First to Market

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INVESTORS ARE PILING INTO THE BARBELL STRATEGY

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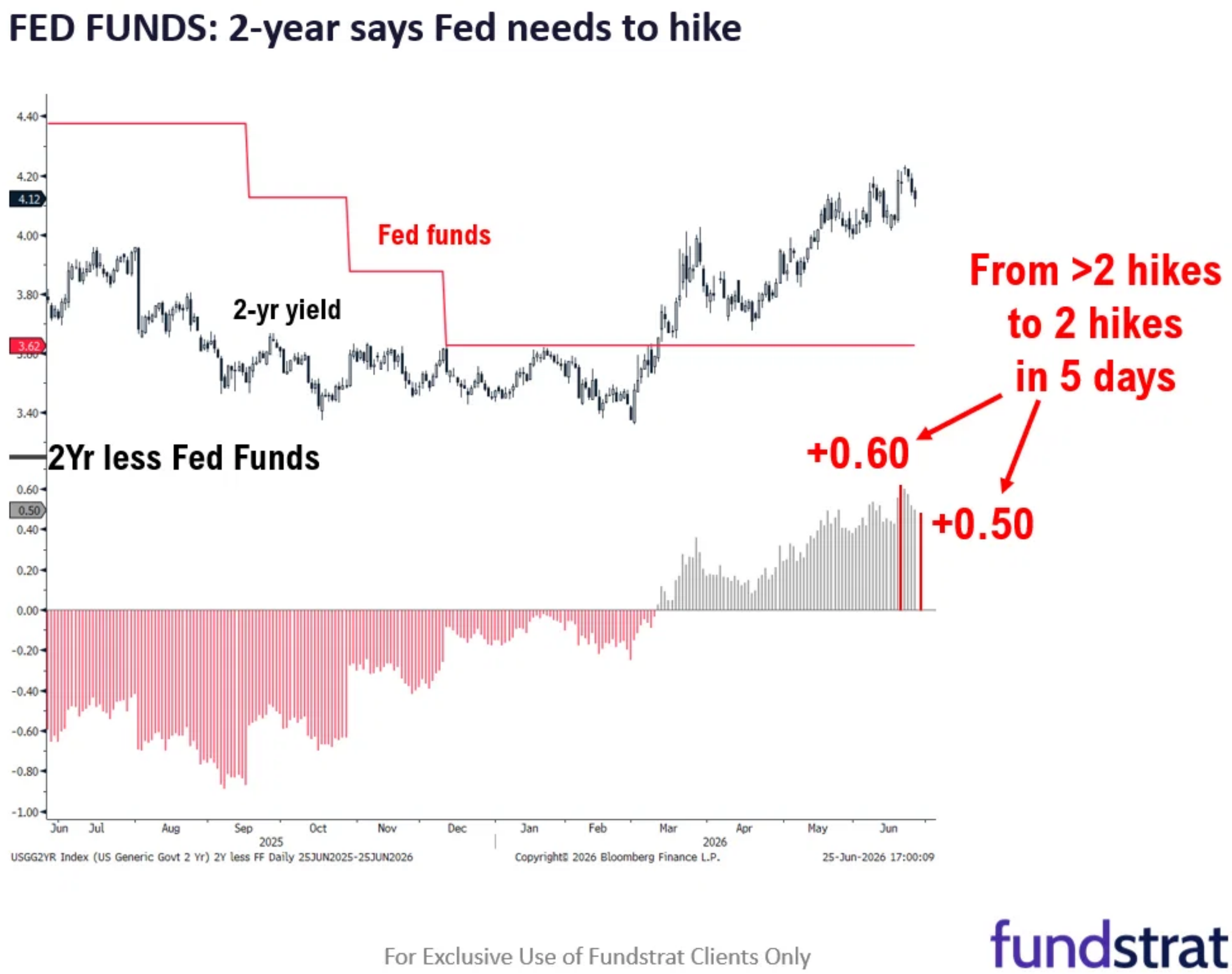
"Do I contradict myself? Very well, then, I contradict myself; I am large, I contain multitudes." — Walt Whitman

Chart of the Day



Good morning!

On a year-over-year basis, margin debt is now 54% higher than it was a year ago at record highs of $1.4 trillion based on the latest FINRA data. As Fundstrat Head of Research Tom Lee pointed out recently, that's the fifth-highest year-over-year increase in the last 70 years. That typically signals a rising likelihood of a correction.

Yet on the other hand, cash on reserve is near record highs, around $7.9 trillion (as assessed by Investment Company Institute (ICI). Such high levels of cash are typically viewed as "dry powder" that can be used to sustain a rally, so they are thus seen as a constructive signal.

So which is it? While these might seem to be contradictory signals, there's a perfectly reasonable explanation.

First, let's talk about cash on the sidelines. It's worth acknowledging that a portion of those cash reserves do not necessarily count as dry powder: It consists of cash accumulated by big tech companies, thanks to outsized revenues, and typically reserved for capital expenditures and/or acquisitions.

Beyond that, however, another significant percentage of that cash is being held by investors who continue to view all these months of rallying (interspersed with brief periods of choppiness and stomach-churning volatility) with skepticism. That's understandable. We have three major sources of uncertainty right now - constantly fluctuating White House policy; escalating geopolitical turmoil around the world; and concerns about the future path of inflation/monetary policy.

For the truly risk-averse, it might make sense to just park their assets into low-risk money-market funds, particularly since they're paying rather respectable yields of 3.5%-4%.

As for margin debt, well, it's worth noting that while margin debt has indeed increased, this has taken place alongside the recent increase in stock prices. Relative to total market capitalization, margin debt levels are still around 1.9% of total market capitalization, which is actually not too far off of historical norms (typically between 1.5% and 2.5%.) Viewed in this light, higher margin levels don't necessarily mean a reckless level of risk-taking.

Still, there's no denying that a 55% year-over-year increase in margin debt warrants at least a raised eyebrow or two. After stratospheric gains in a shifting range of AI stocks – first Mag Seven, then chipmakers, and more recently, memory chips, many have turned to leverage to magnify their profits – whether out of greed (no judgment here), FOMO, or – in the case of some asset managers, the need to beat benchmark indices.

That's quite a bit of amplified risk, which in turn helps explain another significant portion of the money we're seeing allocated into cash reserves/money-market funds. Part of that has to do with margin requirements, but there's also this: If you're going to accept a lot of risk through the various performance-chasing AI trades, it makes sense to balance that out on the other side of the spectrum in money-market funds.

There's a term for investors who allocate their assets into two buckets – one with high potential growth and risk, and the other at the opposite end of the risk spectrum. It's called the barbell strategy, and this brings us to our observation of the day.

We cannot be sure how many investors are purely chasing performance, how many are almost entirely on the sidelines, and how many are actively implementing a barbell strategy. However, collectively, it certainly looks like we have a pronounced shift toward a barbell-shaped allocation by investors as an aggregate whole, and I suspect it's no accident that sectors like financials, healthcare, and consumer discretionary have largely underperformed this year.

Perhaps we should consider whether stocks in the middle of that spectrum have become undervalued.

Economic Data Report:

In the latest **University of Michigan Consumer Survey,** the headline Index of Consumer Sentiment rose 10.5% MoM, indicating higher optimism for the market, and overall a positive outlook on sentiment; however, this increase arguably is more supportive of an improvement from a notable low, rather than a full recovery, with the 49.5 June score being 13% below the February reading before the War in Iran.

The Index of Consumer Expectations jumped 15% MoM, a positive sign for expected forward-looking business conditions, largely driven by anticipated relief from Middle East-induced disruptions. More good news, inflation is expected to dwindle in the coming year, with this month's reading at 4.6%, a decrease from May’s forecast of 4.8%. That's still well over the Fed’s 2% goal, but trending in the right direction. Long-run inflation expectations also fell to 3.3% – down 0.6 percentage points from last month. The Current Economic Conditions increased 4.1% m/m, with gas prices easing, and increases in income, wealth, and political affiliation. Despite this, the health of household balance sheets and consumers' willingness to spend right now is poor (Current Economic Conditions are down 26.4% YoY). The cost of living remains a major consumer anxiety – the housing market remains expensive, and continues to burden personal finances. — *Dean Park*

Share your thoughts

Outside of tech and AI, which sectors do you think are favorable right now? Click here to send us your response.

✍Here's what a reader commented ✍

Q: When do you think Strait of Hormuz ship traffic will return to pre-war levels?

A: Oil flows may never return to pre-war levels in the Strait of Hormuz. In the longer run it will be better to find other oil sources, shipping routes, and alternative energy to reduce dependence on the Strait. Reducing dependence on the Strait can only be positive.

Catch up with Fundstrat

May Core PCE was mainly driven by ‘financial services’ which means stock market gains drove inflation. Ex-financials, core PCE was 0.22%, which is pretty close to the Fed’s target, and this explains why yields fell sharply.

Technical

I’m lowering Technology to Neutral from Bullish on a tactical basis. Importantly, this rotation looks constructive rather than bearish: the broader market has absorbed real weakness in mega-cap Technology without breaking, with leadership broadening into Healthcare, Financials, Industrials, and Discretionary. Cross-asset signals support the rotation, as Crude continues lower and yields have pulled back on softer PCE data.

Crypto

Monday’s Strategy Filing Could Prove Pivotal: Strategy remains the most important crypto-specific variable heading into next week. The company now trades below 1.0x mNAV, meaning any incremental common stock issuance would no longer be accretive to BTC per share under management’s stated framework.

News We're Following

Breaking News

- U.S. and Iran Agree to Halt Days of Fighting Over Strait WSJ

Markets and economy

- The Trillion-Dollar Borrowing Binge Lifting the Stock Market to Risky Heights WSJ
- A ‘Magnificent Seven’ slump sent momentum stocks to their fourth-worst performance in 22 years. Here’s what happened 70% of the time. MW

Business

- Comcast Plans Company Split, Sending Shares Soaring 22% WSJ
- SpaceX’s $25 billion bond sale drives huge demand - and a potential headache for investors CNBC
- Micron is about to be more profitable than any U.S. company except Nvidia and Google MW

Politics/U.S.

- Trump bought as much as $5 million in Axon stock before ICE sought $220 million Taser deal CNBC
- With Final Decisions Ahead, the Supreme Court Is Sharply Divided NYT

Overseas

- Venezuela Is Desperately Searching for 50,000 Missing After Earthquakes WSJ
- Putin’s fuel shortage admission signals growing strain on Russia’s energy infrastructure CNBC

- Japan IPOs fall to 15-year low with no rapid rebound in sight FT

Of Interest

- White House Releases Images of the Trump ‘Patriot Passport’ NYT

Overnight	
S&P Futures	+53 ▲ point(s) (+0.71% ▲)
overnight range:	-4 ▼ to +62 ▲ point(s)

APAC	
Nikkei	+0.15% ▲
Topix	+0.47% ▲
China SHCOMP	+1.16% ▲
Hang Seng	+1.57% ▲
Korea	-0.20% ▼
Singapore	+0.33% ▲
Australia	+0.68% ▲
India	-0.47% ▼
Taiwan	+0.96% ▲

Europe	
Stoxx	50 -0.02% ▼
Stoxx	600 -0.08% ▼
FTSE	100 -0.21% ▼
DAX	+0.11% ▲
CAC	40 -0.36% ▼
Italy	+0.16% ▲
IBEX	-0.29% ▼

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FX

Dollar Index (DXY)	-0.07% ▼ to 101.29
EUR/USD	+0.14% ▲ to 1.1400
GBP/USD	+0.11% ▲ to 1.3214
USD/JPY	-0.09% ▼ to 161.89
USD/CNY	+0.09% ▲ to 6.7943
USD/CNH	+0.10% ▲ to 6.7981
USD/CHF	+0.10% ▲ to 0.8089
USD/CAD	+0.03% ▲ to 1.4191
AUD/USD	+0.01% ▲ to 0.6897

UST Term Structure

2Y-3M Spread widened	0.5bps to 34.1bps
10Y-2Y Spread narrowed	-0.1bps ▼ to 27.4bps
30Y-10Y Spread narrowed	-1.0bps ▼ to 48.2bps

USD HY OaS

All Sectors	+4.1bps ▲ to 305bps
All Sectors ex-Energy	+7.9bps ▲ 311bps
Cons Disc	+13.5bps ▲ to 498bps
Indu	+3.5bps ▲ to 257bps
Tech	+6.2bps ▲ to 241bps
Comm Srvcs	+5.7bps ▲ to 305bps
Materials	+18.9bps ▲ to 271bps

Energy	+9.5bps ▲ to 286bps
Fin Snr	+2.1bps ▲ to 205bps
Fin Sub	+3.2bps ▲ to 311bps
Cons Staples	+11.8bps ▲ to 483bps
Healthcare	+6.9bps ▲ to 327bps
Utes	+10.8bps ▲ to 219bps *

DATE	TIME	DESCRIPTION	ESTIMATE	LAST
6/30	9:00 AM	Apr S&P Cotality CS 20-City m/m	-0.1	-0.16
6/30	10:00 AM	Jun Conf Board Sentiment	94.4	93.1
6/30	10:00 AM	May JOLTS	7300	7618
7/1	9:45 AM	Jun F S&P Manu PMI	55.7	55.7
7/2	8:30 AM	Jun AHE m/m	0.3	0.3
7/2	8:30 AM	Jun Unemployment Rate	4.3	4.3
7/2	8:30 AM	Jun Non-farm Payrolls	113	172
7/2	10:00 AM	May F Durable Gds Orders	-4.5	-4.5

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