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Dear Client,

We are in the midst of a market rotation. One sector or group of stocks takes flight, becomes temporarily over-priced relative to the market, and then fades in favor of a different group. The “guess the next outperforming sector” has been a Wall Street game for a long time. In the first quarter, oil & gas, gold & silver, and value stocks moved higher relative to growth stocks. Then in the second quarter, gold & silver, oil & gas etc., corrected their overextended moves and slipped partway back while a new group drew attention (i.e., semiconductor and computer memory stocks).

It has been a news filled quarter – a new Chairman of the Federal Reserve, Kevin Warsh, took office replacing Jerome Powell. So far, I am quite impressed by Mr. Warsh. He is experienced, bright, articulate, and appears to have the independence required to do the job. Then of course we had the dramatic promotion of SpaceX stock. The big brokerage companies tripped over themselves to get in on the half billion dollar underwriting fees and Madison Avenue PR firms cranked out the hype at an unprecedented level. Yep, SpaceX is going to “colonize Mars” with 1,000,000 people. Will they? Sure, sometime in the very distant future. Is it too soon to invest? The late Art Cashin, a well-regarded New York Stock Exchange floor trader, often said, “the second mouse gets the cheese,” meaning these deals often trade much lower after the hubba hubba dies down. SpaceX has other businesses, but nothing to support current valuations. I think I will wait to acquire the franchise rights for McDonald’s or Chick-fil-A on Mars.

Meanwhile the Magnificent Seven stocks (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla), last year’s market darlings, continue to fade along with Bitcoin. In this market, I wouldn’t be surprised to see a short-term bounce in those stocks. Oil & gas, gold & silver, financials and beaten down consumer staples are all showing strength.

It's impossible to mention oil & gas and not think about the War with Iran. The ceasefire has created an environment of optimism and buys time for world markets to adjust and find alternative workarounds, as best as they can, to diminish the speculation in crude prices. It appears that Iran does not speak with one voice, as the Revolutionary Guard is of a different mind than Iran's negotiators. We also have the added challenge of differing opinions from Israel as well as pressure from the U.A.E., Kuwait, and Saudi Arabia not to mention oil importing nations such as India. Are we in for a long stalemate? Oil has slipped under $70 per barrel, this may be more of an oversold condition resulting from speculators finding themselves on the wrong side of a bet gone bad. In the best of worlds, it takes time to put the supply balance back in place.

This is a special time, as we celebrate our Nation's 250th Anniversary. A recent submission to the Wall Street Journal in the weekend edition (June 27-28) by Ben duPont was special to me. It not only had a wonderful review of what makes America great but also reminded me of my short time at E.I. du Pont de Nemours and Company, the chemical company. During the summer between my junior and senior years in chemical engineering at Michigan State University, I was lucky enough to get a summer job at DuPont's Fabrics & Finishes Division plant in Flint, Michigan. The plant was a large factory that made automotive coatings (paint) for Buick and other automobile manufacturers.

I look back fondly on that summer; I liked Flint and enjoyed the community. Little did I foresee the decline of those Midwest automotive cities let alone Flint's public water crisis. I worked as a "junior engineer" in the projects department and found the management friendly and interested in me. They cared about all their employees, and I knew this was where I wanted to go after graduation. They offered me a job upon graduation. But after another year of growing, I decided to accept a job from Celanese Chemical Company and took off to the big city, New York, for more money and bright lights. Celanese eventually transferred me to Houston, and as they say down here, "I got here as fast as I could." I have included the article; I think you will enjoy it.

Yours Very Truly,

Richard J. Fruth