June 30, 2025

Morning Briefing

'It's Always Something'

Check out the accompanying chart collection.

Executive Summary: Though the stock market is back on record-high ground after a couple of big worries have dissipated, investors remain wary, sentiment readings show. Slowing economic activity has ascended to the top of their worry list. Today, Dr Ed examines how worrisome it is. True, some key recent economic indicators have come in weaker than expected. But that suggests a soft patch, nothing worse. The recent outperformance of four cyclical sectors associated with our bullish themes supports our long-term optimism on the economy. In any event, as long as inflation doesn't rise problematically in coming months, the Fed Put is on standby. ... Also: Dr Ed reviews "Words of War" (+++).

YRI Weekly Webcast. Join Dr Ed's live webcast with Q&A on Mondays at 11 a.m., EST. You will receive an email with the link one hour before showtime. Replays of the weekly webcasts are available *here*.

US Economy I: List of Worries. Roseanne Roseannadanna was a character created and portrayed by Gilda Radner on "Weekend Update" in the early seasons of *Saturday Night Live*. She was the segment's brash and ditsy consumer affairs reporter, responding to questions by anchor person Jane Curtin. After Roseannadanna rambled on for a while in a disjointed response, an increasingly exasperated Curtin would ask what those comments possibly could have to do with the question. Radner would reply: "Well, Jane, it just goes to show you: *It's always something* ..."

Stock investors always find something to worry about. They were clearly relieved that the 12-day war between Israel and Iran ended with a ceasefire on Tuesday, June 24. They also increasingly looked forward to a speedy resolution of President Donald Trump's trade war. On the latter front, there was a setback on Friday when Trump said that the United States would terminate all trade discussions with Canada, "effective immediately," over that country's plan to begin collecting digital services taxes from US technology giants.

Nevertheless, the S&P 500 and the Nasdaq both closed at record highs on Friday (*Fig. 1* and *Fig. 2*). On a ytd basis, the S&P 500 is up 5.0%. The Roundhill Magnificent Seven ETF (equal weighted) is lagging the broader index with a 2.1% ytd gain, while the S&P 500 Ex-Magnificent Seven ETF (free-float capitalization weighted) is up 6.9% (*Fig. 3*).

Offsetting the setback on US trade talks with Canada was news, also on Friday, that the United States and China have resolved issues surrounding shipments of rare earth minerals and magnets to the US, ironing out a dispute that stalled a deal reached in May. Also, the US reportedly is about to sign trade agreements with several other countries within the next few days.

So now that stock investors have less to worry about regarding Trump's trade war and the conflict in the Middle East, they are turning to other worries. Indeed, despite the latest record highs for the S&P 500 and Nasdaq, the Investor Intelligence and AAII Bull-Bear Ratios remain relatively low (*Fig. 4*). This suggests that stock investors remain wary. It's as though they're chanting Roseannadanna's mantra: "[I]t's always something—if it's not one thing, it's another."

Let's discuss what investors are worrying about now that there is less to worry about.

US Economy II: Soft Patch or Significant Slowdown? Investors haven't stopped worrying about a recession, or at least a significant slowdown in economic activity. The latest batch of economic indicators confirms that Trump's Tariff Turmoil (TTT) has weighed on economic growth. Here are some of the key weaker-than-expected indicators that have been released lately, followed by our positive spin on the economic outlook over the rest of this year:

(1) *Citigroup Economic Surprise Index (CESI).* The CESI has been mostly hovering in modestly negative territory since late February (*Fig. 5*). That means that economic indicators have been mostly weaker than expected, as confirmed by the 50bps decline in the 10-year Treasury bond yield from this year's peak of 4.79% on January 14 to 4.29% currently (*Fig. 6*).

(2) *GDP*. Most recently, Q1's real GDP growth was revised down from -0.2% to -0.5% (q/q, saar). Real personal consumption expenditures was revised down from 1.2% to 0.5%. Real final sales to private domestic purchasers was revised down from 2.5% to 1.9% (*Fig. 7*).

The Atlanta Fed's *GDPNow* tracking model shows real GDP rising 2.9% during Q2, down from the 3.4% estimate on June 25 (*Fig. 8*). Real consumer spending growth is tracking at 1.7% during Q2, down from 1.9% on June 17 and 2.5% on June 12. A sharp decline in imports during Q2 is boosting the model's Q2 growth rate after a similarly large increase in imports had depressed Q1's growth rate.

(3) *Personal income & outlays*. Friday's personal income and outlays report for May showed a 0.4% m/m drop in personal income and a 0.1% decline in personal consumption (*Fig. 9*). Wages and salaries in private industry rose 0.4%, consistent with our Earned Income Proxy for this variable (*Fig. 10*). The big drag on personal income was a 7.3% m/m decline in Social Security income (*Fig. 11*). But that followed a 6.9% increase during April. Obviously, there was a timing issue that distorted this component of personal income.

Meanwhile, nonlabor income (i.e., the sum of personal interest income, personal dividend income, rental income, and proprietors' income) continues to rise in record-high territory, albeit at a slower pace recently (*Fig. 12*). Keep in mind that higher interest rates, on balance, benefit consumers (though certainly not the would-be homebuyers among them). During May, personal interest income totaled $2.0 trillion (saar) compared to $0.6 trillion in personal nonmortgage interest payments (*Fig. 13*).

The slight decline in consumer spending during May was led by a 4.8% fall in gasoline and other energy goods as energy prices dropped during the month (*Fig. 14*). Also weighing down consumption was a 0.2% decrease in motor vehicle & parts. As we've previously observed, auto sales rose sharply during April as consumers scrambled to buy vehicles before Trump's tariffs boosted their prices. Boosting (discretionary) consumption were spending on recreational goods and vehicles (0.6%) and on recreational services (0.5%).

(4) *Unemployment claims*. Stock investors should have been pleased by the latest unemployment claims release. Initial claims fell 10,000 to 236,000 during the June 20 week. This suggests that layoffs remain very low (*Fig. 15*). However, continuing claims edged up 37,000 to 1.97 million during the June 14 week, suggesting that it is taking longer for the unemployed to find jobs (*Fig. 16*). This implies that the unemployment rate might uptick from 4.2% in May to 4.3% in June. But that's still a full employment rate.

(5) *Positive spin*. We view the current economic slowdown as a soft patch. Stock investors seem to agree with our assessment. On a ytd basis, four of the five outperforming sectors of the S&P 500 are cyclical ones: Industrials (11.4%), Communication Services (10.2%), Financials (7.5%), and Information Technology (6.7%) (*Fig. 17*). These four also happen to be the sectors that we have been recommending overweighting since the start of the current bull market in October 2022. Their outperformance is consistent with our bullishness on technology capital spending, onshoring, and the capital markets.

The one big cyclical sector that has been underperforming the broader S&P 500 is Consumer Discretionary (-3.4%). Consumer spending was weak during Q1 mostly because January and February were unusually cold. During Q2, TTT depressed consumer confidence and spending. The correction in the stock market from February 19 through April 8 also caused consumers to turn cautious. Now that stock prices are back at record highs and TTT is moderating, we expect to see a rebound in consumer spending.

(6) *Fed Put*. If the economy remains weak over the rest of the year, then the Fed will likely cut the federal funds rate two times before year-end to boost economic growth. That's not our forecast since we expect the economy to remain resilient without an assist from the Fed. However, we could be wrong. If so, then stock prices will still continue to advance, as we expect, because the Fed will ease. The federal funds rate futures market is signaling two 25bps rate cuts over the next six months and four over the next 12 months (*Fig. 18*).

And what about inflation? Fed Chair Jerome Powell expects that TTT will boost inflation, at least on a transitory basis, during June, July, and August. That's why he and most of his colleagues on the Federal Open Market Committee have been in no rush to lower the federal funds rate. We tend to agree, though we've been surprised by how low inflation has remained so far during TTT, with May's headline and core PCED inflation rates at 2.3% and 2.7% y/y (*Fig. 19*).

Trump's tariffs have boosted durable goods prices in the PCED, up 0.5% y/y through May (*Fig. 20*). But nondurable goods prices have remained tame at -0.2% y/y (*Fig. 21*). Also continuing to moderate are services prices in the PCED (*Fig. 22*).

Movie. "Words of War" (+++) is a 2025 biographical drama about the life and career of the late Russian journalist Anna Politkovskaya. She was assassinated in 2006. The presumption is that Russian President Vladimir Putin ordered the hit because she reported on his nefarious activities and branded him as Russia's number-one terrorist. The film portrays her courageous fight to report the truth about Putin's crimes in the face of intimidation and violence. "Words of War" is a tribute to Politkovskaya and all journalists who report the news in dangerous environments. (See our movie reviews *archive*.)

Calendars

US: Mon: Chicago PMI 42.7; Bostic; Goolsbee. **Tues:** ISM M-PMI & Price Index 48.8/70.2; JOLTS Job Openings 7.54m; Construction Spending -0.1%; Powell. (Source: FX Street)

Global: Mon: Germany Retail Sales 0.5%; Germany Import Prices -0.3%; Germany CPI 0.2%; UK GDP 0.7%q/q, 1.3%y/y; Japan Tankan Large Manufacturing & Non-Manufacturing Indexes 10 & 34; China Caixin M-PMI 49; Lagarde; Guindos. **Tues:** Eurozone, Germany, France, Italy & Spain M-PMIs 49.4, 49.0, 47.8, 49.5 & 50.7; Eurozone Headline & Core CPI Flash Estimates 2.0% & 2.3%; Germany Unemployment Change 18k; Japan Consumer Confidence 33.6; Lagarde; Elderson; Schnabel; Bailey; Udea. (Source: FX Street)

Strategy Indicators

Global Stock Markets (US$ Performance) (*link*): The US MSCI index rose 3.4% during the June 27 week and closed at a record high on Friday for the first time since January 23. That compares to a 3.0% gain for the AC World ex-US index, which has been hitting new record highs since May 14 for the first time since June 15, 2021. The US MSCI has outperformed the AC World ex-US in just seven of the past 22 weeks. EMEA was the best performing region last week, with a gain of 4.0%, ahead of EMU (4.7%), EM (3.3), EM Asia (3.2), EAFE (3.0), Europe (3.0), and the AC World ex-US. EM Latin America was the worst performer, albeit with a gain of 2.0%, and was the only region to lag the AC Word ex-US last week. The Sweden MSCI index performed the best among country indexes last week, with a gain of 5.8%, ahead of Hong Kong (4.6), Taiwan (4.6), Germany (4.5), and Mexico (3.7). The Brazil MSCI index was the worst performer w/w, albeit with a gain of 1.0%, followed by Australia (1.2), Canada (1.4), and South Africa (1.8). In terms of ytd performance rankings, the US MSCI index is up 5.0% ytd, but is the worst country performer and trails the 16.1% gain for the AC World ex-US. Among the regional indexes outperforming the AC World ex-US ytd, EMU now leads with a gain of 25.7%, followed by EM Latin America (24.7%), Europe (21.0), EAFE (17.3), and the AC World ex-US. EMEA is the worst ytd performer, albeit with a gain of 12.1%, followed by EM Asia (13.7) and EM (14.2). Looking at the major selected country markets that we follow, Spain is the best ytd performer, with a gain of 40.3%, followed by Korea (36.5), Germany (32.2), Mexico (28.2), and South Africa (26.0). The worst performing countries ytd: the US (5.0), India (6.4), Australia (9.4), Japan (9.7), and Taiwan (12.1).

US Stock Indexes (*link*): All 48 of the major US stock indexes that we follow rose during the week ended June 20, up from 30 indexes rising in the prior week. The Dow Jones 20 Transports index was the best performer, with a gain of 4.9%, followed by S&P 500 LargeCap Pure Growth (4.7%), S&P 500 Transportation (4.6), S&P 500 LargeCap Growth

(4.6), and Russell 1000 Growth (4.5). The Dow Jones 15 Utilities and S&P 500 LargeCap Pure Value indexes were the worst performers, albeit with gains of 1.0%, followed by S&P 400 MidCap Pure Value (1.9) and S&P 400 MidCap Pure Growth (1.9). Thirty-four-three of the 48 indexes are now higher so far in 2025, up from 24 a week earlier and down from 47 in mid-February. With a gain of 10.0%, the S&P 500 LargeCap Pure Growth index is in the top spot as the best performer so far in 2025, ahead of Russell MidCap Growth (8.0), S&P 500 LargeCap Growth (7.9), Nasdaq 100 (7.2), and S&P 100 Equal Weighted (7.1). The worst performing major US stock indexes ytd: S&P 600 SmallCap Value (-8.0), S&P 600 SmallCap Equal Weighted (-6.1), S&P 600 SmallCap Pure Value (-5.7), S&P 600 SmallCap (-5.1), and Russell 2000 Value (-3.8).

S&P 500 Sectors Performance (*link*): Nine of the 11 S&P 500 sectors rose during the week ending June 27, and three were ahead of the S&P 500's 3.4% gain. That compares to four S&P 500 sectors rising a week earlier, when the same four sectors were ahead of the S&P 500's 0.2% decline. The outperformers last week: Communication Services (6.2%), Information Technology (4.7), and Consumer Discretionary (4.4). The underperformers last week: Energy (-3.5), Real Estate (-0.8), Consumer Staples (0.3), Utilities (1.3), Health Care (1.5), Materials (2.3), Industrials (3.4), and Financials (3.4). The S&P 500 is now up 5.0% ytd to a record high, with eight of the 11 sectors positive ytd and nine ahead of the index. Industrials still wears the crown as the best ytd performer, with a gain of 11.4%, ahead of Communication Services (10.2), Financials (7.5), Utilities (7.3), and Information Technology (6.7). These five sectors are lagging the S&P 500 so far in 2025: Consumer Discretionary (-3.4), Health Care (-2.6), Energy (-0.3), Real Estate (1.1), Consumer Staples (4.6), and Materials (4.9).

US Economic Indicators

Personal Income & Consumption (*link*): Both personal income and spending were in the red in May. *Personal income* fell 0.4% last month, following a downwardly revised 0.7% gain in April (from 0.8%)—and the below-consensus estimate of a 0.3% advance. It was the first decline in income since September 2021—ending an upward trend that peaked with a 0.8% increase this April. May's decline was driven primarily by a pullback in government social benefits (-2.2%) and farm proprietors' income (-2.3). Personal income had averaged monthly gains of 0.6% the first four months of this year. *Disposable income* also contracted in May, slumping 0.6%, while *real disposable income* dropped 0.7% during the month. *Personal consumption expenditures* ticked down 0.1% last month, as *goods consumption* fell 0.8%, with *durable goods* consumption sinking 1.8%—mostly autos—while *nondurable* *goods* consumption dipped 0.2%; services consumption ticked up 0.1%. *Adjusted for inflation*, consumer spending slipped 0.3% in May, with goods consumption falling 0.8%, driven by a 1.8% drop in in durable goods spending, while nondurable goods consumption dipped 0.3%; real services consumption was flat during the month. *Personal saving* fell $97.3 billion in May to $1,013.9 billion, with the *personal saving rate* slipping from 4.9% in April to 4.5% in May.

Personal Consumption Deflator (*link*): The *headline PCED* ticked up 0.1% in May, matching April's gain, while the core PCED edged up 0.2%, a tick above the 0.1% gains posted during both April and March. *Headline PCED* rose 2.3% y/y in May, after easing from 2.7% in February to 2.2% in April, while the *core rate* rose 0.2% in May, a tick above the 0.1% gains posted in April and March. The core rate edged up to 2.7% y/y in May from 2.6% in April but was below February's 2.9%. The *headline and core rates* peaked at 7.2% and 5.6%, respectively, during June 2022 and September 2022. The *goods* yearly inflation rate has been bouncing around zero in recent months, posting a 0.1% uptick in May, following downticks of 0.4% and 0.3% in April and March, respectively. The rate had slipped below zero in March for the first time since last November. *Durable goods* prices climbed 0.5% y/y in May, its first positive rate since May 2023, while the rate for *nondurable goods* was -0.2% y/y, following April's rate of -0.4%—after five months in positive territory—in a range of 0.1%-1.6%. While durable goods prices are hovering around zero, *within durable goods*, prices for recreational goods & vehicles (-0.1%), net purchases of used motor vehicles (0.0), motor vehicles & parts (0.5), and furnishings & durable household equipment (0.7) fluctuating around zero, while inflation rates for motor vehicles & accessories (1.2) and other durable goods (1.5) were just above 1.0%, though the latter has eased. *Within nondurable goods*, magazines, newspapers & stationary was an outlier, shooting up to 8.4% in May, while rates for recreational items (0.7%), personal care (0.7), pharmaceuticals & other medical products (0.5), and household supplies (0.2) were just above zero, while the rate for clothing & footwear (-1.0) fell further into negative territory. *Within services*, *housing* costs remain stubbornly high but are down from recent peaks: owners' equivalent rent (to 4.1% from 8.2%), tenant rent (3.8 from 8.8), and housing & utilities (4.1 from 8.3). Looking at *non-housing* services, recreation (3.5), transportation (3.4), and education (2.5) posted the largest gains, while personal care (1.8%) and medical care (2.2) were just above, while communication (-2.7) fell further below zero.

Consumer Sentiment Index (*link*): Consumer sentiment was a surprise on the upside in June, posting its first increase in six months, while inflationary pressures eased. *Consumer sentiment* jumped to 60.7 in June—well above the consensus estimate of 54.0—after falling from a post-election bounce of 74.0 during December to 52.2 in April and remaining there in

May. Sentiment remains 18% below the December reading. The *current conditions* component climbed to 64.8 this month after falling from 75.1 in January to 58.9 by May, while *expectations* climbed for the second month to 58.1 in June, after sliding from 76.9 in November to 47.3 in April. *Turning to inflation*, year-ahead inflation sank from 6.6% in May to 5.0% in June, while long-run inflation expectations eased for the second month to 4.0%—with both measures at their lowest reading in three to four months.

Durable Goods Orders & Shipments (*link*): Durable goods orders soared in May to a new record high. *Orders* jumped 16.4% last month, the largest monthly increase since 2014 and nearly double the expected gain of 8.6%—more than wiping away April's 6.6% drop. The headline number was exaggerated by a big jump in new Boeing contracts ahead of the Paris Air show. Boeing booked 303 plane orders in May—the most since December 2023, including 150 from Qatar Airways, placed during President Trump's visit to the Gulf Arab country last month. That compares to only eight orders in April. *Transportation orders* led May's increase, skyrocketing 48.3%—as nondefense aircraft & parts soared 230.8%. Orders for capital goods jumped 48.0% as both nondefense (49.4) and defense (38.7) orders posted strong gains. Orders also advanced for communications equipment (2.9%), computers & related products (2.4), electrical equipment (0.8), and machinery (0.3). *Excluding transportation*, new orders rose 0.5% in May, better than the consensus estimate of no change. *Nondefense capital goods orders* plunged 19.1%, while the comparable shipments measure climbed 3.5%. Meanwhile, *nondefense capital goods orders* *excluding aircraft* (a proxy for future business investment) rose 1.7% in May, rebounding from April's 1.4% drop and surpassing the consensus estimate of a 0.1% uptick. *Shipments of core capital goods*, used in the calculation of the GDP component of business equipment spending, rose 0.5% in June after showing no gain in May.

Global Economic Indicators

Eurozone Economic Sentiment Indicators (*link*): Europe's economic sentiment slumped in June after rising for the first time in three months in May. Economic Sentiment Indexes (ESIs) for both the EU and the Eurozone fell this month, the EU's by 1.0 point and the Eurozone's by 0.8 point; both came in at 94.0, below their long-term average of 100.00. *ESIs among the six largest EU economies* were mixed, with France's (-3.4 points to 89.6) posting the largest decline, followed by Spain's (-1.4 to 102.0), and Germany's (-0.8 to 90.7). Conversely, the ESI for Poland (+1.0 to 101.4) rose during the month, while those for both Italy (+0.2 to 98.9) and the Netherlands (+0.2 to 97.1) remained broadly stable. *By sector* for the overall EU, construction (+0.7 to -4.6) confidence continued to increase in

June, while services (+0.2 to 3.0) and consumer (-0.3 to -14.8) confidence held relatively steady. Meanwhile, industry confidence (-1.1 to -11.6) posted the largest decline, followed by retail trade (-0.5 to -6.3).

Contact us by *email* or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-241-6502
Melissa Tagg, Senior Global Investment Strategist, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
William Pesek, Contributing Editor, 516-277-2432
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-228-9102