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# Doll's Deliberations®

## Weekly Investment Commentary

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## Summary

Stocks fell last week (S&P 500 -0.36%) due to Friday's risk-off session because of the growing Israel-Iran conflict. Israel launched a massive series of strikes against Iran, crippling its nuclear program. U.S.-China talks reached an agreement. Best sectors were energy (5.79%), healthcare (1.29%), and utilities (0.28%); worst sectors were financials (-2.58%), industrials (-1.58%), and consumer staples (-1.07%).


| **Equity markets** (Index total return %) | Last week | Year-to-date |
|---|---|---|
| DJIA | -1.30 | -0.01 |
| S&P 500 | -0.36 | 2.25 |
| NASDAQ | -0.61 | 0.82 |
| Russell 1000 | 0.66 | 3.31 |
| Russell 1000 Growth | -0.50 | 1.23 |
| Russell 1000 Value | -0.47 | 3.13 |
| Russell 2000 | 0.38 | -3.47 |

| **S&P equity sectors** (Index total return %) | Last week | Year-to-date |
|---|---|---|
| Communication services | -0.77 | 6.07 |
| Consumer discretionary | 0.08 | -6.40 |
| Consumer staples | -1.07 | 5.70 |
| Energy | 5.79 | 3.92 |
| Financials | -2.58 | 3.84 |
| Heathcare | 1.29 | -0.61 |
| Industrials | -1.58 | 8.64 |
| Information technology | -0.07 | 1.32 |
| Materials | -0.48 | 4.76 |
| Real estate | 0.03 | 3.68 |
| Utilities | 0.28 | 8.33 |

## Key takeaways

1. May CPI and PPI reports both showed less inflation than expected (generally by 0.1%). By and large, tariffs haven't made their way into final goods pricing yet. That's a story for over the summer, when inflation readings should move higher.
2. The University of Michigan consumer sentiment reading jumped to 60.5 (well ahead of the 54.0 estimate), and inflation expectations for the next 12 months dropped from 6.6% to 5.1%.
3. It was widely expected that consumers might cut back their spending because of the tariff uncertainty. So far, the evidence shows that consumers are still spending, and businesses are still expanding their payrolls.
4. The labor market continues to cool. Cyclical industries like manufacturing, construction, and temporary-help services are contracting jobs. This is atypical if the economy is expanding. And continuing claims have jumped for four of the last five weeks, hitting a fresh cycle high.
5. The U.S.-China tariff deal confirms markets are priced for near perfection. The London negotiations yielded a partial agreement, but stocks barely moved on the news as sentiment is already elevated.
6. The dollar dropped to its weakest level in over three years against a major currency basket after softer inflation data boosted expectations of Fed easing.
7. We expect the FOMC to leave interest rates unchanged and to mark slight downward revisions to growth and upward revisions to inflation.
8. The White House is floating the idea of nominating a temporary new Fed Chairman, or co-chairman, who would speak out on monetary policy. This sounds unworkable, and Powell is adamant that he has legal standing to finish his term.
9. The Senate continues behind-the-scenes work on their tax bill, but recent activity was marked by clashes between deficit hawks and moderates over Medicaid cuts, tax policy, and the future of business tax breaks.
10. The overnight strikes by Israel on Iran mark a major escalation in the conflict in the region. Barring a further major escalation of the conflict that causes oil prices to spike much further, the macro implications for global inflation and growth should be limited.

## Tariffs, economic uncertainties, and now, higher oil prices

We anticipate a less robust U.S. economy than our pre-tariff expectation and a slightly more inflationary backdrop for the U.S., with underlying inflation settling well above the Fed's 2% target (closer to 3%). There will inevitably be further economic and policy surprises, with President Trump again stating that renewed tariff actions might soon occur, and Israel's attack on Iran a new threat to global oil prices.

We expect a choppy trading range for stocks, with a recognition that we are at the upper end of the trading range. Our base case outlook is for positive, but somewhat disappointing corporate earnings relative to current expectations. Global growth will be more broadly based than during the last couple of years, when the U.S. economy was the main and, at times, only advancing economy. The downside of this outlook will be a continuation of higher inflation than last decade, especially in the U.S.

The U.S. economy is showing signs of holding up in the face of elevated policy and political uncertainty. The actual economic data have been volatile, partly reflecting steps taken in anticipation of increased tariffs. We expect a muddled next few months before underlying trends become apparent. When the dust settles, we expect more weakness as the "hard" data partially follows the "soft" data. So far, there has not been a surge in layoffs and hiring plans have generally held up. Recent inflation data have been soft, but we would urge patience, as the tariff effects are still in the pipeline.

Globally, there was some directionally positive news regarding the most worrisome source of global trade tensions, namely between the U.S. and China. U.S. and Chinese negotiators met again to iron out problems arising from the earlier Geneva deal that had reduced bilateral tariffs. The muted market response on the announcement of another "deal" suggests that the outcome of the talks offered no tactical, much less strategic, victory.

| **International equity markets** (Index total return %) | **Last week** | **Year-to-date** |
|---|---|---|
| MSCI ACWI | 0.88 | 7.79 |
| MSCI ACWI EX U.S. | 1.23 | 16.84 |
| MSCI EAFE | 0.97 | 18.86 |
| MSCI EM | 1.81 | 13.22 |

| **Fixed income markets** (Index total return %) | **Last week** | **Year-to-date** |
|---|---|---|
| Bloomberg U.S. Aggregate Bond | 1.05 | 3.07 |
| Bloomberg U.S. Corp High Yield | 0.27 | 3.29 |
| Bloomberg U.S. Gov/Credit | 0.97 | 3.01 |
| Bloomberg U.S. T-Bill 1-3 Month | 0.05 | 1.91 |

| **Alternatives** (Index total return %) | **Last week** | **Year-to-date** |
|---|---|---|
| Real estate (FTSE NAREIT) | 0.72 | 2.91 |
| Commodities (DJ) | 2.01 | 8.71 |
| Global listed private equity (Red Rocks) | 0.81 | 2.50 |
| Currencies (DB Currency Future Harvest) | -0.29 | -1.08 |

The big investment theme of 2025 has been the rotation out of the U.S., with the dollar and U.S. equity market notably underperforming, although that has recently stabilized. This year's reversal of the stampede into the U.S. followed a prolonged period of outperformance, and excessive investor positioning in favor of the U.S. The desire to lower one's U.S. exposure is a necessary ingredient to spur investment flows away from the U.S. However, a critical second ingredient needed to sustain the reversal in flows, namely a desire to own non-U.S. assets and currencies, is still lacking. In other words, investors are becoming open to reducing their U.S. exposure, but so far there is little excitement about buying global alternatives.

## Conclusion

The near-term economic and inflation outlook is still clouded by tariff increases and uncertainty regarding the ultimate endpoint of U.S. trade policy. Still, the worst of the tariff worries is likely past, and the global economy is proving resilient so far. The U.S. economy may slow from its pre-tariff robust pace, while much of the rest of the world should improve modestly.

Source: Bloomberg as of June 13, 2025