

THE BIG PICTURE

June 2025

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WAITING FOR IMPACTS

- Despite concerns that President Trump's tariffs would weaken growth, compress profit margins and stoke inflation, actual economic results and corporate earnings have continued to exceed expectations and contradicted survey-based sentiment data
- For the fourth consecutive month, the May Consumer Price Index surprised to the downside, driven primarily by deflation in the energy and airfare components
- Year-over-year headline inflation continues to trend lower and is back in-line with pre-pandemic baseline trends
- The CPI data was released before the attack on Iran's nuclear capabilities - which caused a brief spike in oil prices that was quickly erased due to Tehran's lack of escalation
- While service inflation appears contained, the real test for pass-through goods inflation (23% of the CPI basket) will come after companies work through imported inventory stockpiled in advance of the tariffs

A person with a backpack is silhouetted against a bright sunset, taking a photo of a train at a station. The train is blurred, suggesting motion. The scene is bathed in warm, golden light.

WAITING FOR CLARITY

- Despite growing concerns over future Fed independence, the FOMC has adopted a wait-and-see approach given the uncertain impacts from tariffs, keeping rates unchanged for the fourth consecutive meeting
- But with inflation data seeming to move in the right direction and more likely improvement from shelter inflation on the way (35% of core CPI) as well as a softening labor market, the Federal Reserve seems to have the necessary cover to cut rates
- Several Fed governors struck a more dovish tone during June speeches and the odds of a rate cut by the September FOMC meeting have risen to 88%
- President Trump continued to publicly push for rate cuts and labeled Fed Chair Powell a “numbskull” for his cautious rhetoric
- Trump also indicated that he will likely name a successor well before Mr. Powell’s term expires next May - potentially applying pressure on him to step down early and thus avoid any confusion with messaging from an ultra-dovish Fed Chair in-waiting



NO LONGER WAITING

- The S&P 500 rose to record highs after plunging more than 20% in early April
- A 2-month recovery of this magnitude has only occurred five other times since 1950 (source: Ryan Detrick, Carson Group)
- The V-bottom rally has been led by large-cap tech stocks with the Nasdaq 100 breaking out to fresh all-time highs
- Recession concerns faded as it appeared that tariff rates will be lower than originally feared and secular AI spending will continue
- Economically-sensitive sectors like industrials, semiconductors and broker-dealers also rose to new all-time highs
- At the same time, the U.S. dollar sunk to a three-year low, providing a potential catalyst for emerging market and international equities as well as commodities, metals, and digital assets
- Since a weaker dollar is often correlated with lower bond yields, rate-sensitive sectors like homebuilders, banks, small caps, and biotech stocks could also benefit



TARIFF RELIEF

- Even though corporate earnings have held up well, tariff uncertainty remains a headwind to capital expenditure and hiring plans
- The pause on Mr. Trump's reciprocal tariffs against 90 nations is set to expire in July with only one new trade deal (with the U.K.) thus far announced and several others pending
- The President revealed an agreed-upon trade framework with China (including a truce with Beijing on the supply of rare earth minerals for electronics and continued Chinese access to Iranian oil) as well as significant progress on an agreement with India
- Tariffs on most countries and goods are expected to settle around 10% - a rate that is higher than previous levels but likely not crippling to the U.S. economy
- Many industries have also used the pause to locate suppliers in jurisdictions that will likely face lower tariff rates than China
- In addition, potential tax and Fed interest rate cuts should help to bolster the second half outlook for corporations



BANK BACKSTOP

- Investors around the world are demanding greater compensation to hold the long-term bonds of heavily-indebted sovereign issuers
- According to the Congressional Budget Office, 18% of mandatory U.S. spending consists of interest payments – which will exceed defense spending for fiscal year 2024
- The passage of President Trump’s “Big Beautiful Bill” will also result in a flood of new U.S. debt issuance in the coming months
- At a special meeting in June, the Federal Reserve recommended easing leverage requirements on large banks, allowing them to absorb more U.S. Treasuries just as foreign buyers retreat and liquidity is thinning
- The Fed temporarily excluded Treasuries from the Supplementary Leverage Ratio (SLR) during Covid, allowing the banking system to provide a form of quantitative easing during the pandemic that kept long rates low and stimulated risk assets
- Opponents say that relaxing safeguards for capital requirements raises the risk of future failure by a systematically-important bank

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Glossary

Consumer Price Index (CPI)

The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. Changes in the CPI are used to assess price changes associated with the cost of living.

Core Consumer Price Index (CPI)

Core inflation is the change in the costs of goods and services, but it does not include those from the food and energy sectors. This measure of inflation excludes these items because their prices are much more volatile.

FOMC (Federal Open Market Committee)

The branch of the Federal Reserve System that determines the direction of monetary policy by directing open market operations. It has eight regularly scheduled meetings each year that are the subject of speculation on Wall Street.

Headline Inflation

Headline inflation is the raw inflation figure reported through the Consumer Price Index (CPI) that is released monthly by the Bureau of Labor Statistics. The CPI calculates the cost to purchase a fixed basket of goods, as a way of determining how much inflation is occurring in the broad economy. The CPI uses a base year and indexes the current year's prices according to the base year's values.

NASDAQ 100

The Nasdaq 100 Index is a basket of the 100 largest, most actively traded U.S. companies listed on the Nasdaq stock exchange. The index includes companies from various industries except for the financial industry. These non-financial sectors include retail, biotechnology, industrial, technology, health care, and others.

S&P 500

An index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

Supplementary Leverage Ratio (SLR)

A non-risk-weighted capital requirement, implemented in the US as part of the Basel III framework, that acts as a backstop to risk-based capital requirements for large banks. It ensures banks hold a minimum amount of capital against their total exposure.

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