



Ride the Trend

All news has been good news this summer for U.S. stock markets. As I predicted in July's blog "Hooray for the Summer Rally", the S&P 500 (6693) has exceeded my initial target and has continued to make new all-time highs, ending the last day of summer with a bang. Momentum is the main driver in this rally so ride the trend. I know this cannot continue indefinitely and I'm looking for some type of technical correction over the next few weeks.

This year, I've seen more political and economic uncertainty than ever in my career, making it almost impossible to predict if inflation is going to go up or down. GDP indicators are slowing down and new jobs are declining significantly, probably indicating that the U.S. economy is moving into a recession. The new political immigration reality may not be a good economic one. What's next?

I expect the Federal Reserve is going to be pressured into cutting interest rates many more times even if inflation fears continue. Given the uncertainties how tariffs could further the likelihood of inflation, I am concerned about how much the Federal Reserve will cut U.S. interest rates. If I'm right, most Americans will have less to spend. Everyone knows grocery prices are going up, does it make sense to believe that inflation is not a big worry? If the Fed cuts U.S. short-term interest rates too much, the dollar could lose strength, and this could ensure future inflation fears. I do not think long-term U.S. interest rates will go down, but in fact, destined to go much higher. I'm assuming some form of stagflation will affect the U.S. consumer buying power over the next year.

With the S&P 500 now above my initial summer target of 6532, it's possible the current rally could test my intermediate target of 6813 this month, or my primary year-end target of 7056. I think stocks are technically expensive and I'm looking for a correction at this time. Before moving higher, it makes sense that my new level of initial support of 6423, or my new intermediate support of 6155, are likely pull-back level to consider over the next 6 to 12 weeks. I raised my Line in the Sand from 4972 to 5432 just this year.

Stratos S&P 500

Market Analysis

Primary Target:
7056

Intermediate Target:
6813

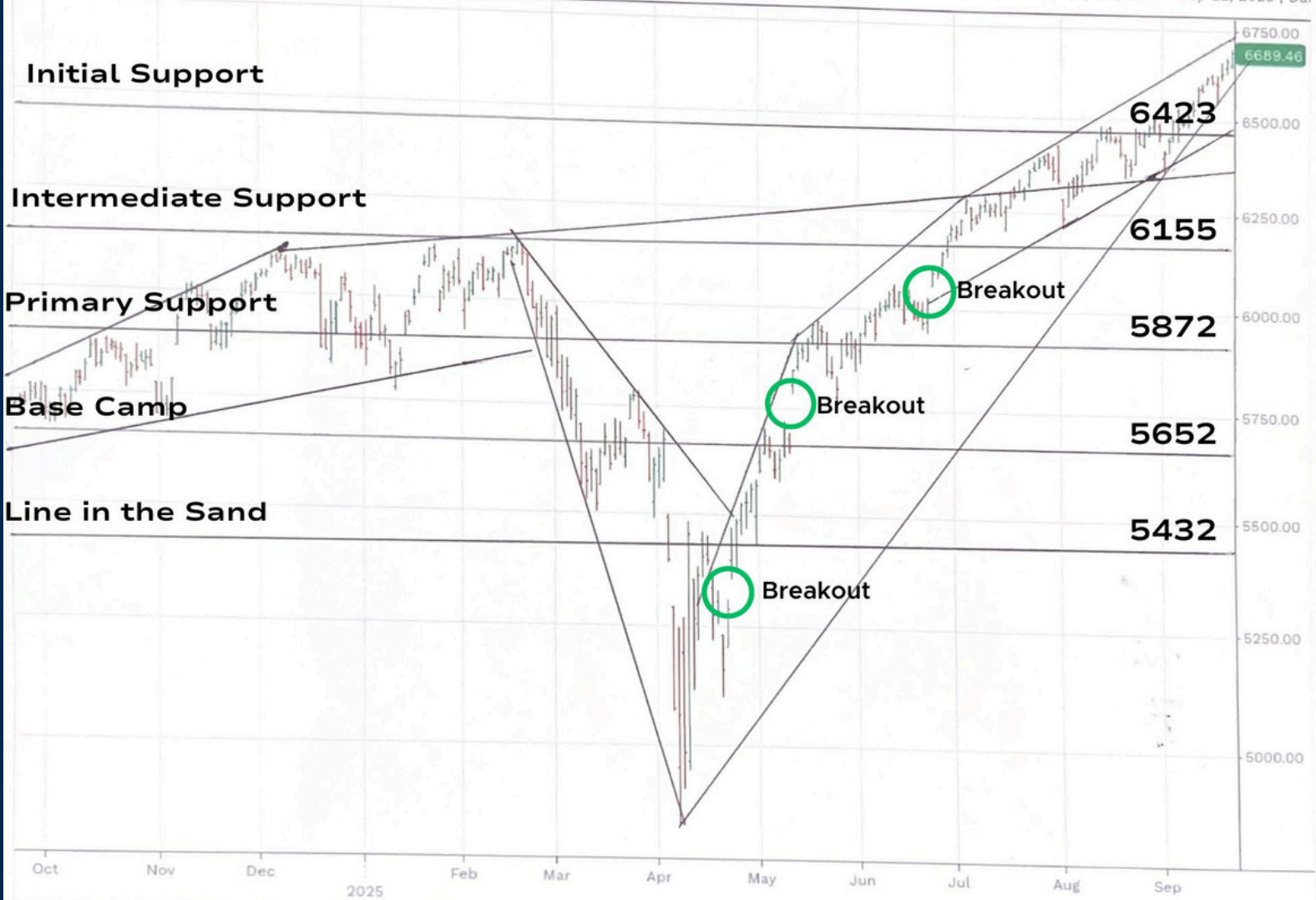
Initial Support:
6423

Intermediate
Support:
6155

Primary Support:
5872

Base Camp:
5652

Line in the Sand:
5432



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As of September 22, 2025 in USD 12:03:44 P

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The fact is gold prices (\$3781) and silver prices(\$44) are up over 40% this year, I consider this a clear sign of inflation. I'm expecting gold to test my intermediate target of 3838 soon. Other precious metals that I have recommended, like palladium and platinum, are also up. I am now recommending copper as an overweight in the industrial metal sector. Copper is now at a discount to gold, making it attractive.

It's likely that energy and agricultural prices, which have moved lower, will soon recover and eventually move much higher. Oil prices have been fairly stable with energy stocks showing strong signs of basing. I'm predicting energy prices are much more likely to go higher based on demand and possible supply disruptions. The dollar has been mixed over the last month and lower U.S. bond yields could be an opportunity to reduce exposure because I don't believe U.S. long-term interest rates will go much lower.

Since April, the S&P 500 has had a historic move-higher in such a short period of time. The U.S. investor continues to focus on good news, but earnings and profits may have to go up to continue this rally. Momentum is a tricky thing, so I continue to **Ride The Trend** of anticipating a powerful year-end rally for U.S. stocks. Good Trading for the Long Term

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