Summary

Geopolitical events continued to dominate last week, with a strong U.S. missile attack on Iranian nuclear facilities, followed by a limited retaliatory response, and ceasefire. Economic data included a downward revision for Q1 U.S. GDP and higher jobless claims, mixed housing data and consumer sentiment, but a sharp gain in durable goods orders.

Stocks saw strong positive returns of a few percent across the globe, with Middle East tensions abating, optimism on trade deals, and economic data otherwise stable. Bonds also saw gains with falling interest rates. Commodities fell back sharply, led by crude oil, with fewer concerns over supply disruptions caused by the Israel-Iran conflict.

Economic Notes

(-) The third and final release of **U.S. GDP** for Q1-2025 showed a downward revision from -0.2% to -0.5%, with contributions pulled down in personal consumption (by -0.7% to 0.5%), housing investment, structures, and equipment investment (slightly). These were offset by improvements in property and government spending. Inventory and net exports were little-changed, ending with the same overall distortions in Q1 growth as in the prior releases. Annualized core PCE inflation for Q1 was revised up by 0.1% to 3.5%, as was the GDP deflator to 3.8%.

The Atlanta Fed's GDPNow measure currently shows positive 2.9% growth for Q2, with the quarter now coming to an end. Net exports accounted for over three percentage points of the total number, in a reversal of Q1's negativity, offset by a drawdown in inventories, but still-positive contributions in other categories like personal consumption, which added a percent. Consequently, adding Q1 plus Q2 GDP together results in a net wash, which many economists (and the Federal Reserve) are choosing to disregard until clearer data comes out over the summer. Some of this could be driven by how the 90-day tariff extension is handled in early July, but uncertainty has abated as corporations have assumed a less severe outcome than they originally did a few months ago.

(0) **Personal income** fell by -0.4% in May, in contrast to the median forecast of a 0.3% increase; however, this was caused by a -7% drop in Social Security Fairness Act and Emergency Commodity Assistance Program farm payments that had unusually boosted income for the two prior months. **Personal spending** fell by -0.1%, also lagging the 0.1% increase expected, although that appeared to be a return to normalcy in autos after consumers bought early to avoid possible tariff price hikes. The personal saving rate fell to 4.5%. Personal income and spending each rose 4.5% for the past year, putting these into decent 'real' expansion territory after inflation is considered. **PCE inflation** rose 0.1% on a headline basis, and 0.2% for core, ex-food and energy; both were largely in line with consensus expectations. Year-over-year, PCE inflation rose 2.3% on a headline basis, while core rose 2.7%—each re-accelerated by a tenth of a percent relative to the prior month, with the latter still well above the Federal Reserve's 2.0% policy target.

(+) **Durable goods orders** rose 16.4% in May, exceeding the median forecast of 8.5%, reversing a sharp decline the prior month. In fact, this was the single-best month in about a decade. However, it included a very large transportation order ($42 bil. in non-defense aircraft and parts), as removing transports trimmed the increase to a far less impressive 0.5%. The commercial aircraft portion occurred in the wake of the President's Middle East trip, resulting in apparent significant order flow, notably from Qatar. Further, core capital goods orders increased 1.7%, exceeding the 0.1% expected gain, with gains in computers/electronics, electrical equipment, and fabricated metals. Core capital goods shipments rose 0.5%, exceeding a tenth of a percent decline. Over the past year, durable goods were up nearly 20%, which is largely due to the impact of transportation orders, while excluding that trims the increase to 2%, which equates to being relatively flat or below when adjusted for inflation.

(0/+) The preliminary **S&P Global U.S. manufacturing PMI** for June was unchanged at an expansionary 52.0, better than an expected decline to 51.0. Under the hood, output and employment rose by several points, remaining in expansion, while new orders fell slightly, but stayed in expansion. Input and output prices each rose around 5 points, each deep into expansion in the 65-70 area—the highest levels in two years. Commentary from S&P noted weakness in growth overall, with falling exports, but "domestic demand has strengthened," although some of that was due to tariff-related "concerns over higher prices and supply issues."

(+) The **S&P Global U.S. services PMI** declined by -0.6 of a point to 53.1, just above the 53.0 expected. New business fell by nearly a point, while employment improved slightly, both remaining in expansion. Input and output prices fell by several points each but remained expansionary in the 55-60 range.

(0) The **S&P Case-Shiller 20-city home price index** declined by -0.3% in April when seasonally-adjusted, but rose 0.7% on a raw, unadjusted basis. Year-over-year, the index showed a 3.4% gain nationally, a deceleration from the 4.1% rise the prior month. For the year, the strongest gains were in New York (8%), Chicago, and Detroit (6% each), while Tampa saw a decline of -2%. Per S&P Dow Jones, the housing market "continued its gradual deceleration" for the month, with annual price gains at their "most modest pace" in two years, noting how it's "particularly striking" how this cycle has "reshuffled regional leadership" in that winners and losers have flipped since the pandemic with the Midwest and Northeast now "setting the pace" and signaling a maturing market driven by fundamentals "rather than speculative fervor." In summary, with high mortgage payment burdens near generational highs, and supply still "severely constrained," underlying inputs "remain challenging but not dire."

(0) The **FHFA house price index** fell by -0.4% in April, compared to the 0.1% increase expected. By region, monthly increases were led by a percent gain in the Middle Atlantic (NJ/NY/PA), while West South Central (OK/AR/TX/LA) and South Atlantic (MD to FL) reported declines of a percent. Year-over-year, the national index rose 3.0%, which remains a substantial deceleration from the prior year of 6.6%. Regionally, yearly results were led by Middle Atlantic (7%) while the Pacific and West South Central saw gains of under a percent each. As has been the case for prior months, high mortgage rates and tight supply have weighed on markets, leading to deceleration in home prices, especially in areas outside the largest U.S. cities, for which the FHFA data provides more insight compared to the urban Case-Shiller series.

(0/+) **Existing home sales** rose 0.8% in May to a seasonally-adjusted annualized rate of 4.03 mil. units, stronger than the -1.3% decline expected by consensus, but resulting in little change after revisions. The underlying composition included a 1% rise in single-family, but a -3% drop in condos/co-ops. Regionally, the Northeast saw the strongest gains of 4%, while sales in the West fell by -5%. Year-over-year, national sales fell by -0.7%, while the median sales price rose 1.3% to $422,800. Inventory has improved over the past year from 3.8 to 4.6 months' supply. In keeping with recent trends, the NAR noted that "relatively subdued sales" are related to "persistently high" mortgage rates and are naturally confident that lower rates would increase participation in the housing market and mobility of the workforce.

(-) **New home sales** fell by -13.7% in May to a seasonally-adjusted rate of 623k units, well below the median expected drop of -6.7%, and included a slight downward revision for the prior month. In fact, it was the largest single-month decline in about three years. By region, while sales gained slightly in the Northeast, declines were most substantial in the South, accounting for most of the negativity. Nationally, sales have fallen -6.3% from a year ago. The median new home price rose 3.7% for the month to $426,600, representing a 3.0% gain on a year-over-year basis. Some of those tempered results are due to smaller homes being built to allow for greater buyer affordability. Months' supply ticked up 1.5 months to 9.8, representing a high point for the past year.

(-) The Conference Board **index of consumer confidence** fell by -5.4 points in June to a level of 93.0, below an expected increase to 99.8. Both consumer assessments of current conditions and expectations for the future declined to similar degrees. The labor differential also fell by -2 points with a small decline from those noting that jobs were plentiful (which declined by -2% to 29%), with not much change in jobs being "hard to get" (down just slightly at 18%). Inflation expectations for the coming year fell by -0.4% to a still-very robust 6.0%. The Board noted that consumers were "more pessimistic about business conditions and job availability" for the next six months, and their optimism about future income "eroded slightly." This continues a trend of weak 'soft data' reports, although consumers continue to spend regardless, which has confounded economists to some extent.

(+) The final **Univ. of Michigan consumer sentiment index** for June saw a rise of 8.5 points (16%), with expectations for the future up 20%, while assessments of current conditions rose 10%. However, the overall index remains down -11% on a year-over-year basis. Inflation expectations for the coming year fell by -1.6% to 5.0%, while those for the next five years declined by -0.2% to 2.0%, each the lowest readings in several months. As put by the sponsor, sentiment remains down -18% from Dec. 2024, just after the election, as "views are still broadly consistent with an economic slowdown and an increase in inflation to come," but "fears about the potential impact of tariffs on future inflation softened somewhat." It was also noted that "Consumers continue to be concerned about the potential impact of tariffs, but at this time they do not appear to be connecting developments in the Middle East with the economy."

(-) **Initial jobless claims** for the Jun. 21 ending week fell by -10k to 236k, below the 243k expected. Continuing claims for the Jun. 14 week, on the other hand, rose by 37k to 1.974 mil., beyond the 1.950 mil. expected. No clear patterns were apparent, although seasonal effects have influenced results around this time for the past two years, so the summer months could provide better clarity on claims trends for both series.

Market Notes

Period ending 6/27/2025	**1 Week %**	**YTD %**
DJIA	3.83	3.89
S&P 500	3.45	5.65
NASDAQ	4.25	5.34
Russell 2000	3.01	-1.95
MSCI-EAFE	3.10	19.39
MSCI-EM	3.35	15.77
Bloomberg U.S. Aggregate	0.68	3.65

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
6/20/2025	4.39	3.90	3.96	4.38	4.89
6/27/2025	4.39	3.73	3.83	4.29	4.85

U.S. stocks began the week strongly, following Operation Midnight Hammer, during which U.S. air forces struck several Iran nuclear facilities. Despite some consternation early Monday about Iran's retaliatory missile attacks on U.S. forces in Qatar and Iraq, the limited nature of the Iranian response (with no reported casualties) alluded to an expected intention of saving face but not escalating further. A truce later Monday helped stock sentiment as well, with the President encouraging both Israel and Iran to cease military operations. On the financial side, later in the week, the U.S. Treasury announced a deal with G-7 allies that will exclude U.S. companies from some foreign-imposed taxes (OECD Pillar 2) in exchange for removing the pending Congressional tax bill's Section 899 ("revenge tax") provisions, which were intended to penalize foreign investors, businesses, and governments with holdings in the U.S. (It was assumed that seeking a deal was the true intention of inserting that section into the bill in the first place.) Reports that the U.S. and China were completing a new trade deal on Friday also helped investor sentiment. Some members of the Federal Reserve showing an openness to rate cuts was naturally taken positively as well.

By sector, growth areas communications, technology, and consumer discretionary led the way, while energy stocks fell by several percent in keeping with the pullback in oil prices. Real estate fell back by around a percent, despite a drop in interest rates.

Foreign stocks fared largely similarly to U.S. equities, despite the tailwind of a weaker dollar. Japan provided the strongest returns for the week, while U.K. lagged with gains of only a few percent. As was the case globally, an Israel-Iran ceasefire drove overall sentiment, as well as promises of stronger NATO military spending. Emerging markets were broadly higher as well, with little differentiation by country, other than sharper gains with Taiwan, which is highly correlated to U.S. technology stocks.

Bonds gained along with a decline in interest rates across the U.S. Treasury yield curve, with most key bond groups rising between half of a percent and a full percent. Foreign bonds fared better, with the tailwind of a drop in the U.S. dollar of about a percent.

Commodities fell back broadly last week, with energy suffering the strongest declines, while industrial metals bucked the trend by seeing price gains. Crude oil prices corrected sharply by -12% for the week to $65/barrel. On Monday alone, oil fell by -7% as markets interpreted the measured Iranian military response as a significant de-escalation in tensions, as opposed to a ramp-up that targeted areas like energy infrastructure or shipping in the Strait of Hormuz. The rest of the week saw some vacillation as markets closely monitored events, making intermediate-term trend impacts difficult to discern. Worst-case scenarios (such as a Hormuz closure) remain possible, but appear to now be a smaller probability, with broader fundamentals seemingly a key driver in bringing oil prices back down to the range prior to the June conflict.

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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