Sabrient Systems

Sector Detector

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A pivot to strategic deglobalization, affordable energy, and a robust private sector

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Overview

So much for the adage, "Sell in May and go away." May was the best month for the stock market since November 2023 and the best month of May for the stock market in 35 years, with the S&P 500 up +6.1% and Nasdaq 100 up +9.3%. Moreover, the S&P 500 has risen more than 1,000 points (20%) from its 4/8 low and is back into positive territory YTD (and challenging the 6,000 level). History says when stocks rally so strongly off a low, the 12-month returns tend to be quite good. Even better news is that the rally has been broad-based, with the equal-weight versions of the indexes performing in line with the cap-weights, and with the advance/decline lines hitting all-time highs. An as Warren Pies of 3Fourteen Research observed on X.com, *"…the S&P 500 has retraced 84% of its peak-to-trough decline. The [market] has never retraced this much of a bear market and subsequently revisited the lows. The technical evidence points, overwhelmingly, to the beginning of another leg to the bull market and new ATHs."* We certainly aren't seeing the H1 volatility I expected, with the CBOE Volatility Index (VIX) back down to February levels. So, is this the all-clear signal for stocks? Well, let's explore this a bit.

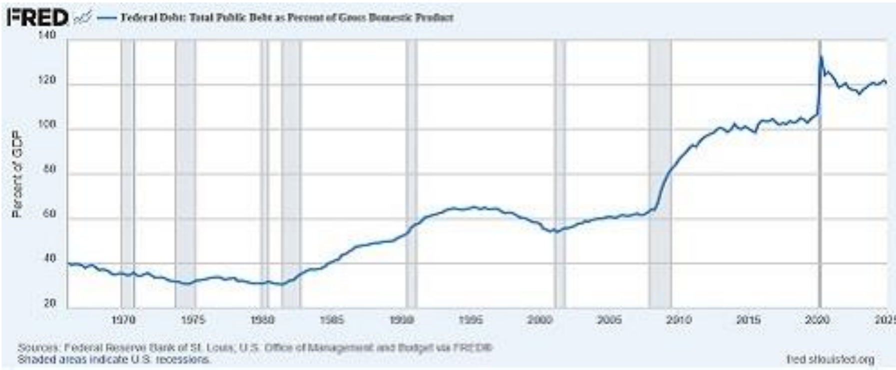
As Josh Brown of Ritholtz Wealth Management reminds us, *"Stocks [tend to] bottom in price a full 9 months before earnings do… By the time earnings are reaching their cycle low, stocks have already been rallying for three quarters of a year in advance of that low. This is why you don't wait to get invested or attempt to sit out the economic or earnings downturns."* Typically, the growth rates for GDP, corporate earnings, wages, and stock prices should not stray too far apart since they are all closely linked to a strong economy. And as of 6/9, the Atlanta Fed's GDPNow model indicates an eye-popping **+3.8%** growth is in store for Q2 (albeit largely due to a collapse in imports following the negative Q1 print from front-running of imports, ahead of the tariffs).

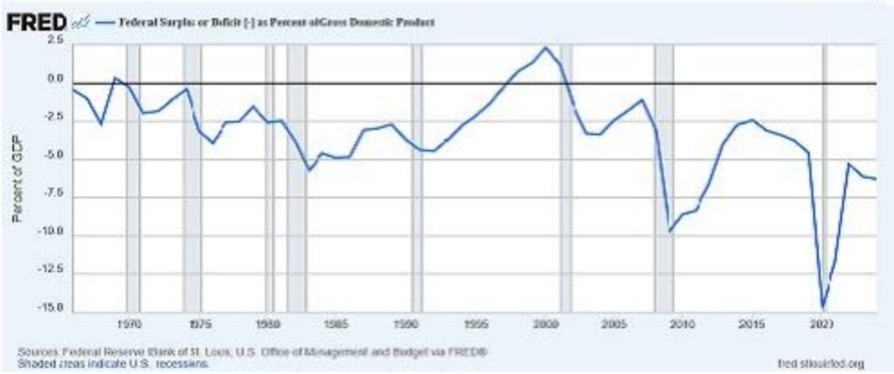
And with the last administration's last-minute surge in deficit spending wearing off, the new administration is doing quite well in bringing down inflation, starting with oil prices. Indeed, April CPI came in at +2.33% YoY and the rolling 3-month annualized CPI (a better measure of the current trend) is +1.56%. Looking ahead, the Cleveland Fed's Inflation NowCasting model forecasts May CPI of +2.40% YoY and an annualized Q2 CPI of +1.70%, while the real-time, blockchain-based Truflation metric is +1.90% (as of 6/9). After all, disruptive innovation like AI is deflationary by increasing productivity, China's economic woes are deflationary (cheaper goods), and tariffs are deflationary (in the absence of commensurate rise in income), so the rising GDP forecast and falling CPI numbers reflect the exact oppositive of the "stagflation" scare the MSM keeps trumpeting. I discuss inflation in greater length in today's post below.

It all sounds quite encouraging, right? Well, not so fast. For starters, the charts look severely overbought with ominous negative divergences that could retrace a lot of gains. Moreover, with ISM manufacturing and services indexes both in contraction, with so much lingering uncertainty around trade negotiations, with President Trump's "one big, beautiful bill" (aka OBBB) wending a treacherous path through congress, and with his ambitious drive to reverse the course and negative outcomes of decades of hyper-globalization, entitlement creep, and climate/cultural activism facing fierce resistance both at home and abroad, the coast is hardly clear.

Witness the rise in bond term premiums even as the Fed contemplates cutting its benchmark rate as foreign central banks and bond vigilantes slash demand for Treasuries (or even sell them short) due to expectations of unbridled federal debt and Treasury issuance. According to Mike Wilson of Morgan Stanley: *"we identified 4%-4.5% [10-year yield] as the sweet spot for equity multiples, provided that growth and earnings stay on track."* Similarly, Goldman Sachs sees 4.5% acting as a ceiling for stock valuations—and that is precisely where the rate closed on Friday 6/6. Wilson identified four factors that he believes would sustain market strength: 1) a trade deal with China, 2) stabilizing earnings revisions, 3) a more dovish Fed (i.e., rate cuts), and 4) the 10-year yield below 4% (without being driven by recessionary data)—but there has been observable progress only in the first two.

Regarding our debt & deficit death spiral, I will argue in my full commentary below that despite all the uproar, the OBBB might not need to institute harsh austerity with further cuts to entitlements (which, along with interest on the debt, amount to 73% of spending) that would mostly hurt the middle/working classes. The bill rightly repeals low-ROI tax credits and spending for boondoggles from prior bills, most notably low-transformity/low-reliability wind and solar energy projects that require government subsidies to be economically viable. But beyond that, the focus should be on lowering the *debt/GDP ratio* through fiscal and monetary policies that foster robust organic economic growth (the denominator) led by an unleashed private sector fueled by tax rate cuts and incentives for capital investment, deregulation, disruptive innovation, and high-transformity/high-reliability natural gas and next-generation nuclear technology. Real Investment Advice agrees, [arguing] that market pundits might be *"too focused on the deficit amount…rather than our ability to pay for it,* *i.e., economic growth."* The charts below show the debt-to-GDP ratio, which is about 120% today, alongside the federal deficit-to-GDP ratio, which is about 6.6% today. (Note that US Treasury Secretary Scott Bessent's target of 3% deficit-to-GDP was last seen in 2016.)





Of course, nothing is all bad or all good. But Trump is shining a bright light on the devastating fallout on our national security, strategic supply chains, and middle/working classes. Changing the pace and direction of globalization, including deglobalizing some supply chains, reshoring strategic manufacturing, and focusing on low-cost energy solutions for a power-hungry world cannot occur without significant disruption. Within the US, we can have different states provide different types of industries and services depending upon their comparative advantages like natural resources, labor costs, demographics, geography, etc.—after all, we are all part of one country. But on a global scale, with some key trading partners that might be better considered rivals, or even enemies in some cases, we can't entrust our national security to the goodwill and mutual benefit of international trade. Indeed, China has a history of not fulfilling its commitments in prior trade agreements, like reducing state subsidies overproduction ("dumping"), and IP theft, moving some manufacturing into the US, and increasing imports of US goods.

I have talked often about the 3-pronged approach of addressing our federal debt by: 1) *inflating it away* with slightly elevated inflation around 2.4% to erode the value of dollars owed and increase nominal GDP to reduce the debt-to-GDP ratio, 2) *cutting it away* with modest reductions or at least freezes on spending and entitlements, and 3) *growing it away* by fostering robust organic growth from a vibrant private sector with pro-cyclical fiscal and monetary policies that ultimately grows tax *receipts* on higher income and GDP (even at lower tax *rates*) and reduces the debt-to-GDP ratio. But of these three, the big "clean-up hitter" must be #3—robust growth. In fact, a key reason that the OBBB does not propose more austerity measures (i.e., spending cuts beyond waste, fraud, and the "peace dividend") is to ensure that *GDP grows faster than the debt and deficit.* We can only live with slightly elevated inflation, and it is difficult to cut much spending given the dominance of mandatory spending (entitlements and interest payments) over discretionary spending. So, the primary driver must be robust private sector organic growth—and by extension an embrace of disruptive innovation and a productivity growth boom that boosts real GDP growth, keeps a lid on inflation, widens profit margins—leading to rising wages tax remittances.

As a case in point, I highly recommend a recent [episode]() of the All-In Podcast in which the panel of four Tech billionaires (of various political persuasions) speak with Miami Mayor Francis Suarez. In 2017, Suarez took over leadership of a city that was in distress, near bankruptcy, and a murder capital of the country, and he resurrected it with three core principles for success: *"keep taxes low, keep people safe, lean into innovation"*—whereas he laments that most other big-city mayors prefer to do the opposite, i.e., raise taxes, tolerate crime, create suffocating regulations, and reject the offers and entreaties of billionaire entrepreneurs like Jeff Bezos (Amazon) and Elon Musk (Tesla) as overly disruptive or politically incorrect.

May inflation metrics will come out this week, and then the June FOMC meeting convenes 6/17-18. So far, the FOMC has been quite happy to just sit on its hands (while the ECB just cut for an 8th time) in the face of tariff paralysis; falling oil prices, unit labor costs, and New Tenant Rents; declining inflation and savings rates; rising delinquencies; and slowing jobs growth; instead preferring to be *reactive* to sudden distress rather than *proactive* in preventing such distress. Inflation metrics continue to pull back after being propped up by elevated energy prices, long-lag shelter costs, and the prior administration's profligate federal deficit spending that overshadowed—and indeed created—sluggish growth in the private sector. Economist Michael Howell of CrossBorder Capital persuasively asserts that monetary policy "*must prioritize liquidity over inflation concerns, so the Fed's current hands-off, higher-for-longer, reactionary approach risks causing a liquidity crunch."*

So, I believe it's going to be hard for Fed Chair Jay Powell to justify continuing to "wait & watch." As of 6/9, CME Group fed funds futures show zero odds of a 25-bp rate cut this month, but increases to 17% at the July meeting, and 64% odds of at least 50 bps by year-end. I have been insisting for some time that the FFR needs to be 100 bps lower, as the US economy's headline GDP and jobs numbers were long artificially propped up by excessive, inefficient, and often unproductive federal deficit spending, while the hamstrung private sector has seen sluggish growth, and 30-year mortgage rates need to be closer to 5% to allow the housing market to function properly. But regardless of the FOMC decision this month, I expect the rate-cutting cycle to restart soon and signed trade deals to emerge with our 18 key trading partners, calming domestic and foreign investors.

I still expect new highs in stocks by year end. For now, traders might wait for a pullback and bounce from support levels, or perhaps an upside breakout beyond the 6,000 level on the S&P 500. But my suggestion to investors remains this: Don't chase the highflyers and instead focus on high-quality businesses at reasonable prices, expect elevated volatility given the uncertainty of the new administration's policies and impact, and be prepared to exploit any market pullbacks by accumulating those high-quality stocks in anticipation of gains by year end and beyond, fueled by the massive and relentless capital investment in blockchain and AI applications, infrastructure, and energy, leading to rising productivity, increased productive capacity (or "duplicative excess capacity," in the words of Secretary Bessent, which would be disinflationary), and economic expansion, as I explore in greater depth in my full post below.

Rather than investing in the passive cap-weighted indexes dominated by Big Tech, investors may be better served by active stock selection that seeks to identify under-the-radar, undervalued, high-quality gems. This is what Sabrient seeks to do in our various portfolios, all of which provide exposure to Value, Quality, Growth, and Size factors and to both secular and cyclical growth trends. When I say, "high-quality company," I mean one that is fundamentally strong, displaying a history of consistent, reliable, and accelerating sales and earnings growth, a history of meeting/beating estimates, high capital efficiency, rising profit margins and free cash flow, solid earnings quality, low debt burden, and a reasonable valuation compared to its peers and its own history. These are the factors Sabrient employs in selecting our **Baker's Dozen, Forward Looking Value, Dividend, and Small Cap Growth** portfolios (which are packaged and distributed as UITs by First Trust Portfolios). We also use many of those factors in our SectorCast ETF ranking model, and notably, our proprietary *Earnings Quality Rank (EQR)* is a key factor used in each of our portfolios, and it is also licensed to the actively managed **First Trust Long-Short ETF (FTLS)** as a quality prescreen.

Sabrient founder David Brown describes these and other factors as well as his portfolio construction process in his latest book. He also describes his path from NASA scientist in the Apollo moon landing program to creating quant models for ranking stocks and building stock portfolios. And as a companion product to the book, we have launched our next-generation **Sabrient Scorecards for Stocks and ETFs**, which are powerful digital tools that rank stocks and ETFs using our proprietary factors. You can learn more about both the book and scorecards by visiting: http://HighPerformanceStockPortfolios.com.

Keep in mind, stock market tops rarely happen when investors are cautious, as they continue to be today. So, I continue to believe in staying invested in stocks but also in gold, gold royalty companies, Bitcoin (as an alternative store of value), and perhaps Ethereum (for its expanding use case). These not only serve as hedges against dollar debasement but as core holdings within a strategically diversified portfolio. Bitcoin's climb back to new highs in May has been much more methodical and disciplined than its previous history of maniacal FOMO momentum surges that were always destined to retrace. This is what comes from maturity and broader institutional acceptance, characterized by "stickier" holders and strategic allocations. Notably, iShares Bitcoin Trust ETF (IBIT) had its largest-ever monthly inflow during May.

I highly encourage you to read my full commentary below. I discuss in greater depth the economic metrics, the truth about the OBBB, deglobalization, trade wars, affordable energy, economic growth, jobs, inflation, and global liquidity. I also discuss Sabrient's latest fundamental-based SectorCast quantitative rankings of the ten U.S. business sectors, current positioning of our sector rotation model, and several top-ranked ETF ideas.

By the way, rather than including my in-depth discussion of energy and electrical power generation in this post, I will be releasing it in a special report a little later this month, so please watch for it. *As always, please let me know your thoughts on this article, and feel free to contact me about speaking on any of these topics at your event!*

Market Commentary

Let me first say that the French Open men's tennis final I witnessed yesterday was one of the best major tennis finals that I can recall, with incredible displays of skill, artistry, and shotmaking. And I've seen a lot of classics as a tennis fan since my high school days as a junior tournament player, watching through the years the likes of Stan Smith, Jimmy Connors, John McEnroe, Bjorn Borg, Peter Sampras, Andre Agassi, Roger Federer, Rafael Nadal, and so many other tennis greats play some incredible matches. The finalists, Jannick Sinner and Carlos Alcaraz, are not big-serve specialists who rely on hitting aces, so nearly every point was highly competitive, and both players were evenly matched and played amazingly, with Alcaraz coming back to win the 5.5-hour match in a fifth set tiebreaker from down 1-2 in sets and 3-5, 0-40 in the fourth set, facing triple match point. His comeback win was a thing of beauty. Now, on with my detailed market commentary.

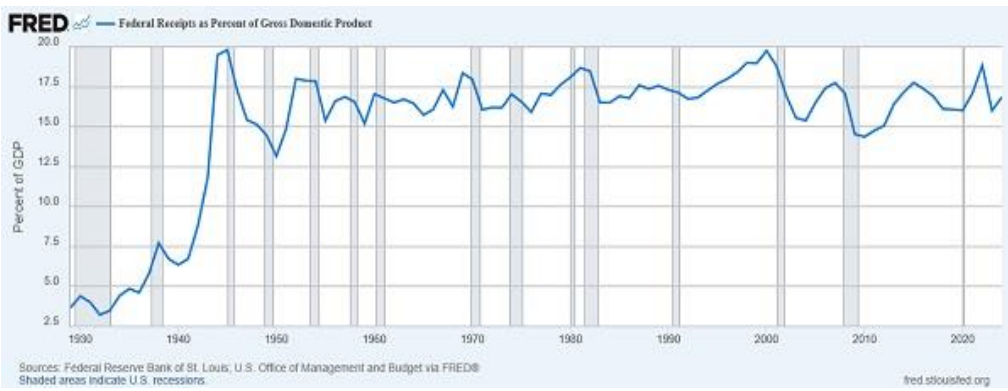
<u>"One Big, Beautiful Bill"</u>:

There has been much consternation and gnashing of teeth about the budget bill in congress among politicians, the MSM, prominent economists, financial advisors, entrepreneurs, and learned scholars, including many commentators I follow and greatly admire. Their main (and quite legitimate) concern is that our already out-of-control deficit and total debt will be exacerbated by tax cuts without commensurate reductions in spending. Surely, you've heard the estimates of a deficit surging from $1.83 trillion for FY 2024 to around $2.5 trillion at the end of the next fiscal year and adding as much $3 trillion over the coming decade. The Congressional Budget Office forecasts total federal debt surging from $32.2 trillion today to $54.4 trillion by 2034. That does sound bad.

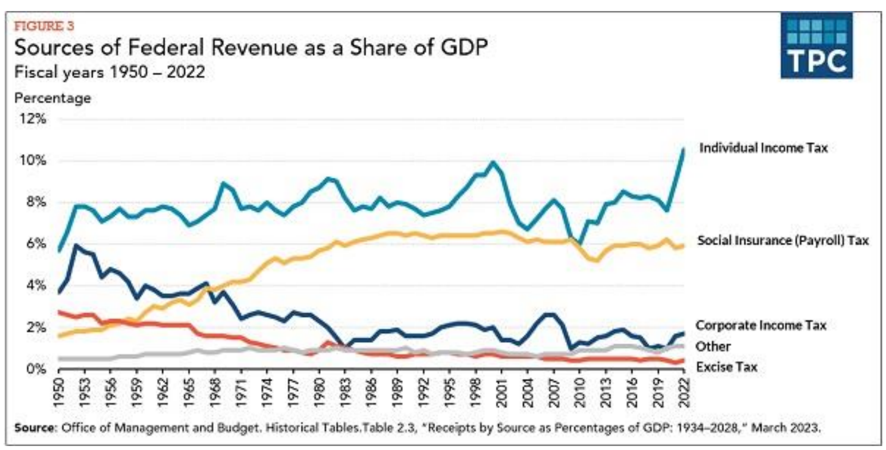
But let's calm down for a minute. First of all, this is a reconciliation bill, which by definition is limited to addressing *mandatory* spending (not *discretionary* spending or DOGE cuts, which can be implemented separately through appropriations bills). Second, the OBBB actually *reduces* mandatory spending by $1.3 trillion over the next 10 years. The forecasted growth in deficits comes from the tax cuts (extending the existing rates set to expire and adding more) that reduce revenue and thus increase interest expense. And third, as Real Investment Advice pointed out, CBO forecasts are often wrong or misleading, and in this case *"…the CBO defaults to a long-run real GDP growth rate of about 1.8% to 2.0%—a figure derived from trend productivity and labor force growth, rather than cyclical or structural changes in the economy…This baked-in pessimism ignores potential upside scenarios such as demographic shifts, productivity surges due to technology [like imminent AI impacts], or policy-induced economic acceleration."*

In other words, the CBO doesn't consider the potential for higher-than-trend GDP growth to more than offset the rise in debt, thus reducing both the deficit and the debt-to-GDP ratio. Yes, slashing spending would improve the CBO's budget outlook and mollify the bond vigilantes, but in the short run it would also reduce consumer spending and economic growth while further crippling our already struggling middle and working classes. We are caught between a rock and a hard place in that the private sector needs stimulus, but cutting spending will reduce GDP. So, Trump and his OBBB are trying to "have their cake and eat it, too"—and it might be possible if, again, we focus more on bringing down the debt-to-GDP ratio by boosting the GDP growth rate while ensuring that debt rises at a slower pace than GDP going forward, which also will eventually bring down the budget deficit from today's 6.6% of GDP towards Secretary Bessent's goal of 3%—and perhaps eventually balance the budget someday (one can dream!).

You see, in my view, fiscal policy (tax rate cuts and deregulation, including reduced bank supplementary leverage ratio—SLR) and monetary stimulus (interest rate cuts and rising liquidity) should conspire to keep energy prices low, boost liquidity, unleash organic growth in the private sector, and turbocharge GDP growth well beyond what the crutch of government boondoggles and helicopter money was able to accomplish (i.e., 2.8% real growth in FY 2024 and 5.2% nominal growth) and beyond Bessent's 3% target (e.g., to perhaps 4% real GDP growth and 6.4% nominal, assuming we maintain elevated inflation around 2.4%). If so, then we could see the budget deficit *recede without austerity measures*. In this scenario, an extra 1.2% in GDP growth equates to an extra $360 billion in GDP and $61 billion in annual revenue—assuming 17% of GDP, which is what tax receipts historically have averaged post-WWII, *no matter what the specific tax rates were*, as shown in the chart below.



The next chart below from the Tax Policy Center illustrates the various sources of federal revenue as a share of GDP. By far the largest source is individual taxes (54% of total revenue and 10% of GDP in 2022). Corporate taxes have become a much smaller percentage (9% of total revenue in 2022 and typically less than 2% of GDP since the Reagan tax cuts in the 1980's). In FY2024, total receipts were $4.92 trillion on GDP of $29 trillion, while total spending was $6.75 trillion ($1.83 trillion deficit).



One of the biggest categories of waste in the realm of mandatory spending is Medicaid. According to the Cato Institute, *"Originally, Medicaid subsidized only low-income children, the disabled, pregnant women, and elderly individuals. After 2014, Obamacare expanded Medicaid eligibility to able-bodied, childless adults. To encourage states to adopt this expansion, the federal government finances $9 for every $1 states spend on the Obamacare expansion population. That's about 7 times the matching rate states receive for providing care to the poor, disabled, and pregnant (~$1.33). In effect, Medicaid privileges able-bodied adults over the neediest due to federal funding strings. That's not a just or efficient use of taxpayer resources… Because state officials reap the political rewards of administering a massive benefit program but pay a fraction of its costs, there is little reason to rein in spending. Unsurprisingly, waste is rampant as a result. Official government reports conservatively estimate that improper Medicaid payments total half a trillion dollars over the last decade, but outside estimates place that figure closer to $1.1 trillion."*

Interestingly and incredibly, following a $160 billion budget deficit in March, the April Monthly Treasury Statement revealed a budget *surplus* of $258 billion, which was the second highest surplus in US history! There was a near-record $850 billion in revenue (led by a surge in both import tariffs and capital gains taxes from the strong stock market returns in 2024), while spending was a hefty $592 billion—of which over $100 billion was required for interest payments on debt.

Deglobalization and affordable, reliable, high-transformity energy:

After four years of distraction and noise espousing cultural agendas, the financial benefits of globalization, and the importance of government spending boondoggles, our “death spiral” of inflation, debt, deficits, offshoring, and hyper-financialization is forcing us to grow up fast, face the music, and make a hard pivot. For the new administration, that means a pivot toward strategic deglobalization, strategic onshoring, deregulation, lower tax rates, looser anti-trust enforcement, affordable energy (the lifeblood of a healthy economy and society), and fiscal and monetary policy support for a robust and entrepreneurial private sector—our only hope for generating the GDP growth rates we require to grow our way out of our intractable predicament. And only the private sector is adept at spurring supply-side innovation, productivity, ROI, profitability—and ultimately a surge in tax receipts (even at lower tax rates). Anemic growth reliant on massive government deficit spending on cultural agendas and boondoggles is unsustainable.

According to Alpine Macro, *“’Fiscal excess’ in a fiat regime should be defined not by rising deficits or debt alone, but by persistent public sector overspending relative to available resources—a condition that could trigger currency depreciation, inflation, or both.”* Moreover, as Miami Mayor Suarez insists, *“Government is not an efficient purveyor of services…[so] don’t get in the way…it’s like the Hippocratic Oath, ‘First, do no harm.”*

So, our president has decided the time is now to begin to reverse our strategic gaps. He could choose to do it fast or slow, but of course his nature is to want everything to happen quickly. After all, his time in office is limited to just four short years. Although he needs the cooperation of Congress to accomplish many of his goals, their individual priorities (most importantly getting reelected) typically takes precedence over the president’s priorities, so most of them like to take things a bit slower—like appoint committees and launch exhaustive studies ad nauseum until after their next election campaign. Moreover, change is always hard for the populace, and rapid change can be unbearable. It can create too much disruption, especially for those living paycheck to paycheck or reliant on government entitlements. Massive cuts to spending programs create such disruption. AI is threatening rapid change as well. Argentina endured the shock of massive change and is emerging from it pretty well. But the US is not Argentina. As the world’s largest and most diverse economy and providing the world’s reserve currency, we are capable of postponing discomfort for a long time, which our populace knows all too well—and typically demands it.

Andrew Lees of MacroStrategy partners believes Trump’s populist movement *“…means financial engineering and monetary capital being replaced with real engineering and real productive capital, which we have already started to see. If this is to happen, it will have huge implications for all aspects of the economy, business, labour and society, and most importantly, the distribution of power and wealth away from the elites back to the people in accordance with the utility they create… [Historically,] By creating a diversity of supply chains domestically, processing upstream resources into ever more processed downstream technologies, we created a productive society, including the creation of a middle class…. In doing so, it shaped the economy to a productive natural hierarchy, driving the innovation and growth that made the U.S. the global power it became.”*

But it changed with hyper-globalization/hyper-financialization. Federal Reserve economist Ricardo Marto has described the massive redistribution of wealth upward, from working people to big business and their shareholders (via dividends and buybacks) rather than capital investment for expanding capacity and hiring. And besides hollowing out the middle class, it also threatens our national security and strategic supply chains.

China has benefited greatly from this global economic framework, lulling the US into dependence on critical manufacturing and materials, and now they are positioning to wrest the role of global hegemon from us, including seeking to dethrone the dollar’s role as the world’s reserve currency and allying with pariah states both economically and militarily. While most politicians, business leaders, and the MSM ignore (or even welcome) all of this, Trump is having none of it any longer…and he has been winning over most Americans on this objective as well. As Eric Peters of One River Asset Management recently wrote in his weekly missive, *“As America seeks to reengineer its global supply chains for a more dangerous future, it must unwind a system built over decades for maximum economic efficiency and profit, replacing it with something more robust and redundant.”*

Andrew Lees opined, *“Upstream industries must be built first. Trump has put great importance on rebuilding steel, shipping, and other industries, including cars and semiconductors, on which other industries depend, and pharmaceutical production. He has also emphasized the need to expand high transformity energy production (oil & gas), the base of all output (cheap energy means high productivity)…Trump’s focus on energy is about economic strength and security. All GDP is just a measure of energy being degraded, so the security of GDP depends on secure access to energy. U.S. primary energy consumption has gone nowhere over the past 25 years, falling 1.3% from 2000 through 2023 as manufacturing has been outsourced, paid for by the sale of U.S. assets. If the economy is to restructure productively…energy consumption must start to increase.”* Indeed, it seems clear that for the economy to hum, we must have two things in affordable abundance: energy and liquidity.

Citigroup CEO Jane Fraser warns, *"We are entering a new phase of globalization—one less defined by cooperation, and more by strategic self-interest. Long-held assumptions are being challenged, not just by tariff announcements but by a deeper confidence shock…. Companies are pausing decisions, delaying capex and holding off on hiring. Many are preparing for second- and third-order effects, from demand shocks to supplier uncertainty."* However, in my view (and I think Trump’s), other countries (most notably China) have always acted primarily in their own self-interest. But now that the US is finally doing the same, those other countries are protesting loudly (abetted by the MSM).

Secretary Bessent insists that the goal isn't endless tariffs; it's reshoring manufacturing. Appearing on Tucker Carlson's podcast, Bessent concedes that initially, tariff revenue will be substantial. But as factories relocate to America, he sees two key outcomes: tariff revenue naturally decreases as imports fall and domestic tax revenue increases from new jobs and business activity. Moreover, the trade deficit shrinks, and American workers see real wage growth. He said, *"Wall Street has done great. It can continue doing well. But now it's Main Street's turn."* He described a stark reality he witnessed during 2023 when record numbers of Americans took European vacations while simultaneously food banks saw unprecedented demand, not just from the homeless but also from working families. And the solution isn't more handouts; it's more opportunity and good jobs.

Also, let's not forget all the other people around the world who live in poverty while aspiring to achieve more. Affordable energy is the lifeblood of a healthy economy and society. As Daniel Yergin of S&P Global asserts, *"The [energy] transition, with the objectives it embodies, is more likely to be successful if it also addresses economic growth and energy security, as well as energy access for the billions of people in the developing world who currently do not have it."* Indeed, according to Secretary Bessent, *"The history of humanity teaches a simple lesson. [Affordable] Energy abundance sparks economic abundance. That's why the World Bank should encourage an 'all-of-the-above' approach to energy development [hydrocarbons, nuclear, renewables]. Such an approach will make World Bank financing more effective, and it will reconnect the Bank to its core mission of economic growth and poverty alleviation."* For his part, energy expert Alex Epstein insists that rather than an "all-of-the-above" approach it must be a "best-of-the-above" approach.

On 5/23, nuclear stocks surged on news of President Trump's executive order to streamline the regulatory process for approving new reactors and enhancing supply chains. Perhaps Trump's ardent support of nuclear energy should come as no surprise given that his uncle John George Trump was a pioneer in nuclear technology, led the High Voltage Research Laboratory at MIT, and earned the National Medal of Science in Engineering from President Reagan.

<u>Liquidity, GDP, and jobs</u>:

Liquidity guru Michael Howell of CrossBorder Capital just observed, *"…global liquidity has been supported by a weakening US dollar, stable collateral values [e.g., government bonds], lower bond market volatility, and the PBoC's liquidity injections. Countering these positives are still weak Fed liquidity, ongoing QT at the ECB and BoE, and faltering BoJ liquidity growth. If the current trend continues through June, risk assets and liquidity-sensitive cryptocurrencies will struggle in Q3. For now, they are supported by the US$5 trillion liquidity expansion in Q1."* Nevertheless, M2 money supply has resumed its uptrend and hit a new all-time high in April, as shown in the chart below, which is a positive for liquidity.

As noted by economist Stephen Miran of Hudson Bay Capital (and chair of the Council of Economic Advisers), most economists believe the US dollar is overvalued by about 25% due to its role as the world's reserve currency. Because the preponderance of international transactions take place in dollars, entities tend to hold their balances in dollars (or US Treasuries) rather than constantly exchanging. This high demand for dollars keeps it overvalued and as such has always hindered the reshoring of manufacturing to the US as it is cheaper for US consumers to buy imported products than to buy domestically made products. As Miran explains, this is why the 1985 Plaza Accord created a 50% drop in the USD against the Japanese Yen and a 40% drop against the German Mark, which led Japanese and German producers to shift some production to the US. He sees an intention today for a similar "Mar-a-Lago Accord" to facilitate a drop in the dollar.

As the world's reserve currency, dollar weakness becomes supportive of global liquidity (upon exchange back into local currencies). The US also wants a weaker dollar these days (even if it's not our official position) to support corporate earnings and emerging market dollar-denominated debt service, although the other large economies that also issue their own fiat currency (and tend to enjoy trade surpluses with us) also desire a weaker currency, so sometimes currency wars (and a race to the bottom) can ensue. Of course, the biggest downside for the US is that a weaker dollar tends to reduce demand for US Treasuries (and thus raise yields), which dampens the ability of rate-sensitive cyclical sectors and housing to lead an economic resurgence.

Real GDP for Q1 (second estimate) was revised by the BEA to show -0.2% annualized rate, but as First Trust pointed out, Core GDP (focused on consumer spending, business fixed investment, and homebuilding) still grew a solid 2.5% YoY. The primary drivers for the negative headline number were reduced government spending and a massive surge in imports (especially goods, which reflect front-loading ahead of tariffs) that negatively distorted net exports. However, increases in investment, exports, and consumer spending provided some offset, although consumer spending was reduced from 1.8% in the initial estimate to just 1.2%, which was the weakest growth in almost two years. Nevertheless, the headline reading far bested the Atlanta Fed's last GDPNow Q1 estimate of a -2.7% drop (or -1.5% if you exclude the distortion from record amounts of gold imports). So, the official Q1 report was actually pretty solid, particularly if you exclude the skewed impact of net trade (exports minus imports) and government spending and focus on the private sector. Looking ahead to Q2, the Atlanta Fed GDPNow model forecasts GDP will be an impressive **+3.8%** (as of 6/9).

However, the May jobs reports reflected hesitancy in hiring. The ADP private sector employment report showed just 37,000 new jobs, well below the 110,000 forecast and the weakest since early 2022, and the JOLTS report showed the ratio of job openings to unemployed workers ratio at 1.03. The BLS jobs report (on 6/6) also showed slowing jobs growth, as an upside surprise in jobs growth in May was offset by revisions to prior months, total civilian employment (which includes small-business start-ups) fell by 696,000 (-0.4%), and the total labor force (either working or looking for work) fell 625,000, so the labor force participation rate declined to 62.4%, and the unemployment held steady at 4.2%.

International organizations like the OECD and IMF have forecasted weak global economic growth due to the increases in trade barriers, tighter financial conditions, weaker business and consumer confidence, and inflation risk, with the OECD predicting +1.6% in 2025 and +1.5% in 2026 and the IMF seeing +1.8% US growth in 2025 and +1.7% in 2026, and with inflation at 3.0%—all due to the assumption of persistent tariffs and reduced free trade. But I think it is highly unlikely that any country will let the trade standoff last so long as to do such lasting damage to its economic growth.

The Conference Board's Consumer Confidence Index recovered strongly in May after 5 straight months of decline as all three components of the Expectations Index (business conditions, employment prospects, and future income) rose versus April. And although the 12-month expected inflation rate remains elevated at about 6.5%(!), I believe this is due to all the misinformation in the MSM about tariff-induced inflation. Again, tariffs are a tax, taxes are deflationary (by reducing disposable income and thus consumer demand), so tariffs are also deflationary (on the impacted goods) and thus disinflationary (on aggregate consumer prices, e.g., CPI and PCE).

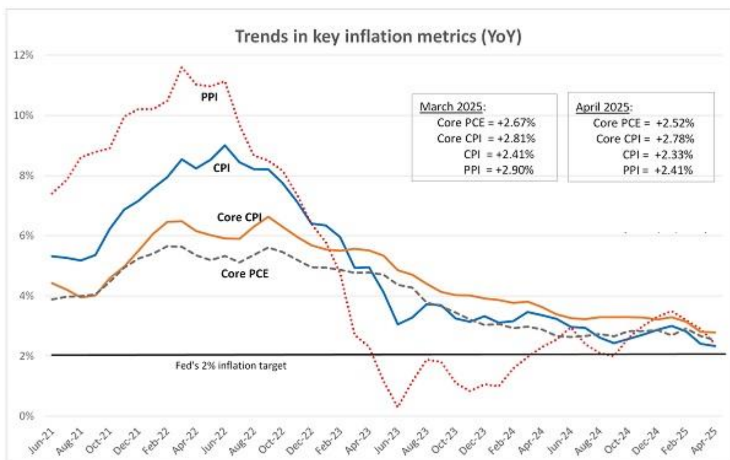
Indeed, Goldman Sachs anticipates that any one-time tariff-driven price hikes will occur this summer before gradually fading, citing the limited scope of tariffs as trade deals coming to fruition, a cooling labor market and lower wage inflation, and falling consumer demand as consumer spending power diminishes and the excess savings from the post-pandemic stimulus is already fully depleted.

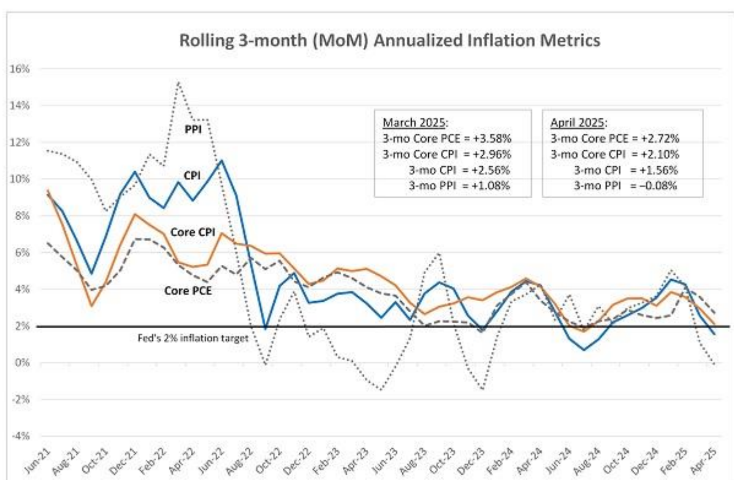
<u>Inflation is on the decline</u>:

I feel as though I have been shouting into the wind for several months about the disinflationary trends that are upon us, as opposed to the worries about resurgent inflation we keep hearing from smart economists and the Fed. The outgoing administration during its final months juiced its already enormous spending that had long supported GDP and jobs growth. This contributed to the spike in inflation metrics in October-January, with CPI/PPI hitting +3.00%/+3.65% YoY in January, and pushed the budget deficit to $1.3 trillion for the first half of fiscal year 2025 (10/1/24-9/30/25), marking the second-highest six-month deficit on record, which was exacerbated by surging interest payments on surging debt.

Then the new administration came in with the lofty but earnest goal of fixing our unsustainable death spiral of inflation, debt, deficit spending, offshoring, and hyper-financialization. Well, it's so far, so good on the inflation front, which has been falling for the past 3 months, with all March readings back below 3%, and the new April readings falling even further. Despite the media panic about imminent resurgence in inflation from tariffs, headline CPI rose just +0.2% MoM and +2.33% YoY, which is the lowest since February 2021. SuperCore CPI dropped to +3.01% YoY, which is the lowest since Dec 2021. As for the Fed's preferred PCE gauge, headline PCE fell to +2.15%, Core PCE (ex-food & energy) fell to +2.52%, and SuperCore PCE (ex-food, energy, & shelter) hit a 4-year low at +2.98% with its first MoM decline (-0.27%) since April 2020, led by declines in non-durable goods, financial services, insurance costs. And notably, the real-time blockchain-based Truflation (which historically presages CPI) is at +1.90% YoY, as of 6/9.

For a visual of key trends, the upper chart below compares April CPI, PPI, Core CPI, and Core PCE, which are +2.33%, +2.41%, +2.78%, and +2.52% YoY, respectively. The lower chart shows the rolling 3-month annualized rates (which I like to follow for a better read on the current trend), which came in at just +1.56% for CPI, -0.08% (yes, negative) for PPI, +2.10% for Core CPI, and +2.72% for Core PCE. It is evident that PPI is the most volatile, but the resumption in the downtrend is clear.





Looking ahead, the Cleveland Fed's Inflation NowCasting model sees May YoY CPI coming in at 2.40%, Core CPI at +2.84%, PCE at +2.29%, Core PCE at +2.65% as of 6/9. And annualizing their Q2 forecast (similar to my rolling 3-month average) suggests CPI at +1.59%, Core CPI at +2.35%, PCE at +1.55%, and Core PCE at +2.19%.

As for supply chains, the New York Fed's Global Supply Chain Pressure Index (GSCPI), which measures the number of standard deviations from the historical average (z-score) of costs across global shipping, airfreight, and select components from PMI manufacturing surveys. GSCPI remains subdued (despite the tariff and trade war hysteria), oscillating at or below the zero line since February 2023. For May, it came in at just +0.29 following April's reading of -0.28, indicating relatively normal activity and costs throughout the global supply chain.

Moreover, another key component to inflation is oil prices, which have cratered, falling from a recent high of $80/bbl to roughly $60/bbl today. Lowered forecasts of GDP growth (due to tariffs and trade wars) suggest lower demand for hydrocarbons. Indeed, the IEA slashed its estimate of global demand growth in 2025 by 30%. And besides Trump's efforts to bring down oil prices through deregulation and Scott Bessent's 3-3-3 strategy (comprising 3% GDP growth, 3% deficit-to-GDP ratio, and an extra 3 million bbls/day in oil production at a target price of $50/bbl), OPEC+ effectively announced that it no longer has the oil production dominance to control pricing, so it plans to boost production by over 400,000 bbls/day, and positive developments in US-Iran nuclear discussions would suggest sanctions of Iranian oil might be lifted.

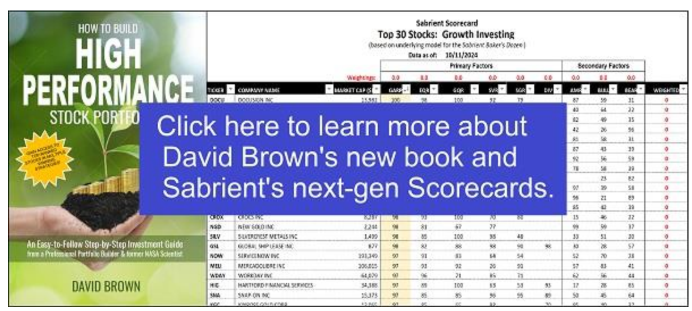
Final comments:

I still expect new highs in stocks by year end. I think the noise will soon quiet and the clouds will clear, making way for a renewed focus on corporate earnings and global liquidity to power forward the economy and stocks. And don't forget—the market loves to *climb a wall of worry*, which means it discounts the future and typically turns well in advance of the economic and sentiment metrics.

Alpine Macro sees four key dynamics at play that should be supportive of the economy as well as equity and bond markets going forward: 1) low oil prices, which has positive consumer impact like a tax cut, 2) a weak US dollar, which is good for US corporate earnings, emerging markets, and global liquidity, 3) contained inflation, which allows for easing monetary policy, and 4) trade deals that maintain enough tariffs to offset corporate tax cuts (e.g., 10% on $3.6 trillion in imports = $350 billion, versus total corporate tax receipts of around $500 billion annually). And Evercore ISI's Julian Emanual believes we are in the midst of a secular bull market (that began at the lows of October 2022), driven by the AI revolution (much like the Internet revolution-driven bull market) but dealing with occasional (and brief) cyclical bear markets and "digestion phases" as valuations hit extremes.

In my view, conservative investors should focus on high-quality, cash-generating US stocks, plus some exposure to Europe and Japan (via ETFs), as well as T-bills, TIPs, and hard assets like gold and silver. Platinum and palladium have also been acting quite well lately due to supply shortages. I also like India, Brazil, and Argentina.

Lastly, Vincent Deluard, global macro strategist for StoneX, believes the Energy sector is a low-risk value play (similar to international stocks) given its impressive shareholder yield (buybacks plus dividends) of around 7.2%, which is about 3x the broad S&P 500's shareholder yield. He points out that the $1.5 trillion market value of the Energy sector within the S&P 500 has fallen to roughly 3% of the index (versus its long-term average of 8%). Moreover, the "wild west" of aggressive capex, leverage, and M&A of the shale boom has given way to a focus on profitability and shareholder-friendly policies, with a mandate to return as much capital to shareholders as possible, even at the expense of future growth—which is why Energy doesn't score particularly well in Sabrient's growth-biased SectorCast model, as described below.



Latest Sector Rankings

Relative sector rankings are based on Sabrient's proprietary SectorCast model, which builds a composite profile of each of over 1,400 equity ETFs based on bottom-up aggregate scoring of the constituent stocks. The *Outlook Score* is a Growth at a Reasonable Price (GARP) model that employs a forward-looking, fundamentals-based multifactor algorithm considering forward valuation, historical and projected earnings growth, the dynamics of Wall Street analysts' consensus earnings estimates and recent revisions (up or down), quality and sustainability of reported earnings, and various return ratios. It helps us predict relative performance over the next 3-6 months.

In addition, SectorCast computes a *Bull Score* and *Bear Score* for each ETF based on recent price behavior of the constituent stocks on particularly strong and weak market days. A high Bull score indicates that stocks held by the ETF recently have tended toward relative outperformance when the market is strong, while a high Bear score indicates that stocks within the ETF have tended to hold up relatively well (i.e., safe havens) when the market is weak. Outlook score is forward-looking while Bull and Bear are backward-looking.

As a group, these three scores can be helpful for positioning a portfolio for a given set of anticipated market conditions. Of course, each ETF holds a unique portfolio of stocks and position weights, so the sectors represented will score differently depending upon which set of ETFs is used. We use the iShares that represent the ten major U.S. business sectors: Financials (IYF), Technology (IYW), Industrials (IYJ), Healthcare (IYH), Consumer Staples (IYK), Consumer Discretionary (IYC), Energy (IYE), Basic Materials (IYM), Telecommunications (IYZ), and Utilities (IDU). Whereas the Select Sector SPDRs only contain stocks from the S&P 500 large cap index, I prefer the iShares for their larger universe and broader diversity.

The table below shows the latest fundamentals-based Outlook rankings and my full sector rotation model:

Sabrient SectorCast Sector Rotation Strategy - As of 6/6/2025
Suggested Top 3 Sector ETFs for Bullish, Neutral, or Defensive Outlooks
Bullish/Neutral/Defensive bias based on SPY vs. 50/200 day moving averages; 30-90-day forward look

Sector	ETF	Outlook Score	Bull Score	Bear Score	Net Score: Neutral Bias	Net Score: Bullish Bias	Net Score: Defensive Bias
TECHNOLOGY	IYW	96	60	45	96	90.0	54.4
TELECOMMUNICATIONS	IYZ	72	46	58	72	58.5	87.6
HEALTHCARE	IYH	55	47	49	55	54.6	51.2
INDUSTRIALS	IYJ	45	52	50	45	59.8	50.5
CONSUMER STAPLES	IYK	45	33	62	45	27.7	90.0
FINANCIALS	IYF	39	52	50	39	57.9	48.1
CONSUMER DISCRETIONARY	IYC	23	54	49	23	56.1	38.4
UTILITIES	IDU	21	39	62	21	30.0	80.4
ENERGY	IYE	13	48	49	13	42.6	34.4
BASIC MATERIALS	IYM	2	48	52	2	39.1	39.9

Sabrient's ***Outlook Score*** employs a forward-looking fundamentals-based scoring algorithm to create a composite profile of the constituent stocks. ***Bull Score*** and ***Bear Score*** are based on price behavior of the underlying stocks on particularly strong and weak days over the prior 40 market days. High Bull indicates a tendency for relative strength in a strong market, and high Bear indicates a tendency for relative strength in a weak market (i.e., safe havens). High for all scores is 100, and higher is better.

The rankings continue to display a neutral bias this month given the mixture of secular growth, cyclicals, non-cyclicals, and defensives scattered throughout, and with only three sectors scoring over 50 in the Outlook score. Bullish rankings would entail cyclical and economically sensitive sectors dominating the top half of the rankings with scores well above 50 and defensive sectors in the lower half.

Technology (dominated by the Big Tech titans and AI-driven highflyers) remains at the top with a robust Outlook score of 96, despite having by far the highest forward P/E of 27.5x (although still lower than its February high of 29.2x). However, because of its still-strong EPS growth estimate of 17.6%, the forward PEG (ratio of P/E to EPS growth) of 1.57 remains relatively modest compared with the other growth-oriented sectors. Tech also displays by far the highest return ratios and insider sentiment (open market buying), as well as solidly positive analyst revisions to earnings estimates.

Because many Tech stocks are riding secular growth trends (i.e., little cyclicality), no other sector comes close to the consistent sales growth, margins, operating leverage, and return on capital. And Tech not only benefits from its own product development and productivity gains, but those products help other companies with their product development, product delivery, and productivity—so Tech benefits by helping all sectors grow and prosper.

Rounding out the top 5 are Telcom, Healthcare, Industrials, and Consumer Staples. At the bottom of the rankings are Energy and Basic Materials, which continue to endure large downward revisions to earnings estimates, while commodities and oil prices remain lackluster. Notably, Financials, Telecom, and Energy, display the lowest (most attractive) forward P/Es at 14.7x, 14.9x and 15.5x, respectively, as of the close on 6/6.

Keep in mind, the Outlook Rank does not include timing, momentum, or relative strength factors, but rather reflects the consensus fundamental expectations at a given point in time for individual stocks, aggregated by sector.

Notably, our ETF rankings continue to display stronger Outlook scores for the cap-weight indexes, like SPY and QQQ, over the equal-weight indexes, like RSP and QQQE, which reflects the higher quality of the mega cap companies that dominate the cap-weight indexes. You can learn more about our gaining access to our ETF Scorecards, which rank roughly 1500 ETFs, by visiting: http://highperformancestockportfolios.com

Sector Rotation Model and ETF Trading Ideas

Our rules-based Sector Rotation model, which appropriately weights Outlook, Bull, and Bear scores in accordance with the overall market's prevailing trend (bullish, neutral, or defensive), returned to a bullish bias in May when the SPY closed solidly above its 200-day moving average several days after previously eclipsing its 50-day. So, it had a neutral bias for only those several days. *(Note: In this model, we consider the bias to be bullish from a rules-based trend-following standpoint when SPY is above both its 50-day and 200-day simple moving averages, but neutral if it is between those SMAs while searching for direction, and defensive if below both SMAs.)* The SPY suffered a so-called "death cross" in April when the 50-day average crossed down through the 200-day, and it still has not fully recovered (with the 50 line crossing back above the 200).

As highlighted in the table above, the Sector Rotation model suggests holding **Technology (IYW), Industrials (IYJ), and Telecom (IYZ)**. However, if you prefer a neutral stance, it suggests holding Technology, Telecom, and Healthcare (IYH). Or, if you prefer to take a defensive stance, it suggests holding Consumer Staples (IYK), Telecom, and Utilities (IDU).

Here is an assortment of other interesting ETFs that are scoring well in our latest rankings: Sprott Active Gold & Silver Miners (GBUG), WisdomTree Efficient Gold Plus Gold Miners Strategy (GDMN), VanEck Junior Gold Miners (GDXJ), NestYield Visionary (EGGQ), NestYield Total Return Guard (EGGS), Global X MSCI Argentina (ARGT), Amplify Video Game Leaders (GAMR), ProShares S&P Kensho Smart Factories (MAKX), Fidelity Metaverse (FMET), Invesco Next Gen Media & Gaming (GGME), Fidelity Enhanced Small Cap (FESM), Pacer US Large Cap Cash Cows Growth Leaders (COWG), iShares Expanded Tech Sector (IGM), Global X Social Media

(SOCL), US Global GO Gold & Precious Metal Miners (GOAU), iShares AI Innovation & Tech Active (BAI), First Trust Long/Short Equity (FTLS—which licenses Sabrient's Earnings Quality Rank as a prescreen), iShares Global Tech (IXN), ERShares Private-Public Crossover (XOVR), Innovator IBD 50 (FFTY), Fidelity Disruptive Technology (FDTX), First Trust Expanded Technology (XPND), First Trust Active Factor Small Cap (AFSM), Invesco Biotech & Genome (PBE), iShares US Pharmaceuticals (IHE), and SmartETFs Smart Transportation & Technology (MOTO). All score in the top decile (90-100) of Outlook scores.

As always, I welcome your thoughts on this article! Please email me anytime. Any and all feedback is appreciated. Also, please let me know of your interest in any of Sabrient's new **indexes** for ETF investing, such as *High-Quality Growth* (similar to our Baker's Dozen model), *Quality Growth & Income*, *SMID-Cap Quality Plus Momentum*, *High-Quality Technology*, *High-Quality Energy*, *Quality Legacy & Green Energy*, or *Defensive Equity.*

IMPORTANT NOTE: I post this information periodically as a free look inside some of our institutional research and as a source of some trading ideas for your own further investigation. It is not intended to be traded directly as a rules-based strategy in a real money portfolio. I am simply showing what a sector rotation model might suggest if a given portfolio was due for a rebalance, and I do not update the information on a regular schedule or on technical triggers. There are many ways for a client to trade such a strategy, including monthly or quarterly rebalancing, perhaps with interim adjustments to the bullish/neutral/defensive bias when warranted, but not necessarily on the days that I happen to post this article. The enhanced strategy seeks higher returns by employing individual stocks (or stock options) that are also highly ranked, but this introduces greater risks and volatility. I do not track performance of the ideas mentioned here as a managed portfolio.

Disclosure: *At the time of this writing, of the securities mentioned, the author held positions in SPY, QQQ, ARGT, FTLS, GOAU, IBIT, gold, bitcoin, and Ethereum.*