Richard Rose Wealth Management June 23, 2025

WEEKLY COMMENTARY **Richard Rose AIF®**

Good morning,

What's in this week's Report:

- Two Analogies to Explain Tariffs
- Weekly Market Preview: How Does Iran Respond? (And Does That Increase Worries About the Conflict Spreading?)
- Weekly Economic Cheat Sheet: More Important Growth Data This Week
- Unknowns Are Weighing on the Markets

Futures are slightly higher despite an increase in geopolitical tensions over the weekend.

The U.S. attacked and destroyed three Iranian nuclear facilities over the weekend. But, despite ominous headlines, we are not seeing an increase in oil prices or geopolitical tensions in the markets as fears of the conflict spreading remain low.

Today, the focus will remain on geopolitics and specifically how Iran responds to the direct U.S. attack. Despite the headlines about this event, from a market standpoint, unless investors fear the conflict will spread and dramatically reduce oil supplies, rising geopolitical tensions will not be a material negative for this market.

Economically, there are two notable reports today: Flash Manufacturing PMI (E: 51.1) and the Flash Services PMI (E: 52.9), and markets will want to see stability in both to push back on slowdown fears. On the Fed front, there are multiple speakers today, including Bowman (10:00 a.m. ET), Goolsbee (1:10 p.m. ET), Kugler & Williams (2:30 p.m. ET). But, with Powell's testimony before Congress starting tomorrow, these speakers shouldn't move markets.

Market	Level	Change	% Change
S&P 500 Futures	6,018.25	0.25	0.01%
U.S. Dollar (DXY)	99.31	0.60	0.61%
Gold	3,377.05	-8.65	0.26%
WTI	73.93	0.09	0.12%
10 Year	4.351%	-0.024	-0.55%

Stocks

Last Week (Needed Context as We Start a New Week)

Stocks began last week with a risk-on bid, which saw the S&P 500 revisit multi-month highs amid the perception of easing geopolitical tensions in the Middle East. However, the increasing risk that the U.S. might directly strike Iran, paired with a slightly hawkish June Fed decision, saw the market roll over into the weekend. The S&P 500 declined 0.15% for the week.

The combination of at least some modest easing in tensions between Israel and Iran coming into last week helped risk-on money flows return, supporting an early rip of over 1% in the S&P 500. A dovish reaction to a relatively weak Empire State Manufacturing report was an added tailwind for stocks in early trade; however, rhetoric from government officials deteriorated and poured cold water on the advance, leaving the S&P 500 to bleed lower and end the day off the highs but still up 0.94%.

The market reversed course on Tuesday, with stocks gapping lower at the open amid a bout of pronounced risk-off money flows that followed news that President Trump had abruptly chosen to leave the G7 Summit in Canada to return to Washington for “obvious reasons,” widely interpreted as escalating tensions between Israel and Iran. The S&P 500 declined 0.84%.

Stocks ended Wednesday effectively flat, as initial jobless claims data met expectations, while the Fed's decision largely met expectations (it was slightly hawkish, but not enough to impact markets materially).

Stocks opened higher on Friday, a quadruple witching options expiration day, after Iranian officials announced a willingness to continue nuclear talks with the U.S.. At the same time, the Fed’s Waller surprisingly said that July rate cuts were “on the table.” However, news surrounding a fresh round of U.S. sanctions on Iran poured cold water on what was an options-influenced equity market, and the S&P 500 lost a modest 0.22%.

Two Analogies to Explain Tariffs

From a market strategy standpoint, understanding how tariffs could impact growth and inflation is crucial, as the market’s perception of these impacts has significantly influenced performance this year. In March and April, sentiment surveys plummeted as investors became increasingly convinced that tariffs would harm economic growth and drive up inflation. But neither have happened so far and that reality, combined with TACO (the administration reducing the impact of tariffs) has led to a substantial positive swing in sentiment, to the point where now the S&P 500 is not pricing in any chance of an economic slowdown (if it were, it wouldn’t be trading near 23X earnings and positive YTD despite a substantially higher tariff burden). Point being, investors’ perception of tariffs matters a great deal to this market, and if concerns that tariffs could hurt growth or boost inflation resurface, that will pressure stocks.

These two analogies help explain how tariffs will impact the economy and why we haven’t seen tariffs hurt growth or boost inflation, as well as why the Fed remains hesitant to cut rates.

Analogy 1: How tariffs impact the economy. It’s like the economy put on a weighted vest. For those into fitness, one recent trend has been to wear a weighted vest while walking, running, or working out. The weight of the vest must be light enough for the person to still complete the exercises, but also heavy enough to make those exercises substantially more difficult.

Tariffs are essentially a weight vest on the economy. They are, at current levels, light enough not to prevent the economy from continuing to hum along. But just like with a real weight vest, the longer it stays on, the more difficult the exercises become. The longer tariffs stay in place, the harder it will be for the economy to maintain the pace of growth. And we’re likely starting to see this “tariff weight vest” begin to weigh on the economy, as evidenced by a recent dip in most major economic indicators. Again, just as a real weight vest makes simple exercises difficult after it has been worn for a long time, so too will tariffs make growth harder and harder to achieve the longer they remain on the economy.

Analogy 2: How tariffs impact inflation. Holding a beach ball underwater. Have you ever tried to keep a beach ball underwater in a pool or a stream? It's easy at first, but the constant pressure of air trying to rise almost always leads to the beach ball slipping out of one's grip and breaching the surface. Tariffs have a similar effect on inflation. They are the equivalent of inflating the beach ball. Initially, vendors and retailers absorbing price increases, combined with consumer value shopping and statistical offsets (such as slowing home price increases), can keep the inflationary pressure under the surface. But the longer the tariffs stay in place, the more inflation can escape, just like how that beach ball finds the weakest point of resistance to surge to the surface.

The Fed believes we are still early enough in the tariff regime that 1) The tariff weight vest isn't dramatically weighing on the economy (yet) and that 2) The aforementioned offset of reduced margins, value shopping, and statistical offsets are keeping that inflation beach ball submerged. However, the longer the tariffs remain in place, the inevitable will ultimately occur: the economy will exhaust its resources (slowdown?) and/or inflation will rise to the surface. That's why the Fed is warning about an inflation surge in the coming months and why it remains focused on any potential impacts on growth.

Bottom line, it's undeniable that the global trade system was due for a fresh look and potential shake-up, as a lot has changed in the past several decades regarding international trade, and tariffs are one way to address that issue. Whether they are the best way to accomplish goals or reorient global trade is debatable, but what is not debatable is that tariffs will have a cost on growth and inflation; the only question is how much. However, just because that cost hasn't shown up yet, it's essential not to become complacent about those risks. The longer tariffs remain in place (at current levels or higher), the more inevitable it becomes that growth will slow and inflation will increase.

Economic Data (What You Need to Know in Plain English)

Last Week

Data from last week continued to indicate an economy losing momentum, but, like other recent data, it wasn't severe enough to substantially increase concerns about a hard landing or recession. The key report was Retail Sales, and the headline was soft, but the details were solid, and there was nothing in the report to imply that consumer spending is suddenly drying up.

Headline retail sales fell -0.9% vs. (E) -0.5%, but the majority of that decline was driven by reduced gasoline and auto (car) spending. The more important "control group," which is retail sales less gas, autos, and building materials, rose 0.5% vs. (E) 0.4%, implying that discretionary consumer spending (which is key to continued stability in the economy) remains generally fine.

The other notable economic report last week was the weekly jobless claims, which remained elevated (compared to recent history) at 245,000. Notably, the four-week moving average rose to its highest level in over a year, and the message from that is clear: some deterioration is occurring in the labor market, which is evident across various indicators, including jobless claims, JOLTS, and the monthly jobs report. Importantly, the deterioration isn't yet enough to warrant concern (the numbers are still all "fine"), but they are moving in the wrong direction, and this will need to be closely monitored.

Finally, the first look at June economic activity, as indicated by the Empire and Philly Fed manufacturing surveys, was disappointing, as both metrics missed expectations and showed some deterioration in the details. The Empire Manufacturing survey dropped to -16, compared to (E) -7, while the Philly Fed slipped to -4, compared to (E) -1.7. New orders, the leading indicator for both metrics, also dropped. Both of these metrics have been especially volatile, and as such, we must take these signals with a grain of salt; it's not an indictment of growth. However, it's a negative reading, and it serves as a reminder that growth is slowing. If that accelerates, it will be negative for markets.

Important Economic Data This Week

The calendar is rather sparse this week (next week contains the three most important economic reports of the month). However, there are still some potentially market-moving reports this week, starting with Fed Chair Powell's semi-annual testimony to Congress on Tuesday and Wednesday. Given the Fed meeting was last week, Powell will likely reiterate the same "wait-and-see" policy stance to Congress. However, Fed Governor Waller said on Friday that rate cuts could come as soon as July, so there is a chance Powell will sound more open to cuts before the fall (if that happens, it'd be positive for stocks).

Turning to economic data, the key report this week is this morning's flash PMI, as it's the first national economic reading for June. The stakes for markets are simple: if the number is solid and stable, it'll help ease recent concerns that the economy is losing momentum. Conversely, if the number drops, it'll add to the worries that tariffs and general chaos are causing a dramatic slowing in the economy. The former outcome would be positive for stocks, as it implies a soft landing, while the latter would be a clear negative, as the market trading at current levels provides zero allowance for a slowdown.

The other notable reports this week are scheduled for Thursday and Friday, with jobless claims and durable goods on Thursday, and the Core PCE Price Index on Friday. If claims are elevated compared to recent history and rise above $250,000, that will get attention. It won't be a dramatic negative, but it'll reinforce that claims are slowing (and consistently) rising. The Core PCE Price Index is released on Friday, and markets are counting on inflation to remain subdued, keeping expectations for two rate cuts in 2025 intact. If inflation surprises to the upside (which is unlikely, given that CPI and PPI were light), then that will push yields higher and pressure stocks. Remember, Powell expects a pop in inflation in the coming months, and if that starts to materialize, it'll be a new negative for markets.

Special Reports and Editorial

Unknowns Are Weighing on the Markets

Stocks spent most of last week in a general holding pattern, waiting on two key developments: 1) the Fed and 2) whether the U.S. intervenes directly in the Israel-Iran conflict. And because there wasn't any market-moving news on either front, stocks ended little changed.

Regarding the Fed, the decision was essentially a reiteration of the "wait-and-see" messaging that we've heard for the past two months, and there appears to be no desire on the part of the Fed to change that anytime soon. Notably, the dots did show two rate cuts in 2025 (which is positive because it met market expectations), but more Fed governors saw no hikes, marking a slightly hawkish shift. But that wasn't enough to move the median dot or alter market expectations for two additional cuts. The market is expected to continue through the summer, with the anticipation of two rate cuts still to come in 2025. However, the inflation and growth metrics over the next two to three months will be crucial in determining whether this expectation remains realistic.

Turning to geopolitics, the world was still waiting for the news of whether the U.S. would intervene directly in the Israel/Iran conflict (it did so over the weekend). For all the analysis and opinions on what that might look like and what it could mean for geopolitics, the key for the markets remains the price of oil. If oil surges to and through $80 per barrel, that will become a more negative influence on markets. If oil can remain in the mid-$70s amidst all the geopolitical chaos, then, regardless of how negative the headlines or opinions, the situation in the Middle East won't be materially negative for stocks (or bonds, as Treasuries could decline if oil spikes and raises inflation concerns).

Bottom line, there were already numerous unknowns for investors to contend with (what happens with tariffs in July, whether growth is actually slowing, and whether inflation will rise sharply in a few months as Powell warned). We've added another with the Israel-Iran conflict. Those unknowns will act as a weight on equities in the near term and make rallies a bit harder to sustain, but these unknowns are not, by themselves, enough to cause a correction.

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