

Positioning for the final stretch

11 August 2025

Overview

- Macro risks persist. Weak job data, stretched valuations, and high investor exposure raise concerns about limited upside and downside vulnerability.
- Strong technicals and earnings. Market support levels hold firm, and Magnificent 7 (Mag7) stocks continue to beat earnings expectations despite mixed performance.
- Large-caps remain favoured. Bigger firms manage policy risks better, while smaller companies struggle with cost pressures and weak revisions.
- A year-end rebound is likely. Historically, after volatile August-September periods, the next six months (October-March) delivered on average ~70% of the 12-month forward returns for S&P 500.

Executive summary

The current market landscape presents a mixed picture. On the negative side, recent labour market data has weakened, equity valuations are elevated, and investor positioning is already stretched, limiting room for further upside. Additionally, rising margin debt and hedging activity signal caution among market participants.

On the positive side, technical indicators remain supportive, and earnings from large-cap tech—especially Magnificent 7 (Mag7)—have significantly outperformed expectations. These companies continued to show resilience and adaptability, particularly in navigating policy and cost pressures. Large-cap companies remain the preferred segment due to their scale and operational flexibility.

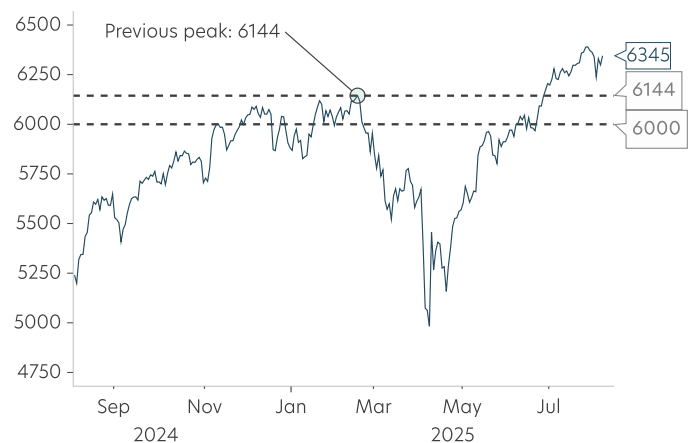
While August and September are historically volatile months for equities, historical trends suggest that the S&P 500 tends to rebound strongly afterward. The next six months (October-March) delivered on average ~70% of the 12-month forward returns for S&P500, making a compelling case for maintaining exposure despite near-term uncertainties.

Cashed up investors should use any volatility to build equity positions in large caps and our preferred sectors. Investors who are fully invested should remain so unless they are trading-oriented; it is difficult to time drawdowns.

Market technicals remain supportive (Figure 1)

From a purely technical charting perspective, the previous peak of 6144 before Liberation Day now serves as a strong support level. This suggests that sharp drawdowns to the April lows are unlikely unless there is a major negative catalyst. Investor sentiment appears to have stabilised, with tariff-related concerns largely priced in or dismissed, reducing the likelihood of panic selling.

Figure 1: Previous peak is a good support line

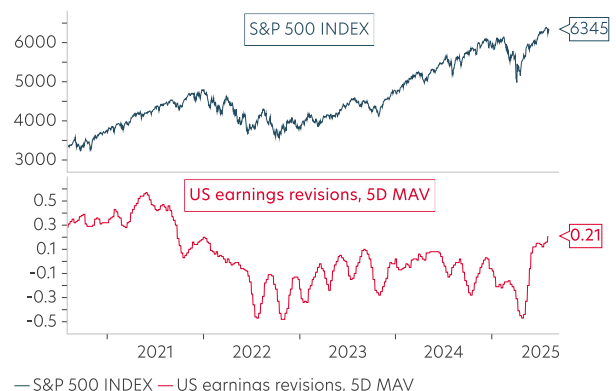


Source: Bloomberg, UOB Private Bank

Earnings remain the key driver (Figure 2)

Equity markets are ultimately driven by earnings growth and companies' abilities to beat expectations. Post-Liberation Day, earnings revisions have turned decidedly positive, suggesting that the initial fears around tariffs may have been overstated. This resilience in corporate fundamentals supports continued equity exposure, especially in firms and sectors with pricing power and global reach.

Figure 2: Positive earnings revisions



Source: Bloomberg, UOB Private Bank

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Large-caps demonstrate adaptability (Figure 3)

We continue to favour large-cap companies due to their superior ability to manage cost structures and navigate policy uncertainties, including tariffs and immigration changes. These firms benefit from scale, operational efficiency, and diversified revenue streams. In contrast, smaller companies are more exposed to margin pressures and lack the flexibility to absorb shocks, which is reflected in their continued negative earnings revisions since the start of the year.

Figure 3: Earnings revisions ruled by large caps



Source: Bloomberg, UOB Private Bank, FactSet

Magnificent 7 continue to lead (Figure 4)

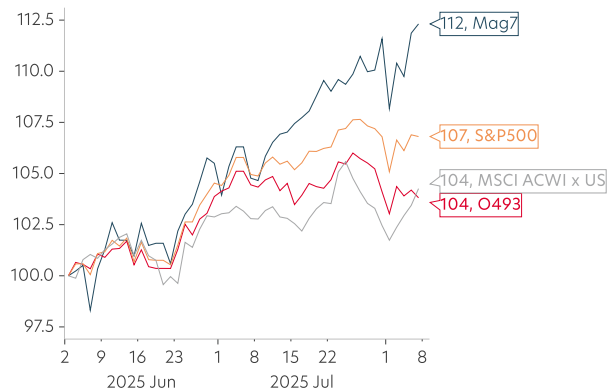
Despite including underperformers like Tesla and Apple, the Mag7 stocks have continued to outperform both the broader market and the Other 493 (O493) in the S&P 500. This resilience underscores the strength of Megacap tech and AI-related names. While narrow leadership is not ideal for market breadth, we maintain our view that investors should retain exposure to these names. In addition to Mag7, we favour sectors such as financials, semiconductors, and AI cloud infrastructure.

2Q 2025 Earnings: Expected vs Actual

GOOGL: Exp: +15.5%; Act: +22.2%
 META: Exp: +15.0%; Act: +38.4%
 MSFT: Exp: +14.2%; Act: +23.7%
 AAPL: Exp: +2.4%; Act: +12.1%
 AMZN: Exp: +5.3%; Act: +33.3%
 TSLA: Exp: -6.9%; Act: -13%
 NVDA: Exp: +46.4%; Act: Pending (27 August)

The latest quarterly results show strong earnings beats across most of the Mag7, reinforcing their fundamental strength and justifying continued investor interest.

Figure 4: Persistent Mag7 outperformance

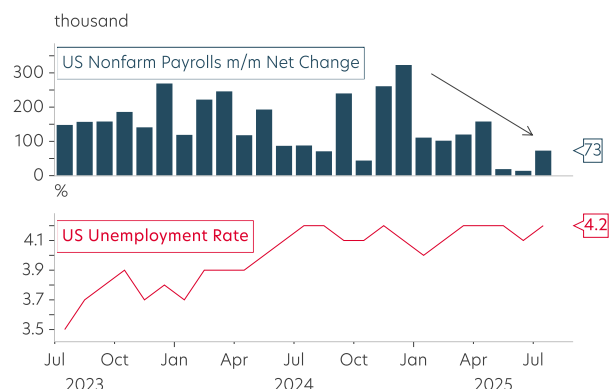


Source: Bloomberg, UOB Private Bank

US labour market looks shaky (Figure 5)

Recent employment data has shown significant downward revisions for May and June, suggesting initial reports were overly optimistic. July's job additions came in at just 73,000; this is well below expectations and signals a slowdown in hiring momentum. Unemployment rate has also risen to 4.2%. This trend raises concerns about consumer spending and overall economic resilience, especially if wage growth also begins to falter.

Figure 5: US labour market looks shaky



Source: Bloomberg, UOB Private Bank

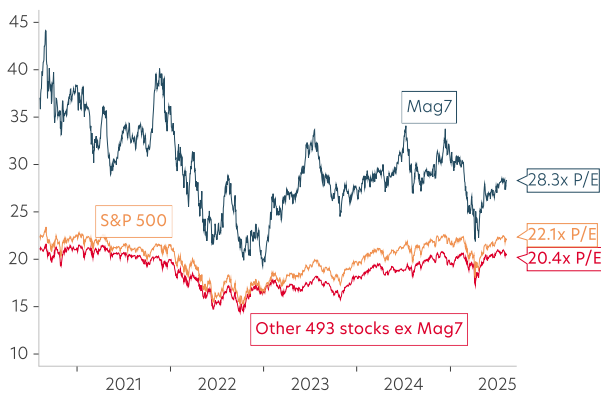
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Valuations for the US are high (Figure 6)

The S&P 500 has returned to its 5-year highs, reflecting strong share price appreciation. Similarly, the O493 stocks have also rebounded sharply. However, the Mag7 stocks—despite their market influence—remain significantly below their previous peaks. This points to an uneven recovery at large and potential valuation risks. This divergence suggests that while broader indices look strong, leadership is fragmented and may not be sustainable.

Figure 6: Relative to the recent historical valuation bands, S&P500 is expensive but not Mag7

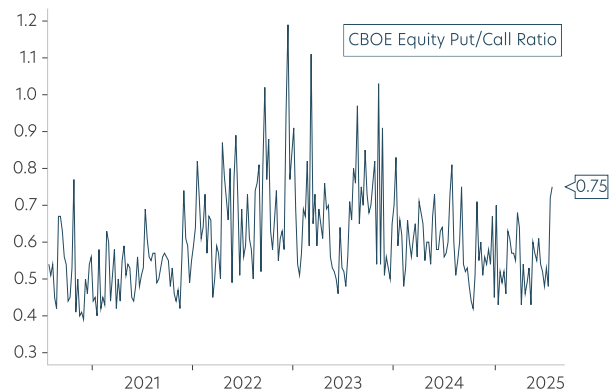


Source: Bloomberg, UOB Private Bank

Put-call ratio signals caution (Figure 8)

The put-call ratio has climbed back to its highest level in over a year, indicating that investors are increasingly buying protective puts to hedge against potential market declines. This shift in sentiment suggests growing unease about near-term risks, and historically, such put-call ratio spikes have preceded periods of heightened volatility.

Figure 8: Put/call ratio implies nervous markets

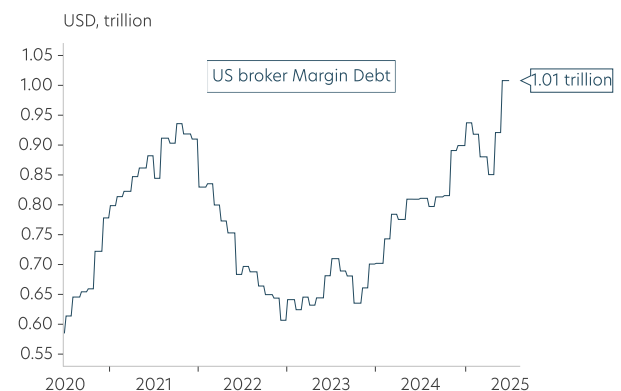


Source: Bloomberg, UOB Private Bank

Margin debt hits record highs (Figure 9)

Margin debt—a key indicator of leveraged trading activity—has now surpassed USD 1 trillion, marking an all-time high. Elevated leverage amplifies market moves, particularly on the downside, as margin calls can trigger forced selling. This creates a feedback loop that can exacerbate declines during periods of stress or uncertainty.

Figure 9: Elevated margin positions

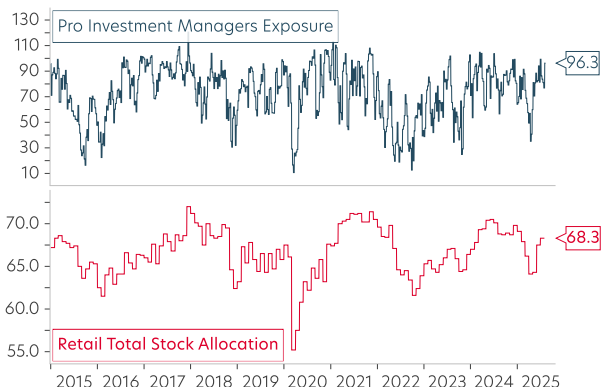


Source: Bloomberg, UOB Private Bank

Equity positioning is stretched (Figure 7)

Both professional fund managers and retail investors have increased their equity exposure to levels last seen in January 2025. This elevated positioning implies that a large portion of available capital is already committed to the market, leaving limited room for incremental inflows. As a result, the market may struggle to find new buyers, increasing vulnerability to profit-taking or external shocks.

Figure 7: Retail and Pros are back “all-in”



Source: Bloomberg, UOB Private Bank

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Conclusion: History suggests buying the dip

While August and September are historically volatile months for equities, historical trends suggest that the S&P 500 tends to rebound strongly afterward. The next six months (October-March) delivered on average ~70% of the 12-month forward returns for S&P500, making a compelling case for maintaining exposure despite near-term uncertainties.

Figure 10: Average monthly returns for S&P 500 in last 30 years; Expect Aug and Sep volatility



Source: Bloomberg, UOB Private Bank (As of 7 Aug 2025)

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