

Equity Market Commentary

SLIMMON'S TAKE | APPLIED EQUITY TEAM | July 2025

The following views and perspectives are formed by the work of the Applied Equity Team in managing assets for investors.

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1 Seems to me we spend an inordinate amount of time listening to forecasts of what *could* cause the stock market to go up or down.

The Fed, inflation, tariffs, GDP, politics. Those seem to be today's topics.

Investors focus on these forecasts as if they have a high likelihood of not only being accurate but also causing the market reaction that the prognosticators suggest.

Over the years, my skepticism has grown.

*"Wall Street suffers from a lack of humility. We know less than we think we do"*¹

But I'm no pessimist.

I agree with behaviorist Morgan Housel:

*"The present isn't as bad as you think. **And the future will be better than you anticipate.**"*²

The S&P 500 has compounded at 8.0% annually the past 25 years.³ I think there is a good chance the returns for the S&P 500 will be **greater** the next 25 years, despite all those macro forecasts of why the future is "murkier".

2 What I think we do not spend enough time on is *when* the market is vulnerable to an upside or downside surprise.

Or as Howard Marks says bluntly:

*"You can't predict. But you can prepare."*⁴

I do not recall anyone predicting President Trump would hit the "pause" button on tariffs on April 9th. All the discussions were around the inflationary/recessionary impacts of tariffs, scaring the living daylights out

¹ Barry Ritholtz; How Not to Invest.

² October 24, 2024.

³ Bloomberg. 7/24/2000-7/24/2025.

⁴ November 20th, 2001.

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of me and nearly everyone else.

As a result, the market was extremely susceptible to good news.

Investors were bracing for the worst, because that's what the forecasters were telling us.

Yet up and to the right the market has marched.

Today with the S&P 500 soaring +28% since the "tariff pause" day, it seems to me the market is vulnerable to going the *other* way.⁵

Here are a few reasons:

1. Historically, after the magnitude of a rally of this size, stocks tend to consolidate for a period.⁶
2. "Risk-on" is tremendously overbought.

If in fact all you did was buy the highest beta stocks in early-April and ignored:

- A. fundamentals;
- B. portfolio risk management;
- C. the preponderance of calls to stick with quality stocks;

You would have done phenomenally well.⁷

However, beta (high risk) as a strategy usually mean reverts quickly and tends to burn anyone who sticks with it for more than a brief period.

As it did in February after a big Q4/early 2025 rally.⁸ Additionally, I'm hearing the media mention "meme stocks running again" which sends shivers up my spine.

That did not end well in 2021.

3. The period post Q2 earnings announcements until late October is seasonally the worst three months for stocks.⁹

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What could cause a sell off?

I could give you a laundry list, but then again it's not worth the time you would spend reading. Pure speculation.

I simply know the market is vulnerable currently.

However, my level of confidence for a summer correction is far less than the level of my bullish confidence on April 8th (when we sent out a "Slimmon TAKE") suggesting it was time for a market rally.

A few reasons:

1. Stocks produce positive returns on average, so it's more likely that a rally will reverse a decline than a decline will reverse a rally.
2. As I have written in the past, sentiment follows price momentum.

Given the magnitude of the rally, sentiment should be ebullient.

But it's not.

⁵ Bloomberg as of 7/24/2025.

⁶ Strategas. July 15th, 2025.

⁷ While the S&P 500 is up 28% since the low, the High Beta ETF, SPHB, is up 58%. Bloomberg.

⁸ After peaking on February, the SPHB dropped over 30%.

⁹ Bespoke July 8th, 2025.

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AAll¹⁰ bulls to bears, Big Money poll, Hedge Fund positioning, Put/call ratios.

All are surprisingly tempered relative to such a move in equities.

Could the pain trade still be higher?

Could a true correction only occur when sentiment and price momentum are more aligned?

3. Seems like every prognosticator is bracing for "a mild summer correction."

How can they all be right?

What's interesting is the correction forecasts usually point to the negative impact of tariffs as the likely cause.

That's classic "rear view mirror" advice. ***Stocks rarely react to the same news in the same way.***

Investors got burned listening to the predictions that tariffs would derail the stock market.

Tariff news won't unnerve the market again, in my opinion.

Tariffs are now considered known risks.

*"Most known risks are already priced into the market. The biggest negative market reactions occur when an unknown risk pops up and the market struggles with pricing it in."*¹¹

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Bottom line for me, either we don't see the seasonal summer swoon at all, or we get something completely unexpected that causes more than a 5-7% "mild summer correction."

But make no mistake, *this is not a call to get out of equities.*

It's simply a suggestion that an opportunity might arise where incremental dollars invested might produce a higher return outcome than the long-term average. (That's a fancy way of saying, "buying into weakness.")

However, there's simply no such thing as a "no reason correction."

Inevitably, the "reason" is unexpected and will cause a whole host of scary commentary.

That alone will freeze investors from taking advantage of lower prices.

So, it's best to prepare (*is your desktop sticky note updated??*) and accept that surprises are unexpected, which will then raise the level of uncertainty.

Therein lies the opportunity!

*"Uncertainty is the only certainty in investing--and the best returns come to those who embrace it."*¹²

¹⁰ AAll Investor Sentiment Survey

¹¹ Kevin Kleinman, Blue Haven Capital August 20, 2020.

¹² Unknown source.

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So, what are we doing in our portfolios at Applied Equity?

Obviously, as a long only equity team, we stay invested.

However, we can modestly adjust the types of stocks to own.

The quality defensive stocks which were so popular at the lows are no longer the darlings.

They have been left behind in this roaring phase.

Therefore, it seems now is a time to emphasize those *just a little bit more* than the cyclical value and growth stocks which have been the leaders and which we still also own.

Andrew

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