July 24, 2025

Morning Briefing

On Materials, New Highs
& AI Shopping Assistants

Check out the accompanying chart collection.

Executive Summary: Tariffs and a resilient economy have helped boost many metals' prices. Jackie looks at how that has helped steel producers and other companies that are able to pass along the higher prices to customers. Not all companies are so lucky, however. … Another day, another S&P 500 record. We take a look at the diverse group of industries helping to power the index higher. … And in our Disruptive Technologies segment, we go shopping with AI Assistants.

Materials: Managing in a World of Tariffs. Almost two months ago, President Trump announced that he'd raise tariffs on both steel and aluminum imports to 50% from an already hefty 25%. Since the tariff hikes went into effect on June 4, the price of aluminum has increased 7.5%, bringing its ytd gain to 5.3% (*Fig. 1*). The price of US Midwest domestic hot rolled coil steel has increased little since June 4, but it had already climbed sharply this year and is up 23.3% ytd (*Fig. 2*).

Many industrial metals are having a banner year, thanks to the protection offered by tariffs and a global economy that has been much stronger than expected in the wake of tariffs. Here's how many metal prices have performed ytd through Tuesday's close: Platinum (63.9%), Copper (42.9), Palladium (39.8), Silver (34.4), Gold (30.6), Steel (23.3), Tin (17.3), Aluminum (5.3), Iron Ore (4.9), Lead (3.1), Zinc (-3.6), and Lithium (-6.1) (*Fig. 3*).

As Q2 earnings are reported, investors are learning just how much tariffs are hurting or helping the bottom line. Steel Dynamics, a steel producer, and Crown Holdings, an aluminum can producer, reported that they're mostly benefiting from tariffs because they've been able to pass the higher price of steel and aluminum on to customers. Customers of those metals, including GM, RTX and Boston Beer, brewer of Samuel Adams beers, haven't called out the impact of metals, but they have quantified the hit their bottom lines will take due to tariffs.

As President Trump strikes trade deals with countries around the world, the impact of tariffs might be less than executives expect going forward. Nonetheless, here's a look at what executives are saying about the current environment.

(1) *Cans gain popularity.* Crown Holdings is enjoying growing demand for the aluminum cans it sells around the world. Many companies are buying cans to reduce their use of plastic bottles and others find that cans are less expensive than glass bottles. As a result, this old-school business has been growing volumes by roughly 1% to 3% annually--and lately, results have topped those baseline levels.

Crown's Q2 revenue rose 3.6% y/y to $3.15 billion and adjusted earnings per share jumped 24.8% to $2.15 a share, above analysts' estimates. As importantly, the company increased its 2025 adjusted earnings forecast range to $7.10 to $7.50 a share, up from the previous range of $6.70 to $7.10 a share. Crown's shares have risen 27.0% ytd through Tuesday's close.

(2) *Tariffs roll downhill.* Fortunately for Crown, it can pass along higher aluminum prices on to its customers. The "all-in cost of aluminum per ton is probably close to an all-time high. … [W]e don't believe we can afford to absorb any of that. Fortunately for us, our contracts allow for the pass-through. I'm sure our customers don't believe they can afford to absorb it. So ultimately, [the cost of] decisions made by governments and politicians are ultimately borne … by the consumer," said CEO Timothy Donahue on the company's earnings *conference call*.

(3) *Steel's price rises, too.* Steel Dynamics produces steel in the US and just recently brought its first aluminum plant online. The company's Q2 revenue fell 1.5% y/y to $4.6 billion and net income dropped 30.2% y/y to $298.7 million. Comparisons between Q1 and Q2 are more favorable due to the increase in steel prices. Revenue rose 4.5% q/q and net income jumped 37.6% over the same period.

Steel Dynamics experienced a snafu with oxygen delivery in Q2 that reduced production at one of its plants during the quarter. With that resolved and steel prices up, the company expects "a steep acceleration of profitability for the remainder of this year and next," said Chairman Mark Millett on the company's *conference call*. Reflecting its confidence in the future, Steel Dynamics increased its dividend by 9% to $0.50 a share in February.

"We continue to have high expectations for the business based on continued onshoring of manufacturing, recently announced significant, privately-funded manufacturing projects, and public funding for infrastructure and other fixed asset investment programs. The long-term uplift from this backdrop could be considerable for all of our platforms," said President Barry Schneider.

In addition, the growth of AI and cloud computing will mean the construction of data centers, chip factories, and battery plants, all of which require steel. The company believes steel prices have stabilized in the near term and may rise in the future, said Schneider.

(4) *Tariffs: A double-edged sword.* While tariffs should reduce imports of steel into the US and keep prices high, they also have drawbacks. Steel Dynamics executives said that its customers have been cautious in placing orders due to ongoing uncertainty related to trade policies and interest rates.

In addition, Steel Dynamics' costs will rise due to tariffs on pig iron, an ingredient used to make steel. The company had historically imported pig iron from Russia and Ukraine. Steel

Dynamics would like to continue buying iron from Ukraine, but since the war began, the country's production volumes have declined sharply. The company now buys pig iron from Brazil, where it currently faces a 10% tariff that could jump to 50% on August 1.

(5) *Analysts love steel.* Analysts are optimistic about the S&P 500 Steel industry's future. They're forecasting revenue growth of 6.1% this year and 4.4% in 2026 (*Fig. 4*). More impressively, the industry's earnings are expected to shift from declines in 2024 (-45.0%) and 2025 (-5.9%) to earnings growth of 33.6% next year (*Fig. 5*).

(6) *End users…not so happy.* Some companies reporting Q2 results didn't directly discuss the increasing cost of commodities like steel and aluminum. However, they did note that they are absorbing the higher cost of tariffs--instead of passing it on to customers—and that hurt Q2 results.

On Tuesday, GM shares tumbled roughly 8% after the auto manufacturer reported that tariffs on new imported cars and auto parts reduced its Q2 adjusted operating profits by $1.1 billion to $3 billion. The company has largely opted to eat the cost of tariffs and not pass it on to customers.

GM shares bounced back on Wednesday, however, after President Trump's trade deal with Japan lowered tariffs on Japanese cars imported into the US to 15% from 25%. US automakers are unhappy that Japanese car imports will now have lower tariffs than US manufacturers' cars imported from Canada and Mexico, which stands at 25%. But the Japanese trade deal gave investors hope that the Canadian and Mexican tariffs would also be reduced if and when trade deals are struck with those countries.

RTX shares dipped by about 1.5% on Tuesday after it lowered its earnings forecast, citing tariffs. While the company increased its 2025 adjusted sales forecast to $84.8 billion to $85.5 billion, up from the prior range of $83 billion to $84 billion, its adjusted earnings per share range was cut to $5.80 to $5.95, from the prior range of $6.00 to $6.15. The company estimated that tariff costs this year, net of mitigation efforts, would be around $500 million, with $125 million already reflected in H1-2025 results. Its shares also rebounded on Wednesday.

Meanwhile, Boston Beer reported in April that tariffs could increase costs by $20 million to $30 million in 2025 and reduce earnings by $1.25 to $1.90 a share. Prior to the tariffs, the company had expected to generate 2025 earnings between $8.00 and $10.50 a share, a June 25 Barron's *article* reported. Its shares have lost almost a third of their value this year.

Strategy: A Look at the Winners. The S&P 500 hit its latest record on Wednesday after President Trump announced the US and Japan had reached a trade agreement. The index's record levels come in the face of tariffs as forward earnings continue to grow, defying the skeptics.

The S&P 500's 7.3% ytd gain through Tuesday's close is even more impressive due to the diversity of its leadership beyond technology-related names. Consider that the S&P 500 Industrials and Utilities sectors are outperforming the Information Technology and Communication Services sectors!

Here's the performance derby the S&P 500 sectors ytd through Tuesday's close: Industrials (14.6%), Utilities (12.2), Information Technology (10.7), Communication Services (10.6), Materials (9.0), Financials (8.9), S&P 500 (7.3), Real Estate (4.8), Consumer Staples (4.4), Energy (-0.1), Consumer Discretionary (-0.7), and Health Care (-3.0) (*Fig. 6*).

As you'd expect, the industries at the top of the S&P 500 leaderboard are also a diverse lot. At the top is the S&P 500 Gold industry, with a 65.8% ytd gain, with Steel (20.5%) and Copper (20.3%) not far behind. Leisure Products, an industry in the Consumer Discretionary sector, is the second-best performer, rising 38.7% ytd. The industry counts Hasbro as its only member. Investors thought tariffs would crush the toy retailer because almost all toys are manufactured abroad. Instead, Hasbro has managed to pull a number of levers to largely offset tariffs, and yesterday the company raised its 2025 revenue and earnings estimates.

Here are the S&P 500 industries with the top ytd performances through Tuesday's close: Gold (65.8%), Leisure Products (38.7), Electronic Components (36.6), Electronic Manufacturing Services (33.6), Independent Power Producers & Energy Traders (32.3), Tobacco (29.7), Aerospace & Defense (28.2), Health Care Distributors (26.5), Construction & Engineering (25.0), Movies & Entertainment (24.4), Fertilizers & Agricultural Chemicals (24.3), Telecom Tower REITs (23.9), Drug Retail (23.7), Semiconductor Materials & Equipment (23.3), and Semiconductors (21.9) (*Table 1*).

The Health Care sector contains several of the worst-performing S&P 500 industries ytd, including Managed Health Care (-39.6%), Life Sciences Tools & Services (-16.1), and Health Care Supplies (-9.1)**.** Tariff concerns have taken a toll on several of the industries at the bottom of the list, including Distillers & Vintners (-20.6%), Computer & Electronics Retail (20.6%), and Automobile Manufacturers (-16.2%). While sentiment around these industries might be awful, it may only take a bit of good news to lift their stocks.

Disruptive Technologies: AI Empowers Shopping Assistants. AI aims to make shopping across the Internet even easier than it already is by helping shoppers refine a search, visualize the product, and track its price. Here's a look at some of the bells and whistles Perplexity, Co-Pilot, and Google are offering.

(1) *Google's AI Mode.* Google's Shopping with AI Mode seems the furthest along in bringing AI to shopping. An AI search for a pink sweater resulted in a handful of links to appropriate options, and when you click on the link, there's a picture of the product, links to the various retailers offering the product, reviews, and the price each retailer is asking.

A May 20 Google *blog post* states that in the coming months, shoppers will be able to track the price of the item and receive a notice if the price drops. If the shopper wants to move ahead with the purchase, they can tap "buy for me," Google will add the item to the shopper's cart on the merchant's website, and complete the purchase with Google Pay. Google will also let shoppers upload a picture of themselves, "virtually" try on clothing, and share the picture with friends. The "try it on" function is rolling out in Search Labs in the US.

(2) *Copilot goes shopping.* The search on Copilot for a pink sweater was interesting because after executing the search, it offered suggestions on ways to refine the search.

After producing results for a pink sweater search, Copilot asked if you'd prefer a lightweight sweater for transitional weather or a chunky sweater for colder weather. Ask for the lightweight option, and after presenting the results, Copilot asked if you'd like to see trousers to match or accessories.

The conversation seemed similar to what a salesperson might ask. The website didn't offer pictures of the products, requiring the shopper to click on a link to visit the retailer's website for a picture, more details, and the ability to purchase the product.

(3) *Introducing Comet.* Launched on July 9, Perplexity's Comet is the latest agent to arrive on the scene. It was similar to Copilot in that it had a "discussion" with the shopper, asking questions to refine the search. But some answers didn't include links to actual products. Sometimes this user had to click on a "sources" button to get to a list of links with products, which felt clunky.

Whatever bugs AI shopping agents have today, we're sure they'll get smoothed out shortly to lure us into buying even more items online.

Calendars

US: Thurs: Initial Claims 229k; New Home Sales 651k; S&P M-PMI & NM-PMI 52.7/53.0; Chicago Fed National Activity Index. **Fri:** Durable Goods Orders -11.0%. (Source: FX Street)

Global: Thurs: ECB Interest Rate Decision 2.15%; Germany & France M-PMIs 49.5/48.5; Germany & France NM-PMIs 50.0/49.7; Spain Unemployment Rate 11.2%; UK M-PMI & NM-PMI 48.1/52.9. **Fri:** Germany Ifo Business Climate Index Headline, Current Assessment & Expectations 89.2/86.7/91.2; France Consumer Confidence 88; Italy Business Confidence 87.7; UK Retail Sales 1.2%m/m/1.8%y/y; Japan Leading & Coincident Indicator -0.1%/1.1%. (Source: FX Street)

Strategy Indicators

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): During the July 17 week, the S&P 500's forward revenues ticked down for a second week from a record high during the July 3 week, and its forward earnings ticked down from its record high a week earlier. The forward profit margin was steady w/w at a record high 13.6% and is now 3.5ppts above its seven-year low of 10.3% during April 2020. The consensus expectations for forward revenues growth rose 0.1ppt w/w to a 26-week high of 5.7%, just 0.1ppt below its 23-month high of 5.8% during the August 1 week. It has gained 3.4ppts from its 33-month low of 2.3% during the February 23, 2023 week. That's down from a record high of 9.6% growth at the end of May 2021 and compares to 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. The forward earnings growth rose 0.1ppt w/w to a 15-week high of 12.0%, up 1.1ppt from its 15-month low of 10.9% during the May 29 week. From a longer-term perspective, that's a bit stronger than its 20-year average of 11.4% and slowing from a 38-month high of 14.3% during the December 12 week. That's also down from its 23.9% reading at the end of April 2021, which was boosted by the recovery from the pandemic to its highest reading since June 2010 and up substantially from its record low of -5.6% at the end of April 2020. Analysts expect revenues to rise 4.7% in 2025 (up 0.1ppt w/w) and 6.2% in 2026 (up 0.1ppt w/w), compared to a 4.9% rise in 2024. They expect an earnings gain of 9.5% in 2025 (up 0.2ppt w/w) and a 13.9% rise in 2025 (unchanged w/w) compared to 2024's earnings gain of 11.4%. Analysts expect the profit margin to rise 0.6ppt y/y to 13.1% in 2025 (up 0.1ppt w/w) and 0.9ppt y/y in 2026 to 14.0% (unchanged w/w), compared to 2024's 12.5%. Looking at valuation data as of July 17, the S&P 500's weekly forward P/E dropped 0.1pt w/w to 22.2 from a 20-week high, but is up 3.0pts from a 16-month low of 19.2 during the April 17 week and just 0.2pt below its four-year high of 22.4 during the February 20 week. It's now 6.9pts above its 30-month low of 15.3 in October of 2022. It also compares to 23.1 in early September 2020, which was the highest level since July 2000, and to a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio dropped 0.01pt w/w to 3.03 from a record high of 3.04 a week earlier. That's up from a six-month low of 2.22 during the October 26, 2023 week and compares to a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Revenues, Earnings, & Margins (*link*): During the July 17 week, forward revenues rose for four of the 11 S&P 500 sectors, and five sectors posted gains in their forward earnings. Communication Services was the only sector with record-high forward revenues this week. Also close to record high forward revenues are these six sectors: Consumer Staples, Financials, Information Technology, and Utilities. Consumer Discretionary has improved to 0.8% from its mid-March record-high forward revenues and Industrials' is up to 1.4% below its early September record. Forward revenues for Health Care and Real Estate are now 1.2% below their recent record highs. Energy's surged 1.7% w/w, but remains depressed at 28.4% below its September 2008 record while Materials' has improved to a nine-month high to 5.1% below its June 2022 record high. These two sectors had record-high forward earnings this week: Communication Services and Financials. These three are less than 0.6% from their recent record highs: Industrials, Information Technology, and Utilities. These two sectors are a bit further from their highs, but are improving too: Consumer Discretionary (3.6% below its March 6 record) and Consumer Staples (1.8% below its January 2 record). Forward earnings fell harder w/w for Health Care (2.5% below its April 3 record) and Real Estate (3.3% below its August 2022 record). Forward earnings remains depressed for the last two sectors, Energy and Materials, but have improved in recent months to 38.4% and 24.8% below their respective highs during 2022. Looking at the forward profit margin, just one sector rose w/w. Financials remains the only sector in the record high club, but these five sectors remain close: Communication Services, Consumer Discretionary, Industrials, Information Technology, and Utilities. These four sectors are struggling, with their forward profit margins at or barely above cyclical or record lows: Consumer Staples, Energy, Health Care, and Materials. Here's how the S&P 500 and its 11 sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (27.4%, down from its 27.6% record high in September, prior to low-margin Dell's addition to the index, which lowered the margin 1.3ppts then to 26.3%), Financials (20.6, up 0.1ppt w/w to a new record high), Communication Services (19.1, down from its 19.2 record high during the June 19 week), Real Estate (16.6, at a four-month high and down from its 19.2 record high in 2016), Utilities (14.7, down 0.1ppt w/w from a 41-month high and 0.4pt below its April 2021 record high), S&P 500 (13.6, steady w/w at a record high), Materials (10.7, at a 14-week high and up 0.3ppt from 51-month low in late February and down from a 20-month high of 11.6 in July

2023 and a 13.6 record high in June 2022), Consumer Discretionary (9.2, down from a record high 9.4 in early April), Energy (8.8, up from a 55-month low of 8.5 during the during the May 15 week and down from its 12.8 record high in November 2022), Industrials (11.1, down from its 11.3 record high in early January), Health Care (8.3, at a record low and down from its 11.5 record high in February 2022), and Consumer Staples (6.7, a 21-month low and down from its 7.7 record high in June 2020).

US Economic Indicators

Existing Home Sales (*link*): "High mortgage rates are causing home sales to remain stuck at cyclical lows. If the average mortgage rates were to decline to 6%, our scenario analysis suggests an additional 160,000 renters becoming first-time homeowners and elevated sales activity from existing homeowners," noted Lawrence Yun, chief economist of NAR. *Existing home sales* slumped a larger than expected 2.7% in June to 3.93mu (saar), the weakest level since September, and flat with a year ago. June sales fell short of the consensus estimate of 4.01 million units. *Single-family* home sales sank 3.0% to 3.57mu (saar), while *condominium and co-op* sales were unchanged at 360,000 units. The former edged up 0.6% versus a year ago, while the latter was 5.3% below last June sales. *Regionally*, existing home sales were a mixed bag: Sales in the *Northeast* (-8.0% m/m & -4.2% y/y) declined on both a monthly and yearly basis, while sales in the *Midwest* (-4.0 & 2.2) and *South* (-2.2 & 1.7) fell in June, though were above year-ago levels. Sales in the *West* (1.4 & -4.1) climbed in June, though were below from June 2024' sales pace. The *inventory of unsold existing homes* at the end of June was at 1.53 million units, down 0.6% from May, though 15.9% above a year ago. Unsold inventory is at a 4.7 months' supply at the current sales pace, a tick above May's 4.6 months, and above June 2024's 4.0 months.

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