MARKET REVIEW & OUTLOOK

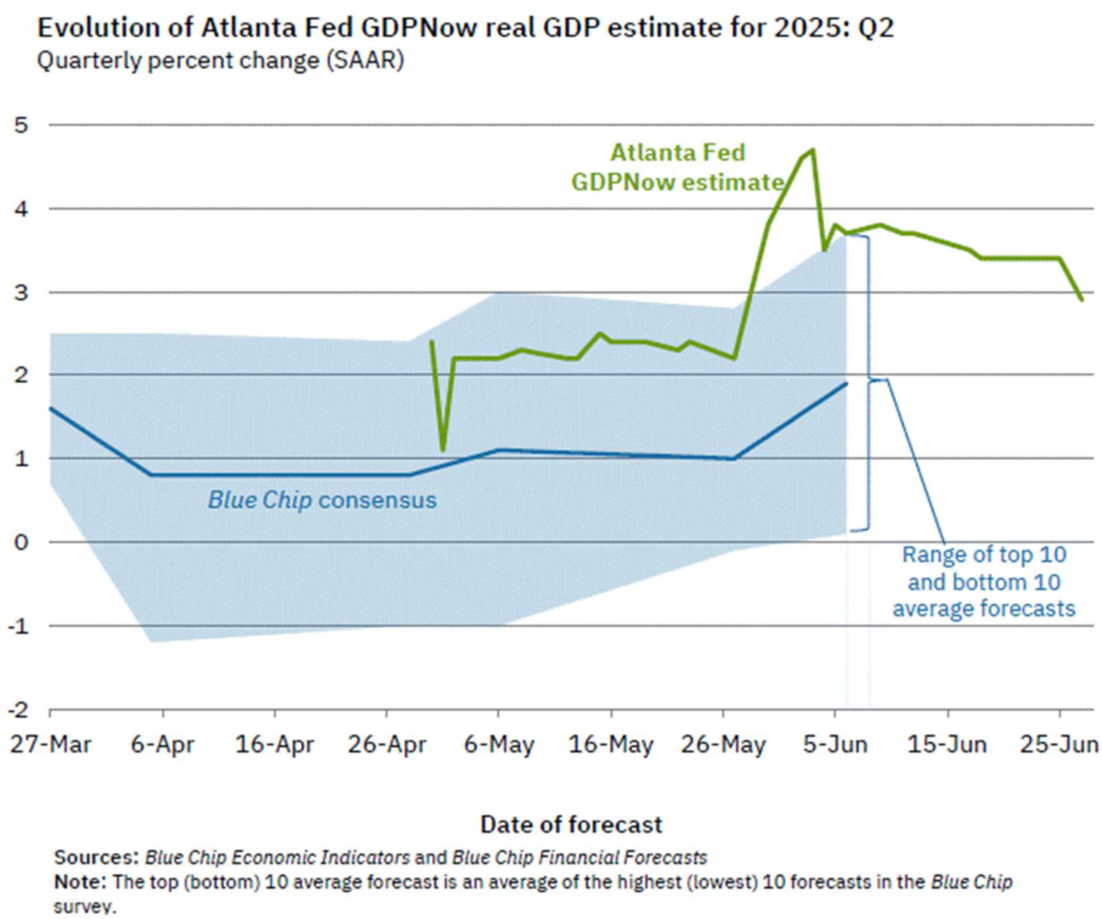
JUNE 2025

KEY TAKEAWAYS

- The equity markets meandered higher for 3 weeks and then sprinted higher to finish the month strong and at All-time highs on the S&P 500.
- The U.S. 10-year Treasury Yield continued lower, a trend that started late last month, dropping below 4.25%.
- Crude oil rallied sharply mid-month on the Middle East conflict hitting $78 before settling down.

The U.S. Economy

The final read for 1st quarter GDP came in at -0.5%, worse than the second reading of -0.2%. Core PCE, the imbedded inflation measure, came in slightly higher at 3.5% vs. 3.4% last reported. The expected rebound for 2nd quarter's GDP, GDPNow, is occurring, with expectations at +2.9%, and the Blue-Chip consensus forecast moving up near +2.0%, as shown in the chart below. Economic reports have firmed up though the PCE deflator remains elevated and is still well above the Fed's sweet spot of "2%" inflation. The peak trade war/tariffs fear seems to be behind us, and it appears 1st half GDP will come in with reasonable growth.



Source : https://www.frbatlanta.org/cqer/research/gdpnow

Stocks and Bonds

The U.S. 10-year Treasury yield hovered roughly in the range of 4.35% to 4.50% falling below 4.25% to close at 4.23% to finish the month of June, down from 4.42% at the end of May. There was no single catalyst for the late-month decline, but several contributing factors likely played a role: softer economic data, reduced concern from the Fed about the inflationary impact of tariffs, and a regulatory change lowering reserve requirements for banks holding Treasury securities. The Fed's mid-month meeting delivered no surprises, but its tone appeared to shift more dovish toward month-end. While markets are not pricing in a rate cut in July, expectations for a September cut are rising. The decline in yields provided a welcome boost to high-quality fixed income, with the iShares U.S. Aggregate Bond ETF gaining 1.54% for the month.

The Dow Jones Industrial Average rallied +4.32%, the S&P 500 popped +4.96%, and the small cap iShares Russell 2000 ETF jumped +5.40%. The international markets traded in line with the U.S. markets. The MSCI EAFE iShares Core International Developed Markets ETF Index rose +2.85%, and the MSCI Emerging Markets iShares Core ETF Index soared +6.62%.

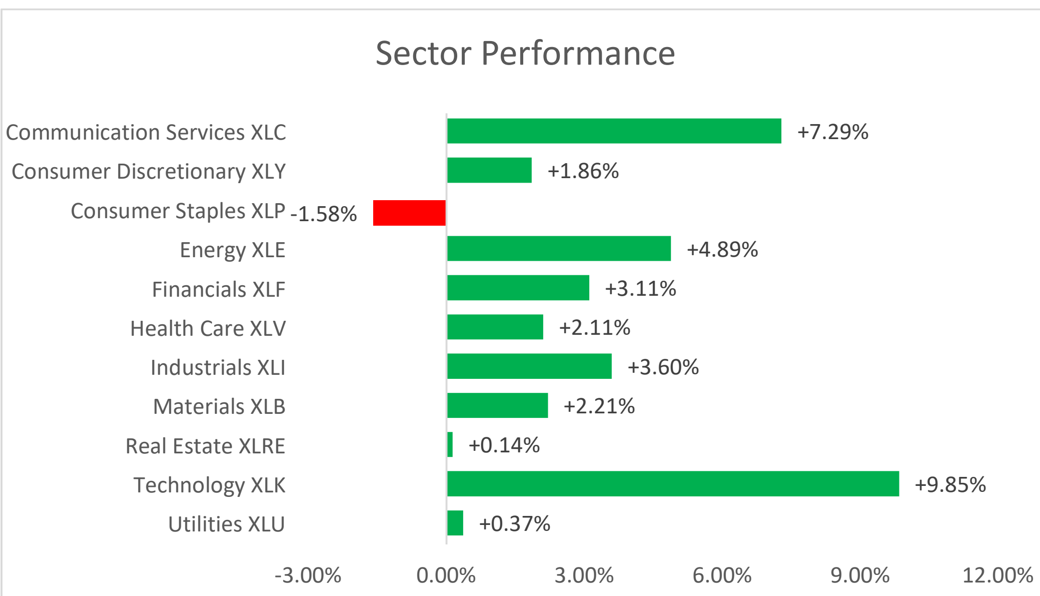
June's sector performance was positive except for Consumer Staples.

The best performers were…

- Technology: +9.85%
- Communication Services: +7.29%
- Energy: +4.89%

The worst performers were…

- Consumer Staples: -1.58%
- Real Estate: +0.14%
- Utilities: +0.37%



Source: https://www.morningstar.com

Oil Report

Crude Oil dramatically shook off last month's quiet with a roar brought on by the "war" between Israel and Iran mid-month. Price steadily rose on the heels of the escalation and rhetoric. This peaked when the U.S. bombed Iran's nuclear facilities on Saturday June 21st. When the market opened on Sunday afternoon, Crude spiked to $78 per barrel and immediately rolled over as it became apparent that further escalation was not going to happen and by Monday's close, Crude fell on the session ending at $68. The remainder of the month, Crude hugged the $65 level. In the end, Crude prices finished higher after a very wild ride. The current NYMEX WTI Crude Oil futures settled at $65.11, gaining over 7% from the prior month's close of $60.79 a barrel. RBOB gasoline was less volatile than Crude, rallying almost 15% before "peace" broke out and giving back most of the gains to end up nearly +3% for the month vs. May's close. I didn't have a conflict in the Middle East on my bingo card as the reason for renewed focus on the energy sector. Hopefully, the months ahead bring less geopolitical tension and more attention on the summer driving season instead.

The Rest of the Data

The May ISM Manufacturing Index eased further to 48.5 from April's reading of 48.7, remaining below 50. The ISM Services Index dropped to 49.9 in May, from April's print of 51.6, the first print below 50 since June 2024. Any reading below 50 generally indicates deteriorating conditions. The prices paid component for Manufacturing continues high in the elevated range and Services' prices joined Manufacturing high in the elevated levels. Consumer confidence fell to 93.0 in June, which compared to an upwardly revised 98.4 in May. The unemployment rate remained at 4.2%, while the number of jobs added came in at 139,000 in May, beating expectations of 126,000 jobs. The Consumer Price Index for All Urban Consumers (CPI-U) increased +0.1% in May, on a seasonally adjusted basis. Over the last 12 months, the All-Items Index rate increased to +2.4% on a non-seasonally adjusted basis. The CPI ex Food and Energy continues to hold at 2.8% over the last year. The general theme is on autorepeat, reasonable to slowing economic growth, stable employment and noisy inflation data with some showing firming and others showing continued abatement. The Fed, within the last few days, seems to be opening that the scary jump in tariff induced inflation may not happen and expressing some concerns about the resilience of employment. The Fed meets at the end of July; the market is currently not pricing in a July cut but is solidly predicting a rate cut in September. We will continue to monitor economic activity, policy announcements, and inflation reports for potential shifts.

Summary

The market continues to shrug off Trump Tweet mania, have we all become numb? 🤣 The markets seem to have moved on from tariffs as well, figuring something will be worked out but guessing that not much will change. The market is more focused on the tax bill working through the Senate and Congress, which looks to continue providing stimulus to the economy and not massive austerity that was originally feared/promised. Laser focus is on the Fed speak which seems to finally be moving toward a more dovish basis that signals a potential resumption of rate cuts after a 6-month hiatus. The above may provide comfort that the feared second half of the year recession may not happen after all. Thursday is the Employment report, which if weak may be the catalyst for a July rate cut. July 9th is the tariff pause deadline; does it get extended or cause market disruption. All of which sets the stage for the late July Fed meeting.

More than ever, the markets can be emotional, so we retain our focus on what we can control, which is the amount of equity risk that is taken in a clients' portfolio in concert with the clients' risk tolerance and long-term goals. The markets will always face different "worries", today it is inflation/tariffs vs. growth and interest rates, tomorrow it will be something else. We have built our asset allocation models with dynamic features and quarterly rebalancing, both in fixed income and equities. The continued recovery in markets leaves U.S. Mid cap as the only position in defensive mode.

If you have specific questions about your portfolio or financial situation, we are here to help. Long-term financial planning is designed to deal with uncertainty like those we discussed above. Our portfolio management process is to design a prudent allocation across many asset classes. Equities are for long-term growth and several vehicles that we utilize offer defensive mechanisms to mitigate equity market declines.

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