Chris Hyzy: This is Chris Hyzy, Chief Investment Officer for the Street Talk call for July 2nd. After a very strong second quarter for the equity markets overall, including the international markets, and a powerful rally off the lows from early April, we asked these two questions. Where do we go from here and what are we watching?

First, where do we go? We believe an uptrend overall is still intact, but with a few pit stops as we have already highlighted earlier last month. The first pit stop was the confrontation between the United States and Iran that we already saw. That was a brief pullback in the markets. And as we moved forward, as oil prices headed back lower, markets exhaled and then went back up. We expect a couple more pit stops through the summer before we head into the fall.

The tech sector overall continues its leadership, but it's taking a little bit of a breather right now. We believe it's a small breather before it resumes its leadership once again.

There is a rotation within the equity markets that is beginning. We expect that to move through well into July as some of the other areas of the market that have been left behind begin to start to move up again like we saw late last year. We call this type of a market an owl market. It's larger than you think, looks around 360 degrees and can drop to pick something up, but head back up very quickly.

Overall, we believe that this owl will have an eye toward 2026 by the end of September, and they'll be watching very closely profit cycles for confirmation that the uptrend is still intact, which we expect.

So, what are we watching overall and what is the owl we're watching? All things in the economy, but mainly policy and the consumer. Let's start with, first, job growth. Net number of jobs is what we're watching, as well as revisions. We're also watching claims and average hourly earnings to get a good feel for what we call earned income as it relates to the difference between income and overall net inflationary responses. Most recently, the ADP number, which is private sector payrolls, which has been very noisy according to ADP, were negative as it was announced earlier today, negative 33,000, caused a little bit of concern in the market, but that has quickly evaporated. We point to the Bureau of Labor Statistics, which is out on Thursday, and consensus estimates are for a positive 110,000. We'll see how that goes.

Number two, consumer spending, a little slow down, a little soft patch, but not material, at least in our view.

Number three, pass-through prices. Are the tariff impact actually happening or are they getting eaten up by the supply chain and the difference between import and exporters overall? So far, we do not see material pass-through prices, but it is early in the tariff impact calendar.

Four, capital expenditures still very strong, and it is likely to continue, in our opinion.

Five, overall policy. The new bill, what's in it, when is it going to get passed, and ultimately, what sectors have tailwinds to them or headwinds, including on policy, the Federal Reserve in July, September, October. There's a little bit of chatter out there in the marketplace that July is a live meeting for a cut. We're not there at this point. The BofA Global Research Economics team still believes four cuts next year. However, September and October are coming into question, and that's all going to be on the basis of how much there is a soft patch in the economy. Is it just a small slow down or a little bit more of a soft patch, and does that impact jobs? We'll see how that goes in the next couple of months, but the September meeting is a very important one because it comes after the August Jackson Hole meeting, which does not have a Federal Open Market Committee meeting in and of itself in that month.

Number six, investor positioning. Institutional, according to the hedge fund community, as well as retail. At this point, slightly bearish to neutral, not overly bullish, which is a good sign overall for positioning, but we'll see how that goes as earnings are announced for the second quarter in just a few short weeks.

Moving on, number seven, treasury auctions. What part of the curve are the options going to be most present in, and what does demand look like for each of those auctions? So far, demand has been slightly better than expected in the most recent auctions, which is one of the reasons why yields have been lower versus higher than most people believe.

Number eight, real estate loan maturities. Not talked about this enough, but real estate loan maturities are coming due in a large amount in the second half. Yes, they are large, but so far, the belief is tame, and early days, we've seen some good clearing going up. Not a major concern for us.

Number nine, where are the new leaders emerging within the equity markets? We still believe tech holds a good portion of the leadership, as well as comm services, but industrial cybersecurity areas, domestic manufacturing companies, and infrastructure redevelopment companies are beginning to emerge as new leaders within the market. Hence, a little bit more of wider breadth and a little bit more rotation within the market.

Net, net, overall, we remain positive on equities. We would buy on weakness, continue to position international. On pullbacks, we are still neutral there, but in terms of the home country bias, overall, we believe neutral allocation of international makes sense. Stay with the leaders overall.

Another area to watch is rates and yields. We expect them to be flattish, short rates a little bit lower, long rates overall, flattish. Gold, still in an uptrend, took a breather for a while, supported by a weaker dollar in the coming months. The dollar overall, we already mentioned weaker slightly, but this is coming after a very strong move lower of some 10% already year-to-date. Oil prices and gas prices, flat to lower. We talked a little bit about international equity, a slight tailwind there based on investor positioning and investor flows still picking up, given the very strong underweight that most global investors have in those areas over the last decade plus.

Technology leaders, we talked about this, and exhale now, a little bit of a pullback, got a little bit ahead of themselves. Some of the momentum coming down, but a resumption of their leadership soon again.

Financials, utilities, industrials, still with tailwinds to them, particularly as it relates to the new bill. And finally, equity valuations overall, we expect them to remain flat. And we do believe that coming out of second quarter revisions for the third quarter and the final end of the year into 2026, we believe that profits can actually surprise to the upside slightly, keeping valuations in check. Finally, credit spread, tame overall, not experiencing very wise, not experiencing narrowly at all, basically tame.

That'll do it for today. Thanks for listening.

Operator: Please see important disclosures provided on this page.

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