CALADO CAPITAL

Week in review and ahead (vol.28)

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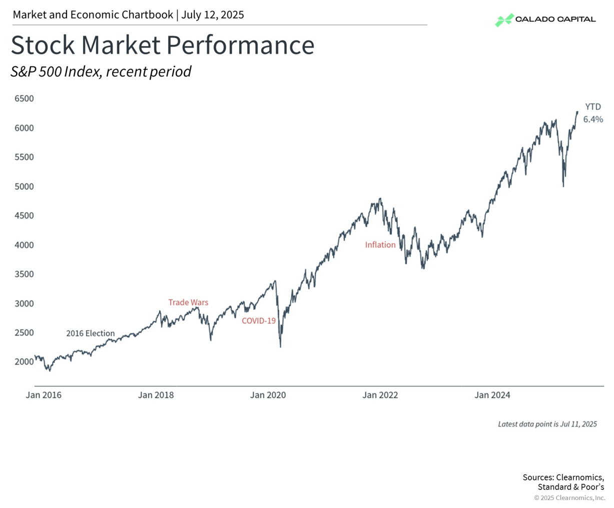
Markets ended the week lower after setting fresh all-time highs earlier in the week (except the Dow Jones) as tariff risks re-emerged. While the markets' bullish sentiment was fueled in part on POTUS delaying reciprocal tariffs from July 9th to August 1 early in the week, news of letters announcing higher than expected tariff rates on certain countries, including key allies, are creating some pause but sentiment has not turned to risk-off, yet. In fact, bitcoin, certainly a gauge for risk appetite in the market, reached a new all-time high on Friday, and even the CBOE's volatility index, a barometer on market uncertainty, continued to abate and closed the week at 16.4, or -6.2%, a level not seen since before February 20.

In a week with little macroeconomic news, the S&P500 and tech-heavy Nasdaq composite closed lower by 0.3% and 0.1%, respectively, while the Dow declined 1% on the week. Internationally, most major markets advanced for the week with the exception of Japan and India. In Japan, the Nikkei declined by -0.6% for the week after a strong rally saw some profit taking and the yen strengthening. In India, the BSE index declined by more than 1% on weaker quarterly earnings by major companies, uncertainty surrounding a possible US-India trade deal and regulator's intervention into the derivative market that culminated in a ban for Jane Street, a major player in the market, by the regulators.

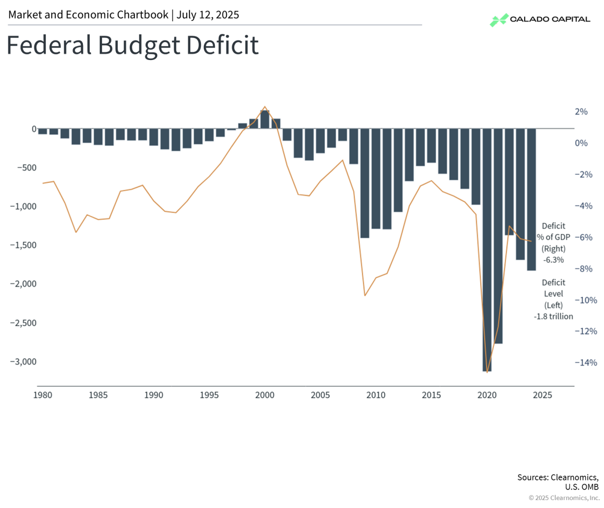


Last week's key macroeconomic data were the initial and continuing jobless claims. The initial claims surprised with 227K for the week, or below expectations of 235K and last week's 232K demonstrating that labor market continues somewhat resilient, albeit continuing claims inched higher to 1.97M, yet better than the expected 1.98M, and continuing nearing the 2M-mark.

The US monthly federal budget for July surprised equally with a surplus of $27B compared to expectations of -$20.5B and last month's -$71.0B. The significant swing to a surplus was aided materially by tariffs, with collections in 2025 reaching new records for a single fiscal year as revenues surpassed $100B for the first time for a total of $113B to date. Revenues for June were 27.2B up sequentially by nearly 20% from May and exceeding the $24.3B collected during Q1'25 and which may further embolden this administration to drive its tariff focused trade policy. Regardless, federal spending continues to outpace last year's spending, widening the federal deficit this year compared to last year.

Domestically, consumption which contributes nearly 70% to domestic GDP is showing signs of cooling or even weakness as consumer credit surprised to the downside, increasing $5.1B in May compared to expectations of $10B and down from last month's $17.9B, for an annual rate of +1.2% compared to 4% last month. Small business optimism as measured with the NFIB index remained somewhat the same in June with readings of 98.6, marginally down from 98.8, however, remaining above the 51-year average of 98.0.

Earnings season kicked off this past week (albeit officially earnings season kicks off next week with financials due to report), and Delta surprised markets not just by beating both revenue and earnings expectations but by reinstating its full-year guidance which it had withdrawn just last quarter in April.



Next week's focus will be on inflation, with the US retail and wholesale inflation data for June due to report on Tuesday and Wednesday. The expectations for core retail inflation is to increase by 0.3% month-over-month ('MoM') and 2.9% year-over-year ('YoY'). For wholesale, expectations are for an increase of 0.2% MoM. POTUS has been stepping up criticism of the Fed, and Fed Chair Powell in particular, for not cutting rates and last week's decision by the Office of Management and Budget ('OMB') to open an investigation into the Federal Reserve's new headquarters that has been marked by significant delays and cost overruns, scrutinizing the 2.5B renovations, certainly may escalate the matter and which eventually may test the market's confidence should the administration seek removal of the Fed Chair for cause before conclusion of its term.

Besides inflation and the usual data on weekly jobless claims, markets will be looking for an update to housing starts for June and consumer confidence as the University of Michigan reports its preliminary survey results for July.

Corporate earnings will kick off next week in earnest with large US banks initiating reporting on Tuesday and about 100 S&P500 companies scheduled throughout next week. Markets will closely monitor earnings, which growth is expected to decelerate to mid single digit growth from above 12% on YoY basis on average by S&P500 companies' just last quarter (currently at about 9% for the trailing twelve-month period). With inflation data not reflecting any significant tariff impacts to date, many anticipate margin compression at many companies as corporate pricing power may be mixed after an extended period of significant price increases in the US.

Finally, tariff and headline risks are expected to contribute to volatility over the coming weeks as US trading partners appear to be scrambling to reach acceptable trade deals with the US. The commerce secretary to the US, Howard Lutnick, volunteered last week that some of the trade negotiations were nearing conclusion when POTUS intervened in a sign that the hawkish faction on trade policy may re-emerge over the more moderate faction that meaningfully contributed to POTUS pausing the reciprocal tariffs announced on April 2nd amidst markets showing signs of stress. Further signs that the hawkish faction may feel emboldened is that POTUS issued letters to the EU and Mexico just today denoting it would increase tariffs by 30% next month (unless a deal is agreed). This rate of 30% for the EU is above the one announced previously (of 20%) and may very well be to accelerate and improve negotiations with both, the EU and Mexico, however, verbiage of warning on retaliation has all the signs of April 2nd.

S&P 500 Earnings Growth Rate

Trailing 12 month earnings per share

Latest data point is Jul 8, 2025

Sources: Clearnomics, LSEG

If you have questions about how this may impact your investments, or how you should be positioned, please do not hesitate to contact us at claudio@caladocapital.com.

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