



CAPITAL INVESTMENT COUNSEL

The Columns

August 2025

On a summer morning in 1999, I sat staring at the Nasdaq stocks on my screen. Sure, the index had just hit a record, but something felt off. Finally, it came to me: it was like watching a parade and realizing half the floats never left the parking lot. Twenty-five years later, the same picture is back: the Nasdaq 100 closing at a high, but fewer than half its members above their 50-day moving average. In “normal” times, that number is closer to three-quarters. Big tech is currently charging ahead. Many of the rest are limping.

Remember, it’s August, a month that never quite feels right. Markets don’t like it either. Post-election years of second-term Presidency can have a habit of peaking now, sliding into October, and only then finding their footing for that potential holiday push. To be blunt, August, under the conditions mentioned above, has never closed positive since Eisenhower was President.

August means humidity, back-to-school chaos, and not much to celebrate. Unless you’re like me or my partner at Counsel, Kurt Dressler. We’ve claimed the month as our own: Kurt kicks it off with an August 1 birthday, and I bring it home on the 31st. We both like Amazon gift cards in case you’re wondering. 😊 And yet, that potential October low I mentioned? It’s often the start of something good, past rallies have averaged five percent gains into year-end.

History leaves breadcrumbs. Ryan Detrick at Carson notes the S&P 500 just ended a 68-day run above its 20-day moving average: one of the longest in decades. The last eight times that streak happened, stocks were higher a year later seven out of eight with an average gain of 10.4%. I call that a “dip then rip”!

The S&P’s Advance/Decline Line reached a milestone in July, reaching its highest point in a year. That doesn’t sound like much, but when stocks reached that level in July in the past, the market

rallied higher into year-end every time. Seth Golden gets the credit for this stat. This data goes back to 1929, so we're looking at nearly 100 years of data. The average gain into December is 6.4% so that's a move I want to catch. A cynic might call that a coincidence. I prefer to call them clues.

I've been waiting for lower interest rates for the past year, and that view got a boost from the subdued CPI print earlier this week. For a moment, it looked like the Fed might actually feel free to cut rates at next month's FOMC meeting. Then yesterday's Producer Price Index came in red hot, catching investors flat-footed and sending rates higher again.

That sell-off burns in the short run, but I think this PPI spike might be a one-off. Tariffs are having an effect, but look at one of our biggest trading partners: China. Their PPI numbers have declined for three years and currently sits at -3.6%. If you want more potential confirmation, Germany's PPI is an ice cold -1.3%. Jeff Weniger at WisdomTree has been hammering this point: it will be hard for producer prices in the U.S. to stay hot while Chinese and German prices keep dragging things lower.

What made this report sting wasn't just the number but the timing. Investors, me included, were convinced rate cuts were a lock for next month. That belief lit a fire under foreign stocks, small caps, and bonds. The hot PPI threw a bucket of water on that rally. I'm still bullish on all three, just not expecting the payoff as quickly as I thought.

Beyond the seasonals, there's a kind of quiet recalibration happening. Small caps for example. Even though small caps are on the brink of a potential breakout that could launch prices higher, hedge funds don't believe that story. Hedge funds are actively betting *against* small caps at levels not seen since 2021. It feels similar to last April when everyone was betting against stocks in general. When investors are all leaning one way, a small change could get prices moving in the other direction. In this case, the potential direction would be up for small caps: in 2021, that massive negative bet against small caps led to a 26% rally. Will 2025 be a repeat? No guarantees, but that's how I'm leaning.

Let's close with another Seth Golden banger. Semiconductors are the backbone of the A.I. economy. After being obliterated in April, the Semi index put together four straight months of gains. In the past, similar streaks led to a rally 18 out of 18 times with an average gain of 13%. For me, these

aren't mere statistics; they're a potential expression of future momentum, and momentum is that gray area where hard science and psychology come together. These next four months should be interesting, so hold on tight. If you have any comments, feel free to contact me at heddins@capital-invest.com or call at 919-656-0836.

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CIC-20250801

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