OBSERVATIONS

- Markets traded flat last week with the S&P gaining 0.6% and small caps (Russell 2000) gaining 0.2%, while the yield on the 10-year Treasury inched up 1 basis point to end the week at 4.42%.[1]
- Headline inflation (CPI) came in a bit higher than expected in June, with CPI increasing to 2.7% year-over-year (YoY), which was well above May's 2.4% YoY rate. Meanwhile, core-CPI, which removes volatile food and energy prices, rose to 2.9% YoY, which was just above May's core-CPI rate of 2.8% YoY. The goods sub-component for both headline and core-CPI showed an inflationary impact from April's tariffs including furniture, clothes, shoes, toys, and appliances—all showing a sizable month-over-month (MoM) upward moves in prices.[1]
- In contrast, prices at the wholesale level (PPI Index) came in better than expected in June with headline PPI falling to 2.3% YoY down from May's 2.7% YoY rate and core-PPI, which removes food and energy, fell to 2.6% YoY from May's 3.2% YoY rate—both PPI and core-PPI came in below expectations. As with the CPI numbers, there was some tariff impact on goods inflation with the PPI numbers in June.[1]
- Industrial production improved in June increasing 0.3% MoM—expectations were for only 0.1% MoM increase—while capacity utilization moved higher to 77.6% in June and May's industrial production numbers were revised higher.[1]
- Retail sales in June increased by 0.6% MoM, but May's retail sales figure was revised lower. Total retail sales spending for Q2-2025, however, was 4.1% YoY higher (no inflation adjustment) than Q2-2024.[1]
- Initial unemployment claims remain low falling to 221k new claims—7k fewer claims than the week prior.[1]
- Housing starts improved in June to 1.321 million (annualized rate) from May's 1.263 million rate, but for the first six months of 2025 new housing starts are down 1% compared to the first six months of 2024.[1]
- The University of Michigan consumer sentiment index inched up in July 61.8 from June's 60.7, but remains well below its nearly 50-year average of 85.[1]

EXPECTATIONS

- Q2 earnings seasons got off to a good start with the largest banks largely beating expectations citing strong trading activity, an increase in investment banking activity, and a resilient US consumer. Goldman Sachs JPMorgan, Wells Fargo, Citigroup, and BlackRock all beat expectations for Q2 earnings growth.[1]

ONE MORE THOUGHT: Parallels Between the 2022-23 Rally and the 2025 Rally[1]

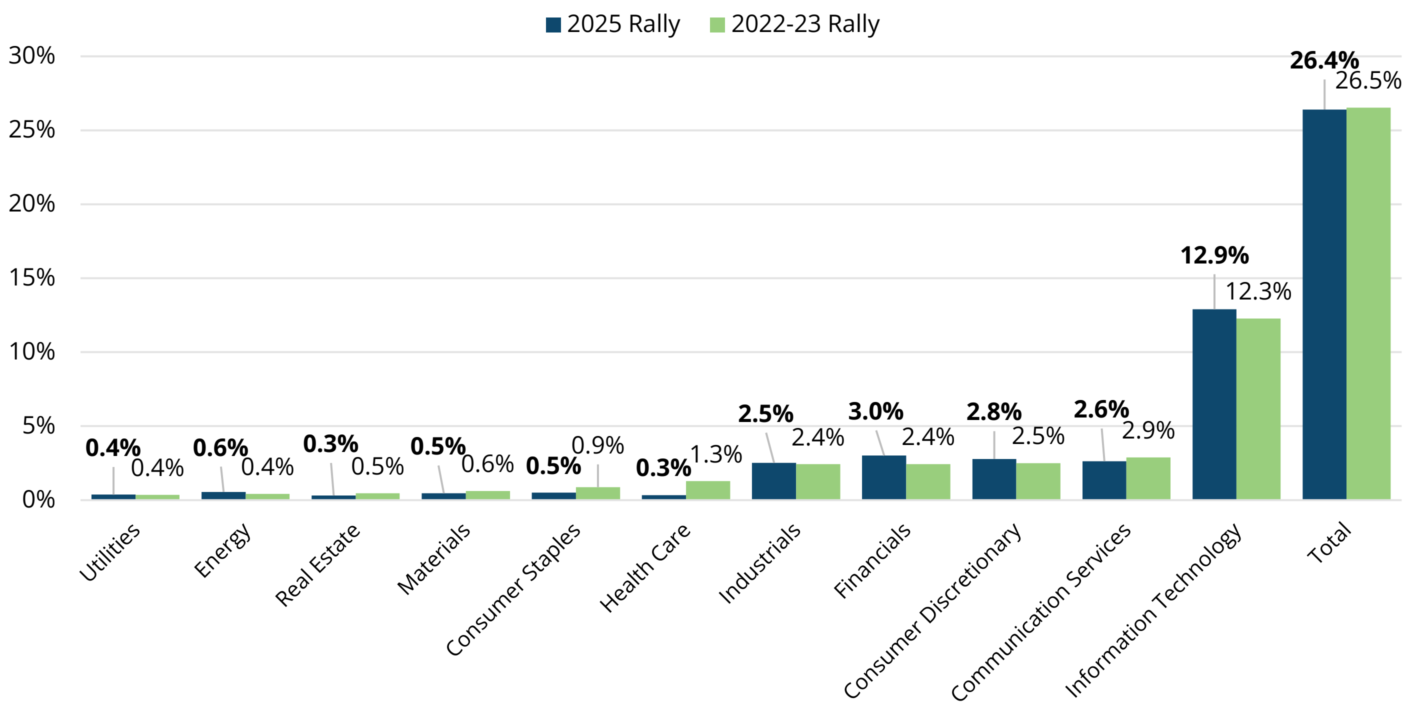
On Thursday, July 10th the S&P 500 hit its eighth record high of 2025 and capped off a 26% rally since its year-to-date low in early April. While the speed of this rally was impressive, its overall characteristics are very similar to the rally that took place in the period between Oct-2022 and Jul-2023. Over the course of about nine months, the S&P 500 rallied a similar amount—see Chart of the Week—and in similar fashion it was a rally powered by a narrow group of tech stocks. The first nine-months of 2022 were tough on equities as the Fed was rapidly increasing interest rates to combat a surge in inflationary pressure gripping the US economy. As the S&P 500 entered Q4-2022, markets had sold off for three straight quarters and big tech firms were right-sizing their workforces in the aftermath a Covid-pandemic hiring splurge. As a result, as markets headed into 2023, inflationary pressures began to recede, fears that the Fed would hike the US economy into a recession began to fade, and tech profits margins, in particular,

[1] *Bloomberg LP, 7/18/2025*

improved. It was in this context that the S&P 500's nine-month long rally from Oct-2022 to Jul-2023, was powered by a small number of tech stocks—the newly coined Magnificent 7 (Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla)—which accounted for about half the rally. Fast-forward to 2025, and once again a small number of tech stocks are leading the rally. When the S&P 500 hit its most recent historic high in early July, the median stock was still nearly 11% below its 52-week high. The experience of the 2022-23 rally suggests that the narrow leadership of the mega-cap tech stocks can persist for some time. By the end of 2023, S&P 500 had gained more than 26% for the year and the top 10 names in the index had contributed over 80% of the total gains. History suggests that we are more likely to eventually see the rest of the S&P 500 "catch-up" to the returns of the market leaders—versus a "catch down" where the market leaders lose ground to match their lower returning peers—but brace yourself for choppy trading before the catch-up or catch-down debate is settled in 2025.

CHART OF THE WEEK

S&P 500 Rallys - Contribution by Sector



Source: Clearstead, Bloomberg LP 7/10/2025

Aneet Deshpande, CFA
Chief Investment Officer

Dan Meges
Chief Economist & Head of Global Equity