Summary

Last week's news featured the Federal Reserve keeping short-term policy interest rates steady at their June meeting. Economic data included weaker retail sales, industrial production, housing starts, and the index of leading economic indicators. Jobless claims were little changed.

Equities were mixed globally last week, with a variety of global influences. Bonds fared positively as interest rates declined. Commodities were driven higher by energy prices, tied to Middle East concerns.

Economic Notes

(0) The **FOMC meeting** ended with no change in policy, for the fourth straight meeting, and indications of perhaps a more difficult balance between the Fed's two mandates of inflation and employment. Earlier in the day, the President had called for "too late" Chair Powell to immediately cut rates by -2.50%, although one-time extreme policy changes (even on the order of -0.50%) are usually reserved for more challenging slow growth, recessionary, or even full-on crisis environments.

Chair Powell's post-meeting press conference was wide-ranging, but included questions on current events, as would be expected. He emphasized general health in the economy, as more of a positive than negative message, but continued to emphasize that monetary policy should be looked at through a balance of risks, a theme he has alluded to before. Importantly, he reiterated that "restoring price stability" is the most important long-term Fed objective in serving the public, despite current difficulties caused by high consumer including the impacts of mortgage rates on housing affordability, etc. in the near term.

The "uncertainty" theme continued to dominate the discussion, as he highlighted the lack of clarity behind potential impacts of tariff and immigration policies, which "take some time" to find their way into the data. He noted a one-time shift in prices was a more likely case, rather than being an ongoing inflation influence, echoing the sentiments of many economists on the issue. Though, he did expect that most tariffs will be passed through from manufacturer to consumer through the chain, as "someone has to pay for them" (implying the end consumer). But conditions feel much "more positive and constructive" than they did on Apr. 2, and acknowledged the Fed may get a better sense of impacts "over the summer." At the same time, the committee has been "very much" discussing "possible scenarios" that could unfold, including potential demand destruction from high tariffs that could weaken the economic growth outlook, noting "you can make a case for any of the rate paths in the SEP" and "we can't just assume" any particular path is pre-determined. In the labor market, there haven't been significant layoffs, seen as a positive, but it's been getting harder to find a job, so that growing mismatch is "something we're watching very closely." He did lament the trend of deteriorating economic data collection efforts and survey response rates, as he considers high quality detailed economic data an "important public good" for use by everyone in making informed decisions—government policymakers, economists, businesses, and consumers.

(-) **Retail sales** fell by -0.9% in May, just beyond the -0.6% median forecast, and well below the revised -0.1% of the prior month. As auto sales fell by -4% in the month, sales ex-autos declined by only -0.3%. Both building materials and gas station sales fell by -2%, which pushed core/control sales to an increase of 0.4%. Within that group, gains in non-store/internet, misc. retailers, sporting goods, and furniture stores offset declines in grocery, electronics/appliances, and department stores. Some of the May results appeared to be a reversal of some prior sales growth, which may have taken place to 'front-run' anticipated tariff policies. Sales are up just over 3% for the past year, which, when adjusted for inflation, is roughly flat on a 'real' basis.

(-) **Industrial production** declined by -0.2% in May, just below expectations for a flat reading. Manufacturing production rose by 0.1%, led by motor vehicle assemblies, which rose 7% in the month, and business equipment rose by nearly 1%. Mining production was barely changed. However, utilities production declined by -3%, but is a category that is largely weather-dependent so contains a significant randomness element. Year-over-year, total industrial production rose a meager 0.6%, led by gains in mining (including oil/gas extraction) and declines in utilities, with high-tech equipment remaining the leader, up nearly 10% for the year. **Capacity utilization** declined by -0.3% to 77.4%.

(-) **Housing starts** declined by -9.8% in May to a pace of 1.256 mil. seasonally-adjusted annualized units, well below the -0.8% decline forecasted, and in contrast to the gain of the prior month, including upward revisions. The month was led downward by multi-family, which fell by -30%, while single-family starts ticked up a fraction of a percent. Regionally, starts rose 15% in the West, but fell elsewhere, led by a -40% drop in the Northeast. **Building permits** fell by -2.0% to a seasonally-adjusted 1.393 mil. units, below expectations calling for no change. Single-family permits fell by -3%, while multi-family permits fell by nearly a percent, with the Midwest seeing the strongest gain, and Northeast the most robust decline. On the positive side, under the hood of the starts data, homebuilder completions rose, which implied that projects are being finished as opposed to adding new ones.

(0/+) **Initial jobless claims** for the Jun. 14 ending week fell by -5k to 245k, matching consensus expectations. Continuing claims for the Jun. 7 week fell by -6k to 1.945 mil., just ahead of the 1.941 mil. expected. Claims were mixed by state, with continued adjustments between seasons and the end of the school year potentially playing a role around this time.

(-) The Conference Board's **Index of Leading Economic Indicators** fell by another -0.1% in May, following the -1.4% April drop (and a downward revision from the original report). Underlying May results were mixed, with gains in the S&P 500 stock index, weekly hours worked, and manufacturing new orders ex-aircraft contributing; these were offset by declines in consumer sentiment, ISM total new orders, building permits, and weekly jobless claims. However, the diffusion in the index was 55, meaning that more components were up than down, better than in the last few months. The LEI has declined -2.7% over the past six-month period, a deeper decline than the -1.4% drop for the earlier six months ended Nov. 2024. Over that semiannual period, sharp negativity in consumer sentiment, ISM new orders, and building permits outweighed other data, which tended to wash out.

The Conference Board mentioned that the negative six-month number has now triggered their rules-based recession signal, based on one of their pre-determined criteria (diffusion of various components below 50, being at 20, with the growth also down past -4% on an annualized basis). Qualitatively, they still don't "anticipate recession, but we do expect a significant slowdown in economic growth in 2025 compared to 2024, with real GDP growing at 1.6% this year and persistent tariff effects potentially leading to further deceleration in 2026."

Market Notes

Period ending 6/20/2025	**1 Week %**	**YTD %**
DJIA	0.07	0.06
S&P 500	-0.12	2.12
NASDAQ	0.22	1.05
Russell 2000	0.44	-4.82
MSCI-EAFE	-1.46	15.81
MSCI-EM	-0.02	12.02
Bloomberg U.S. Aggregate	0.26	2.95

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
6/13/2025	4.45	3.96	4.02	4.41	4.90
6/20/2025	4.39	3.90	3.96	4.38	4.89

U.S. stocks were little changed on net for the week, with most eyes still focused on potential escalation in the Middle East between Israel and Iran, with the U.S. administration pointing to possible negotiations that seemed to reduce fears somewhat for the time being. (The focused U.S. strikes on Iranian nuclear enrichment facilities happened on Saturday night, so will likely be a key sentiment factor in the coming week.) Otherwise, a mix of economic data and the Fed staying the course also provided little catalyst for extreme stock price movements. However, later in the week, Fed Gov. Waller noted that rate cuts could be considered sooner than later, with "We could do this as early as July." By sector, energy, technology, and financials led with gains, while health care (Lilly and J&J primarily), materials, and utilities declined. Small caps outpaced large caps for the week. Real estate fell back by a few basis points.

Foreign stocks were hampered in developed markets by a rise in the value of the U.S. dollar, with Europe, Japan, and the U.K. all suffering similar declines. Emerging markets fared slightly better, with mixed results by country. In addition to the U.S. Fed, several other foreign policymakers also met last week, with the Bank of Japan keeping the policy rate unchanged at 0.50%, as did the Bank of England at 4.25%, although the vote was mixed, as usual, with 1/3 of the group voting for a cut. However, Norway, Sweden, and Switzerland all cut by -0.25% (the latter back to zero). As with domestic stocks for the week, it appeared Middle East concerns, along with continued uncertainty around U.S. tariffs, and central bank responses to economic growth continued to drive sentiment in a variety of directions.

Bonds fared positively in the U.S., as interest rates pulled back by a few basis points along the yield curve, with the strongest gains coming from high yield and investment-grade corporates. Unhedged foreign bonds were held back by the stronger dollar, with gains elsewhere outside the U.S.

Commodities rose overall, with gains in energy and industrial metals offsetting declines in precious metals and agriculture. Crude oil rose over 3% last week to $74/barrel, after a spike later the prior week, and bringing the month-do-date rise in oil prices to over 20%. Israeli attacks on Iran continued early last week, but didn't involve key oil facilities directly, which helped prices ease on Monday. (Some natural gas facilities, by contrast, were hit, which are primary geared for Iranian domestic use rather than export.) For the week, natural gas prices rose nearly 10%, due to both weather and Middle East tensions carrying over. As of this morning, crude oil futures prices were up, but not dramatically, with the most current concern being potential Iranian military retaliatory action around the Strait of Hormuz, although that would hurt their own domestic markets, as well as several neighbors, and major Iranian oil buyers (like China), making that a more complicated option.

Have a good week.

Ryan M. Long, CFA
Director of Investments
FocusPoint Solutions, Inc.

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.

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

REDSTONE
CAPITAL MANAGEMENT

Kevin Canterbury – Managing Director

kevin@redstonecapitalmanagement.com Direct: 480 685 2931