Hamilton-Bates
Market Update

August 18, 2025

P.O. BOX 98 Mertztown, PA 19539 877.768.4247 www.hbir.com

Lots of Concerns but Markets Still Hit New All-Time Highs

Like a Beachball Underwater
Despite plenty of concerns the market simply refuses to stay down, much like the aforementioned beachball—unless there is constant downward pressure the trend is UP. The same seems to be true for stocks right now. Here and there we get blips of selling pressure but it proves fleeting and the market quickly recovers.

It is pretty amazing that with tariffs (at 30 year highs), the Fed chair and the President at odds, and geopolitics over Ukraine and Russian Oil, that the market and the economy seem relatively unfazed. Sure we had a 20% decline but we have also had the fastest recovery from a 20% decline in history—despite the above concerns still ongoing. The market seems to have taken the view that 'that which does not kill us makes us stronger'. A lot of investors were scared or shook out of the market in April, and have been slowly coming back. With the major averages at new highs, the bulls have control for now.

The Fed and the Economy
Despite calls from the President and others to cut rates, the Fed has so far held firm. For the record the Fed's policy is a little tight (perhaps 25 to 50 basis points tight), but we don't want to see a return to a rate cutting Fed just to boost the stock market. That would create an asset bubble.

The economy has remained firm, with the Atlanta Fed's GDP tracker third-quarter forecast edging up to 2.5% from 2.1% last week, though that's still a slowdown from 3% in the second quarter. Still 2.5% growth with all that is happening is pretty amazing.

We would expect the Fed to cut rates in September, in the wake of the weaker than expected July payroll report which showed just 73,000 jobs created. With inflation fairly tame, the Fed has room to cut. They may hint at this on Friday with Chairman Powell speaking at Jackson Hole. A more dovish Fed could help stocks move up.

One Concern has Faded (Bonds), Only to be Replaced by Another
Our big concern was the bond market, where yields on the long-dated treasuries were high and moving higher coming into 2025. Yields have come down, helping to alleviate the concerns (for now). The year yield is down to 4.35, from 4.60 in May and 4.80 at the beginning of 2025. As long as yields remain below 4.80-5.00 the stock market should be fine.

However, another concern has popped up and it is the job market. Not only was the latest report soft on creation (just 73,000 jobs created), a number of sectors have lost jobs recently. More than half the 400 business sectors in July showed job losses—a figure that in the past has occurred during recessions. This bears watching. <u>Should the job market weaken any further it would affect the financial markets. Americans spend if they have a job, they can't if they don't</u>.

Market Strategy
Adding the job market to the prior concerns listed (tariffs, Fed policy, and Ukraine) hasn't deterred the stock market, with the major averages continuing their push higher. History suggests the market could move even higher. In the past, when stocks went up in May, June, and July—the rally continued into the end of the year with an average gain of about 8%. That would be remarkable—but we'll take it.

The breakout above 6100 on the S&P, a level we noted in the last Update—did lead to a rally that now has the S&P around 6400. As long as the trend stays intact (above 6100), dips can be bought. We won't chase prices here but we will buy on dips. Stay long– enjoy the rest of Summer.

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Bulls Remain in Control

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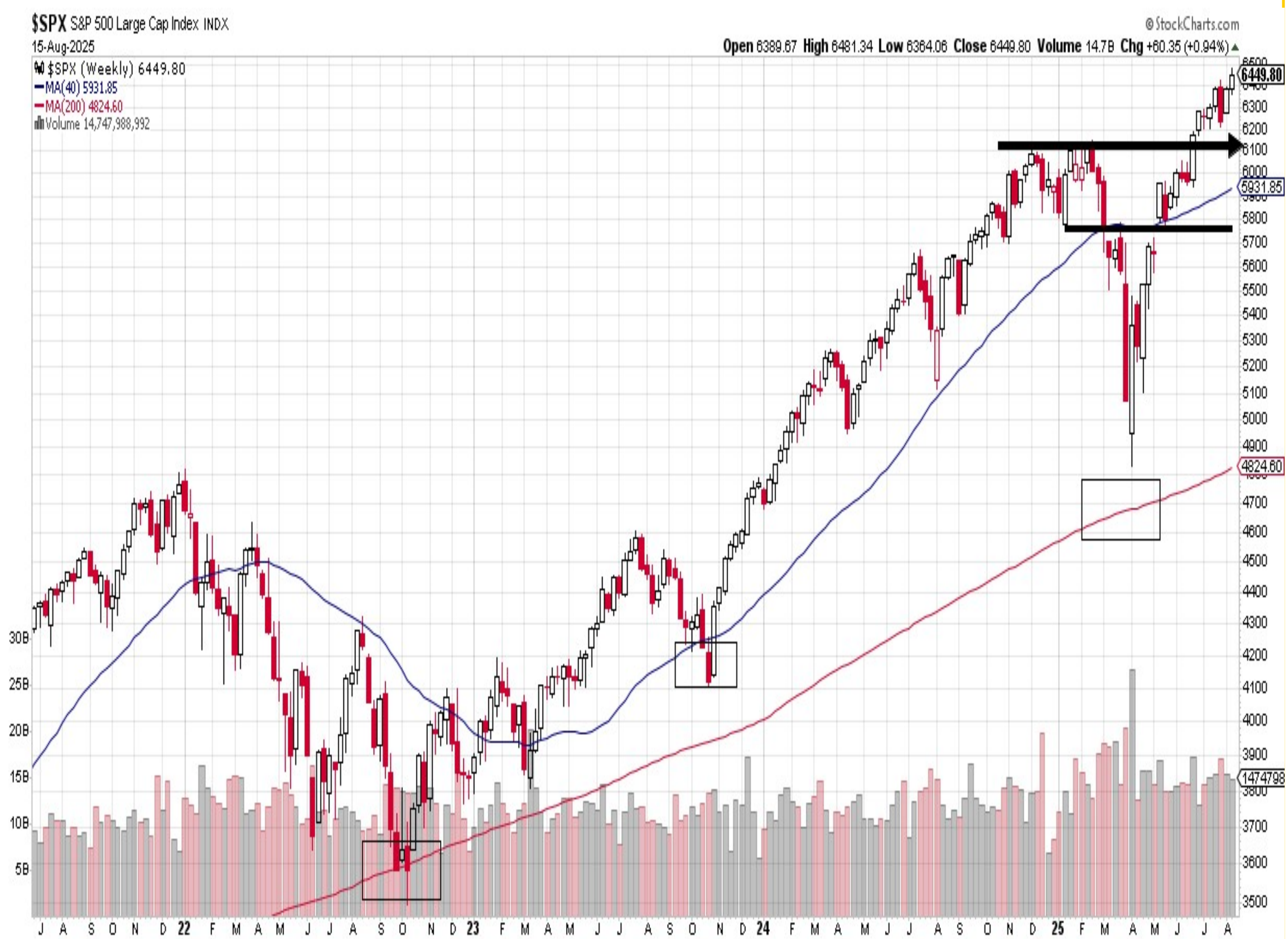
Market Chart—S&P 500 Index—Short-term Breakdown but Still a Long-Term Uptrend



S&P 500 Index—Moves to New Highs with New Key Levels to Watch

The move above 6100 on the S&P 500, which were the peak levels in late 2024 and early 2025, constitute a bullish breakout. As long as these levels hold (say 6100-6200), the trend is bullish and the bulls have control. We are well above these levels at present, and we could possibly see some sort of consolidation back toward this breakout point. This would be fairly typical trading behavior. For now, dips should be bought. Support is now 6100, next target is 6800.