Summary

Economic data included consumer and producer price inflation coming in a bit cooler than expected, although both remain above long-term trend. Consumer confidence also improved, in keeping with paused tariff policies. However, continuing jobless claims kept rising, which could be due to some seasonal effects and/or labor markets softening further.

After starting positively, equities reversed course and fell in the U.S. and foreign developed markets, largely in response to escalation of the Israel-Iran military conflict. Bonds gained as yields fell back, especially abroad with a weaker dollar. Commodities gained as crude oil prices spiked, due to the same Middle East escalation concerns.

Economic Notes

(0) The **Consumer Price Index** for May increased by 0.1%, a tenth lower than the 0.2% seen last month, and expected by consensus. Removing food and energy, core CPI rose a similar 0.1%. Under the hood, on a seasonally-adjusted basis, energy commodity prices declined by -2.4%, while food prices gained 0.3%. Within core, shelter remained sticky, gaining another 0.3%, continuing a stretch of similar gains over the past six months. Prices also rose for car insurance, appliances, home furnishings, and personal computers, all of which could be tariff-related. On the deflationary side, public transportation, apparel, used cars, and new cars all saw declines of several tenths of a percent. Airfares fell further due to an assumed pullback in government and business travel.

On a year-over-year basis, headline CPI rose 2.4% (although moving beyond normal rounding to the tenth of a percent, the 2.35% was only slightly stronger than the prior 2.31%) while core CPI was little-changed at a rounded rate of 2.8%. Services prices rose 3.7%, which outweighed the no change in durable goods and -0.1% price drop in non-durable goods. The underlying drivers for the full year included a -12% decline in energy prices, while shelter rose 4%, and food another 3%. Areas like medical services and car repair also saw gains, while apparel prices fell -1%. Looking at alternative measures of CPI told much of the story, with “All items less shelter” rising only 1.5% for the past 12 months, and “All items less food and shelter” up only 1.1%. Unfortunately, expensive food and shelter remain priorities in most household budgets.

(0) The **Producer Price Index** rose 0.1% in May, below the 0.2% median forecast. Removing food and energy, core PPI rose the same 0.1% compared to the more robust 0.3% expected. More dramatic changes included airfares, which fell by over -1%. Year-over-year, headline and core PPI rose 2.6% and 3.0%, respectively. These included a 1.3% rise in goods prices, while services prices rose 3.2%—both in keeping with recent trend. As with CPI, there hasn’t been a large impact from tariffs so far, with continued increases in the 2-3% range, showing continued pressures, albeit not as large as the problematic price spikes from a few years ago.

(+) The **Univ. of Michigan index of consumer sentiment** rose by 8.3 points to 60.5 in the preliminary June report, above the smaller expected increase to 53.6. It also represented the first monthly gain in sentiment since the late last year. Assessments of current conditions rose by nearly 5 points, while expectations for the future rose by a stronger 10 points. Inflation expectations for the coming 1 year declined sharply by -1.5% to 5.1%, while 5-year expectations only fell by a tenth to 4.1%. Anecdotal commentary from the survey sponsor mentioned that consumers "appear to have settled somewhat from the shock of the extremely high tariffs announced in April" and the ensuing policy volatility in the following few weeks. However, in regard to the economy, they "still perceive wide-ranging downside risks."

(0/-) **Initial jobless claims** for the Jun. 7 ending week were unchanged at 248k, just above the median forecast of 242k. Claims rose in CA, IA, and MA, while KY saw the sharpest decline. Continuing claims for the May 31 week rose by 54k to 1.956 mil., well above the 1.910 mil. expected by consensus. The latter rose to the highest level in four years, which is important as a closely-watched figure for signs of early deterioration in the labor market. At the same time, claims can be more difficult to evaluate for seasonal reasons as the school year ends and summer break begins, especially in recent years. The next few weeks may be able to provide more clarity for where the claims trend is headed.

Question of the Week

What is happening between Israel and Iran and what are the implications?

Late last week, Israel unleashed air strikes on both Iranian strategic military installations and nuclear facilities. It's possible that some land warfare may be included, which certainly runs the risk of escalating the conflict beyond the back-and-forth missile volleys we've seen occasionally over the past several years. The U.S. appeared to be loosely involved in the shooting down of retaliatory Iranian missiles in a defensive capacity, as well as prior intelligence-sharing, and normal regional diplomacy efforts, although it's denied deeper involvement. This recent attack had allegedly been in the planning stages for several years. It was notable to see what *wasn't* included in the initial phase of the attack—Iranian political and religious leadership and oil infrastructure—although there was speculation around possible plans for the former.

As are a variety of nations in the Middle East, Israel is especially focused on keeping Iran from achieving nuclear weapon capability, which has tended to be a scientific step just beyond uranium enrichment. Importantly, it's been argued that a nuclear Iran could significantly and permanently alter the military balance of power in the region. So, each time nuclear facilities are destroyed, it 'resets the clock' on their capabilities, so to speak, if only on a temporary basis. Potential escalations remain a risk, which could include targeting power or energy infrastructure or political leadership, or Iran closing/sabotaging the Strait of Hormuz, through which a high volume of global crude oil flows. The latter could be significant enough to warrant a broader response, including more extensive involvement from the U.S., according to some watchers. Militarily, though, Iran appears far more vulnerable recently than it had prior, in no small part due to Israeli progress in wars against Iranian allies Hamas in Gaza and Hezbollah in Lebanon, not to mention the recent regime change in Syria, which removed a key Iranian supporter and physical supply route. This weakness could limit retaliatory responses, but how that unfolds remains to be seen, with a delayed response also a possibility.

From a portfolio standpoint, stock and bond markets reacted moderately negatively on Friday in response to the rise in geopolitical uncertainty, rather than specific fundamental changes. Israel represents only about a percent of the MSCI EAFE developed market index, largely in software, local banks, and some healthcare, while Iran is not a participant in mainstream capital markets aside from some oil production and transport.

Most importantly on the financial market side, as has been the case with Middle East affairs for decades, the focus has been crude oil prices. The risk is that a military escalation could knock out Iranian oil production or transportation facilities—and potential carryover elsewhere in the region—as price spikes tend to stem from fears of that potential drop-off in supply. However, as production elsewhere has ramped up over the years (including in the U.S.), and the Iranian contribution has become less critical, the price response appears to have been more muted than it was, say, in the 1970s. Based on some opinions, while the recent rise in oil has not prompted new long positions, a 'closing of current shorts' may have been a starting point, with fundamental conditions globally still showing a mix of tepid oil demand and ample supplies. Those underpinnings behind the recent bear market in oil haven't changed, but prices may obviously stay volatile due to these Middle East events on the technical side.

Market Notes

Period ending 6/13/2025	**1 Week %**	**YTD %**
DJIA	-1.30	-0.01
S&P 500	-0.36	2.25
NASDAQ	-0.61	0.82
Russell 2000	-1.45	-5.23
MSCI-EAFE	-0.17	17.52
MSCI-EM	0.75	12.04
Bloomberg U.S. Aggregate	0.67	2.69

U.S. Treasury Yields	**3 Mo.**	**2 Yr.**	**5 Yr.**	**10 Yr.**	**30 Yr.**
12/31/2024	4.37	4.25	4.38	4.58	4.78
6/6/2025	4.43	4.04	4.13	4.51	4.97
6/13/2025	4.45	3.96	4.02	4.41	4.90

U.S. stocks were positive for most of the week, with a mix of influences, but ended down on net. Early in the week, investors reacted positively to a short London meeting between the U.S. and China, which resulted in no real breakthroughs, but getting the "negativity out," as Commerce Secretary Lutnick put it, perhaps providing a restart point for further talks. The Chinese have been increasingly using exports of rare earth minerals as leverage (they aren't really rare insofar as finding them in the earth's crust goes, but the processing of them is, and they're critical for modern technological devices like computers and phones). The Administration also indicated that an extension of the current 90-day tariff pause was possible for countries negotiating in "good faith." Markets reacted positively to some extent on Wed. to the cooler CPI report; however, this was seen as making the Fed's job a bit tougher as to the push-and-pull between higher and lower rate policy. However, all was undone as stocks fell back by Fri. morning in response to Israel's strikes on Iran, which raised geopolitical concerns.

By sector, energy led, up nearly 6% along with a rise in oil prices, along with smaller gains for traditional safe havens health care and utilities. On the other hand, financial and industrials fell by several percent each. Real estate was little-changed for the week.

Foreign stocks were mixed, along with a weaker U.S. dollar broadly. Gains in the U.K. (despite a negative April GDP report) and emerging markets were offset by declines in Europe and Japan. ECB officials continued to hint that rate cuts may be close to complete, which disappointed markets to some extent. Emerging market results were mixed, led by strength in Taiwan, South Korea, and Brazil, along with weaker results in Turkey and India.

Bonds gained as U.S. Treasury interest rates fell back steadily during the week, helped by encouraging inflation data and a strong 10-year auction mid-week. Investment-grade corporate bonds outperformed governments slightly, both of which outperformed minimal change in high yield and floating rate bank loans. Foreign bonds fared positively, led by unhedged developed market government bonds as the U.S. dollar fell by around a percent, providing a substantial tailwind.

Commodities gained overall for the week, led by a sharp rise in energy, and precious metals to a lesser degree, while agriculture declined. Crude oil prices rose a dramatic 13%% last week (and 8% on Friday alone) to over $73/barrel, following Israel's attack on Iran, as discussed in more detail above.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal

Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

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Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.

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