



CAPITAL INVESTMENT COUNSEL

# The Columns

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## ***sweet spot*** (noun)

The Merriam-Webster dictionary defines sweet spot as an optimal point or combination of factors or qualities. That might be exactly where we are. Hard to believe, considering how rough things looked back in April. But here we are: still standing and moving forward.

## **Goldilocks called and said the porridge is just right.**

I've always liked a Goldilocks economy. They tend to be not too hot, not too cold, just enough warmth to keep things moving without boiling over. And right now, we may be sitting right in the sweet spot. Growth feels solid: strong enough to push the economy forward, but not so strong it spooks the Federal Reserve into slamming on the brakes. The central bankers seem to agree. After last week's FOMC meeting, they reaffirmed their view. Fed Chair Powell continued with the data dependent theme. I get it. No one really knows how tariffs will affect things. Will higher prices slow things down or will the consumer keep powering forward?

The current odds have the Fed cutting rates twice this year. Once in September and another cut sometime before year end. That would leave the door open for markets to keep potentially drifting higher without rates taking the legs out from under the rally.

Rates may be holding steady, but they're not our only potential tailwind. Global tensions took a step back after last week's Iran strikes. Cooler heads prevailed in the Middle East, and just like that, oil prices lost their sizzle. Crude had ripped from \$56 in May to \$78 in the lead-

up to the strikes, but right now, it's back down to around \$66. That price point seems to keep the peace: not high enough to rattle consumers, not low enough to crush producers.

Below \$70 tends to tighten the belt on U.S. shale operators. It forces discipline, keeps growth in check, and reins in the kind of overextension that's gotten them in trouble before. For the rest of us, it means gas prices hanging near \$2.80 and inflation likely staying on a short leash. That's exactly what the Fed and the rest of us like to see.

Meanwhile, the dollar seems to have finally found its footing. After sliding nearly 10% this year, the greenback looked like it needed a breather. Part of that drop was by design but plenty of it was fear-driven, thanks to the tariff fiasco back in April and May. Whatever the cause, stability was overdue, and we finally got some.

The final part of the recipe might be the crowd of big-money investors stuck on the sidelines as the market grinds higher. There's no bigger gut punch on Wall Street than missing a major rally. That kind of regret sticks, and it may be why pullbacks since the April lows have been shallow. There's money out there itching to get in, and it doesn't take much good news to trigger a wave of buying.

Sure, the headlines have improved. But beneath the surface, you can sense the tension building. Too much cash on the sidelines, too many managers underweight, and not enough time left in the year to keep waiting. If this rally holds, the pressure to chase could go from quiet to desperate. November and December might not just be interesting—they could be explosive.

Zooming out, the setup is starting to look like a rare alignment. Inflation is cooling without killing growth, the Fed is edging closer to cuts, and energy prices are behaving. Add in a stable dollar and sidelined capital with FOMO in its eyes, and you've got the makings of a potential late-year melt-up. It's a move that looks obvious in hindsight but hard to catch in real time.

I often feature Jay Kaepfel's work in the Columns, and this latest one has some real potential. Back in the thick of this spring's meltdown, individual investors were rattled. The AAll sentiment poll tracks how investors are feeling, and readings above 50% bearish are considered extreme. In late February, that number hit 60%. Rare air indeed.

How rare? We've only seen it three other times: 1990, when Saddam rolled into Kuwait; 2008, during the housing implosion; and the 2022 bear market. Each of those marked a major washout. Investors who wanted out, got out. Like a forest fire clearing dead wood and leaving space to possibly spark new growth.

Historically, these extreme bearish readings have paved the way for strong rebounds. The median one-year return after a signal like this? About 16%. Even more interesting: this signal flashed in February. That's right, the market flashed red long **before** the Tariff Tantrum showed up. Once again, the market seemed to sniff out the trouble before it hit the headlines.

Since the signal registered, the S&P has already climbed 4%. If the pattern plays out, that puts us on a glide path toward 6900 by next February. I'm looking forward to seeing how this one unfolds. The potential setup is there so let's see if the spark catches. If you have any comments, feel free to contact me at [heddins@capital-invest.com](mailto:heddins@capital-invest.com) or call at 919-656-0836.

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