

Pullback Possibility

The fourth best month of the year for S&P 500 returns is over, having posted a better-than-average gain driven by a series of trade agreements and stronger-than-predicted Q2 2025 earnings reports, as well as expectations for a further moderating of economic growth and inflation readings, which could contribute to the Federal Reserve issuing a more dovish commentary supporting the likelihood of another rate cut in September. However, reality kicked in, as recent data indicated that U.S. real GDP was stronger in Q2 than anticipated, inflation was stickier than expected, the tariff tempest was far from terminated, and the jobs picture was not as clear as previously assumed. Welcome to August, which, like February and September, endured average price declines since WWII.

Moreover, as seen above, the S&P 500 fell in price in August in every post-election year of second-term presidents since Eisenhower in 1953. As a result, there is a high likelihood that 2025 won't be able to maintain that record, due to impressive price gains that were accompanied by reduced volatility and elevated valuations. Indeed, through the recent all-time high on July 28, the S&P 500 jumped 28% off of the April 8 correction low, accompanied by gains in all sizes, styles, and sectors in the S&P 1500, while the VIX fell below 15 from a high above 50, and the S&P 500's P/E on 12-month earnings estimates rose to a 41% premium to its 20-year average. Some resetting of the dials now seems to be underway. The overriding question is how far? History suggests that the market might not slip beyond "pullback" mode, which is a decline of 5.0% to 9.9%. Of the five times since 1950 that the S&P 500 started the year with a correction (a decline of 10.0% to 19.9%), all second intra-year declines did not exceed 10%.

For the week ending August 1, all sizes, styles, and 10 of 11 sectors in the S&P Composite 1500 fell in price. Only utilities rose for the week, ahead of minimal declines for communication services, consumer staples, and

Index Price Changes in August by Presidential Year/Term

Year	President	Term	S&P 500		Nasdaq Comp.		Russell 2000	
			% Chg.	Up?	% Chg.	Up?	% Chg.	Up?
1953	Eisenhower	1	(5.8)	0				
1957	Eisenhower	2	(5.6)	0				
1961	Kennedy	1	2.0	1				
1965	Johnson	1	2.3	1				
1969	Nixon	1	4.0	1				
1973	Nixon	2	(3.7)	0	(3.5)	0		
1977	Carter	1	(2.1)	0	(0.5)	0		
1981	Reagan	1	(6.2)	0	(7.5)	0	(8.0)	0
1985	Reagan	2	(1.2)	0	(1.2)	0	(1.2)	0
1989	Bush (41)	1	1.6	1	3.4	1	2.1	1
1993	Clinton	1	3.4	1	5.4	1	4.1	1
1997	Clinton	2	(5.7)	0	(0.4)	0	2.2	1
2001	Bush (43)	1	(6.4)	0	(10.9)	0	(3.3)	0
2005	Bush (43)	2	(1.1)	0	(1.5)	0	(1.9)	0
2009	Obama	1	3.4	1	1.5	1	2.8	1
2013	Obama	2	(3.1)	0	(1.0)	0	(3.3)	0
2017	Trump	1	0.1	1	1.3	1	(1.4)	0
2021	Biden	1	2.9	1	4.0	1	2.1	1
Median % Chg.-Year 1			1.8	67%	1.4	63%	2.1	57%
Median % Chg.-Year 2			(3.4)	0%	(1.2)	0%	(1.6)	25%

Source: CFRA, S&P Global. Past performance is no guarantee of future results.

Benchmark, Size, Style, Sector and Sub-Industry Price Returns*

Regions/Sizes/Sectors	% Chg.	Best S&P 1500 Sub-Industries	% Chg.
WTI Oil	3.3	Independent Power Producers	6.6
Utilities	1.4	Health Care Facilities	4.3
Communication Services	(0.1)	Diversified Metals & Mining	4.2
Consumer Staples	(1.2)	Water Utilities	3.4
Info. Technology	(1.5)	Comm'l & Residential Mortg. Fin.	3.0
S&P 500 Growth	(1.8)	Real Estate Services	2.4
Energy	(1.8)	Electronic Components	2.3
Nasdaq-100	(2.2)	Homefurnishing Retail	2.1
S&P Emerging BMI Index	(2.3)	Heavy Electrical Equipment	1.8
S&P 500	(2.4)	Tobacco	1.8
S&P Developed Ex-U.S. BMI	(2.9)	Worst S&P 1500 Sub-Industries	% Chg.
S&P 500 Value	(3.0)	Health Care Supplies	(10.7)
Real Estate	(3.3)	Copper	(10.8)
Industrials	(3.4)	Managed Health Care	(11.4)
S&P MidCap 400	(3.5)	Air Freight & Logistics	(11.7)
Financials	(3.8)	Cargo Ground Transportation	(11.8)
Health Care	(3.8)	Marine Transportation	(13.0)
10-Yr Note Yield	(3.9)	Commodity Chemicals	(13.3)
S&P SmallCap 600	(3.9)	Household Appliances	(16.5)
Consumer Discretionary	(4.5)	Diversified Chemicals	(18.8)
Materials	(5.6)	Housewares & Specialties	(24.1)
Positive Sectors:	9%	Positive Sub-Industries:	15%

Source: CFRA, S&P DJ Indices. *7/25/25-8/1/25.

information technology. Consumer discretionary, financials, health care, and materials, on the other hand, dropped the most. In addition, 85% of the S&P 1500's 155 sub-industries declined in price, with diversified chemicals, household appliances, and housewares & specialties falling the farthest, while diversified metals & mining, health care facilities, and independent power producers posting the greatest gains.

U.S.-listed companies with the highest CFRA STARS from the sub-industries with the highest prior-week returns are: Vistra Corp. (VST 208 ****), HCA Healthcare Inc. (HCA 357 ****), MP Materials Corp. (MP 64 ****), American Water Works Company Inc. (AWK 146 ***), MGIC Investment Corporation (MTG 26 NR), CoStar Group Inc. (CSGP 95 ****), Corning Incorporated (GLW 62 ****), Wayfair Inc. (W 65 ***), GE Vernova Inc. (GEV 657 ***), and Philip Morris International Inc. (PM 163 ***).

The Pulse of Q2 Earnings

S&P 500 second quarter (Q2) 2025 earnings per share (EPS) are now projected to rise 7.7% on a year-over-year (Y/Y) basis, according to S&P Capital IQ consensus estimates, versus the 2.2% growth forecast as of June 30. Eight sectors are now seen recording increases, led by communication services, financials, and technology, while consumer discretionary, energy, and materials should record declines. For all of 2025, the S&P 500 should post an 8.3% Y/Y EPS rise, versus the 6.8% estimate on June 30, followed by an increase in 2026 to 13.2%. Full-year 2025/2026 gains for the S&P MidCap 400 and S&P SmallCap 600 are now seen at +3.8%/+18.4% and +8.9%/+19.3%, respectively. Finally, the S&P 500's P/E on forward 12-month EPS stands at 22.2x, a 20.5% premium to its 10-year average.

WASHINGTON ANALYSIS: Fed Fallout

Washington Analysis, CFRA's political strategy arm, recently posted the following:

"Fed Governor Adriana Kugler's decision to resign effective August 8, nearly six months before her term expires, is a surprise that we think will ramp up pressure on Fed Chair Jay Powell. We expect Kugler's replacement to be confirmed in September.

- We had previously said that President Trump's replacement for Powell would likely fill Kugler's seat, since she was the only governor guaranteed to leave next year (Powell is very likely to leave when his term as chair ends in May, but his term as governor does not expire until January 31, 2028). Kugler's early departure should relieve pressure on Powell in the short-term by giving Trump an immediate outlet for his frustration to name Kugler's replacement.
- However, we believe it adds pressure in the medium- and longer-term. Where previously Trump had been considering naming his own "shadow chair"-in-waiting outside the Fed, he will now have his chair designee on the Fed Board for months before Powell's term ends. Depending on who the nominee is, this sets the stage for more open conflict on the Board, as Trump will likely want his nominee to speak up publicly for what the President desires, including lower interest rates."

LOWRY RESEARCH: Technical Take

Lowry Research, CFRA's technical analysis group, recently posted the following:

"The backdrop for stocks is still strong, with none of the typical warning signs (e.g. multi-month divergences) in place to suggest that a major top is at hand. Even the smaller stock indexes sport expanding demand trends that raise the odds for upside resolutions from recent price malaise. The conditions for a pullback are in place, but we cannot predict how long or how deep the major indexes will dip. What we do know is that our suite of longer-term indicators is still supportive of higher prices in the intermediate term. With that said, we will continue to monitor the components of the Market Health Score, as well as the many other indicators we follow, looking for signs of fading trends and therefore early market weakness."

To learn more about Washington Analysis and Lowry Research (and sign up for a free trial to Lowry), please visit www.cfraresearch.com.

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