Positivity

Weekender

June 21, 2025

Happiness is when what you think, what you say, and what you do are in harmony.

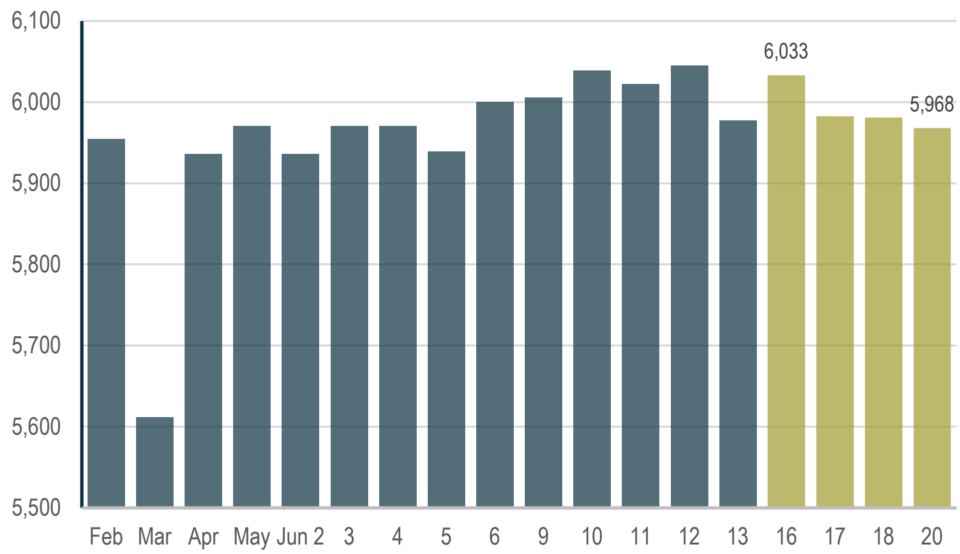
Live as if you were to die tomorrow. Learn as if you were to live forever.

Prayer is not asking. It is a longing of the soul.
It is a daily admission of one's weakness.
It is better in prayer to have a heart without words
than words without a heart.

Mahatma Gandhi

Good Morning and welcome to the *Weekender* for Saturday, June 21, 2025. US equity markets, as measured by the S&P 500 Index, were slightly lower on the week, down by -0.15%.

S&P 500 Index Levels
(Source: Bloomberg)



A bevy of interesting economic data was released last week, while only two mattered. Retail sales came in much weaker than expected, and the US Federal Reserve met and decided to leave its target interest rate unchanged at 4.5%. On the political stage, the world is aflutter. As this is being written, the United States and Iran are trading bluster about their relative positions while both hoping for a diplomatic solution that averts escalation of the current conflict between Israel and Iran. Like putting a gun on the table, President Trump has ordered B-2 bombers on alert, repositioning some to strategic locations around the world. The bombers are essential in the current tête-à-tête as they are uniquely capable of dropping a "bunker buster" bomb that could scuttle Iran's most threatening nuclear facilities, which are built deep underground.

International atomic energy watchdogs confirm that in the last quarter, Iran significantly increased the amount of 60% enriched uranium to 409 kilograms. Enough to produce ten nuclear warheads. Uranium used in power generation is typically 3-5% enriched. Atomic bombs use 20-90%+ enriched uranium. The higher the enrichment, the more susceptible the material is to undergo an uncontrolled reaction (i.e., a boom), which creates a lot of energy in a short time. While we can all draw our own conclusions, highly enriched uranium has only one primary use.

We do not anticipate any show-stopping economic data to be released for the rest of June. Beginning in July, corporate profits for the second quarter will kick off the second-quarter earnings season, which is expected to last until mid-August. We expect second-quarter earnings to be mixed. Consumer-sensitive areas should begin to warn investors. More cyclical sectors, such as industrials and materials, will be mixed. Protective sectors, such as large-cap technology, healthcare, and utilities, are expected to hold up remarkably well. It's the third-quarter earnings season, where we're worried. By the third quarter, inventories will be repriced, compressing corporate margins, and poor consumer sentiment will begin to show through in tapered demand expectations.

Retail Sales

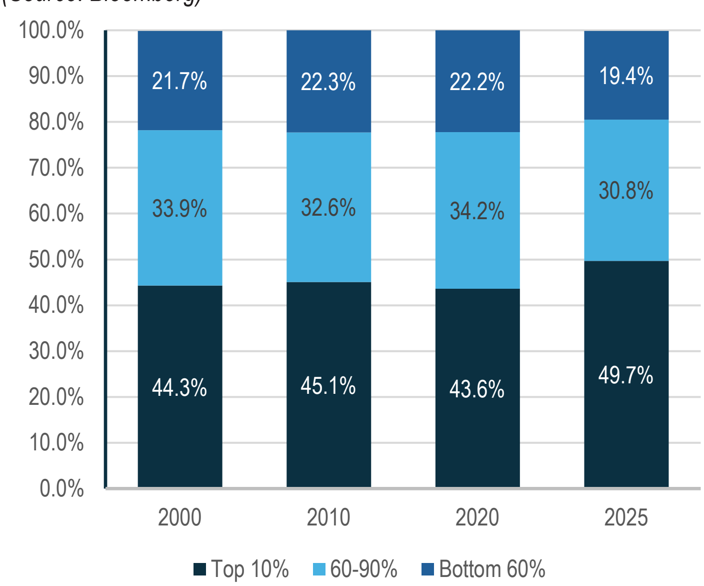
Consumer spending accounts for approximately 67.7% of total US economic output. Data released last week showed that the US consumer was in a retrenching mood, with retail sales contracting by -0.9% compared to the previous month. While it may seem like a relatively small move, it was significantly larger than the expected percentage. Inside the numbers, motor vehicles were the most significant contributor to the fall, followed by a drop in eating and drinking away from home. We have been expecting and writing about approaching consumer softness. While one data point does not make a trend, we hope that this will be the first of many data points that suggest ordinary consumers are increasingly tapped out.

Consumer data for May doesn't just manifest a shy US consumer. Canadian retail sales declined by more than in the United States, at -1.1%. In the United Kingdom, retail sales fell by -2.7%. While most other countries have not yet released data for May, most economists expect the trends to continue throughout most of the world. China continues to implement stimulus measures to encourage its consumers to spend by subsidizing the purchases of select goods, which has artificially inflated its recent consumer spending. Globally, the typical consumer is retrenching.

Percent of US Consumption by Category

by Year

(Source: Bloomberg)



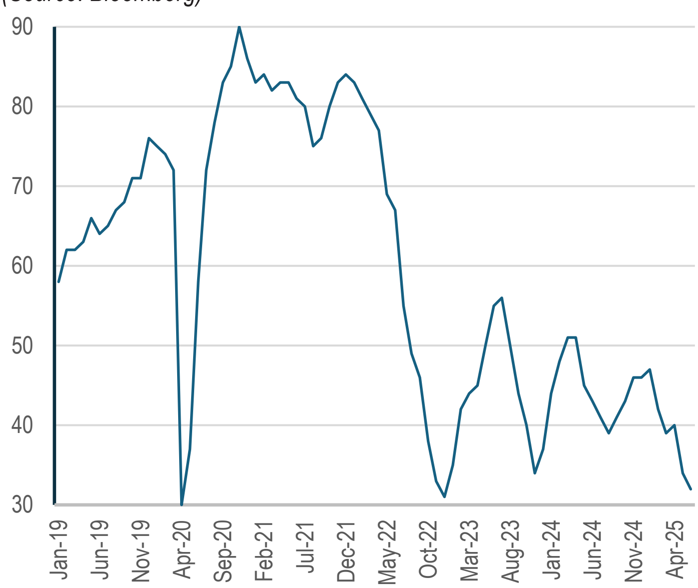
Wealthy consumers are not re-trenching. Moody's Analytics tracks consumer spending by income category. The proportion of consumption made up by the richest 10% of consumers has never been higher. As long as the labor market remains robust, interest rates are high, and inflation is relatively tame, we expect this trend to continue.

Central Banks

US Federal Reserve Chairman Jerome Powell kept rates steady at their meeting last week. This action echoed similar positions in the United Kingdom and Japan. Currently, there is considerable uncertainty within the Fed regarding the path of interest rates. Seven of the Fed's decision makers, up from four at their last meeting, do not expect any rate reductions this year. However, the median assessment calls for two drops. The US central bank's Federal Open Market Committee (FOMC) released its projections for the future, calling for weaker economic growth, higher inflation, and higher unemployment going into the end of the year.

US government spending as a percentage of economic output is at levels typical of economic recession. We cannot continue to spend at these levels without a response from financial markets. Such a response will result in higher borrowing costs worldwide.

Percent of US Consumption by Category
by Year
(Source: Bloomberg)



Persistently higher rates are beginning to take a toll on the housing market. US residential construction hit the slowest pace since the onset of the pandemic last month. Slightly elevated inventory and high mortgage rates sapped builders' willingness to start new housing units. Builder sentiment is now close to plumbing the same depths as during the pandemic bottom.

Conclusion

Despite an ominous tone, we are not negative. We believe the US economy will remain materially more resilient than the rest of the world. Our proximate concern resolves around the fact that the US equities are priced for perfection, and perfection is not in the cards. Our response has been to invest in best-in-class companies with strong unit growth, pricing power, and margin stickiness. We believe this strategy will insulate our clients from the coming storms better than a passive investment approach.

That's all for this *Weekender*. Have a great week..

Disclosure Statement