June 13, 2025

MarketDesk

The Weekly Note

U.S. & China Meet, Solid Job Growth, Subdued Inflation, & Next Week's Fed Meeting

Weekly Market Recap

Stocks traded higher this week, with the S&P 500 now less than -2% below its all-time high from February 19th. There was a hint of underlying rotation underneath the surface, with the Russell 2000 gaining +2% while the Momentum factor returned +0.3%. The High Beta factor gained nearly +3% as it benefited from its semiconductor overweight, and Growth and Value produced similar returns. Energy was the top performing sector as oil rallied more than +7%, with Technology, Consumer Discretionary, and Health Care also outperforming the index. In the credit market, long duration Treasury and corporate bonds outperformed as yields declined due to a cooler-than-expected inflation report and a strong 30-year Treasury bond auction. Volatility continued to fall in both the stock and credit markets as the VIX and MOVE indices both declined. The U.S. dollar weakened to a new three-year low, while gold rebounded from early losses to end the week modestly higher.

Key Takeaways

1. The U.S. and China held a second round of meetings this week, after both sides accused the other of failing to honor the trade truce established last month in Geneva. The outcome of the meeting was a loosely defined "framework" that lacks meaningful details. *Implication – The agreement appears to be a tactical pause intended to stabilize the current truce rather than a step toward resolving the tensions between the two nations.*

2. The U.S. added 139,000 jobs in May, slightly above the 130,000 forecast. Health Care and Leisure & Hospitality led the job gains, while Federal Government, Temporary Help, and Manufacturing declined. Although May's gains were solid, March and April were revised lower by a total of -95,000. Unemployment held steady at 4.2%, remaining in the narrow 4% to 4.2% range since May 2024 (Figure 1). One factor keeping the labor market tight and unemployment low: the participation rate, particularly among the 55+ age group, continues to fall (Figure 2). *Implication – The data suggests the labor market is cooling but resilient, with steady job growth despite ongoing tariff uncertainty. The report was seen as a "Goldilocks" outcome: not too strong to trigger rate hikes, but strong enough to ease recession fears.*

3. Inflation remained subdued in May, easing concerns about a tariff-driven spike. Headline CPI rose by +0.1% m/m in May, down from April's +0.2% (Figure 3). Core CPI also rose by +0.1% m/m, a decrease from April's +0.2% and below the +0.3% estimate. Likewise, headline and core PPI both rose +0.1% m/m, below expectations (Figure 4). The two reports were closely watched due to concerns about the inflationary impact of tariffs, but the data suggests tariffs have had a limited impact. Economists noted the May report may not fully reflect the impacts of tariffs, with some expecting stronger effects in the coming months. *Implication – The reports suggest disinflationary pressures remain in place, with companies potentially choosing to absorb higher costs to stay competitive.*

4. The Fed holds its June FOMC meeting next week. The central bank continues to urge patience as it balances inflation and the labor market. With the May jobs and inflation reports pointing to a solid labor market and subdued inflation, the market expects the Fed to hold interest rates steady in June and July. Investors will be focused on the updated Summary of Economic Projections for clues about the Fed's outlook on future rate cuts. *Implication – The Fed is paralyzed as it worries about the inflationary impact of tariffs. The risk is that the Fed is overemphasizing inflation risk and underestimating the impact of higher rates.*

5. Initial jobless claims continue to drift higher, with the 4-week moving average near the upper end of a 2-year range (Figure 5). While initial claims remain low by historical standards, they are slowly adding up. The number of continued jobless claims is at a 3.5-year high (Figure 6), signaling a softer labor market and a "slow-to-hire" mentality. *Implication – The labor market remains solid, but jobless claims suggest it's gradually losing steam. It doesn't appear to be collapsing, but it feels stagnant (low hiring, low firing).*

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Markets	1-Week	YTD
S&P 500	+1.8%	+2.8%
R.2000	+2.0%	-3.5%
Nasdaq	+1.7%	+4.5%
Dow Jones	+1.5%	+1.7%
Bond Agg.	+0.5%	+3.1%
WTI Oil	+7.9%	-0.8%

Next Week's Economic Releases

Empire State Index (6/16)
Homebuilder Sentiment (6/17)
Industrial Production (6/17)
Retail Sales (6/17)
Housing Starts (6/18)
Conference Board LEI (6/20)
Philadelphia Fed Index (6/20)

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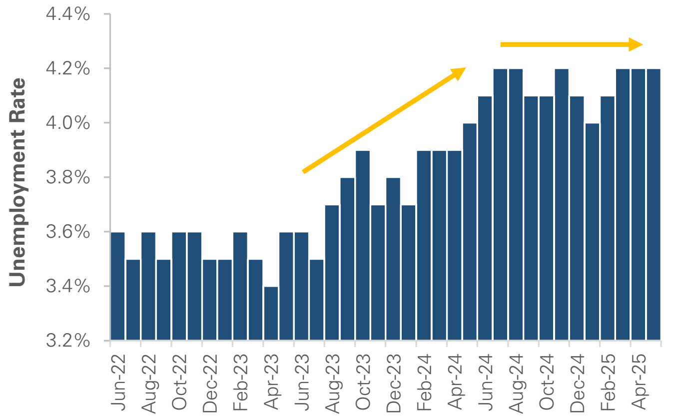
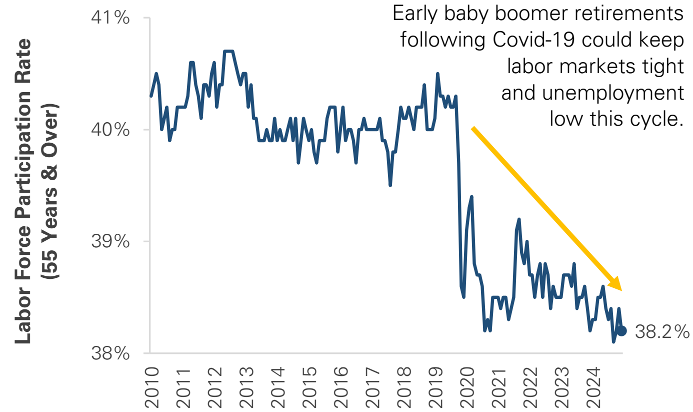
Figure 1: Unemployment Holds Steady in the Low 4% Range



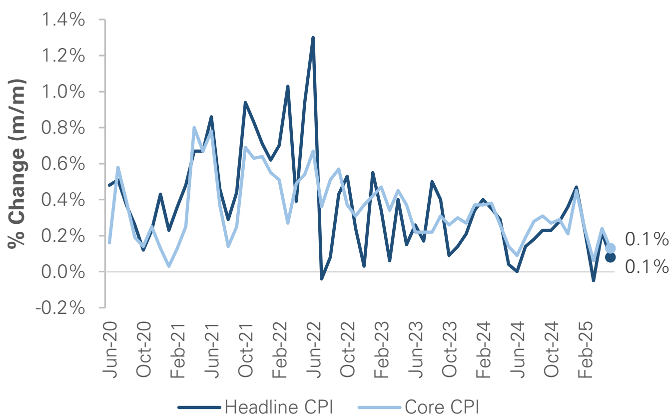
Source: MarketDesk, Department of Labor. Seasonally adjusted data.

Figure 2: Participation Rate Remains Near Post-Pandemic Low



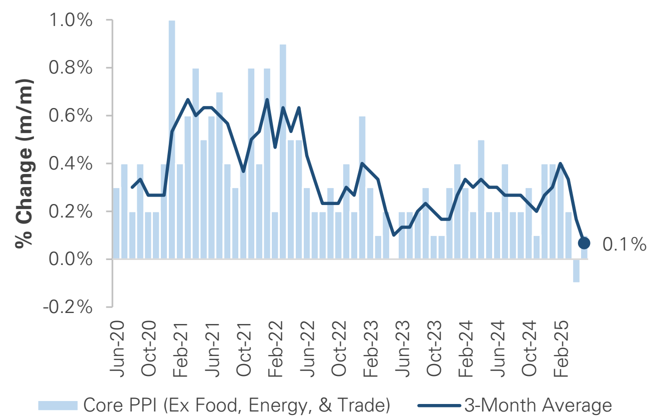
Source: MarketDesk, Department of Labor. Seasonally adjusted data.

Figure 3: Headline & Core CPI Below Consensus in May



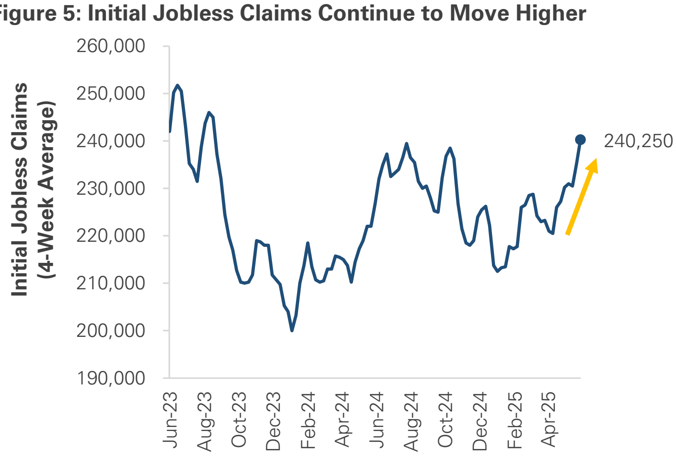
Source: MarketDesk, Bureau of Labor Statistics. Seasonally adjusted data.

Figure 4: Core PPI Remains Low Despite Tariffs



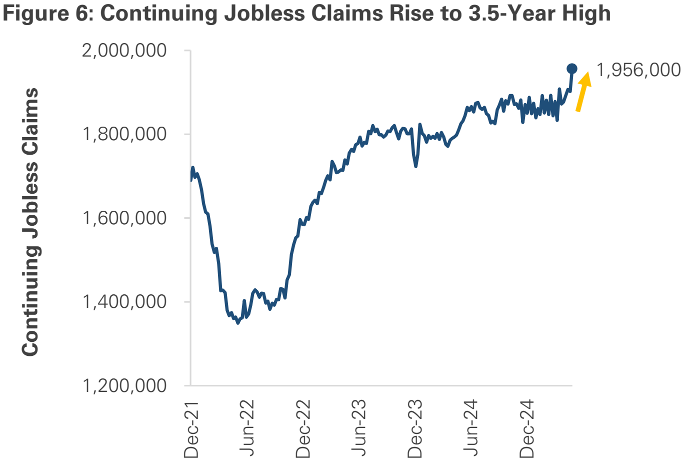
Source: MarketDesk, Bureau of Labor Statistics. Seasonally adjusted data.

Figure 5: Initial Jobless Claims Continue to Move Higher



Source: MarketDesk, Department of Labor. Seasonally adjusted data.

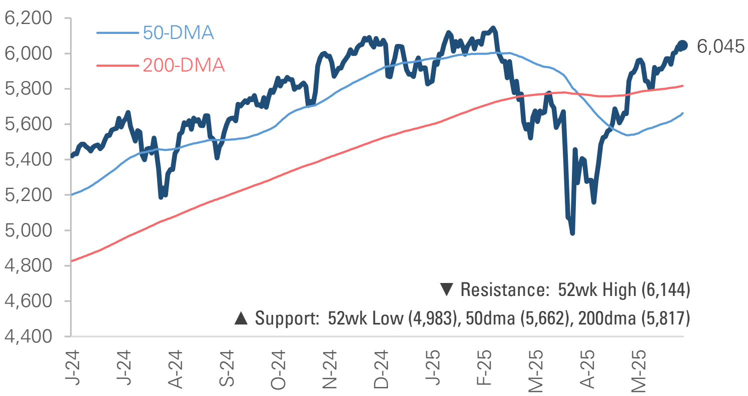
Figure 6: Continuing Jobless Claims Rise to 3.5-Year High



Source: MarketDesk, Department of Labor. Seasonally adjusted data.

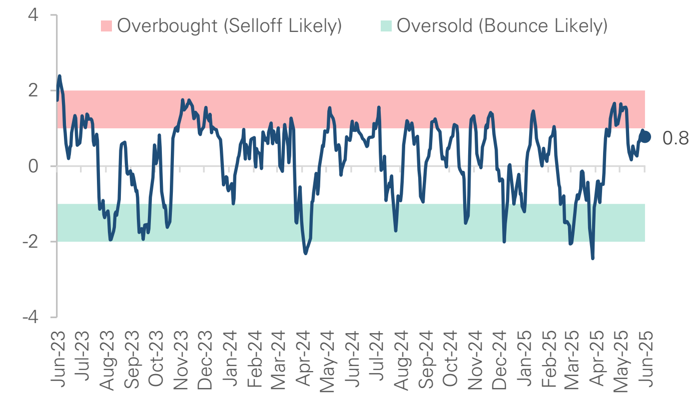
Asset Class Performance

Figure 7: S&P 500 Index (Last 12 Months)



Source: MarketDesk

Figure 8: S&P 500 Technical Composite (Last 24 Months)



Source: MarketDesk. Based on a composite of technical breadth measures.

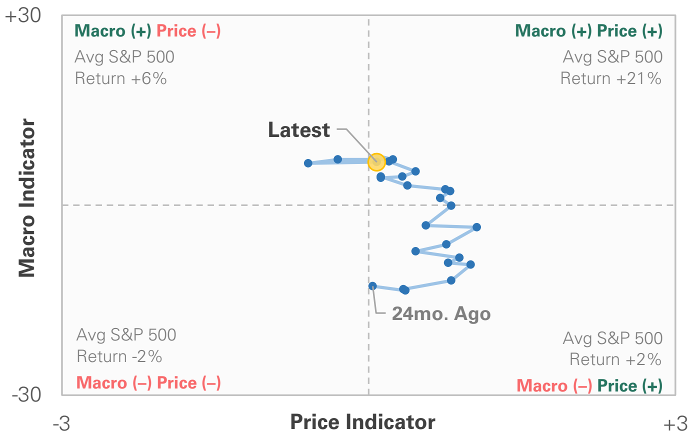
Figure 9: Key Performance, Valuation, and Technical Details

Category	Market Areas	Yield	Total Returns (%)						NTM P/E (vs 10 Years)				Technical Composite			
			1wk	1mo	3mo	6mo	YTD	12mo	5th	Current		95th	RSI	10wk Price	TC Reading	
MDR Focused Indices [1]	U.S. Dividend	3.2%	2.3	0.9	1.4	-4.9	-0.6	1.6	11x	14.7x	29%	27x	60		1.0	-
	U.S. Large Cap	1.8%	2.4	1.4	2.3	-4.3	-0.4	6.5	14x	18.8x	18%	46x	62		1.1	-
	U.S. Small Cap	1.2%	1.4	1.2	8.5	-5.1	0.2	3.1	14x	20.3x	25%	53x	61		0.8	-
	U.S. Sector Rotation	1.4%	2.9	0.7	6.2	-2.4	2.5	8.8	14x	18.0x	15%	49x	61		1.0	-
	U.S. Momentum	1.1%	0.5	2.2	8.0	-11.2	-5.6	5.0	16x	29.7x	61%	42x	57		0.2	-
Major Indices	S&P 500	1.3%	1.8	2.2	9.5	-0.1	2.8	11.3	15x	21.7x	86%	24x	80		0.8	-
	Russell 2000	1.2%	2.0	2.2	7.7	-8.9	-3.5	6.3	17x	23.9x	64%	61x	74		1.0	-
	NASDAQ	0.6%	1.7	2.8	14.1	1.7	4.5	12.6	17x	27.0x	84%	31x	79		1.1	-
	MSCI EAFE	2.7%	1.1	3.8	10.0	15.8	19.5	16.4	11x	14.9x	75%	18x	69		0.5	-
	MSCI EM	2.1%	2.4	3.4	9.3	10.7	14.5	15.4	10x	12.6x	77%	15x	74		1.0	-
U.S. Factors	Equal Weight	1.6%	1.3	0.7	6.5	-1.0	2.9	10.7	13x	17.0x	72%	22x	73		0.9	-
	Growth	0.5%	1.8	2.9	14.2	-0.3	2.5	14.1	17x	25.6x	64%	32x	82		1.1	-
	Value	2.0%	1.5	1.2	5.4	0.6	4.1	12.2	12x	16.1x	71%	18x	74		0.9	-
	Momentum	0.8%	0.4	1.5	18.4	10.4	12.6	20.4	13x	27.2x	92%	39x	70		0.3	-
	Low Volatility	1.6%	0.8	0.8	3.5	2.9	6.0	14.7	16x	19.4x	69%	22x	63		0.3	-
	High Beta	0.6%	2.9	3.3	18.0	-0.5	4.7	10.0	-186x	20.5x	85%	51x	77		1.0	-
U.S. Sectors	Technology	0.6%	2.7	3.5	17.0	2.2	4.5	7.7	14x	26.7x	88%	29x	87		1.1	-
	Consumer Staples	2.5%	0.7	1.0	3.9	0.9	4.8	9.5	16x	19.7x	54%	22x	53		-0.1	-
	Consumer Discr.	0.8%	2.0	-0.9	11.3	-8.5	-4.5	19.9	17x	25.9x	81%	39x	56		0.6	-
	Utilities	2.8%	1.3	1.1	6.6	7.2	9.0	20.3	15x	17.8x	49%	21x	56		0.0	-
	Health Care	1.7%	2.8	4.9	-4.5	-2.2	-0.2	-4.7	14x	16.4x	53%	20x	87		1.4	-
	Real Estate	4.0%	1.4	1.7	3.7	-1.7	2.9	12.4	14x	16.5x	54%	22x	84		0.5	-
	Financials	1.4%	0.7	-0.5	7.9	3.7	5.9	27.0	9x	16.6x	97%	18x	65		0.3	-
	Comm Svcs	1.0%	1.7	3.8	11.3	1.1	6.1	22.9	-169x	19.1x	28%	72x	74		0.9	-
	Energy	3.3%	5.8	1.1	0.1	-1.9	1.9	0.8	-251x	15.0x	48%	85x	70		1.5	-
	Industrials	1.3%	0.1	1.2	12.0	5.2	9.5	19.3	14x	23.8x	90%	26x	71		0.6	-
	Materials	1.9%	1.0	2.6	4.7	-0.8	5.6	0.3	12x	19.8x	85%	22x	67		1.0	-
U.S. Credit	U.S. Corp HY	5.8%	0.4	0.8	2.9	2.9	3.7	9.1					67		0.8	-
	U.S. Corp IG	4.4%	0.8	1.8	1.6	1.4	3.4	4.6					68		1.5	-
	UST (1-3Y)	3.9%	0.1	0.4	1.0	2.4	2.2	5.2					49		-0.3	-
	UST (7-10Y)	4.4%	0.4	1.1	0.8	2.5	4.0	4.1					59		0.3	-
	UST (+20Y)	4.9%	0.8	1.7	-2.8	-2.2	1.6	-3.2					66		0.6	-
Volatility	CBOE VIX	-	-1.2	-0.6	-7.4	3.3	-0.1	5.3					22		-0.8	-
	MOVE (Bond VIX)	-	-5.3	-9.3	-16.8	6.7	-9.4	-2.6					33		-1.1	-
FX	U.S. Dollar Index	-	-0.9	-3.0	-5.7	-8.5	-9.8	-6.9					38		-0.8	-
Oil	WTI Oil	-	7.9	11.8	4.8	2.2	-0.8	-2.9					78		2.7	OB

Source: MarketDesk. All data as of Thursday's close. 1-week returns are calculated Thursday to Thursday. See page 6 for definitions. (1) MarketDesk Focused S&P 500 Index based on the "Monthly Rebalance" model index version. Refer to each index's monthly PDF for additional information and disclosures.

Portfolio Strategy

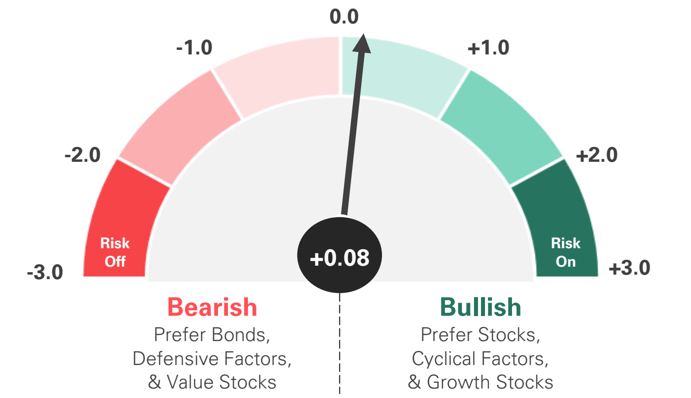
Figure 10: Simple Asset Allocation Framework (SAAF)



Source: MarketDesk. **Click Here** to read more about the SAAF.

Figure 11: MarketDesk U.S. Risk Demand Indicator (USRDI)

Bull / Bear Market Gauge



Source: MarketDesk. **Click Here** to read more about USRDI.

Figure 12: MarketDesk Current Asset Class Ratings

Underweight Ratings (Decrease Exposure)	Overweight Ratings (Increase Exposure)
US Corp High Yield	Quality Factor
Preferreds	Equal Weight Factor
US High Beta Factor	High Dividend Factor
Value Factor	Low Volatility Factor
Industrials	Growth Factor
Financials	Health Care
Materials	Utilities
	Consumer Staples
	MBS
	Long Duration Treasuries
	Mid Duration IG Corporates

Source: MarketDesk. **Click Here** to read the latest Monthly Roundup.

Figure 13: Bullish and Bearish Narratives

Bear Case (Market Headwinds)	Bull Case (Market Tailwinds)
Risk Appetites Fading	Fed Started Cutting Rates
Weak Sentiment / Low Confidence	U.S. Earnings Breadth Rebound
Lagged Impacts of Rate Hike Cycle	Cash Sitting on Sidelines
Inflation Reacceleration Risk	Labor Market Remains Tight
Fed Shrinking Balance Sheet	Consumer Keeps Spending
Interest Coverage Ratios Declining	Housing Market Reaccelerates
Pandemic Savings Depleted	Investment Rises After Election
Disinflation Drag on Sales Growth	"Buy the Dip" Investor Base
Geopolitical Tensions	
Fewer Rate Cuts Than Expected	

Source: MarketDesk

Figure 14: S&P 500 Valuation Matrix

Change in S&P 500 NTM Consensus EPS

NTM P/E Multiple	$251	$265	$270	$279	$287	$293	$307
	-10%	-5%	-3%	0%	+3%	+5%	+10%
20.0x	5018	5296	5408	5575	5742	5854	6133
21.0x	5269	5561	5678	5854	6030	6147	6439
21.7x	5441	5743	5864	**6045**	6227	6348	6650
23.0x	5770	6091	6219	6411	6604	6732	7053
24.0x	6021	6356	6490	6690	6891	7025	7359

NTM = Next 12 Months

Source: MarketDesk. Note: Growth of 0% (center column) is based on the current NTM consensus EPS of $279, which already implies +11% growth vs LTM's actual EPS of $250. Therefore, growth of +10% (far right column) would imply +21% growth vs LTM actual EPS. The S&P 500's NTM P/E multiple is currently 21.7x.

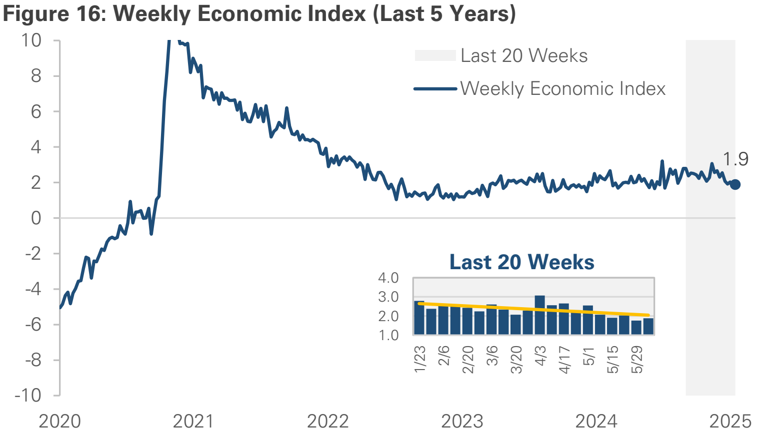
Economics & Interest Rates

Figure 15: U.S. Economic Calendar – Next Three Weeks

Monday	Tuesday	Wednesday	Thursday	Friday
Jun 16	**Jun 17**	**Jun 18**	**Jun 19**	**Jun 20**
Empire State Index	Homebuilder Sentiment Industrial Production Retail Sales	Housing Starts		Conference Board LEI Philadelphia Fed Index
Jun 23	**Jun 24**	**Jun 25**	**Jun 26**	**Jun 27**
Existing Home Sales	Consumer Confidence Index Richmond Fed Index S&P 20-City Home Price Index	New Home Sales	Kansas City Fed Index GDP Price Index Real GDP Pending Home Sales	PCE (Inflation) Michigan Consumer Sentiment Domestic Auto Sales Domestic Light Trucks Sales Domestic Total Vehicle Sales
Jun 30	**Jul 1**	**Jul 2**	**Jul 3**	**Jul 4**
Dallas Fed Index	Construction Spending Manufacturing PMI JOLTS (Job Openings)		Durable Goods Orders Industrial Orders Unemployment Rate Nonfarm Payrolls Private Payrolls	

Source: MarketDesk, Federal Reserve, Various U.S. Government Departments and Agencies

Figure 16: Weekly Economic Index (Last 5 Years)



Source: Federal Reserve Bank of New York. WEI is an index of ten real-time economic indicators, such as unemployment claims, railroad traffic, and retail sales.

Figure 17: Interest Rates and U.S. Treasury Yields

UST Duration	Recent Performance (bps)				Last 12-Month Range		
	1wk	2wk	1mo	3mo	Low	Current	High
Fed Funds	-	-	-	-	4.3%	**4.33%**	5.3%
3-Month	+4	+4	+1	+8	4.3%	**4.37%**	5.4%
2-Year	-2	-4	-6	-5	3.5%	**3.90%**	4.8%
5-Year	-4	-5	-11	-5	3.4%	**3.96%**	4.6%
10-Year	-4	-7	-9	+12	3.6%	**4.35%**	4.8%
30-Year	-4	-9	-8	+29	3.9%	**4.84%**	5.1%
Prime Rate	-	-	-	-	7.5%	**7.50%**	8.5%
30Yr Mtge	-3	-9	+3	+15	6.6%	**6.89%**	7.4%
US Corp IG	-1	-3	-9	+10	4.7%	**5.25%**	5.6%
US Corp HY	-6	-6	-9	+3	7.2%	**7.64%**	8.7%

Source: MarketDesk, Federal Reserve

Asset Class Ratings

Latest as of May, 31 2025

MarketDesk

- **Overweight (OW)** — Favor higher weight than the broad index. Comfortable letting winners run and increasing exposure after selloffs.
- **Marketweight / Neutral (N)** — Market areas offering limited differentiation vs the broad index.
- **Underweight (UW)** — Favor lower weight than the broad index. Potential areas of risk (i.e. underperformance, macro / thematic headwinds).

Asset Class	Allocation View				Rationale
	Chg.	UW	N	OW	
U.S. Factors					
Quality		•	•	●	Attractive factor exposure given the uncertain macro environment and delayed impact of Fed tightening
Equal Weight		•	•	●	Increases exposure to smaller S&P 500 companies; Underweight Magnificent 7 valuation premium
Growth		•	•	●	Companies with superior growth profiles historically outperform after first rate cut; Prefer to own Growth outside of mega cap AI
Minimum Volatility		•	•	●	Top performing equity factor in USRDI risk off regimes; Can gain exposure to low beta stocks via factors or sectors
High Dividend		•	•	●	Favor active security selection with emphasis on quality dividend payers; Trades at extreme valuation discount vs history
Large Caps		•	●	•	Mega Cap Growth trades expensive & now needs EPS growth to meet high expectations; Index concentration = risk
Small Caps		•	●	•	Potential to outperform after underperforming during mega cap rally, but historically underperforms early in USRDI risk off regimes
Momentum		•	●	•	Increased volatility this year due to policy uncertainty & changing trends; Prefer strategies with shorter signals that are more nimble
Value		●	•	•	Expensive vs its own history = no clear valuation edge; Slower earnings growth than Growth factor; More cyclical than defensive
High Beta		●	•	•	USRDI below 0 -- Risk/reward unattractive with high economic & earnings expectations; Significant OW Tech (semis) & Industrials
U.S. Sectors					
Health Care		•	•	●	Top performing sector in USRDI risk off regimes due to it low beta exposure; Limited exposure to slowing growth & tariffs
Utilities		•	•	●	Top performing sector in USRDI risk off regimes due to it low beta exposure; Limited exposure to slowing growth & tariffs
Consumer Staples		•	•	●	Top performing sector in USRDI risk off regimes due to it low beta exposure; Attractive valuations relative to market
Consumer Disc		•	●	•	Historically outperforms after end of tightening cycle, but consumer showing signs of spending slowdown as sentiment weakens
Energy		•	●	•	Oil prices falling as OPEC increases production to win back market share; Uncertainty around demand
Comm Services		•	●	•	Barbell exposure to the Growth-factor with additional exposure to the defensive Telecom industry to protect against risk of sell-off
Real Estate		•	●	•	Risk of property valuations falling further & owners unable to refinance due to tighter lending standards
Technology		•	●	•	Trades with AI valuation premium; Expensive vs history & relative to S&P 500; Needs EPS growth to meet high expectations
Industrials		●	•	•	Tariffs pose a significant risk to the manufacturing industry; Risk that earnings estimates don't factor in reduced business investment
Financials		●	•	•	Worst performing sector in USRDI risk off regimes; Trades at expensive valuations vs history; Increasing loan loss provisions are a risk
Materials		●	•	•	Falling inflation = potential headwind for revenue growth; Potential upgrade if economy maintains momentum in 2H 2025
Fixed Income					
MBS		•	•	●	Higher risk free yield than U.S. Treasuries, with extension risk already priced into bonds; Benefits from decreased rate volatility
Investment Grade		•	•	●	Lower credit risk vs HY = Less risk of credit spread expansion; Favor neutral duration stance due to risk that spreads widen
Long Duration		•	•	●	Potential that yields move higher due to fiscal concerns, but high growth expectations & risk/growth scare could push yields lower
Bank Loans/CLOs		•	●	•	Fed rate-cutting cycle will cause floating yields to steadily decline; Extremely low duration provides no benefit if yields decline
EM Sovereign		•	●	•	Concerned about spreads widening due to slower global growth & risk of liquidity crunch; USD has been a headwind
Municipals		•	●	•	Tax benefit is more valuable when rates are higher; Property valuations may lower tax revenue, while interest expense is rising
TIPS		•	●	•	Inflation continues to ease, albeit at a slower pace; Suggests the benefit of owning TIPS is fading
Preferreds		●	•	•	Banks are a large issuer of preferreds & bank stress could weigh on group; Higher equity beta = potential headwind
High Yield		●	•	•	Tighter lending standards = increased refinancing & default risk; Current credit spreads leave little room for further tightening
International Regions					
Emerging		•	●	•	Slow global growth = risk, but EM banks have more room to cut; Historically underperforms early in USRDI risk off regimes
ACWI ex U.S.		•	●	•	Rate hikes have had a bigger economic impact outside of U.S; International will trade lower along with U.S. in bear market
Developed		•	●	•	Countries, particularly Europe, increasing gov't spending = potential growth tailwind, but expectations already high
FX					
U.S. Dollar		•	●	•	Informed by MarketDesk USD Technical Indicator (USDTI); Historically strengthens during USRDI risk off regimes

Note: The ratings represent our asset allocation views for the next 6-12 months. Arrows indicate a positive (▲) or negative (▼) recent change in our view. Over / Under / Market weight is in context to the benchmark for each market area (i.e. S&P 500 weights for Sectors).

Disclosures

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