Week in review and ahead (vol.29)

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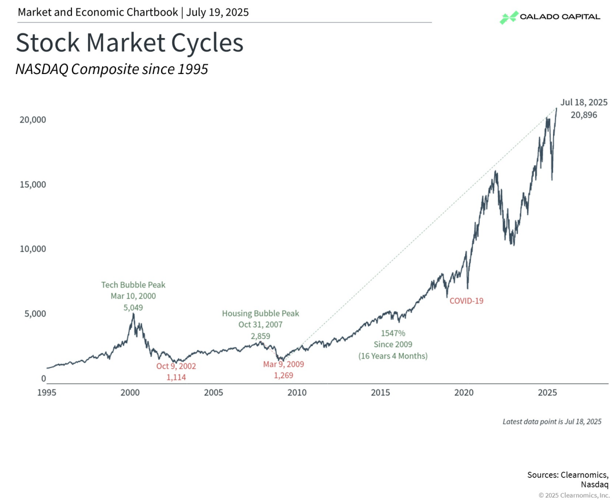
Markets continued to inch higher, setting new record highs (including closing highs) throughout the week, on favorable macroeconomic data and a strong kick off to the earnings season. POTUS signed the GENIUS (Guiding and Establishing National Innovation for US Stablecoins) Act into law on Friday creating the very first federal and regulatory framework for payment stablecoins in the US lifting crypto assets, in general, and Bitcoin in specific, that had just set new record high on Monday at nearly $123K in anticipation, adding to the markets positive sentiment and continuation of risk-on.

The GENIUS Act is one of three crypto legislations, the others, which have been passed in the house of representatives and are now in front of the Senate for approval, are the Clarity Act and the Anti-CBDC Surveillance State Act that aim to make the US a leader in crypto currencies and assets, in conjunction with the government's intent to build up a bitcoin and/or stablecoin reserve. While the GENIUS Act establishes regulatory standards for stablecoins, requiring full reserve backing (in USD) and clarifying that they are neither commodities nor securities, the Clarity Act's aim is to do the same for crypto assets. The Anti-CBDC Surveillance State Act's intention is to prohibit the Federal Reserve from issuing a Central Bank Digital Currency. Accordingly, this past week had been designated as the "crypto week".

In the US, equity indices advanced for the week, except for the Dow Jones, which closed the week lower by 0.1%. The S&P500 and Nasdaq setting new record highs throughout the week, ended the week higher by 0.6% and 1.5%, respectively. From a sectoral standpoint all (S&P500) sectors advanced led by tech, up 2.1% for the week, except for the energy, healthcare, and materials sectors that saw declines of -3.9%, -2.6%, and -1.3%, respectively.

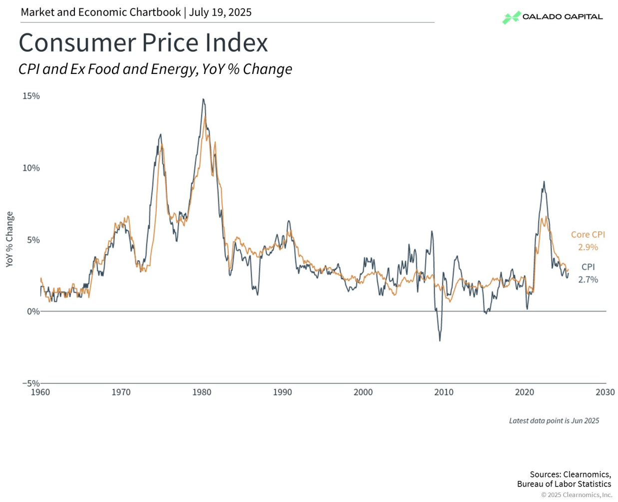
Internationally, major equity indices advanced for the week as well closing higher, except for India and France that saw declines of -0.9% and -0.1%, respectively. The largest weekly gains were seen in Hong Kong and China, following better than expected macroeconomic data with China's GDP reporting growth of 5.2% in Q2'25 and higher exports, increasing 5.8% year-over-year ('YoY'), continued hopes of further stimulus, and some early signs of stabilization in its housing market following numerous measures by the government to stabilize it.



Macroeconomic data reported last week with focus on on inflation, consumption, labor market as well as some data on manufacturing and the housing market continued to show resilience and strength of the US economy all the while inflation, which did raise in June (and may pose a risk of re-accelerating going forward) on retail level, continues somewhat better than expected or feared amidst the tariffs already in place.

Retail inflation, as reflected with the CPI, in June was in line with expectations that projected it to tick up from the prior months, both on a month-over-month ('MoM') and YoY basis. The CPI headline for June was 0.3% MoM and 2.7% YoY matching expectations and increasing sequentially from 0.1% MoM and 2.4% YoY, respectively. Core CPI, excluding food and energy, was moderately better than expected, increasing 0.2% MoM and 2.9% YoY compared to expectations that were higher by 0.1%-points, for both MoM and YoY, and last month’s rates that were lower by 0.1%-points, respectively. As to wholesale inflation, as reflected with the PPI, for June it surprised markets with a better-than-expected headline PPI of 0.0% MoM and 2.3% YoY, compared to estimates of 2.6% YoY and down sequentially from 0.3% MoM and 2.7% YoY in May, respectively. Core PPI, excluding food and energy, surprised equally with 0.0% MoM and 2.3% YoY change, compared to estimates of 2.8% YoY, and down sequentially from 0.1% MoM and 2.8% YoY in May.

Import prices continue to surprise markets amidst the various sectorial and general tariffs that lifted US revenue from it to new highs as highlighted in last week's newsletter, particularly amidst a weakening US dollar which in itself should increase the costs for US importers. In June import prices increased 0.1% MoM, but declined -0.2% YoY after declining at the same rate annually in May following a MoM decline of -0.4% in May.

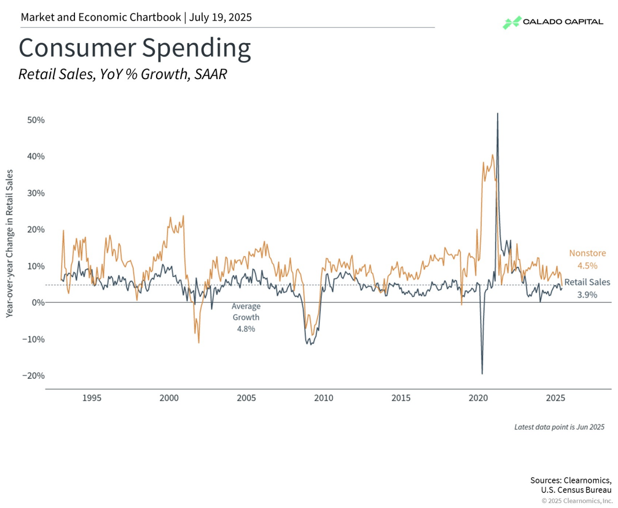


The labor market continues resilient with initial jobless claims decelerating moderately, coming in at 221K vs 235K expected and down sequentially from 228K. Similarly, continuing claims while remaining above 1.95M, came in better than expectations of 1.97M and sequentially down by nearly 10K from the previous week.

With the labor market resilient, consumption rebounded as retail sales for June came in stronger than expected and surprising markets, growing 0.6% MoM compared to 0.2% expected and snapping back from the unexpected steep decline last month of -0.9%. On a YoY basis, retail sales increased 3.9% compared to expectations of 3.6% and 3.3% last month. Excluding autos, core retails sales showed similar strength, growing 0.5% MoM compared to expectations of 0.3% and a decline in May.

Home builder confidence rose somewhat sequentially but remains in negative sentiment territory (below 50). Consumer sentiment, as compiled by the University of Michigan ('UofM'), saw equally an improvement as the preliminary estimate for July improved to 61.8, the highest since February of this year, and up from June's 60.7. The UofM survey further reported that its survey on current conditions improved to 66.4, the best since January and inflation expectations surveyed for the next year declined, now at 4.4%, the lowest since February.

The corporate earnings season is off to a strong start fueling the market's positive sentiment. With the start of the corporate earnings season, seeing most of the banks and financial institutions report, the percentage of S&P500 companies reporting positive earnings surprises together with the extent of the surprise thus far are above the 10-year average, according to FactSet. Through the end of last week, approximately 12% of the companies in the S&P500 have reported.



Next week we will see markets focus continuing on corporate earnings, with more than 600 companies scheduled to report, including two of the "Magnificent 7", Alphabet and Tesla, slated to report on Wednesday.

With reports last week that POTUS was going to fire Fed Chair Powell, which led to a momentary decline in risk asset prices as news broke, the markets will certainly look to the Chair's first public appearance on Tuesday albeit he certainly may not comment on said reports, but provide insight if the continued pressure campaign has any impact on the Fed Chair's stance with respect to monetary policy. At least two FOMC members have been vocal about (voting on) cutting interest rates in July, albeit neither has confirmed that they intend to dissent at the next meeting, on July 29-30, should the (majority of the) FOMC maintain its 'wait-and-see' monetary policy stance. Many market participants, contrary to POTUS and the administration, believe it may be appropriate to do so in the interim but do expect rate cuts and easing monetary policy to resume in September, particularly should tariffs' impact on inflation continue to be subdued, notwithstanding the recent increase in CPI.

Besides the weekly job market reports, markets will look to data on existing and new home sales for June and any indication of a rebound or improvement to a slowing housing market in 2025, following improved confidence by home builders, and conclude on durable goods orders for June on Friday. Prior to markets will await flash S&P readings (or preliminary estimates) on overall economic activity in the manufacturing and services sector for July.

With the new 'deadline' of August 1st on reciprocal tariffs approaching, markets will look for any headlines that may announce (preliminary frameworks) to trade deals with particular focus on key US trading partners, Canada, Mexico, the European Union (‘EU’), Japan, and South Korea. So far, equity markets have shrugged off any concerns, but absent any agreements or consensus (to a trade deal framework), POTUS has made public additional tariff rates that mirror or in some instances exceed the rates announced on April 2nd and that should go into effect on August 1st, unless otherwise extended. Besides, should the announced rates go into effect on August 1st the EU and Japan (among others) have indicated that they intend to impose tariffs on US imports likely escalating trade negotiations and risk an all-out trade war since POTUS warned of retaliation. While there are similarities to April that led to a significant sell-off in risk assets, much is different this time around with key legislation concluded, including the tax and spending bill. Risk asset valuations, however, are elevated in similar fashion as they were approaching April 2nd after strongly rebounding from the lows of April 8th. While markets tend not to repeat, do expect heightened volatility as we approach August 1st and markets paying "closer" attention to trade negotiations.

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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