The Weekly Market Update – 6/16/25: Tame Inflation Data as Tariffs Have Yet to Bite

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,976.97	-0.39%	6.51%	1.62%	13.25%	6,144.15	2.8%
Dow Jones Industrial Average	42,197.79	-1.32%	0.47%	-0.81%	9.08%	45,014.04	6.7%
NASDAQ Composite	19,406.83	-0.63%	12.18%	0.50%	15.97%	20,173.89	4.0%
Russell 2000	2,100.51	-1.49%	4.40%	-5.81%	1.47%	2,442.74	16.3%
MSCI EAFE (USD)	2,613.86	-0.18%	8.87%	15.57%	10.96%	2,643.82	1.1%
MSCI Emerging Markets (USD)	1,190.03	0.60%	8.05%	10.65%	13.45%	1,444.93	21.4%
Bloomberg Commodity Index	105.31	1.93%	-1.03%	6.63%	2.25%	237.95	126.0%
Barclays U.S. Aggregate Bond	91.60	0.67%	-0.76%	1.29%	2.58%	112.07	22.4%

Source: FactSet

Inflation data in May was tame relative to expectations, which surged in April and May on the heels of tariff policies causing elevated uncertainty. The consumer price index (CPI), as reported by the Bureau of Labor Statistics, increased +2.4% in May year-over-year (Y/Y), below consensus expectation for a +2.5% increase. This was modestly above April's inflation reading (+2.4%), but directionally the trend remains lower as the CPI report as recent as January 2025 was +3.0%. The May inflation reading was helped by gasoline prices, which dropped -2.6% in May. Core CPI, which excludes the often-volatile food and energy groups, increased +2.8% in May, also modestly better than expected. That level remains well above the Federal Reserve Bank's (Fed) +2.0% target, which helps to explain why investors remain concerned about tariff-induced price pressure. While the Fed is likely prepared to resume cutting interest rates (the Fed sets targets for very short-term interest rates, fed funds, before inflation reaches their target), tariff uncertainty is holding them back, in our view. Despite tariff delays (the president's 90-day pause), many other tariffs are in place (automobiles/parts, steel/aluminum, and many 10% universal tariffs), creating inflation expectations. On a month-to-month (M/M) basis, both CPI and core CPI increased just +0.1% in May (compared to April), reflecting limited tariff-induced price pressure, at least so far. A couple of items reflected some pressure as major appliances prices increased +1.3% M/M, and toys were +0.3%. But other affected categories were lower, namely new cars, which saw M/M prices decline -0.5% in May. Overall, core goods prices (excludes food and energy) were unchanged (0%) in May compared to April. Services M/M inflation increased +0.2%, but the major categories, housing and medical care, are mostly not directly exposed to tariffs. The lack of more detectable inflation pressure from tariffs through May could reflect corporate decisions to not raise prices (possible leading to lower margins), or companies depleting lower cost inventories, which spiked in the first quarter. It could also reflect substitution patterns from consumers if they search for lower priced alternatives. We still expect some upward price pressure in the months ahead, but this can be minimized if trade deals replace tariffs, and the ultimate inflation impact could be less than expected.

The onset of war between Israel and Iran has investors on edge but initially, the market impact has been limited. The S&P 500 equity index declined -1.1% on 6/13/25, the first day of the escalated conflict. While this was the largest single-day market decline in the past three weeks, it was a relatively benign response in a market that has traded substantially higher since early April. And through early trading on Monday, 6/16, the S&P 500 was up +1.1% on hopes that escalation of the war over the weekend would recede with some hope for peace negotiations. Interestingly, U.S. interest rates did not move lower on Friday which often happens during the onset of wars as global investors purchase U.S. Treasury securities as a safe haven. The U.S. 10-year Treasury yield moved higher, closing at 4.41% on 6/13, up from 4.35% on 6/12. Some are concerned this reflects an ongoing rotation out of U.S. bonds by global investors, but it might also reflect a market view that a near-term ceasefire is possible.

Before the June Fed meeting concludes on Wednesday, a U.S. delegation (including the president) is in Canada at the annual G-7 meeting. Hosted by Canada this year, the event topics include national security, energy policy, and the digital transition, but new topics are likely to include war in the Middle East and trade negotiations with the U.S. We expect the Fed to holds its fed funds target range unchanged at 4.25% to 4.50% and comment on high levels of uncertainty amid trade policy negotiations.

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The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analysts' estimates from firms that submit estimates to FactSet for a given financial metric.

The Trump Administration on 2/12/25 announced a framework for its Reciprocal Tariffs, with a link to the memorandum, "Fair and Reciprocal Plan." On 3/26/25, the White House announced tariffs on imported automobiles and certain automobile parts. Here is a link to a Fact Sheet from the President that outlines the action. The President's April 2, 2025 Tariff Announcement is also linked. Also linked is the White House Fact Sheet on the U.K. trade agreement.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members – the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and four of the remaining eleven Federal Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth. The term "monetary policy" refers to the actions undertaken by a central bank, such as the Federal Reserve, to influence the availability and cost of money and credit to help promote national economic goals. The Board of Governors of the Federal Reserve System is responsible for the discount rate and reserve requirements, and the Federal Open Market Committee is responsible for open market operations. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and, in this way, alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment. Treasury security data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

The consumer price index (CPI) is a measure of average change, over time, in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics. Data is reported on a total basis and "core-CPI" basis. Core-CPI excludes food and energy prices, which are inherently more volatile and less impacted by Federal Reserve interest rate policy. Core-goods inflation is reported as commodities excluding food and energy and its major categories include new vehicles, used cars and trucks, apparel and medical care commodities. For inflation expectations we follow Federal Reserve Bank of St. Louis, 5-Year, 5-Year Forward Inflation Expectation Rate [T5YIFR], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/T5YIFR,. It measures expected average inflation over the next five years as priced into Treasury securities by investors. 5-year expected inflation was 2.60% on 3/31/25 and 2.31% on 6/13/25.

The Group of Seven (G7) is an informal grouping of seven of the world's advanced economies, including Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States, as well as the European Union. The meeting is held in Kananaskis, Alberta, Canaday on June 15 to 17, 2025. In addition to the G-7 members, Canada invited delegations from other countries as well.