

A fitful week with geopolitical and central bank decision making in play

The market had a shortened week of trading but also a fitful week of trading that revolved around headlines pertaining to the Israel-Iran conflict, central bank decisions, and economic data.



In the end, the major indices finished the week little changed, reflecting in part the indecision over the Israel-Iran situation. There was some speculation early in the week that the U.S. could get directly involved in the conflict, with President Trump demanding Iran's "unconditional surrender" and saying that his patience with Iran is wearing thin. By the end of the week, he allowed that there was still time for Iran to negotiate and that he will decide on a final course of action with respect to Iran over the course of the next two weeks.

There were several key central banks decisions this week, all of which were expected. The Bank of Japan held its key policy rate steady at 0.50%, the Federal Reserve left the target range for the fed funds rate unchanged at 4.25-4.50%, and the Bank

of England stood pat with its policy rate at 4.25%.

The Fed decision was accompanied by a Summary of Economic Projections that featured an increase in the median estimate for PCE inflation, core PCE inflation, and the unemployment rate in 2025, a decrease in the median estimate for real GDP growth, and an unchanged median estimate for two rate cuts by the end of the year.

The overarching message from Fed Chair Powell at his press conference was that the Fed is going to stick by its wait-and-see stance, largely because the labor market is still in pretty good shape and because the Fed is concerned that tariffs will lead to higher prices. Fed Chair Powell, for his part, said he is expecting a meaningful increase in inflation in the coming months because of the tariffs.

The Treasury market took that inflation talk in stride, as yields across the curve settled modestly lower from the prior week's closing levels. Fed Governor Waller (FOMC) caused a stir on Friday when he said he didn't think there would be lasting tariff inflation and that the Fed, based on his view, could cut rates in July.

The fed funds futures market, though, barely moved on his view, with the probability for a rate cut in July edging up to only 16.5% from 12.5% the previous day.

Sector action this week featured only three sectors finishing higher: energy (+1.1%), which followed oil prices higher, information technology (+0.9%), and financials (+0.8%). The health care sector (-2.7%) was the biggest laggard, followed by communication services (-1.7%), and materials (-1.2%). The consumer discretionary sector (-0.7%) also underperformed for the week, which included a report showing total retail sales down 0.9%, and sales excluding autos down 0.3%, in May.

- S&P 500: -0.2% for the week / +1.5% YTD
- Nasdaq: +0.2% for the week / +0.7% YTD
- DJIA: flat for the week / -0.8% YTD
- S&P 400: +0.6% for the week / -3.1% YTD
- Russell 2000: +0.4% for the week / -5.4% YTD

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