ARGUS®

ARGUS ECONOMIC COMMENTARY

June 30, 2025

The Stock Market at Mid-Year

The stock market's muted response to the U.S. bombing of Iranian nuclear sites is consistent with market performance throughout 2025. Though widely expected to fall on the perception that U.S. involvement in Middle Eastern wars can have unknown consequences, stocks instead shrugged off the news on 6/23/25 and open mixed to slightly higher. The U.S. stock market at midyear is not much higher, and not much lower, than it was at the beginning of the year. This is not exactly a risk-on market, but neither is it a risk-off market.

The Fed standing pat on rates at the June 17-18 FOMC meeting was as anticipated. Two days after the meeting, on 6/20/25, Fed Governor Christopher Waller suggested that tariff impacts on inflation were likely to be benign and that a rate cut could come as soon as July. On 6/23/25, Michelle Bowman echoed this sentiment. These dovish viewpoints, coming from Fed officials perceived to be among President Trump's choices to succeed Chairman Powell, also failed to stir the stock market much.

It may be that stocks are simply living up to their reputation for dawdling through the summer months. Alternatively, it may be that investors have been cautious and hesitant for so much of this year that it is hard to shift gears into fully bullish (or bearish) mode.

The Fed: Breaking Ranks?

We pointed out a week ago that current economic data was not showing much of an impact from tariffs. The Federal Reserve concluded its June meeting and as expected maintained the fed funds target at 4.25%-4.50%. This was the fourth straight meeting in 2025 in which the Fed held rates steady after cutting three times in the latter part of 2024. Language from the Fed following the meeting signaled lingering concerns that inflation, while relatively well behaved and moving down moderately, could re-ignite in coming months. Fed governors could not know that the U.S. would bomb Iranian nuclear sites four days after the meeting concluded. However, they were cognizant that Israeli attacks had already pushed oil prices higher.

Fed doves such as Christopher Waller believe any bump up in inflation from tariffs will not last and will instead be "short-lived." The Fed is in a minor quandary. Inflation is down a ton from peak rates reached in mid-2022. However, the CPI and the core PCE Price Index (the Fed's preferred inflation gauge) remans elusively above the Fed's 2% target range. Inflation doves believe the U.S. economy could use the financial stimulus -- and the psychological boost -- that a rate cut would provide. Yet unemployment at 4.2% remains near historical lows and argues against stimulus. Although GDP dipped into negative territory for the first quarter, the number is regarded as distorted by pre-tariff positioning from companies; indeed, second-quarter GDP looks poised to rebound strongly.

Following the June meeting, the central bank amended its economic growth outlook slightly in a bearish direction. The Fed now looks for 1.4% growth in the U.S. economy in 2025, down from an earlier 1.7% forecast. Further, it looks for 1.4%-1.8% growth through 2027, down from the outlook in March following that month's FOMC meeting. Although the Fed minutes expressed that "labor market conditions remain solid," the consensus for the unemployment rate at year-end edged up to 4.5%, from a prior 4.4% projection.

Most meaningfully, Fed members forecast that inflation could end 2025 at an annual 3.1% growth rate, a few ticks higher than the end-of-March forecast. At his post-meeting press conference, Fed Chair Powell, "everyone that I know is

(continued on next page)

forecasting a meaningful increase in coming months from tariffs, because someone has to pay for the tariffs." While some of the cost of tariffs will be spread among manufacturers, importers and retailers, "…some of it will fall on the end consumer," the Fed chair commented. Under the Fed's new projections, inflation is forecast to end 2026 at 2.4% and to end 2027 at 2.1%.

The Fed's so-called "dot plot" continues to signal two quarter-point rate cuts in the second half of 2025 and one cut each in 2026 and 2027. While Fed Governor Waller's dovish comments drew the most post-meeting attention, there was a pronounced split among the 19 policymakers charged with setting Fed policy. Seven hawkish members believe no rate cuts are needed during 2025. These members perhaps see heightened risks that tariffs kicking in around mid-year could nudge inflation higher, that the employment economy could weaken, or that tariff-related price hikes could push more consumers to the sideline and weaken economic growth. Summing up the uncertainty and anxiety of the moment, Chairman Powell concluded that it is a "… very foggy time."

The Indices at Mid-Year

With a full trading week and a dangling single day (June 30) remaining in the trading month, the S&P 500 as of June 20, 2025, had delivered year-to-date total return of 2.1%. That follows a week in which the index shed 1.3% as war anxiety mounted. The DJIA was down slightly year to date in terms of capital appreciation, but up 0.1% on a total-return basis (including hypothetical dividends). The Nasdaq was ahead by 1.1% after declining a like amount in the prior week.

Investors know that 2024 and 2023 were good years in the stock market, while 2022 was a downer. As of the end of June 2024, year-to-date total return was 15.3% for the S&P 500, 18.6% for the Nasdaq Composite, and 4.8% for the DJIA. As of the end of June 2023, year-to-date total return was 15.0% for the S&P 500, 30.1% for the Nasdaq Composite, and 3.5% for the DJIA. As of the end of June 2022, year-to-date total return was negative 17.3% for the S&P 500, negative 25.5% for the Nasdaq Composite, and negative 12.4% for the DJIA. The point is that the market often "sets its cap" in one direction or another by mid-year, so the market drift at mid-year 2025 is not typical.

Sector leadership at mid-year 2025 also is somewhat disrupted in relation to historical norms. Growth sectors including Information Technology and Communication Services were clear leaders at mid-year 2024 and 2023, while defensive sectors including Healthcare, Consumer Staples, and Utilities relatively outperformed a down market in mid-2022. As of mid-2025, every sector except Healthcare and Consumer Discretionary are higher year to date. Nine of the 11 sectors are close, with gains ranging from 3% to 8%. Top-five sector leadership includes cyclical (Industrials), defensive (Utilities and Consumer Staples), inflation-hedge (Energy), and growth (Communication Services) sectors.

Uncertainty in the U.S. (around tariffs, immigration policy, the "Big Beautiful" budget bill, and geopolitics) has compelled investors to switch into overseas markets. As a June 20, 2025, two Americas markets (Mexico and Brazil) are up in mid-teens percentages for the year to date. China is also up in mid-teens percentages as it seeks to shift its trading focus away from the U.S. and toward Europe and rest of Asia. Among nine national markets that we monitor and the Eurozone, the S&P 500 is second to last, ahead of only Japan's negative performance

Conclusion

The U.S. stock market opened little changed on 6/23/25, just days after the U.S. bombed Iran's nuclear sites. Iran's parliament authorized the closing of the Strait of Hormuz in response to the attack. But the "mullahs," including Supreme Leader Khamenei, have not confirmed plans to shut down access. Having seen its nuclear program seriously damaged if not obliterated, Iran's leaders may not want to put its energy infrastructure at risk.

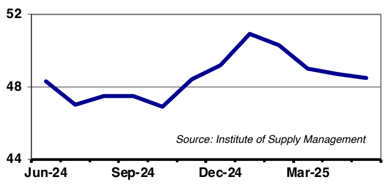
In the past, outbreaks of war in the Middle East have caused oil prices to spike, but they tend to move down in subsequent months. If Iran and its allies succeed in closing the Strait of Hormuz for an extended period, oil prices could remain elevated or build on the premium in place since Israel started its bombing campaign. Bombing or otherwise disabling Iran's energy infrastructure likely would also push oil prices higher, given that Iran is the third-largest crude oil producer in OPEC, even amid pre-existing U.S. sanctions.

The new reality in the Middle East is another thing the Fed will have to factor into its rate-setting policy in the months ahead. Investors have appeared reluctant year-to-date to push stocks in one direction or another. The latest uncertainty, piled on the earlier uncertainties, could keep stocks range-bound a little longer.

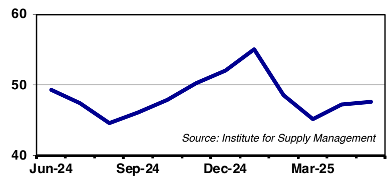
Jim Kelleher, CFA,
Director of Research

ECONOMIC TRADING CALENDAR

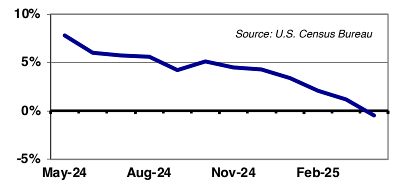
Release:	ISM Manufacturing
Date:	7/1/2025
Month:	June
Previous Report:	48.5
Argus Estimate:	50.0
Street Estimate:	48.5



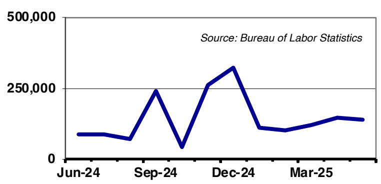
Release:	ISM New Orders
Date:	7/1/2025
Month:	June
Previous Report:	47.6
Argus Estimate:	49.0
Street Estimate:	NA



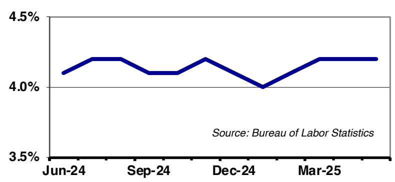
Release:	Construction Spending
Date:	7/1/2025
Month:	May
Previous Report:	-0.5%
Argus Estimate:	-1.3%
Street Estimate:	NA



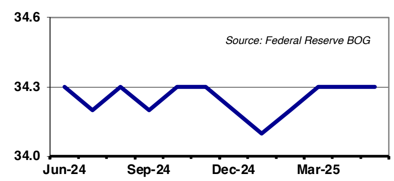
Release:	Nonfarm Payrolls
Date:	7/3/2025
Month:	June
Previous Report:	139000
Argus Estimate:	120000
Street Estimate:	110000



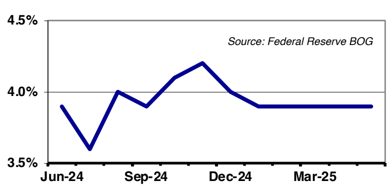
Release:	Unemployment Rate
Date:	7/3/2025
Month:	June
Previous Report:	4.2%
Argus Estimate:	4.2%
Street Estimate:	4.3%



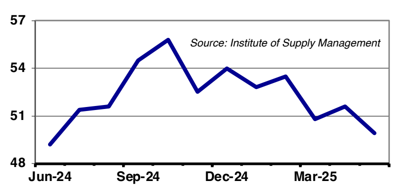
Release:	Average Weekly Hours
Date:	7/3/2025
Month:	June
Previous Report:	34.3
Argus Estimate:	34.3
Street Estimate:	34.3



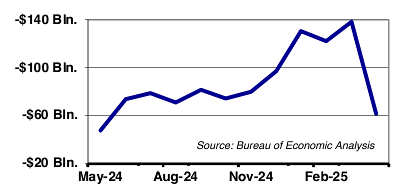
Release:	Average Hourly Earnings
Date:	7/3/2025
Month:	June
Previous Report:	3.9%
Argus Estimate:	3.8%
Street Estimate:	NA



Release:	ISM Services Index
Date:	7/3/2025
Month:	June
Previous Report:	49.9
Argus Estimate:	50.5
Street Estimate:	50.4

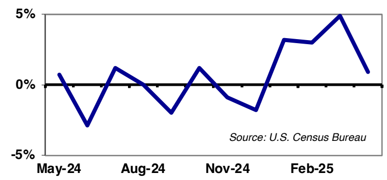


Release:	Trade Balance
Date:	7/3/2025
Month:	May
Previous Report:	-$61.6 Bln.
Argus Estimate:	-$75.0 Bln.
Street Estimate:	NA



Previous Week's Releases and Next Week's Releases on next page.

Release: Factory Orders
Date: 7/3/2025
Month: May
Previous Report: 0.9%
Argus Estimate: 3.5%
Street Estimate: NA



Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
23-Jun	Existing Home Sales	May	4.00 Mln.	4.10 Mln.	3.95 Mln.	**4.03 Mln.**
24-Jun	Consumer Confidence	June	**98.4**	100.0	99.8	**93.0**
25-Jun	New Home Sales	May	743K	655K	690K	NA
26-Jun	GDP Annualized QoQ	1Q "3rd est."	-0.2%	-0.2%	-0.2%	NA
	GDP Price Index	1Q "3rd est."	3.7%	3.7%	NA	NA
	Durable Goods Orders	May	2.6%	7.0%	NA	NA
27-Jun	PCE Deflator	May	2.1%	2.3%	2.3%	NA
	PCE Core Deflator	May	2.5%	2.6%	2.6%	NA
	Personal Income	May	5.5%	5.4%	NA	NA
	Personal Spending	May	5.4%	5.3%	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
7-Jul	Total Vehicle Sales	June	15.65 Mln.	NA	NA	NA
9-Jul	Wholesale Inventories	May	2.3%	NA	NA	NA

Disclaimer