Lark Research

M&P MONITOR

Bulletin 30

July 16, 2025

WITH CONTINUING GAINS, DOWNSIDE RISKS HAVE RISEN.

BY STEPHEN P. PERCOCO

SUMMARY:

- Stocks: The S&P Composite 1500 rose 4.9% in June. The S&P 500 rose 5.0%, the Mid-Cap 400 +3.4% and Small Cap 600 +3.9%. (p.1)
- Megacaps gained 6.4% for the month. The Mag 7 led with a 7.9% advance. (p.1)
- Sectors: Leading sectors, excl. megacaps, were Info Tech, Comm. Services, Financials and Energy. Consumer Staples and Real Estate posted declines. (p.1)
- Gains have continued so far in July. The S&P Composite is up 0.6% through July 15. Megacaps account for all of the gains. (p.1)
- Technicals: Momentum has slowed. Stocks are just short of being overbought. (p.1)
- Bonds rose 1.5% in June, with Treasurys up 1.3%, mortgages +1.8%, investment grade corporates +1.8% and junk bonds +1.9%. The Treasury yield curve sagged more. Long-term yields remain high. Bonds have given back some gains in July. (p.2)
- Headline and core inflation ticked higher in June. (p.2)
- Economic data. Personal income declined for the first time in two plus years Job growth was steady. Layoffs paused. UI claims eased. Consumer confidence fell. Industrial production slipped. Housing starts, permits and new home sales declined. (p.3-4)
- Outlook. Valuations are high. The chance of a pullback has risen. (p.4)
- Portfolio of Covered Companies. Hewlett Packard Enterprise (HPE) closed its acquisition of Juniper. I have reduced my performance rating from outperform to neutral. (p.4)

The stock market advanced again in June and to a record high so far in July, shrugging off the potential implications of the combined Israeli—US attacks on Iran and its nuclear facilities and approaching deadlines for reaching trade agreements.

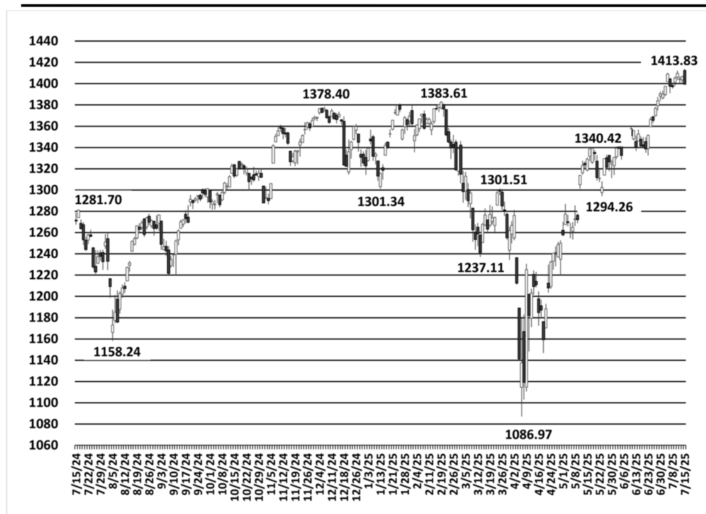
In June, the S&P Composite 1500 rose 4.9%. Among its components, the S&P 500 rose 5.0%, the Mid-Cap 400 added 3.4% and the Small Cap 600 gained 3.9%.

Megacap stocks led the market again. The 20 largest had an average, market-weighted gain of 6.4% vs. 8.4% in May, and contributed 2.8 percentage points (PP) to the Composite 1500's 4.9% advance. The Mag 7, a subset of the 20, had an average market-weighted gain of 7.9%, below May's 12.7%, and added 2.2 PP to the 1500's gain.

Excluding the megacaps, the remaining stocks had an average market-cap weighted gain of 3.7%, and contributed 2.1 PP to the 1500's advance.

By sector, Info Tech, Comm. Services and Consumer Discretionary led the gains; while Real Estate and Consumer Staples posted losses.

One-Year Price Chart of the S&P Composite 1500
July 15, 2024 - July 15, 2025
Daily Prices



Excluding the megacaps, the sectors contributing the most to the 1500's rise were Info Tech (0.80 PP), Financials (0.48 PP) and Industrials (0.36 PP).

The S&P Composite 1500 has risen 0.6% so far in July (7/15). All of the gain has come from the 20 megacaps, which have posted a 1.7% return and contributed 0.75 PP to the 1500's 0.6% return. (Within the megacaps, the Mag 7 continues to lead the way with a 2.9% return and 0.81 PP contribution.) Gains in the megacaps in July have offset the decline of 0.26% in the rest of the 1500 and their negative contribution of –0.15 PP.

Leading sectors in July are Info Tech, Energy, Industrials, Materials and Consumer Discretionary. Laggards are Health Care, Comm Services, Consumer Staples and Financials.

S&P 1500 Sectors	May	Excl. Top 20	Contrib. X-Top 20
Information Technology	9.7%	7.8%	0.80%
Communication Services	7.1%	5.9%	0.15%
Energy	4.9%	4.7%	0.11%
Industrials	3.7%	3.7%	0.36%
Financials	3.2%	5.2%	0.48%
Materials	2.3%	2.3%	0.05%
Consumer Discretionary	2.1%	4.6%	0.14%
Health Care	1.7%	1.3%	0.09%
Utilities	0.0%	0.0%	0.00%
Real Estate	-0.2%	-0.2%	0.00%
Consumer Staples	-2.1%	-1.5%	-0.08%
Total for S&P 1500	4.9%	3.7%	2.09%

Source: S&P Dow Jones Indices and Lark Research estimates. "Excl. Top 20" excludes the 20 largest stocks by market cap. Estimated contribution to total price return (column 4) also excludes the top 20.

With the S&P Compositive 1500 reaching an all-time high this week, market pundits have been sounding the alarm bells on the market's stretched valuations, especially within the Info Tech sector, which now accounts for nearly a third of its market capitalization.

Technicals. As stocks have reached a record high, momentum has waned, with sideways trading over the past nine trading sessions. Depending upon how you look at it, the market is either overbought or nearly so.

(Continued on page 2)

(Continued from page 1)

Fixed Income. The ICE US Broad Market Index rose 1.5% in June. By sector, Treasurys rose 1.3%; mortgages +1.8%; munis +0.7%; investment grade corporates +1.8 and high yield corporates +1.9%. (Across the lower tier credit spectrum, BB-rated bonds advanced 1.7%, B-rated bonds were up 2.1% and CCC-rated bonds rose 1.7%.)

As is usually the case, the longer maturities saw the greatest gains in June. Among U.S. Treasury ETFs, the 20+ Year (TLT) rose 2.7%; the 7-10 year (IEF) gained 1.6%, the 3-7 year (IEI) added 1.1%, and the 0-3 year (SHY) rose 0.6%. Bonds traded mostly sideways during the first half of the month, but then rallied in the final two weeks.

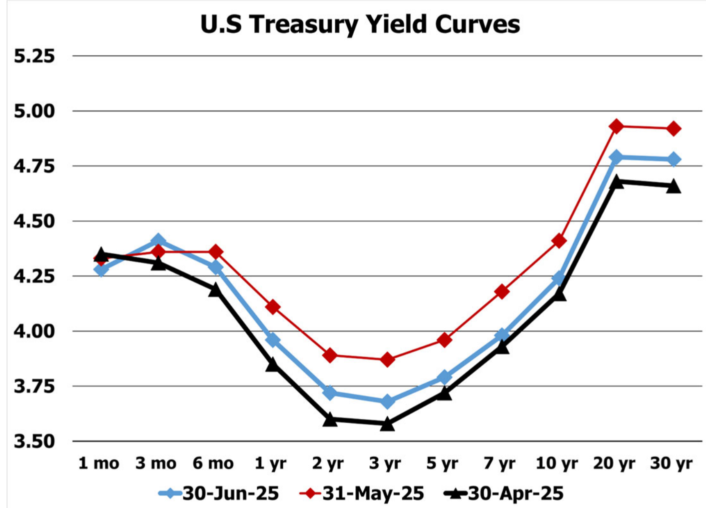
In the first nine trading days of July, the ICE U.S. Broad Market Index has given back more than half of June's gains, having declined 1.1% through July 15. Mortgages, investment grade corporates and Treasurys are down 1.0%-1.2%, while munis and high yield corporates are down 0.1%-0.3%.

The Treasury Yield Curve. The sag in the U.S. Treasury yield curve increased in June, as yields eased mostly across intermediate maturities. Yet, in the first eight trading sessions of July, the yield curve has returned to end-of-May levels.

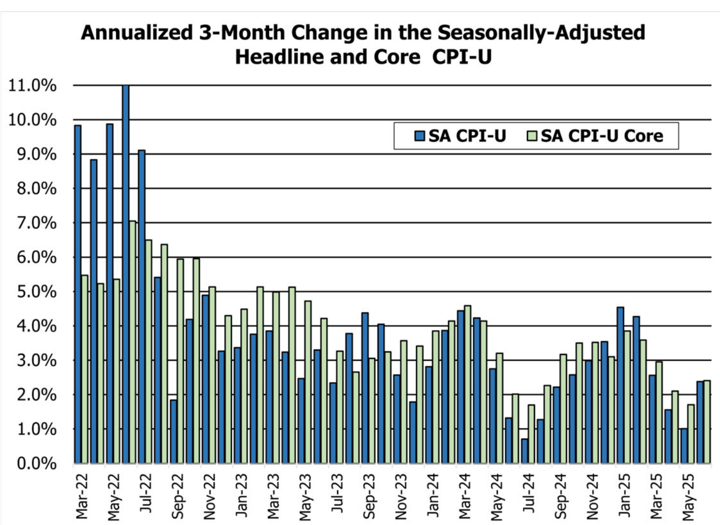
July's upshifting of the yield curve may reflect increased market sentiment that interest rates will remain higher for longer. In June, short-term inflation expectations ticked down, while medium– and long-term inflation expectations were unchanged, according to the Fed's Survey of Consumer Expectations. Pressure from President Trump for Fed Chair Jerome Powell to step down probably has contributed to the recent increases in long-term Treasury yields.

CME's Fed Watch tool sees less than a 5% chance of a 25 bp rate cut at the July 30 FOMC meeting. For September, the probabilities are 59% for a 25 bp rate cut and 3% for a 50 bp cut. Fed Fund futures also see a 25% chance of a 25 bp rate cut, a 44% chance of cumulative cuts of 50 bp and a 26% chance of 75 bp of cumulative cuts at the Dec. 10 FOMC meeting. The Fed Watch tool has been forecasting rate cuts in 25H2 for many months now. Yet, a few economists now predict that the Fed will not cut rates at all this year.

Mortgage Rates slipped 12 bp in June to 6.77%, according to Freddie Mac and are down another 5 bp to 6.72% so far in July (as of July 10). Spreads vs. the 10-year Treasury yield held steady in June at 248 bp, but they have dropped 19 bp so far in July as the 10-year yield has increased and mortgage rates have eased slightly. If the spread reverts back to its recent average of around 240-250 bp and Treasury yields hold steady, there will be modest upward pressure on mortgage rates.



Source: U.S. Treasury Dept.



Source: Bureau of Economic Analysis and Lark Research calculations.

Inflation. The Consumer Price Index for all urban consumers rose at a seasonally-adjusted annualized rate of 0.29% in June, up from 0.08% in May. On an annualized 3-month average (A3MoAvg) basis, headline CPI rose 2.4% vs. 1.0% in May. Excluding food and energy, core CPI rose 0.23% in June, up from 0.13% in May. The A3MoAvg rate was 2.4% vs. 1.7%.

The increase in the headline CPI monthly change was broad-based, with the greatest contributions coming from shelter, energy and food costs. There is little evidence as yet that tariffs are pushing up inflation, but the Fed and many economists anticipate that inflation will rise in the months ahead.

The seasonally adjusted headline Person Consumption Expenditures (PCE) price index rose 0.14% in May, in line with April's 0.12% increase. (The data for June will be out later this month.) The A3MoAvg rate declined from 2.3% to 1.8%. Core PCE rose 0.18% in May vs. 0.14% in April. On an A3MoAvg basis, core PCE was up 1.7% vs. 2.9% in April. Energy goods and services declined 1.0% in May, reversing April's 0.5% increase. The A3MoAvg rate for Energy goods and services was –12.3, faster than April's 8.3% decline, continuing the reversal of the large increases posted in January and February. Housing cost inflation continues to run at around 4% annualized.

The Cleveland Fed's annualized monthly **median CPI** for June increased slightly to 3.58% from 3.45% in May; while the **16% trimmed—mean CPI** estimate increased by 13 bp to 3.17%. FRB Dallas's **12-month trimmed mean PCE** inflation rate eased slightly from 2.6% in April to 2.5% in May.

On balance, the Fed's 2% sustained inflation target may be difficult to achieve. Although inflation has been running close to 3%, the 2-year Treasury yield, widely viewed as an indicator of Fed Funds rate policy, has dropped from 4.3% at the beginning of the year to 3.9% currently. Therefore, the market implicitly expects cuts of 25-50 bp in the Fed Funds target rate.

Such modest cuts probably will not make much difference for the trajectory of the economy. Since economic activity still seems relatively solid, the FOMC can probably afford to wait. However, the President wants lower interest rates to head off an economic slowdown and reduce Federal borrowing costs and its budget deficit. Mr. Trump's target rate of 1.00% seems risky, though, as it could stoke inflation and drive up long-term interest rates.

Commodity prices increased in June at a faster pace than in May. The CRB Index rose 2.4%, following May's 0.6% increase. The index had spiked higher in mid-June due to the surge in oil prices in response to the U.S. attack on Iran's nuclear facilities; but those gains receded by month's end, as the financial markets anticipated no meaningful near-term repercussions. Through July 15, the CRB Index has added another 1.8% from the June close.

The oil complex's recovery, which began in May, accelerated in June (net of the mid-June spike) and the increase has continued so far into July. Brent rose 6.2% and WTIC 6.9% in June and both are up 2%-3% through July 15. Refined products—gasoline and heating oil—are also up but not as much in percentage terms as crude oil. The price of natural gas has flattened out over the past two weeks.

Materials prices were also higher in June, with copper rising 8.1% after the U.S. announced a 50% tariff on imports, and lumber rising 6.0%. Copper has continue to rally so far in July, up another 8.8%. Lumber was down 8%, but jumped nearly 10% on July 15 probably on the 30% Canadian tariff announcement and perhaps other factors, such as wildfires.

Agricultural commodity prices fell in June. Coffee prices declined 11.4% in June after May's 16% plunge, due mostly to expectations of a bumper crop in Brazil. Corn fell 4.8%, after May's 4.1% decline, due to reports of a likely bountiful U.S. harvest; but wheat rose 3.9% due to higher than expected EPA biofuel blending requirements.

Precious metals prices have resumed their upward climb, perhaps in response to geopolitical tensions and the passage of the OBBB. Gold has risen at low single-digit rates, but platinum and palladium are up sharply; while silver has made solid gains.

The dollar's decline quickened in June, with a drop of 2.6% vs. May's 0.3% decline. So far in July, the dollar has risen 1.8%. Trading action over the past few months suggest early signs that the dollar is in a near-term bottoming process.

The Economy. The data shows that the economy is holding up reasonably well, but there are signs of slowing. The stock market's full recovery of its April losses and recent push to new highs suggests that the risk of a major slowdown has diminished, even though few trade agreements have been reached and the deadlines have been pushed into August. Yet, a slowdown in economic activity is still probably on the horizon.

GDP. FRB-Atlanta's GDPNow as of July 9 forecasts a 25Q2 increase of 2.6%, down from 3.8% on June 9. The primary cause of the drop in the estimate is lower across the board forecasts for personal consumption expenditures and equipment and infrastructure spending, offset partially by a steeper decline (vs. 25Q1) in imports. FRB-New York's Nowcast predicts 25Q2 GDP growth of 1.6%, as of July 11, down from 2.3% as of June 13.

Personal Income declined 0.4% in May, reversing April's 0.73% increase. This was the first monthly decline in more than two years. The A3MoAvg rate of increase was 3.9%, compared with 8.7% in April (which was clearly unsustainable). Employee compensation grew at an A3MoAvg rate of 5.6%, down from April's 5.9%. Personal income from other sources fell 1.7% MTM, compared with April's 1.2% increase. The A3MoAvg rate dropped to 1.2% from 13.2%.

Disposable personal income declined 0.6% in May, reversing April's 0.8% increase. The A3MoAvg rate was 3.5%, down from 9.0%. Personal consumption expenditures slipped 0.1% vs. April's 0.2% gain. The A3MoAvg rate of growth in expenditures declined from 5.0% to 3.1%. The personal savings rate dropped to 4.5% from 4.9%, which is more in line with the recent trend.

The reversal in personal income follows an unsustainable surge in income from other sources, mostly from social security benefits. This is less worrisome, as the decline will probably not be repeated in future months. For now, the core driver of personal income—employee compensation—continues to rise at an average pace of about 5.5% and there are no signs yet of a slowdown.

Jobs. June payroll employment increased by 147,000 positions, up slightly from 144,000 in May. The consensus estimate was 110,000.

Household employment was estimated to have risen by 93,000 positions. The unemployment rate eased from 4.2% in May to 4.1%, as a result of an estimated 130,000 decrease in the civilian labor force and a reduction in the labor force participation rate of 0.1% to 62.3%.

The average hourly wage increased 3.7% YOY in June to $36.30. Average weekly hours slipped by 0.1 YOY to 34.2 and were also flat with April. Thus, average weekly earnings increased 3.4% YOY and by 1.9% on an A3MoAvg basis, the slowest 3-month annualized change since April 2023.

Seasonally-adjusted weekly initial unemployment claims of 227,000 for the week of July 5, 2025 were the lowest since May 16, but still higher than the three-year average of 221,200. The four-week moving average of seasonally-adjusted continued claims remains at a three-year high in both absolute numbers and as a percent of covered employment.

The Challenger Report estimated June job cuts at about 48,000, down 49% from May's 93,800 and also down 2.0% YOY. Job cuts for the second quarter totaled 247,300, the highest since 2020, but down 50% from 25Q1. Challenger said that this was a relatively quiet June.

The ISM's Manufacturing PMI was 49.0 in June, up from 48.5 in May. New orders, employment and supplier deliveries continued to decline, as did backlogs, but production and inventories rose. Services PMI increased from 49.9 to 50.8.

Industrial production declined 0.2% in May, following April's 0.1% increase. Increases of 0.1% in manufacturing and mining were offset by a 2.9% drop in utilities output. Within the major market groups, final products were flat; nonindustrial supplies dropped 0.4% and materials slipped 0.2%. YOY, industrial production was up 0.6%.

Housing. May's seasonally adjusted annualized rate (SAAR) of single-family starts rose slightly in April, but declined 7.3% YOY. Single-family permits decreased 2.7% MTM and 6.4% YOY. The SAAR of new home sales fell 13.7% MTM and 7.3% YOY. The months' supply of new homes for sale increased to 9.8 in May, the highest since 2022. The months' supply of new homes has been rising steadily since early 2023, as sales have slowed due to the drop in affordability precipitated by rising mortgage rates.

The SAAR of existing sales was estimated at 4.03 million in May, up 0.8% from April, but down 0.7% YOY. YOY gains in the East and Midwest were offset by declines in the South and West. Inventory increased 6.2% MTM to 1.54 million, the highest since June 2020. Months' supply rose to 4.6, which except for the first month of the pandemic was the highest since 2016.

The S&P/Case-Shiller National SA house price index decreased at an SAAR of 0.40% in April, slightly more than March's 0.3% decline. YOY, the index was up 2.7%. On an A3MoAvg basis, it was down 1.8%. With inventories on the rise, price growth will likely slow further and probably turn negative before long.

The NAHB/Wells Fargo *Housing Market Index* dropped two points to 32 in June (from May), well below the neutral level of 50. It was the lowest reading since December 2022 and the

(Continued on page 4)

Company	Ticker	7/15/25 Price	GAAP Est. This Year	GAAP Est. Next Year	Non-GAAP This Year	Non-GAAP Next Year	Perform Rating	Safety Rating	Price Target
American Water Works Co.	AWK	$140.83	$5.75	$6.21	#N/A	#N/A	3	C	$152.00
AT&T, Inc.	T	$27.02	$2.27	$2.19	$2.16	$2.22	3	D+	$29.00
Baker Hughes Company	BKR	$38.99	$2.48	$2.90	$2.57	$2.87	1	C	$44.00
Bristol-Myers Squibb Co.	BMY	$46.43	$5.21	$5.60	$6.75	$6.50	1	C-	$60.00
The Campbell's Company	CPB	$30.41	$2.06	$2.84	$2.95	$3.10	1	C	$40.00
GE Aerospace	GE	$264.67	$6.19	$6.88	$5.40	$6.10	4	C+	$200.00
GE Healthcare Technologies	GEHC	$74.39	$4.12	$4.44	$4.00	$4.50	2	C-	$83.00
GE Vernova	GEV	$559.61	$6.93	$9.24	$6.17	$8.14	5	C-	$300.00
Hewlett Packard Enterprise	HPE	$20.28	$0.32	$1.32	$1.92	$1.90	3	C	$20.00
Matthews International Corp.	MATW	$24.60	($0.18)	$0.83	$1.18	$1.13	3	D+	$20.00
Merck & Co., Inc.	MRK	$81.52	$7.76	$8.65	$8.91	$9.67	2	B-	$90.00
New Jersey Resources Corp.	NJR	$45.91	$3.51	$3.03	$3.25	$3.06	3	C-	$49.00
Pfizer, Inc.	PFE	$24.61	$1.95	$2.37	$3.00	$3.20	1	C	$33.00
Public Service Ent. Group	PEG	$81.85	$4.08	$4.67	$4.06	$4.31	3	C+	$86.00
Spire, Inc.	SR	$75.76	$4.41	$4.73	$4.50	$4.75	3	C-	$78.00

third lowest since 2012. Sentiment about current and future sales declined two points to 35 and 40, respectively. Buyer traffic also dropped two points to 21.

The Conference Board's Consumer Confidence Index fell 5.4 points to 93.0. The present situation component dropped 6.4 points to 129.1, while the expectations component declined 4.6 points to 69.0. Consumers were more worried about deteriorating current and future business conditions. They were also more uncertain about jobs and incomes.

The Market's Prospects Looks Toppy Here. I agree with pundits who worry about the market's high valuation in light of the uncertainty around tariffs and their potential negative impact on the economy. This has been a risk-on rebound from the April lows, with cyclically sensitive sectors like Info Tech, Industrials, Financials and Consumer Discretionary stocks leading the way. Risk off sectors that have mostly been left behind in this recovery—Health Care, Consumer Staples and Energy, and to a lesser extent, Utilities and Real Estate—seem to offer better opportunities in the short term at least. Recent declines in bond prices (and their corresponding increases in yields) seem to echo these concerns. Unless the financial markets begin to anticipate a successful resolution to the trade negotiations (and perhaps also the wars in Ukraine and Gaza), it seems like the upside is limited and the market may be vulnerable another correction, which could conceivably be more consequential than what we saw in April.

If that happens, (and as long as major economic problems do not arise and proliferate), it could set the stage for what Mr. Trump and perhaps many market participants want: a decline in interest rates. If that is also accompanied by a pullback in house prices (see my most recent Housing Market Update published on June 20 and available on my website at https://larkresearch.com/wp-content/uploads/2025/07/Lark-Research-Housing-Market-Update-250703.pdf), it could lead to a modest pick-up in economic growth.

Coverage Portfolio Update. Earnings season for my coverage portfolio gets underway tomorrow, when GE Aerospace (GE) releases its quarterly results and holds its conference call. Since the last M&P Monitor, there have been a few noteworthy price moves, but most have not been consequential enough to merit a change in my performance ratings ahead of the release of their 25Q2 results.

Hewlett-Packard Enterprise (HPE). In a settlement with the Dept. of Justice, HPE received clearance to complete its acquisition of Juniper Networks (JNPR) and closed the acquisition on July 2. The stock gapped up on the announcement to an intraday high of $21.72 and has since been struggling to hold on to those gains. With the share price now above my $20 price target, I am lowering my performance rating from outperform to neutral.

Today, HPE announced that it has entered into a cooperation agreement with the activist investor, Elliott Associates, whereby one of Elliott's designates, Robert M. Calderoni, will join the HPE Board of Directors. Pursuant to that agreement, HPE has established a Strategy Committee to be chaired by Mr. Calderoni, which will review the company's business strategies to identify opportunities for value creation. As a result, I believe that HPE is now likely to initiate another major restructuring, this time to integrate Juniper Networks and also consider new opportunities to reduce costs and improve operating efficiencies. If I am right, I expect an announcement will be made at or near the time of HPE's Securities Analyst Meeting in October.

Lark Research
839 Dewitt Street
Linden, New Jersey 07036
(908) 975-0250