100%

12/31/2024	5,881
12/31/2025 est	6,140
Est. Chg for 2025	4.4%

Key Recession Indicators (KRI)

The recession warning lights look at four economic indicators to gauge the health of the economy. Of the four indicators, the **Yield Curve** is the most prominent, since it has a good track record of forecasting recessions.

After spending several months in the yellow (reflecting the slightly inverted yield curve), this light has turned green (reflecting the slightly positive curve.) With two yellow and two green lights, the model indicates caution, but it does not yet give a clear warning that a recession is coming.



The **Yield Curve** index flipped from yellow to green last month. The Treasury yield curve has turned slightly positive, but for the wrong reasons. The yield on the 10 yr Treasury bond is now higher than the Fed Funds rate. The bond market has been weak, as a reaction to the massive budget bill winding its way through congress. The longer the 10yr rate stays above the Fed Funds rate, the lower the risk of recession. There isn't much room for error currently.

The **Misery Index** is yellow. The index is at the current level of **6.55**, up from **6.51** last month and down from **6.51** one year ago. The index adds together the inflation rate and the unemployment rate. With creeping inflation, this indicator is becoming less bullish. Consumers are still getting squeezed by inflation, and real wages have been growing but have not been keeping up. This has forced many consumers to tap into credit cards and home equity lines of credit to cover the high and rising cost of living.

The **Consumption** Index is green, driven by strong consumer demand. Consumers may also be pulling future purchases forward in order to avoid paying even higher prices due to excessive tariffs, or getting hit with higher interest rates if inflation moves up at a faster pace. Consumer sentiment has dropped sharply along with the tariff announcements.

The **Production** Index is yellow. Industrial production remains **2%** above its level from a year ago, indicating steady growth despite short-term fluctuations.

Recession Probability Gauge

The probability of the US economy slipping into a recession sometime in the next 4-6 months is **41%**. That's up slightly from last month's reading of **39%**. Recent economic data has been softer than expected and there is concern about the trend of unemployment. Inflation-adjusted retail sales were down in April, but not by enough to signal a significant drop in overall consumer spending.

Some key leading indicators are also trending lower, including consumer confidence and the ISM manufacturing index. My base case is a soft landing for the economy, i.e., inflation moving closer to the Fed's target without a Fed-induced recession. The inflation picture has turned more bearish, owing to the tariffs imposed by the administration.

The stock and bond markets are trading with very high volatility as investors struggle to formulate their expectations for the economy during the rest of 2025. Investors are anticipating lower taxes and loosening regulation on businesses. If implemented, companies – especially small and mid-caps – will benefit. More of their revenue will flow to the bottom line, thus raising earnings per share and creating headroom for price increases.

The Fed is fully focused on its mission to bring inflation under control, regardless of the pain it may cause for consumers, employees, and investors. The risk of a policy error (not cutting rates fast enough) has the potential to send the economy into a recession. If large tariffs are widely imposed, economists think there will be a surge in inflation and the interruption of some of our supply chains. On the whole, however, economists are guardedly optimistic about the next 2 years. They say that any tariff-related uptick in inflation is likely to be short lived. As far as supply chain interruption goes, the thinking is that we will adapt quickly and avoid the mess we experienced during the pandemic.

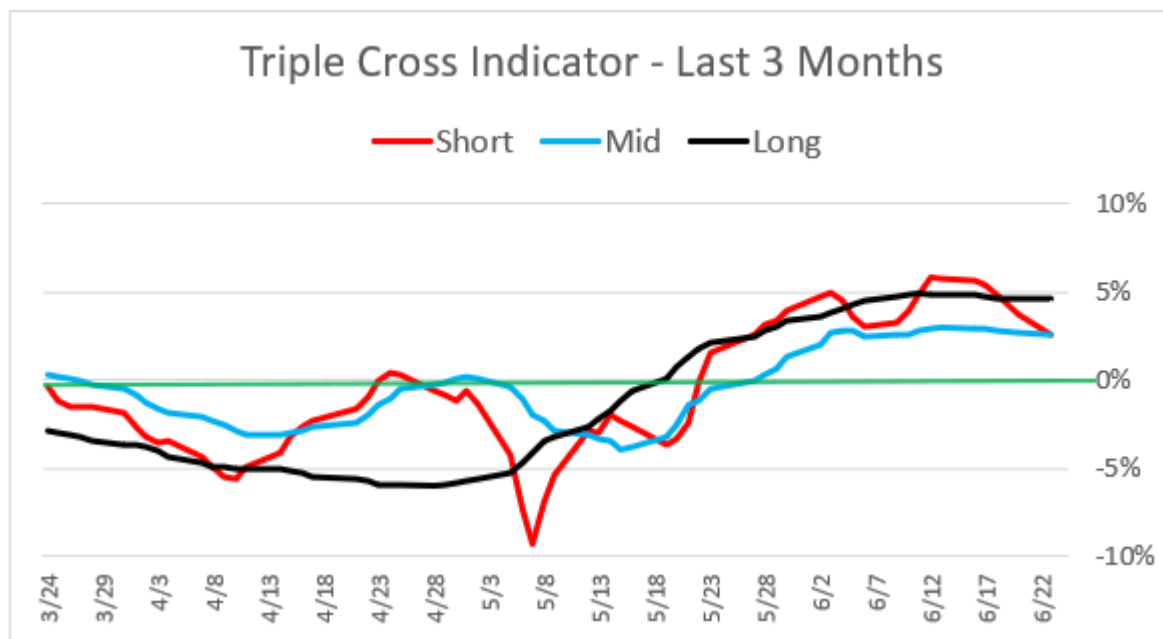


The Zen Triple Cross Moving Average Indicator

This Moving Average Indicator is best utilized as part of a Plan B defensive strategy. As each of the three individual lines cross above or below the Zero-line, active investors can increase or reduce risk exposure accordingly. Long term investors should look at this indicator but not be in a rush to make portfolio allocation changes.

A simple example would be a two-asset portfolio that switches between equities (risk) and cash (riskless) as the model indicates. For example, if your normal asset allocation calls for 80% equities and 20% bonds, active investors can use this indicator to adjust that mix. When this indicator begins to turn negative, you might reduce your equity exposure from 80% to 70%. If it continues to become even more negative, you might reduce your equity exposure to 60%, and so on.

Here is a chart of the last 3 months. All three lines are in positive territory. The Triple Cross Indicator is designed to give the reader a sense of where the market may be headed in the near term. We are currently headed north.



Market Dashboard

@ZenInvestor.org

S&P 500 Drawdowns 2024-2025



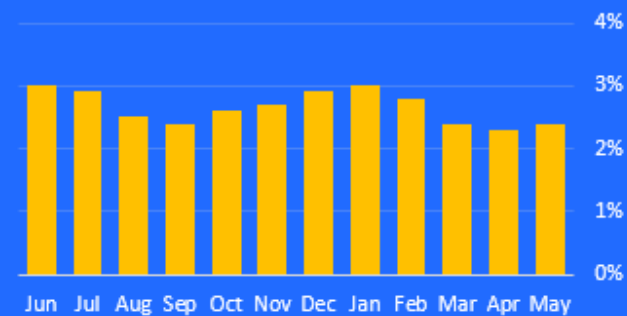
Up Days out of Last 15 Days



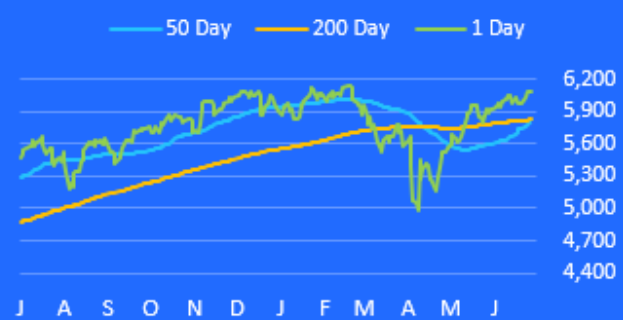
Treasury Yield Curve Last 12 Months



YOY Inflation 2024 - 2025



SP500 Moving Averages Last 12 mo.



Junk - Treasury Spread



The dashboard has six individual charts, each offering a different perspective on the capital markets. It's designed to give the reader a quick recap of the recent trends for each view of the market.

Drawdowns. The current drawdown from the February 19 high water mark is **0.9%**. We were down 19% at the low point of the current correction and have rallied back strongly.

Net Up days out of the last 15 is a measure of momentum. This indicator has a tendency to bounce between 6 and 10, with a long-term average of 8 up days out of the most recent 15 trading days. Today it has a reading of **9**. This indicates that short term momentum is neutral and the market is still trying to recover from its correction.

Treasury Yield Curve. This chart shows the difference between the rate on the 10-yr Treasury bond and the Fed Funds rate. When this indicator turns negative, (the rate on the 10-yr is lower than the Fed Funds rate) it usually signals a recession. The current reading of **0.01%** means that we have reverted back to a positive curve shape.

YOY Inflation rate. The **2.4%** CPI print for May was not good enough to pacify the Fed. Chair Powell telegraphed this when he said that the Fed doesn't have to be in a hurry to cut rates. The Fed has to balance the expected uptick in inflation as a result of the tariffs coming into effect, with the need to support economic growth as the data comes in on the weak side.

Moving Averages have flipped from positive to negative, with the 50 day below the 200 day. It takes months of market action to move the needle on this indicator. The spread between these two lines has been narrowing for the last few weeks. The current spread of **-0.2%** is below the median of **+3.1%**. This indicates that the market is still vulnerable to another pullback.

Junk-Treasury Spread measures how confident bond investors are about the future. This month we see a narrowing of the spread, from **3.22%** last month to **3.16%** today. (The long-term median spread is **4.0%**.) Today's reading is an indication that yield-seeking investors are more comfortable taking the risks associated with holding junk bonds.

My Top Stock & ETF picks

In this part of the report, I share the stocks and ETFs that I am either watching closely or already own. What sets these picks apart from my trading strategies and model portfolios is that I do not use an algorithm or an asset allocation scheme. These are just individual picks that I have watched for months, and sometimes years, and I have a pretty good idea of what the upside/downside probability is for each of them.

The best way to use these picks is to consider them as ideas that you can investigate further, using your own methodology and criteria. My watch list has between 50 and 100 names at any given time, and what you see here are the ones I have the most confidence in.

My top 10 stock picks for 2025

I publish this list at the end of each year and hold all 10 names for the next 12 months. Mergers, takeovers, or delisting would be the only reasons for me to change this list mid-year. The Zen Ten is ahead of its benchmark by 6.6% YTD.

	2025 Zen Ten stock picks	12/27/24	6/27/25	Gain
AAPL	APPLE INC.	252.23	200.30	-20.6%
BBW	BUILD-A-BEAR WORKSHOP, INC.	46.39	52.40	13.0%
IBKR	INTERACTIVE BROKERS GROUP, INC.	44.37	51.64	16.4%
INTU	INTUIT INC.	632.85	759.03	19.9%
META	Meta Platforms, Inc.	588.75	712.20	21.0%
NVDA	NVIDIA CORPORATION	134.83	147.90	9.7%
TSM	Taiwan Semiconductor Manufacturing Co., Ltd.	199.84	220.10	10.1%
UNM	UNUM GROUP	72.38	79.42	9.7%
UTHR	UNITED THERAPEUTICS CORPORATION	358.00	289.94	-19.0%
WRB	W. R. BERKLEY CORPORATION	58.50	73.26	25.2%
Zen Top 10				8.5%
Vanguard Ttl Stock Mkt		294.07	299.72	1.9%

If you are a long-term investor who does not have time to play around in the market, the Zen Ten might be the right model portfolio for you. But if you are more active in the market, there are some decent bargains out there that cannot be ignored. The following two models – one for stocks and one for ETFs – are not subject to the one-year minimum holding period.

Top Picks for July 2025

The next two lists differ from the previous one in the fact that I have the flexibility to make changes to the lineup at the end of each month. Some months there may not be any changes, and other months the complete list could change, although that would be very rare. The suggested holding period for these picks is 12 months or longer. It's not a short-term trading list. If you want trading ideas, follow [this link](#).

This month's top stock picks

Name	Ticker	6/23/25	VQG*
 Sterling Infrastructure, Inc. (XNAS:STRL)	STRL	\$ 222.50	97.0
 AXON ENTERPRISE, INC. (XNAS:AXON)	AXON	\$ 783.24	84.2
 CORCEPT THERAPEUTICS INCORPORATED (XNAS:CORT)	CORT	\$ 74.28	98.3
 LIMBACH HOLDINGS, INC. (XNAS:LMB)	LMB	\$ 141.17	94.6
 FAIR ISAAC CORPORATION (XNYS:FICO)	FICO	\$1,879.37	71.2
 S&P 500 INDEX	INX	6025.17	

*VQG is the combined scores for Value, Quality, and Growth. 100 is the max score.

This Month's Top ETF picks

Name	Ticker	6/23/25	Rating*
 ETC 6 Mrdn Mega Cap Eqty (ARCX:SIXA)	SIXA	\$ 47.65	92.1
 VanEck:Gold Miners (ARCX:GDX)	GDX	\$ 53.03	95.4
 iShares:MSCI Spain (ARCX:EWP)	EWP	\$ 43.04	89.5
 FT ADEX II:Europe ADEX (XNAS:FEP)	FEP	\$ 46.90	86.8
 SPDR S&P Reg Banking ETF (ARCX:KRE)	KRE	\$ 57.89	90.7
 S&P 500 INDEX	SPX	6025.17	

*Rating is based on momentum and money flow. 100 is the max score.

Asset allocation

Our Current Asset Allocations as of 6/24/25

I made no changes to the models this month. These model portfolios are tactical in the sense that they reflect changes in my bullish/bearish posture towards various asset classes and the stock market as a whole. They are designed to minimize short term trading and are meant for long term investors. That is why I don't change these models very often.

The cash allocation of 10% is 2x above the typical 5% average. It reflects the uncertainty surrounding the fast-changing tariff negotiations and the fiscally expansive budget bill before the Senate. I want to have cash on hand to take advantage of opportunities when the market pulls back again. The recent data on earnings expectations, has taken a turn for the better lately but the economic data has been weak. Additionally, the tariffs being negotiated could result in a non-trivial uptick in inflation. I am not expecting a recession this year, but the risk of slipping into one has risen materially.

Asset Class - Taxable	Percent Allocation
Summary	
Stocks	50.0
Bonds	30.0
Commodities	7.0
Cash	10.0
Non-traditional assets	3.0
	100.0
Details	
US Large Cap Stocks	8.0
US Mid Cap Stocks	11.0
US Small Cap Stocks	11.0
US Stocks Total	30.0
Intl Developed Mkt Stocks	9.0
Intl Emerging Mkt Stocks	11.0
Non-US Stocks Total	20.0
US Core 1-5 yr Treasury Bonds	8.0
US Muni Bonds	3.0
US IG Corporate Bonds	7.0
US High Yield Bonds	3.0
US Bonds Total	21.0
Intl Developed Mkt Bonds	5.0
Intl Emerging Mkt Bonds	4.0
Non-US Bonds Total	9.0
Cash Total	10.0
Energy	2.0
Precious Metals	5.0
Commodities Total	7.0
Hedging Vehicles	1.0
Private Equity	2.0
Non-traditional assets Total	3.0
	100.0

Asset Class - Deferred	Percent Allocation
Summary	
Stocks	49.0
Bonds	28.0
Commodities	8.0
Cash	10.0
Non-traditional assets	5.0
	100.0
Details	
US Large Cap Stocks	7.0
US Mid Cap Stocks	10.0
US Small Cap Stocks	11.0
US Stocks Total	28.0
Intl Developed Mkt Stocks	9.0
Intl Emerging Mkt Stocks	12.0
Non-US Stocks Total	21.0
US Core 1-5 yr Treasury Bonds	8.0
US Muni Bonds	0.0
US Corporate Bonds	8.0
US High Yield Bonds	4.0
US Bonds Total	20.0
Intl Developed Mkt Bonds	4.0
Intl Emerging Mkt Bonds	4.0
Non-US Bonds Total	8.0
Cash Total	10.0
Energy	2.0
Precious Metals	6.0
Commodities Total	8.0
Hedging Vehicles	2.0
Private Equity	3.0
Non-traditional assets Total	5.0
	100.0

As of 6/24/2025

Asset Class Weighting

	Under	Neutral	Over
Cash			↑
Equities		↔	
US large cap growth		↔	
US large cap value		↔	
US mid cap			↑
US small cap			↑
Intl developed markets		↔	
Emerging markets		↔	
Bonds			↑
US Treasuries			↑
US TIPS			↑
US Munis		↔	
US IG corporate			↑
US high yield		↔	
EM US currency		↔	
EM local currency		↔	
Alternatives		↔	
Precious metals			↑
Energy			↑
Private Equity		↔	
Hedging vehicles	↓		

As of 6/24/2025

Final Thoughts

The stock market has recovered almost all of the 19% decline that took place from February 19 (the high-water mark) to April 8. The question is, was the market priced correctly when it was 19% lower than it is today? Or is it priced correctly today? I'm in the camp that believes the market is expensive relative to earnings growth and earnings expectations. But it does make me uncomfortable to be sitting on 10% cash when the market looks headed for a new all-time high this week.

I'm staying with my larger-than-usual cash position because that's what my models tell me I should be doing. Rather than sitting still and doing nothing, I'm actively looking for ways to upgrade my holdings. Of the stocks I currently own, I'd say about a quarter of them are overpriced. That gives me an opportunity to trim some of the fat out of my portfolio and replace it with something leaner. This kind of upgrade can be done with or without an excess of cash, but having the cash puts me in a position where I can buy more than I'm selling. This, in turn, raises my risk-adjusted returns (Sharpe and Sortino ratios).

There are many things that can go wrong for this market, but just one thing that must go right – the AI infrastructure buildout. Don't forget who brought us to this point in the market – it was the Mag 7 stocks with their super-growth characteristics and seemingly endless demand from investors. I don't think we can just pass the baton to some other group and keep the bull market alive and well. I think we still rely on the Mag 7 to keep the rally going. There are other groups of stocks that have caught on as the market has broadened out, but without the Mag 7 moving higher, it's difficult to gain any traction.

In the best of both worlds, the Mag 7 will keep charging ahead, and bring the second stringers along with them. After that, it's up to the smaller companies to find a way to get on board the AI gravy train.

Until next time,

Erik

Appendix

The Data Driving the Equity Market Traffic Lights

Fundamentals are yellow. Revenues, earnings, and profit margins are being revised lower by analysts . Credit conditions are tightening.

Technicals are yellow, indicating near term caution while still supporting a healthy longer term outlook. Bear in mind that these technical readings are prone to quick reversals during counter-trend rallies and corrections.

Valuation is yellow as it continues to act as a cap on further gains. High valuations alone can't trigger a bear market. They need help from the other factors.

Risk is yellow. While the threat of recession is moderate, it remains a possibility, especially if the Fed or the administration makes a serious policy error.

Fundamental

Revenue & Earnings

Profit Margins

Credit Conditions

Jan	Feb	Mar	Apr	May	Jun est
2	3	3	3	4	4
2	3	3	3	3	4
3	2	2	4	4	4

Technical

Momentum

Breadth

Leadership

Jan	Feb	Mar	Apr	May	Jun est
3	4	6	7	6	4
4	3	3	4	4	3
5	4	4	4	4	4

Valuation

Price Ratios

Risk Premium

Return Ratios

Jan	Feb	Mar	Apr	May	Jun est
8	7	7	6	6	6
8	7	7	6	5	6
7	6	6	7	7	7

Risk

Recession Threat

Bear Mkt Threat

Volatility

Jan	Feb	Mar	Apr	May	Jun est
4	4	4	5	6	6
3	3	3	4	5	5
5	5	6	7	6	4

The Data Driving the Recession Warning Traffic Lights

Where do the traffic lights get their signals? From a set of coincident indicators shown in this table. The numbers range from 1-10, with 1 being the best possible condition for each indicator. The benefit of showing this board is that it tracks the trend of each indicator over the last 6 months.

Readings higher than 7 will be highlighted in red.

When the board begins to turn from green to

yellow, it's time to adopt a more defensive posture. But for now, stay fully invested, with perhaps 5% cash.

Recession Watch

Indicator	Jan	Feb	Mar	Apr	May	Jun est
R-Score	3	3	4	5	5	5
Employment	3	3	3	3	3	3
Ind Production	4	3	4	4	5	4
Credit & Debt	5	6	6	7	8	8
Market Trend	3	4	5	7	6	5
Market Stress	5	6	6	7	6	7
Earnings Trend	2	3	3	4	4	3

R-Score. This indicator combines the treasury yield curve, inflation, and unemployment. It's listed first because it has the strongest predictive value of all the indicators on this board.

Employment. Year-over-Year % Change in private non-farm employment.

Ind Production. Year-over-Year % Change in industrial production.

Credit & Debt. Difference between Junk bond and Treasury bond yields.

Market Trend. Year-over-Year % Change in the S&P 500 index.

Market Stress. Combination of stock market price change and the Year-over-Year % change in the unemployment rate.

Earnings Trend. Year-over-Year % change; Beats; Revisions; Analyst rating upgrades.

How to use the data tables

The numbers in the data tables may look a little simplistic but rest assured that quite a lot of thought and effort went into translating the raw data coming out of government and industry sources and putting them in a format that is simple and intuitive to grasp. Each of the numbers is an expression of the percentile rank (deciles) for the category.

I could have, for instance, just reported the raw numbers as published, but that would assume that readers could gauge the significance of the raw numbers. If you happen to have an advanced degree in macroeconomics, it might work for you. But for the rest of us, I think simple is better.

The way I recommend using the data is to scan each line and look at the changes in trend. If you notice that an indicator has recently changed direction, you might want to find out why. And whether it's significant in the larger picture.

I went a step further and created a traffic light metaphor to summarize what all of the individual indicators were saying. The probability speedometers do something similar, by taking lots of raw data points and converting them into a single number that represents the likelihood that an event – a bear market or a recession – might arrive within the next 4-6 months.

All of this work is in the service of one thing – managing the asset allocation and risk profile of your portfolio. As the risks increase, so should your cash and hedging positions. When risks are low, you can be as aggressive as your investment plan allows.

As always, comments and questions are encouraged.