



The Economy Is The Real Deficit Problem

The deficit fearmongers are out in full force, warning that massive debt payments will further exacerbate the deficit and ultimately bankrupt the country. While we agree that steadily increasing deficits are a significant problem, we believe it's not for the reasons most people give. To that end, a recent Tweet by George Gammon succinctly makes our case. In reply to someone comparing our deficit situation to Japan's, he wrote:

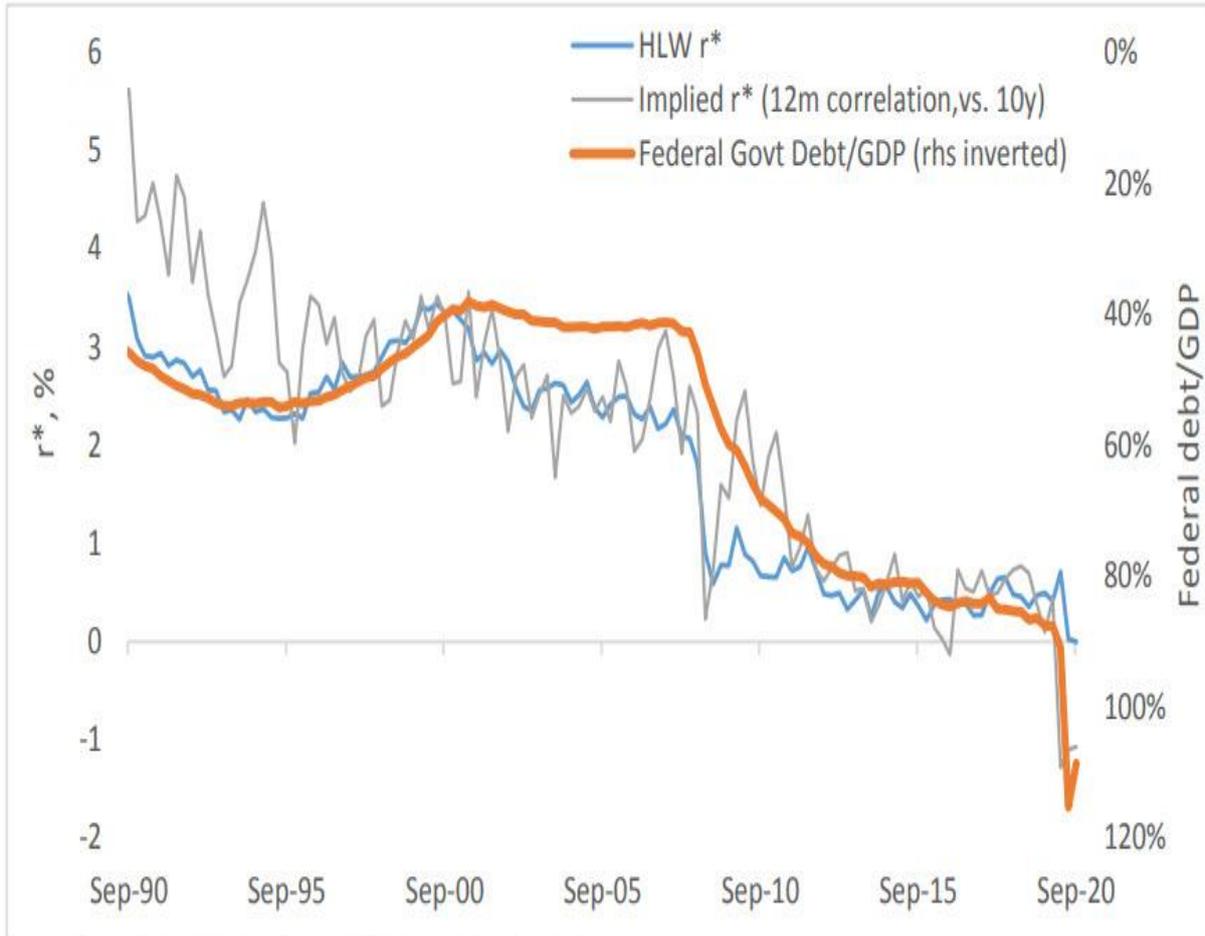
The problem with the US debt won't show up in the Treasury market. It has and will show up in the real economy?just like Japan

To elaborate, government debt is unproductive. Accordingly, in economics, we say it has a negative multiplier. Each dollar of government debt reduces the size of the economy over the long run. This may sound counterintuitive, as government spending directly fuels the economy. Government spending does provide an immediate economic boost. However, over time, the benefits wane, yet servicing the debt requires private capital to fund it. Consequently, yesterday's deficits detract from growth today as private capital is diverted from productive investments. If deficits added to economic growth, why has GDP growth been steadily shrinking for the last forty years as deficits have steadily grown?

To George's point, Japan has been mired in a stagnant economy for decades. The culprit was a massive financial bubble, followed by significant government spending to counter its impacts. Our fear, as well as his, is that the actual expense of deficits is detrimental to our economic well-being.

For more on this topic, we urge you to read our article: [**The Zero To Negative Multiplier Of Debt On Growth**](#). The graph below, from the article, shows that r^* (the interest rate consistent with economic output and productivity growth) has declined. At the same time, the ratio of federal debt to GDP has increased.

Figure 1: Historically higher federal indebtedness has lowered estimates of r^*



Source : Deutsche Bank, Federal Reserve, US Treasury, Haver Analytics

What To Watch Today

Earnings

Tuesday Jun 10		EPS	Consensus	Previous	Revenue	Consensus	Previous	MarketCap	Fiscal	Time
	J.M. Smucker <small>SJM.US</small>	2.24	2.66		2.18B	2.21B	\$12.33B	Q4	AM	★
	GameStop <small>GME.US</small>	0.04	-0.12		754.23M	0.882B	\$8.16B	Q1	PM	★

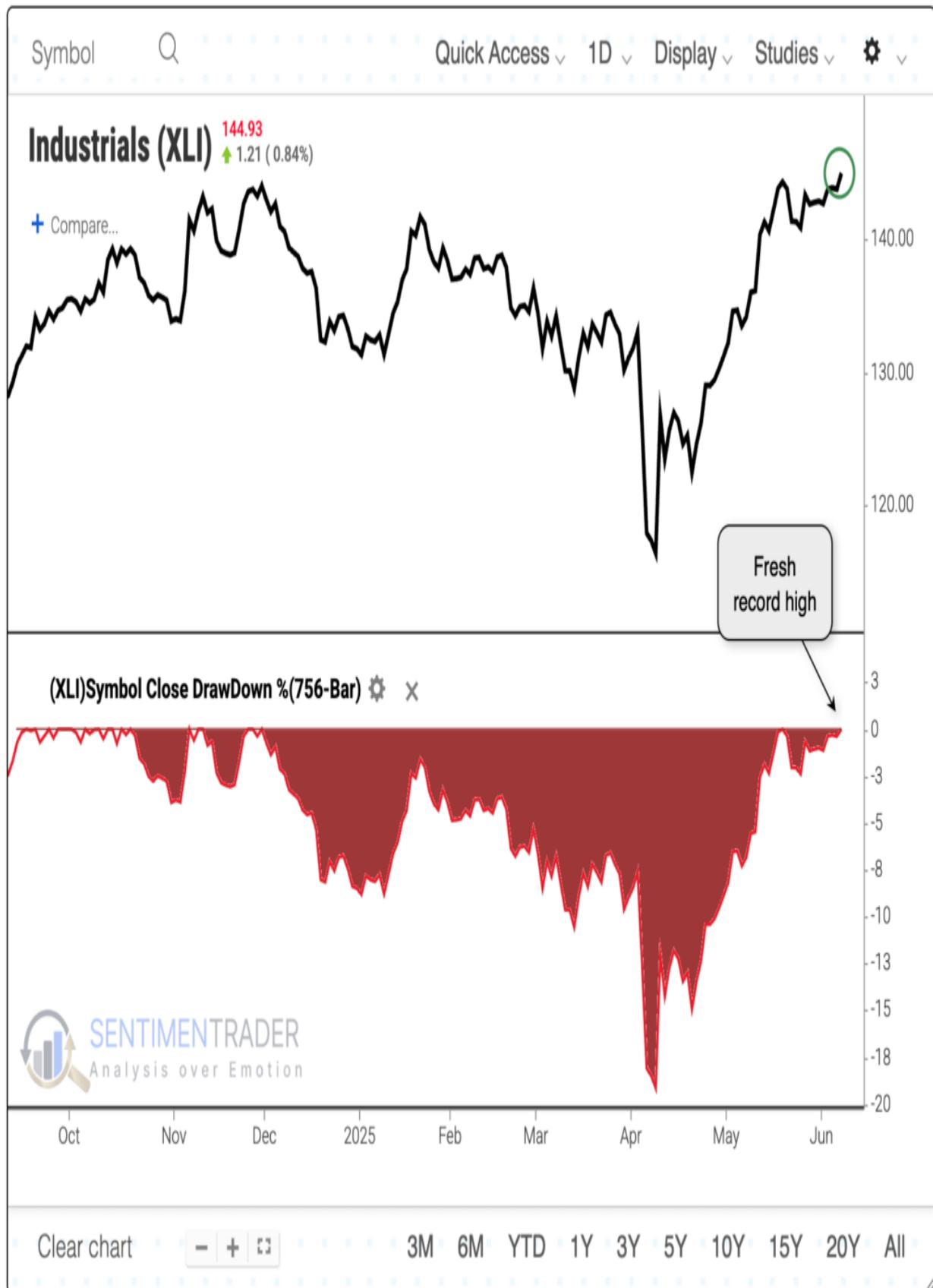
Economy

Tuesday June 10 2025		Actual	Previous	Consensus	Forecast
05:00 AM	US NFIB Business Optimism Index <small>MAY</small>	95.8	95.9	96	
07:55 AM	US Redbook YoY <small>JUN07</small>	4.9%			

Market Trading Update

[Yesterday, we discussed](#) that the market's most likely next stop is all-time highs. As [Sentiment Trader](#) noted yesterday, one particular sector is leading that charge.

?One sector has reached a record high, which should be good. Among major S&P 500 sectors, industrials are the first to power to a new high. All the others, including the S&P 500 itself, are at least 1% off their own highs.?



?The industrials sector includes companies that manufacture and distribute capital goods, provide commercial and professional services, and offer transportation services. In addition to manufacturing, the sector encompasses commercial services like waste management, data processing, and security. Transportation is another key, with companies involved in logistics, airlines, railroads, and shipping playing a crucial role in the movement of goods and people. The industrials sector is highly sensitive to economic cycles, typically expanding during periods of economic growth and contracting during recessions. Its performance is often viewed as a barometer for the broader economy.? ? Perplexity

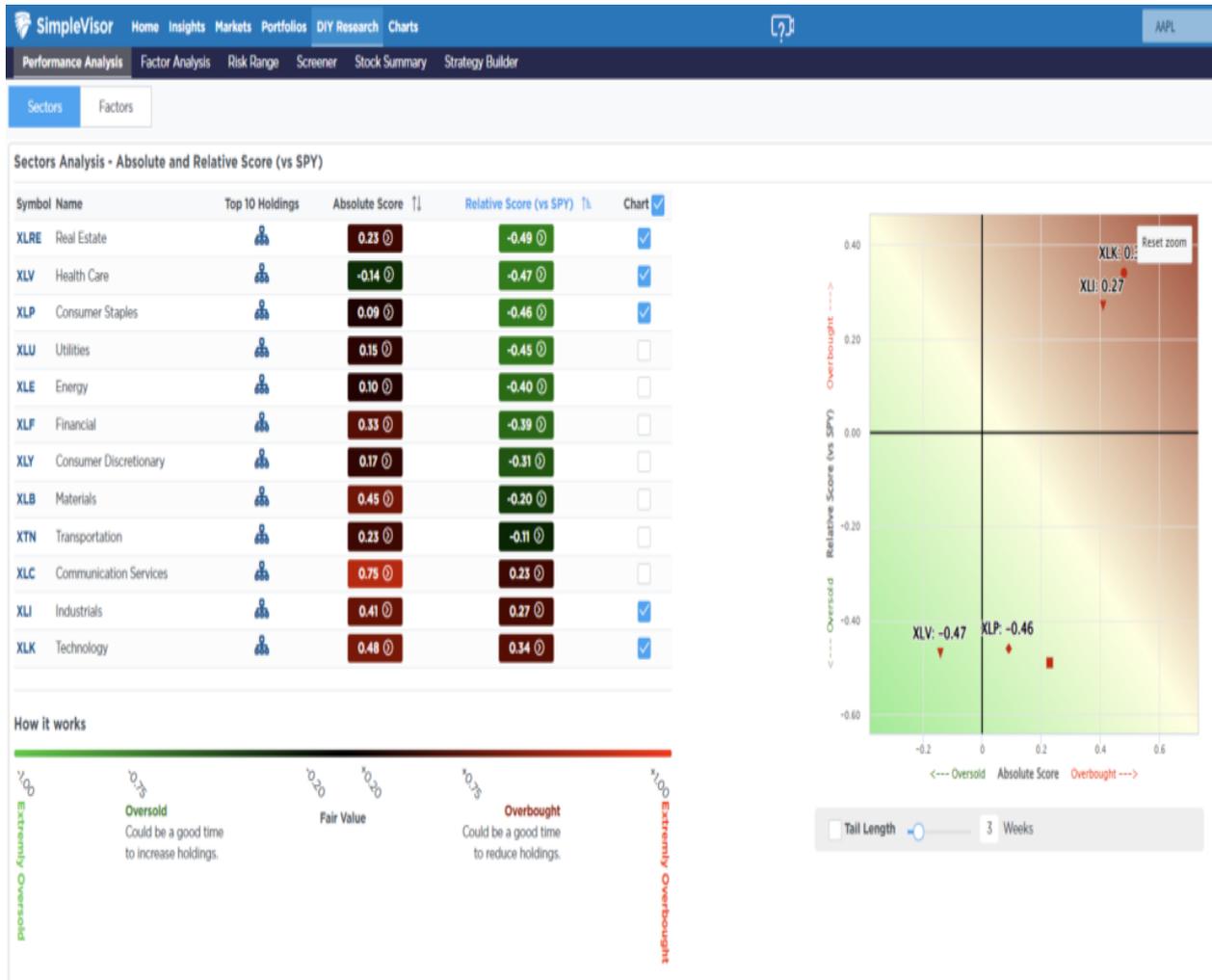
?This is supposed to be a good sign for the economy, and by extension, the stock market. Below, we can see that it was, for the most part. When the industrial sector led all others to record territory, the U.S. fell into a recession only once within the following nine months. However, two more instances were added within a few months after that, including the vicious internet bubble peak of 2000.? ?

Probability of recession when industrials lead sectors to record high

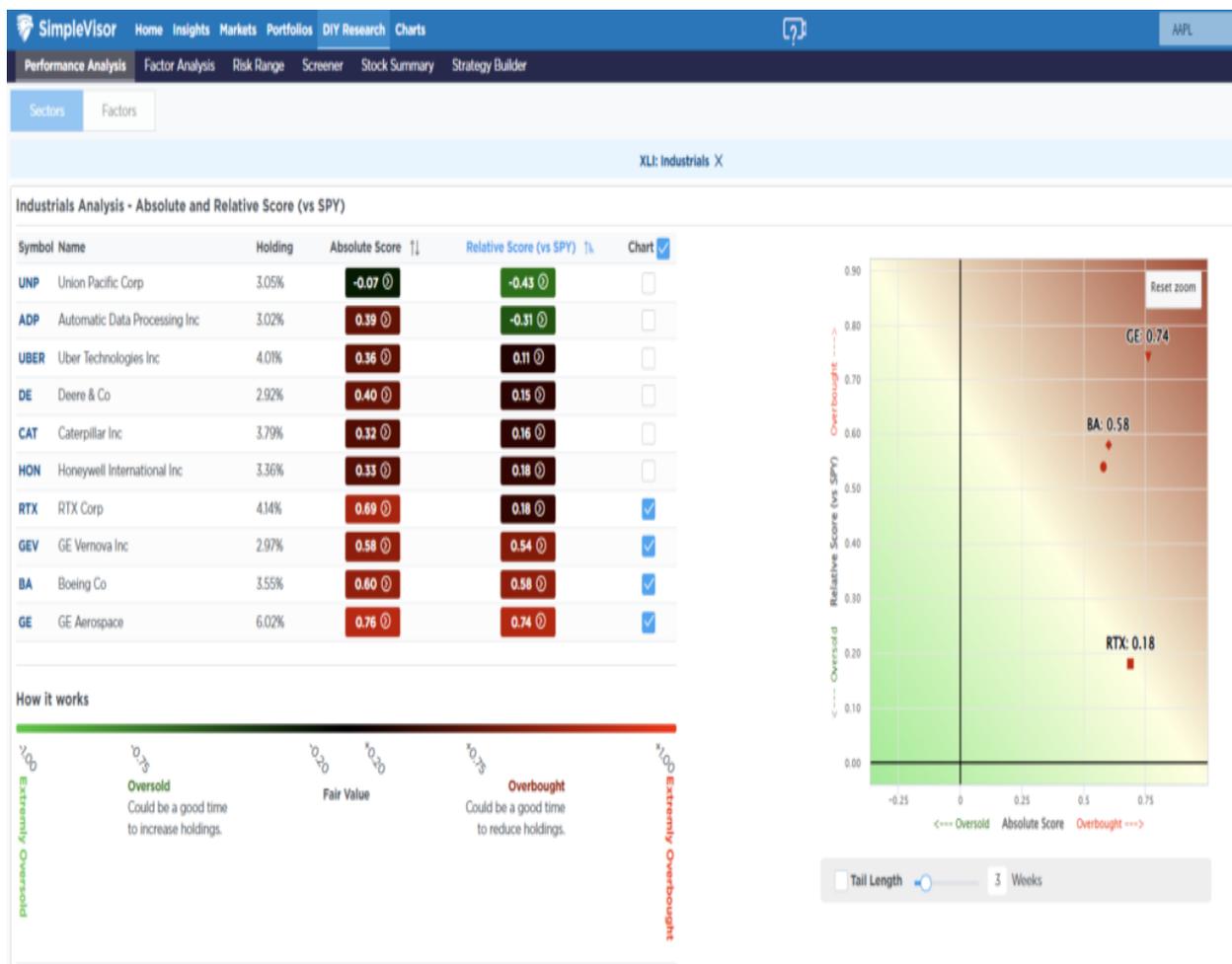
U.S. economy fell into recession within...							
Date	1 Month	3 Months	6 Months	9 Months	1 Year	2 Years	3 Years
1959-06-12	No	No	No	No	Yes	Yes	Yes
1966-04-20	No	No	No	No	No	No	No
1990-04-12	No	Yes	Yes	Yes	Yes	Yes	Yes
1996-03-22	No	No	No	No	No	No	No
1999-04-14	No	No	No	No	No	Yes	Yes
2000-03-29	No	No	No	No	Yes	Yes	Yes
2006-02-14	No	No	No	No	No	Yes	Yes
2016-04-13	No	No	No	No	No	No	No
2016-11-09	No	No	No	No	No	No	No
2023-06-27	No	No	No	No	No	No	No
2025-06-06	?	?	?	?	?	?	?
% of Time	0%	10%	10%	10%	30%	50%	50%

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Notably, the run-up in industrial (*and technology*) stocks has been a function of speculative bets placed on the need for infrastructure buildout to support the development of artificial intelligence. However, those sectors are now overbought on multiple levels, suggesting a *?cooling off?* period is likely. Historically, markets tend to rotate from speculative to more conservative bets. If we continue to see slower economic growth in the months ahead, this would argue for markets to reconsider earnings growth prospects for high beta names and rotate to more defensive, stable growers.



As noted, the stocks driving the industrial sector are most associated with the need to build out power plants and military defense (a current Administration's priority). As such, the underlying technology, from turbines to nuclear power plants, controls, and defense systems, is the most overbought stock. As shown, on a relative basis, GE Aerospace and Boeing, along with GE Vernova, Raytheon, and Honeywell, are leading the pack.



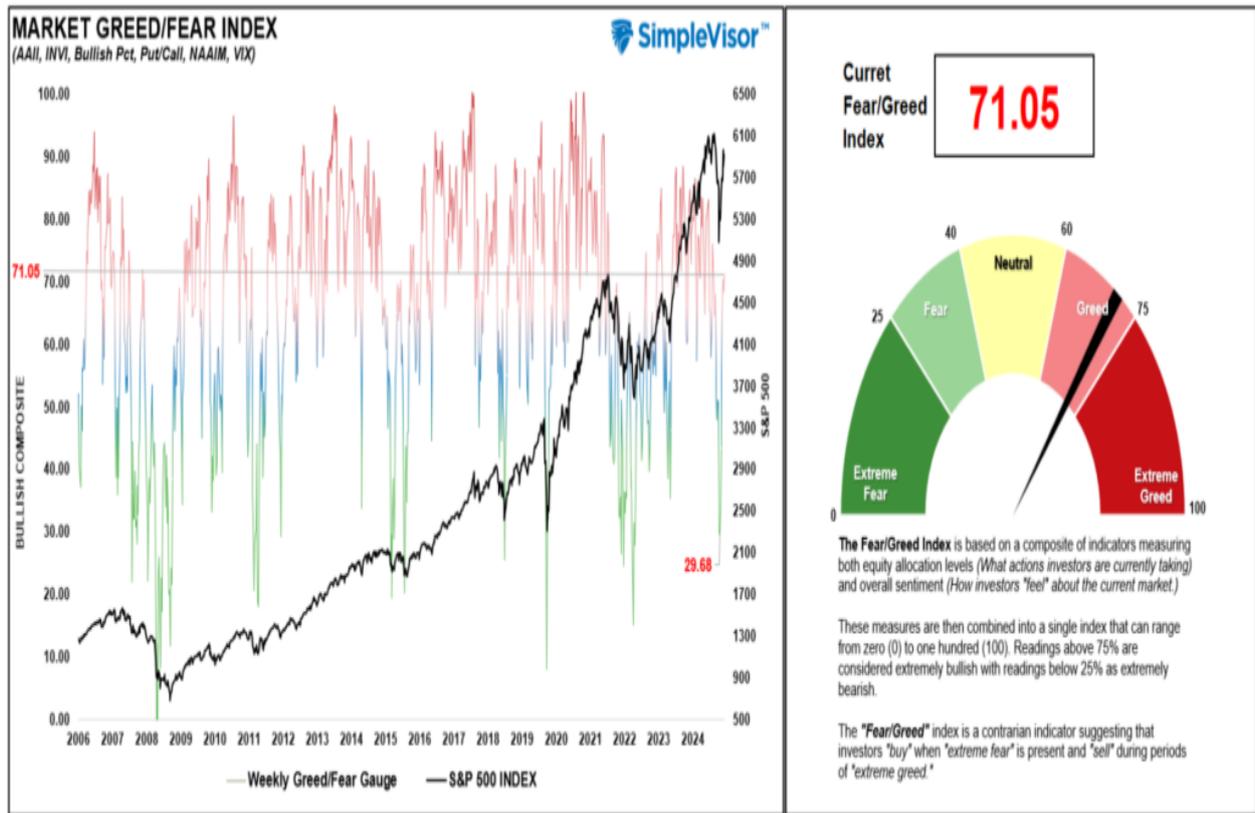
We agree with the need for these companies, but many companies in this space are getting extremely overbought and are deviating from long-term means. Investors should identify the companies they want to own and be patient for retracements to allow for scaling into holdings at better prices.

?Buying The Dip? ? Here?s A Technical Way To Do It

In recent years, *buying the dip* and more vulgar variations have often been equated to *dumb money* or retail investors, who are presumed to always make a mistake. However, as investors, we need to rethink how we view *buying the dip* because the whole goal of investing is to *buy low and sell high*. As such, we need to analyze corrective processes in the market. Sometimes, a correction may appear over, but it is only the beginning. At other times, the correction is near completion, and our odds of *buying low* vastly improve. **But how can we know the difference?**

Let me restate that neither I nor anyone else has a guaranteed method of *buying the dip* precisely at the bottom. That is not the goal of this discussion. This discussion aims to look primarily at two factors, **sentiment and technicals**, to improve the odds of *buying low* versus *buying high*.

[READ MORE?](#)



Glimpses of 2024

The recent market rally shares some traits with what we observed throughout most of 2024. To wit, technology and communications, led by the Magnificent Seven, are leading the market upward. At the same time, some of the more conservative sectors, such as healthcare, utilities, energy, financial, and real estate, are lagging. Such is to be expected, given that the performance of the safety sectors was generally better than the market when it was retreating. If the rally continues and sets new highs, we might expect the largest-cap stocks to continue outperforming. Accordingly, the analysis below may provide a glimpse of what to expect. Moreover, many of the largest market-cap stocks are heavily investing in AI and AI infrastructure.



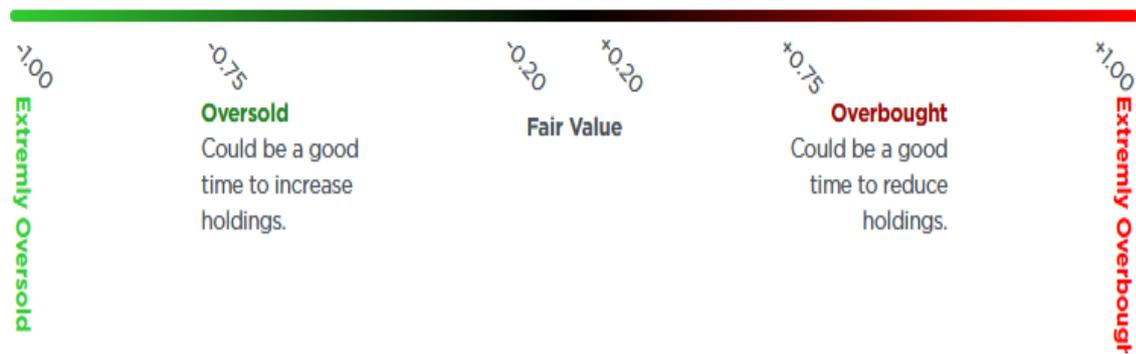
Sectors

Factors

Sectors Analysis - Absolute and Relative Score (vs SPY)

Symbol Name	Top 10 Holdings	Absolute Score \updownarrow	Relative Score (vs SPY) \downarrow	Chart <input checked="" type="checkbox"/>
XLK Technology		0.51 \uparrow	0.32 \uparrow	<input type="checkbox"/>
XLI Industrials		0.41 \uparrow	0.23 \uparrow	<input type="checkbox"/>
XLC Communication Services		0.59 \uparrow	0.07 \uparrow	<input type="checkbox"/>
SPY		0.31 \uparrow	0.00 \uparrow	<input checked="" type="checkbox"/>
XTN Transportation		0.23 \uparrow	-0.14 \uparrow	<input type="checkbox"/>
XLY Consumer Discretionary		0.15 \uparrow	-0.23 \uparrow	<input type="checkbox"/>
XLP Consumer Staples		0.13 \uparrow	-0.26 \uparrow	<input type="checkbox"/>
XLB Materials		0.43 \uparrow	-0.27 \uparrow	<input checked="" type="checkbox"/>
XLRE Real Estate		0.29 \uparrow	-0.34 \uparrow	<input type="checkbox"/>
XLF Financial		0.39 \uparrow	-0.38 \uparrow	<input type="checkbox"/>
XLE Energy		0.06 \uparrow	-0.41 \uparrow	<input type="checkbox"/>
XLU Utilities		0.19 \uparrow	-0.43 \uparrow	<input type="checkbox"/>
XLV Health Care		-0.11 \uparrow	-0.45 \uparrow	<input type="checkbox"/>

How it works



Tweet of the Day



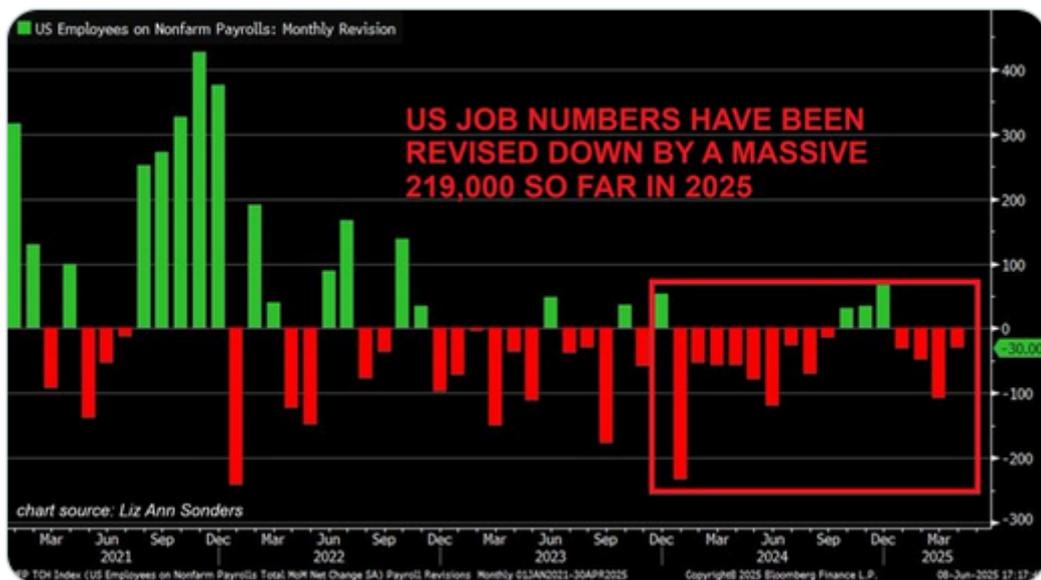
⚠️ This is INSANE:

US job numbers have been revised down by a massive 219,000 so far in 2025.

April -30,000
March -108,000
February -49,000
January -32,000

22 out of the last 28 months have been revised down since the beginning of 2023.

Nonfarm payrolls data is useless.



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