TACTICAL SNAPSHOT

TACTICAL WEALTH MANAGEMENT

JULY 10, 2025 PRODUCED BY RAJ BHUYAN & THE TWM TRADING DESK

"THE GREATEST ENEMY OF KNOWLEDGE IS NOT IGNORANCE, IT IS THE ILLUSION OF KNOWLEDGE."
– STEPHEN HAWKING / 1942-2018 / Scientist, Author: A Brief History of Time, The Grand Design / IMAGE SOURCE: UNIVERSE TODAY

The Illusion of Knowledge: *An illusion, by its nature, deceives the beholder. It manifests as a false belief in mastery of a subject or possession of definitive answers. Such overconfidence can lead to dismissing new evidence and alternative perspectives, fostering a tendency to fight outdated battles—visible only in hindsight.*

Ignorance: *Those unaware of a subject may pursue suboptimal paths toward their goals. However, this awareness of not knowing can spark a motivation to learn and adapt. Those who may be initially ignorant have the greater potential to avoid consequential errors.*

TS DESPITE WIDESPREAD SIGNS OF A SLOWING GLOBAL ECONOMY WHY HAVE GROWTH STOCKS BOUNCED BACK SO WELL?

MACRO: ESTIMATING WHAT INNING THE GAME IS IN
TECHNICAL: ESTIMATING THE PLAY BY PLAY IN THE INNING (HOW MANY ON BASE, HOW MANY OUTS)

THE BIGGEST COMPANIES HAVE BEEN GETTING BETTER AT DOMINATING

THE RELATIVE RESILIENCE IN THE PRICE PERFORMANCE OF MEGA-CAP GROWTH COMPANIES HAS BEEN JUSTIFIED (TO DATE) BY EQUALLY DOMINATING PERFORMANCE ON THE EARNINGS FRONT.

Since the end of 2021, our long-term macro analysis has cautioned against asymmetric risks in large-to-mega-cap growth stocks relative to the broader market. Compared to the rest of the stock universe, these largest names exhibit a concerning mix of historically elevated valuations, unprecedented concentration, and—most troubling—increasing participation from the investing public, particularly foreign investors. This combination has invariably led to severe and prolonged market disruptions.

That said, while such macro signals have proven prescient, they cannot be timed with pinpoint accuracy. If a macro signal tells us which inning of the baseball game we're in, then the nominal and relative price trends can reveal how that inning is unfolding. Some innings last just 10 minutes, while others stretch to nearly an hour.

Although large-cap growth stocks have made somewhat measurable relative gains since the summer of 2020, they've had ample opportunities to break down on multiple occasions, but haven't. Instead, the cap-weighted S&P 500 is breaking to new all-time highs relative to its equal-weighted counterpart.

WHAT COULD THE MARKETS BE DISCOUNTING FOR THIS TREND TO CONTINUE?

The simple answer to this great question is: no one knows for sure. From our standpoint, the brilliance of public markets lies in their ability to start discounting the emergence of material variables before participants can fully recognize them.

Could markets be anticipating the earnings trajectory of top companies as they integrate artificial intelligence across their products and services? Might they be signaling a landscape where only the strongest balance-sheet firms survive in an increasingly challenging economic environment? These and other outcomes are certainly plausible.

That's why our quantitative approach places strong emphasis on the nominal and relative performance of target asset classes. We would argue that we're in an environment where the opportunity cost of staying sidelined—solely due to macro indicators—could be higher than at any time in the last half-century. Inflation is eroding dollar-denominated cash at an accelerating pace. Hence, closely monitoring the balls, strikes, and outs can help maximize the "enjoyment" of the game—of course, all within a probabilistic framework.

RATIO CHART

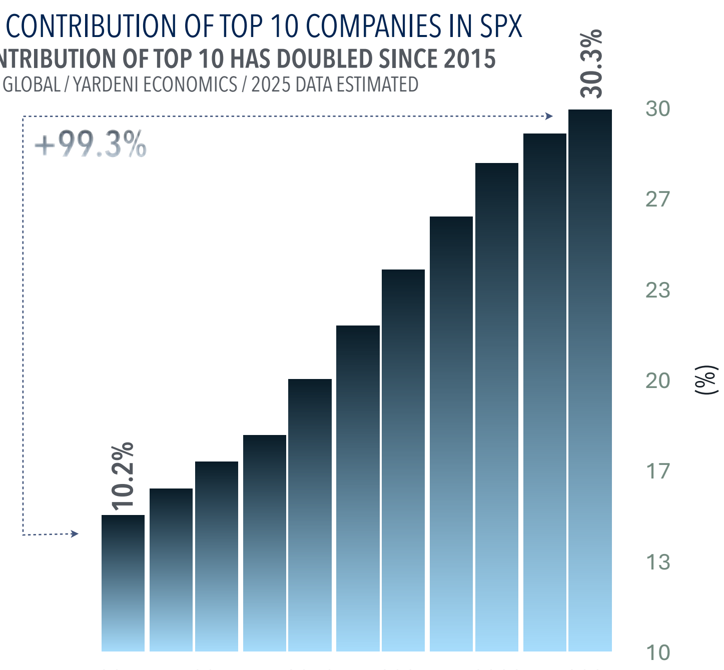
S&P 500 INDEX vs. EQUAL-WEIGHT S&P 500 (RATIO SINCE 2008)
CAP-WEIGHTED STOCK INDEX IS MAKING NEW RELATIVE ALL-TIME HIGHS
DATA SOURCE: TRADINGVIEW (WEEKLY DATA)

GROWTH CHART

% EARNINGS CONTRIBUTION OF TOP 10 COMPANIES IN SPX
EARNINGS CONTRIBUTION OF TOP 10 HAS DOUBLED SINCE 2015
DATA SOURCE: S&P GLOBAL / YARDENI ECONOMICS / 2025 DATA ESTIMATED

STRONG EARNINGS HAVE JUSTIFIED STRONG RELATIVE PERFORMANCE

Although increased levels of earnings concentration have been classic late-stage signals, we have yet to see signs of a material drop off within the top companies in the S&P 500.



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The investments and strategies presented may not appropriate for every investor. Individual clients should review with their advisors the terms and conditions and risks involved with specific products or services.

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Past performance is not a guarantee of future results. There is no assurance that any investment strategy will be successful. Investing involves risk and investors may incur a profit or a loss.

Technical Analysis is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts and other tools to identify patterns that can suggest future activity.

Relative Strength is a measure of price trend that indicates how a stock is performing relative to other stocks in its industry.

An Exchange-Trade Fund (ETF) is a security that trades an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. ETFs experience price changes throughout the day as they are bought and sold. Inverse ETFs seek to provide a return that is inverse or opposite of the performance of its benchmark often to provide a hedge against securities held in a portfolio. To accomplish this goal inverse ETFs may use margin and sell securities short in addition to investing in various derivative instruments. These funds are not suitable for all investors and are intended for short holding periods. There is no assurance that the funds will achieve their objectives and an investment in a fund could lose money.

Asset allocation and diversification does not guarantee investment returns and does not eliminate the risk of loss.

Remember, when investing in mutual funds or exchange-traded and index funds, please consider the investment objectives, risks, charges, and expenses associated with the funds before investing. You may obtain a fund's prospectus by contacting your Financial Advisor. The prospectus contains this and other information, which should be carefully read before investing.

Rebalancing a non-retirement account could be a taxable event that may increase your tax liability.

The price of equity securities may rise or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. Equity securities are subject to "stock market risk" meaning that stock prices in general may decline over short or extended periods of time. Standard deviation is applied to the annual rate of return of an investment to measure the investment's volatility.

Investing in fixed income products are subject to certain risks, including; interest rates, credit, inflation, call, prepayment and reinvestment risk.

Investing primarily in securities of small and mid-sized companies have historically had greater share price volatility than funds that invest in large companies. In addition, investments in these types of securities may be less liquid, which may negatively affect a fund's returns.

International investing involves a greater degree of risk and increased volatility. Changes in currency exchange rates and differences in accounting and taxation policies outside the U.S. can raise or lower returns. Also, some overseas markets may not be as politically and economically stable as the United States and other nations. Investments in emerging markets can be more volatile. Investments in commodities may have greater volatility than investments in traditional securities, particularly if the instruments involve leverage.

Dividends are not guaranteed and will fluctuate.

Sentiment Trader Fear-Greed Model:
The model measures inputs such as price trend, volatility, options trading, and bond trading to determine prevailing investor sentiment. It should be interpreted in a similar way as other sentiment indicators and models, with rising optimism being good for stocks until it reaches extreme optimism, in which case it becomes a contrary indicator the more optimistic it gets. The inverse is also true, with declining optimism being a negative for stocks until it reaches an extreme, in which case it begins being a contrary positive indicator.