On Our Radar – June 2025

The S&P 500 rallied 6.1 percent in May, though persistent tariff-related uncertainty continued to weigh on market sentiment. The primary driver behind the month's gains was a temporary easing of trade tensions between the U.S. and China. Both countries agreed to a 90-day pause on reciprocal tariffs: China committed to reducing import duties on U.S. goods from 125 percent to 10 percent, while the U.S. lowered tariffs on Chinese imports from 145 percent to 30 percent - which includes a 20 percent levy tied to China's production of fentanyl-related products.

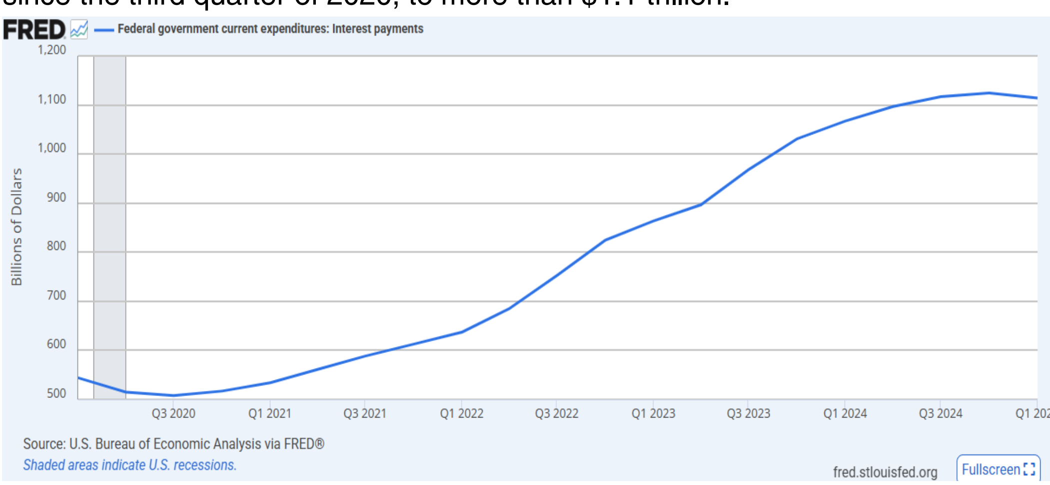
However, market volatility resurfaced on May 23 when President Trump threatened a 25 percent tariff on Apple unless the company moved iPhone production to the U.S. That same day, he posted on social media recommending a flat 50 percent tariff on European Union imports starting June 1. Markets rebounded after Trump later announced a delay in the EU tariffs until July 9, following what he described as a "very nice call" with European Commission President Ursula von der Leyen.

Tensions flared again on May 30 when the President accused China, via social media, of "totally violating its agreement with us." Further complicating the picture, the U.S. Court of International Trade ruled that the administration had exceeded its authority in imposing sweeping tariffs on nearly all foreign nations. An appeals court subsequently issued a temporary stay, allowing the tariffs to remain in effect for now.

TJT Capital Group's InVEST Risk Model ® has helped our clients participate in bull markets and protect capital from the devastation of bear markets by focusing on 5 indicators that really matter when it comes to determining the health and direction of markets. The following is the most recent update.

Interest Rates (Monetary Policy)

The Federal Open Market Committee (FOMC) maintained the federal funds rate within a target range of 4.25 percent to 4.50 percent. However, a more pressing concern lies in the rapidly rising cost of servicing existing federal debt, with interest payments having more than doubled since the third quarter of 2020, to more than $1.1 trillion.



After reaching its statutory borrowing limit in January, the U.S. government began employing "extraordinary measures" to avoid breaching the cap. Tariff revenue was expected to provide some interim fiscal support until Congress could pass a new tax-and-spending bill. Yet, recent court rulings may jeopardize that strategy. Regardless, the proposed legislation is projected by the Congressional Budget Office (CBO) to increase the federal debt by more than $2 trillion.

While the Trump administration disputes these projections, the fiscal reality is concerning. For the first seven months of fiscal year 2025, the cumulative federal budget deficit reached $1.1 trillion — an increase of approximately 13 percent over the same period last year. Running deficits equivalent to 6-to-7 percent of Gross Domestic Product (GDP), while continuing to expand a federal debt that has grown by more than 50 percent over the past five years is unsustainable.

Compounding the issue is the Federal Reserve's mismanagement of interest rate policy under Chairman Jerome Powell. While the past five years have undoubtedly presented extraordinary challenges, context is critical when assessing the Fed's decision-making.

Consider how dramatically the Fed's stance has evolved. In 2010, amid early rounds of quantitative easing, then-Chairman Ben Bernanke famously remarked that the Fed could raise interest rates "in 15 minutes if we have to" should inflation emerge. Fast forward to March 2022: with inflation at a 40-year high, the Powell-led Fed maintained its federal funds rate target at an astonishingly low zero percent to 0.25 percent. At the time, we called this "reckless behavior" and warned that monetary policy had become "unhinged from reality."

Now, it appears the Powell Fed is discarding its "flexible average inflation targeting" framework—one of the policy shifts that contributed to inflationary pressures. Yet nearly five years after adopting that framework, inflation remains above target. The Fed's preferred gauge—Core Personal Consumption Expenditures (Core PCE) — rose 2.5 percent year-over-year, still exceeding the Fed's stated 2 percent goal.

Valuation

With tariff uncertainty still hanging over the market—and the possibility that some levies may ultimately remain in place—the key question becomes: who will absorb the cost? If certain companies choose to shoulder the burden rather than pass higher input costs on to consumers, this would likely compress profit margins and reduce earnings.

Currently, S&P 500 operating earnings estimates for calendar year 2025 have declined by more than 5 percent since December, now standing at approximately $256. Additionally, the mere threat of higher tariffs on countries that fail to reach a deal with the U.S. after the 90-day pause could dampen trade activity—potentially weighing on economic growth.

Assuming the $256 earnings projection holds, the S&P 500 is trading at about 23 times earnings—above what many consider fair value. While that doesn't necessarily signal an imminent market decline, elevated valuations leave less room for missteps or negative surprises.

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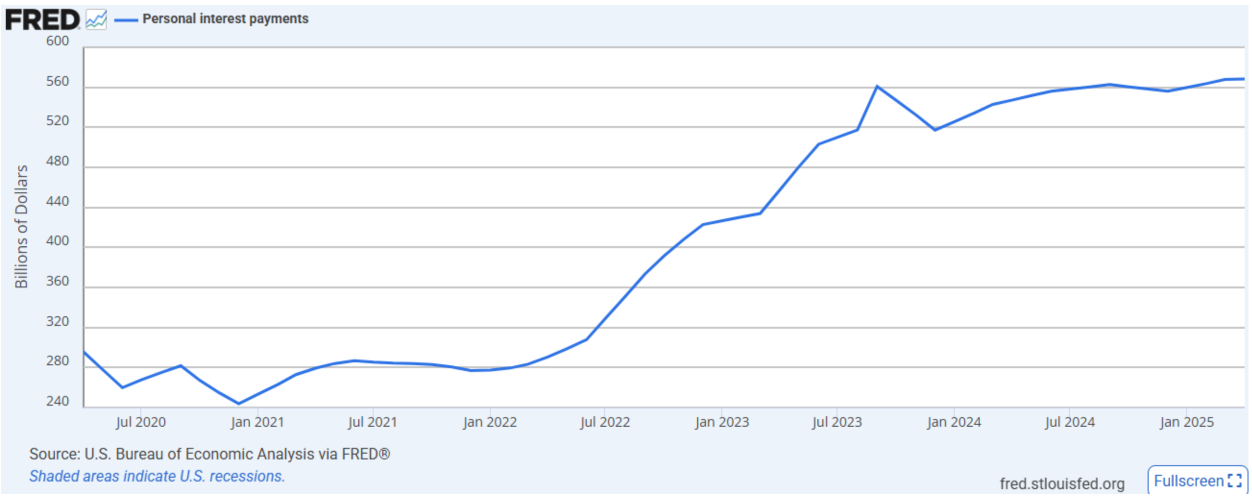
Economic Cycle

While markets increasingly react to social media posts rather than substantive policy developments, the economic data reflect ongoing uncertainty. Weekly jobless claims have started to trend higher, rising to 247,000 in the latest report from 226,000 just weeks earlier. At the same time, personal interest payments have more than doubled over the past three years, adding further headwinds.



This policy uncertainty is also showing up in broader economic indicators. The Institute for Supply Management (ISM) Manufacturing Index declined for the third consecutive month, while the ISM Services Index slipped to 49.9—just below the neutral 50 threshold, indicating slight contraction. New orders fell sharply to 46.4, down from 52.3 the prior month, and the Conference Board's Leading Economic Index declined 1% in April.

The U.S. economy contracted at a revised annualized rate of 0.2 percent in the first quarter—slightly better than the initial estimate of -0.3 percent but still the first quarterly decline in three years. While early signs point to a potential rebound in the second quarter, the outlook remains clouded by persistent policy-related headwinds.

On a more encouraging note, consumer sentiment appears to be rebounding. The Conference Board's Consumer Confidence Index rose by more than 12 points, supported in part by the temporary suspension of reciprocal tariffs announced on April 2nd.

Sentiment

Investor sentiment often tends to track the market's movements. However, when sentiment becomes too one-sided—whether overly bullish or bearish—it can serve as a useful contrary indicator. Earlier this year, as the S&P 500 approached its highs, bullish sentiment exceeded 50 percent. But as the equity markets weakened in March, optimism declined, eventually bottoming out near the April lows, with only about 23% of advisors reporting a bullish outlook. Since then, sentiment has rebounded into the 40% range alongside the market's recovery.

At current levels, sentiment appears neutral—neither strongly bullish nor bearish from a contrarian standpoint.

Technical Factors

Like sentiment, technical indicators tend to be most useful at extremes. Earlier this year, the percentage of stocks trading above their 50-day moving averages dropped into single digits—an historically notable signal. In past instances, when that figure has fallen below 15 percent, it has often marked a favorable entry point for long-term investors.

Since then, the market has staged a strong rebound, pushing the percentage of stocks above their 50-day moving averages into the 70 percent range. While not inherently bullish or bearish, this reading largely reflects the strength of the recovery off the April lows.

Outlook

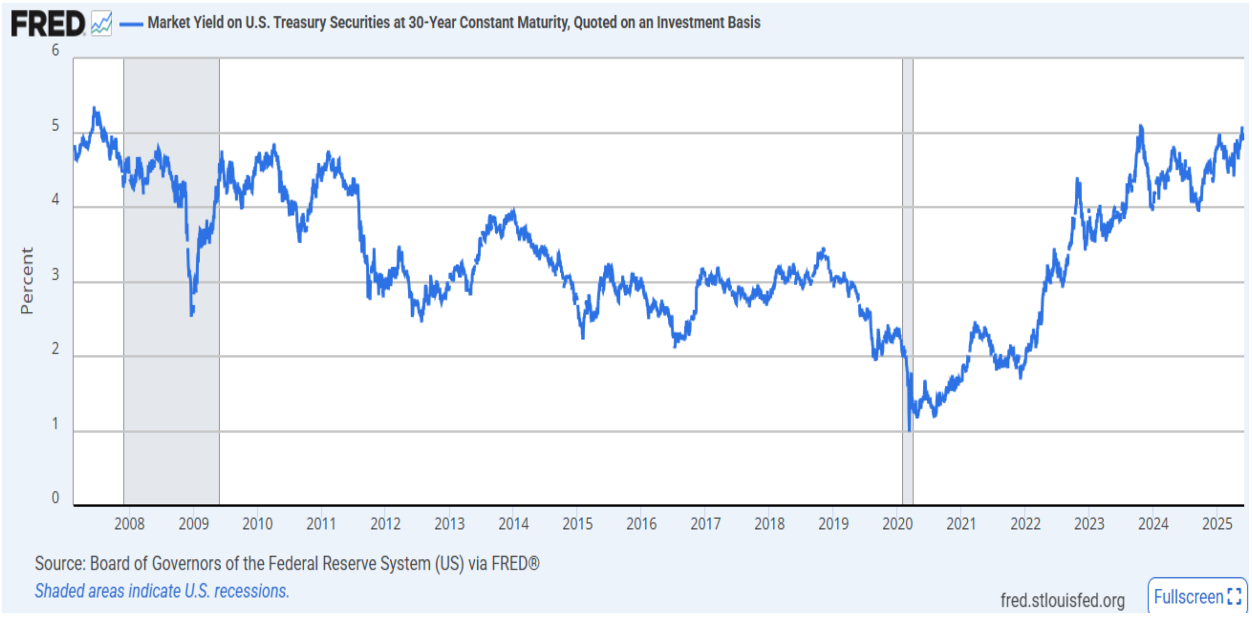
In early May, we wrote: “Historically, steep market sell-offs are often followed by sharp rebounds. The real question now is: where do we go from here?” While markets have indeed recovered from the extreme volatility triggered by President Trump’s “Liberation Day” tariffs, the underlying issue remains: markets become unstable when policy is unstable — whether that instability originates from the White House, Congress, or the Federal Reserve.

Facts matter. As of the end of May 2025, despite President Trump’s repeated claims in April that “over 70” countries were eager to negotiate trade deals with the U.S., only one agreement has been signed — with the United Kingdom. The disconnect between rhetoric and reality became clear on May 18, when U.S. Treasury Secretary Scott Bessent warned that tariffs would revert to their April 2 levels unless “serious negotiations” commenced.

Persistent hype without tangible results carries real risks. If credibility erodes, both markets and international counterparts may begin to challenge the narrative, potentially triggering destabilizing feedback loops. Thus far, announcements of tariff pauses, extensions, exemptions, and scheduled talks have been enough to spark market rallies. But over time, actual progress — not just headlines — will be required to sustain confidence.

Bond markets worldwide are already responding to mounting debt burdens. In Japan, the yield on the 30-year government bond climbed to an all-time high of 3.15 percent in May before retreating below 2.90 percent. In the U.S., it’s worth remembering that the 10-year Treasury yield stood at 3.63 percent last September, around the time the Federal Reserve cut interest rates by 50 basis points (0.50%). Despite easing inflation since then, the 10-year yield stood at 4.41 percent by the end of May.

The 30-year U.S. Treasury yield, meanwhile, hovered near an 18-year high last month, as illustrated in the chart below. At the same time, the broad U.S. dollar index (DXY) has declined approximately 10 percent since January — an unusual development for the world’s reserve currency, especially amid rising economic, political, and geopolitical tensions.



As debt levels climb, a critical question emerges: will investor demand remain strong enough to absorb the flood of new issuance without driving yields significantly higher?

Following the recent market rally, sustained progress on both the tariff front and federal budget negotiations will be critical. Until then, markets are likely to remain volatile — offering potential opportunities but also risks. In particular, the continued rise in global bond yields warrants close attention in an increasingly leveraged global economy. (6.6.25)

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