June 20, 2025

MarketDesk

The Weekly Note

Fed Holds Interest Rates Steady as Data Points to a Softening Economy

Weekly Market Recap

Stocks ended the week slightly lower as markets navigated with rising geopolitical tensions in the Middle East. The S&P 500 fell -1.1%, while the Russell 2000 (-1.2%) and NASDAQ (-0.7%) posted similar declines. Factor performance showed little dispersion, with Equal Weight, Growth, Value, and Momentum each down around -1%. Energy led all sectors as oil surged +12.4%, while defensive sectors underperformed. The Treasury yield curve modestly steepened, with rising yields weighing on Long Duration Treasury bonds. Meanwhile, volatility increased in both the stock and bond markets. Overall, the market remains range-bound and directionless as it waits for more clarity on trade policy, economic growth, and the Fed's next steps.

Key Takeaways

1. Last week, the OECD lowered its global growth outlook for 2025 and 2026, citing mounting trade barriers, heightened U.S. policy uncertainty, and tighter financial conditions. The organization now projects global GDP to slow from 3.3% in 2024 to 2.9% in both 2025 and 2026—down from its March 2025 forecast of 3.1% and 3.0%, respectively. The U.S. forecast was cut to 1.6% for 2025 (vs. 2.2% in March) and to 1.5% for 2026 (vs. 1.6%). *Implication – Global economic growth is forecast to slow more than anticipated only a few months ago, as the Trump administration's tariffs impact the U.S. economy.*

2. The downgrade aligns with our U.S. Business Cycle Indicator (USBCY), which is featured in this week's **Strategy Snapshot**. USBCY, which uses macro data to objectively classify the current stage of the business cycle, fell into Contraction at the end of May. *Implication – The USBCY's current reading is significant. Historically, Contraction periods have coincided with growth slowdowns (e.g., 1995 & 2015-2016) and recessions (e.g., 2001, 2008, & 2020).*

3. This week's soft and hard data releases indicate the U.S. economy is cooling. Retail sales missed expectations with a -0.9% m/m decline, the second consecutive monthly decline (Figure 1). Industrial production contracted, falling for the third time in five months, with year-over-year growth at a six-month low (Figure 2). In housing, homebuilder sentiment fell to the lowest level since December 2022 (Figure 3), while both building permits and housing starts point to continued weakness ahead (Figure 4). Meanwhile, the Citi Economic Surprise Index shows that most data has come in below expectations since mid-February (Figure 5). *Implication – Consumer spending is slowing, manufacturing activity remains sluggish, and housing activity continues to decelerate.*

4. The Fed held its June FOMC meeting this week. As widely expected, the central bank held interest rates steady for a fourth consecutive meeting and reiterated its patient, data-dependent messaging. In his press conference, Chair Powell described the economy as solid, supported by low unemployment and steady growth. However, he cautioned that inflation remains above target with upside risk from tariffs and geopolitical tensions. *Implication – The macro backdrop is very uncertain, and the Fed is waiting for clearer signals before acting.*

5. The updated Summary of Economic Projections was the highlight. The Fed's June forecast showed a more cautious outlook, with GDP growth revised lower and unemployment and inflation both revised higher (Figure 6). While the median still points to two rate cuts in 2025, fewer officials anticipate cuts—seven see no cuts this year, and two expect just one. In addition, Fed officials forecast one fewer cut in 2026. *Implication – The big picture: the Fed is signaling a slower path to policy normalization amid persistent inflation and economic uncertainty.*

6. Both the Fed and the market appear overly complacent. While there are clear signs of economic softening, the focus is on inflation rather than slowing growth. The next few months will be critical in shaping the outlook. Ideally, there is evidence of the economy reaccelerating by the end of Q3, such as USBCY returning to Expansion with high yield credit holding steady. If not, it may signal underlying weakness in the economy. *Implication – The market and economy are at a critical juncture, and Q3 economic activity will provide valuable context about the path forward.*

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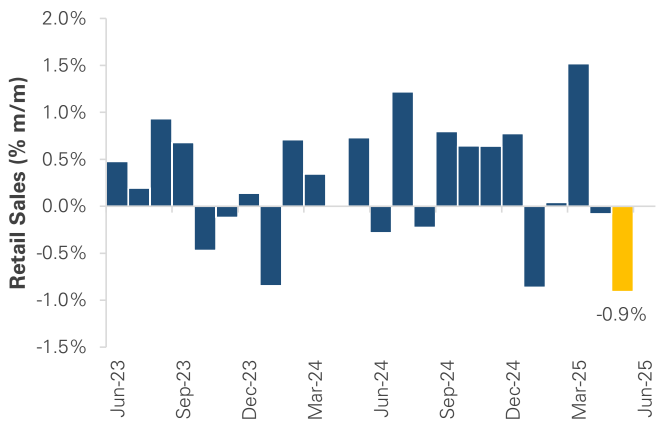
Markets	1-Week	YTD
S&P 500	-1.1%	+1.7%
R.2000	-1.2%	-4.6%
Nasdaq	-0.9%	+3.6%
Dow Jones	-1.8%	-0.1%
Bond Agg.	-0.2%	+2.9%
WTI Oil	+12.8%	+11.4%

Next Week's Economic Releases

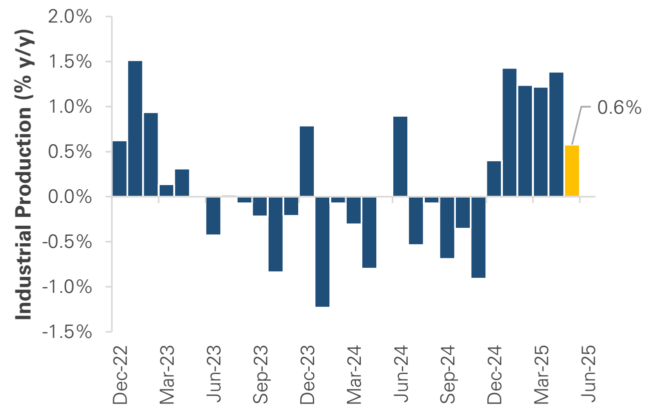
Existing Home Sales (6/23)
Consumer Confidence Index (6/24)
Richmond Fed Index (6/24)
S&P 20-City Home Price Index (6/24)
New Home Sales (6/25)
Kansas City Fed Index (6/26)
GDP Price Index (6/26)
Real GDP (6/26)
PCE (Inflation) (6/27)

Figure 1: Consumer Spending Slows for a Second Consecutive Month



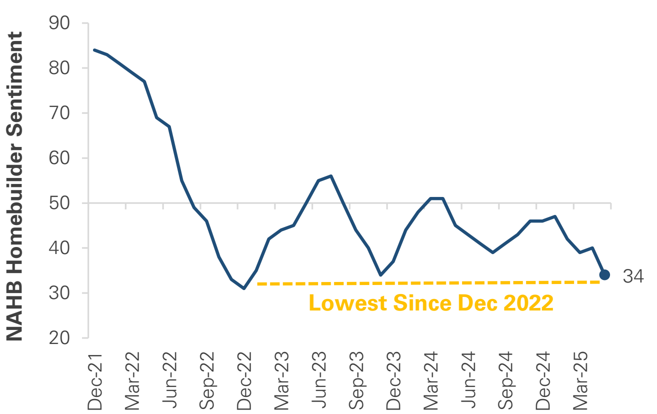
Source: MarketDesk, U.S. Census Bureau. Seasonally adjusted data.

Figure 2: Industrial Production Growth Slows



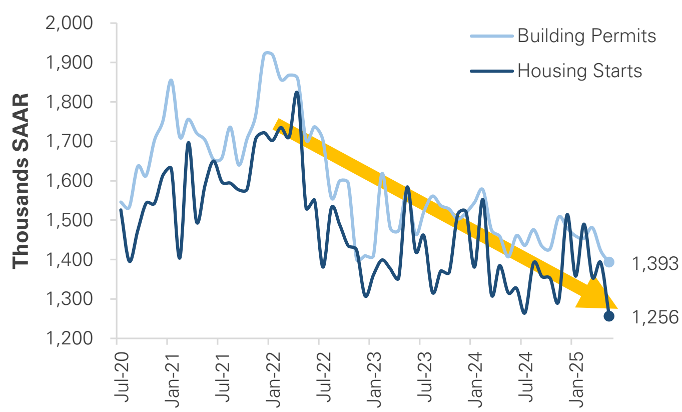
Source: MarketDesk, Federal Reserve. Seasonally adjusted data.

Figure 3: Homebuilder Sentiment Falls to 2.5-Year Low



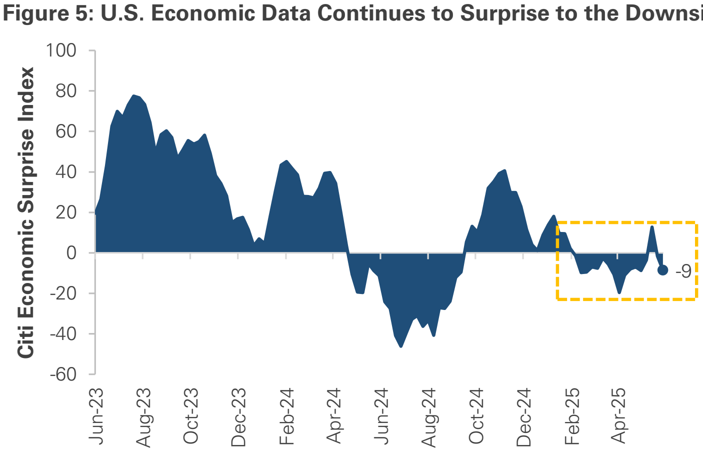
Source: MarketDesk, U.S. Census Bureau. Seasonally adjusted data.

Figure 4: Building Permits & Housing Starts Signal Less Activity



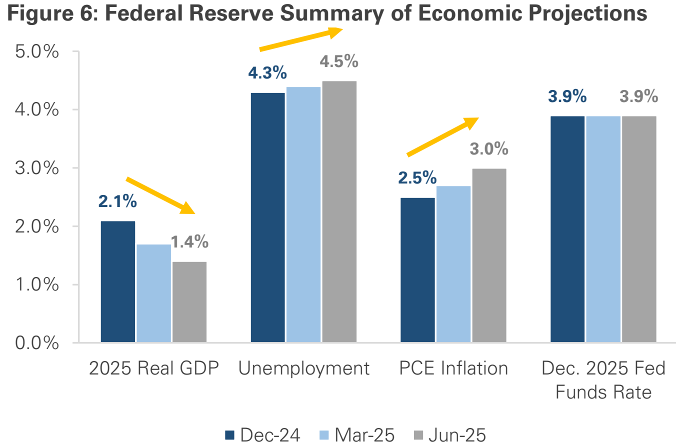
Source: MarketDesk, U.S. Census Bureau. Seasonally adjusted data.

Figure 5: U.S. Economic Data Continues to Surprise to the Downside



Source: MarketDesk, Citi

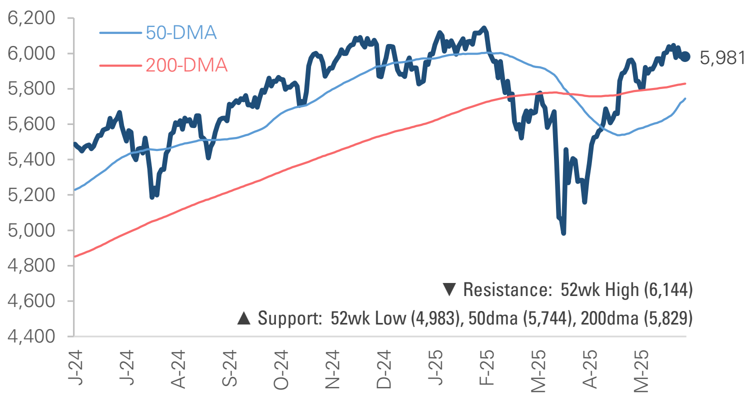
Figure 6: Federal Reserve Summary of Economic Projections



Source: MarketDesk, Federal Reserve

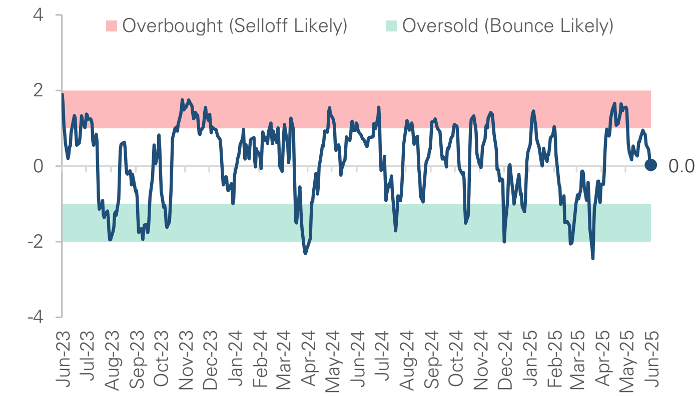
Asset Class Performance

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



Source: MarketDesk

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



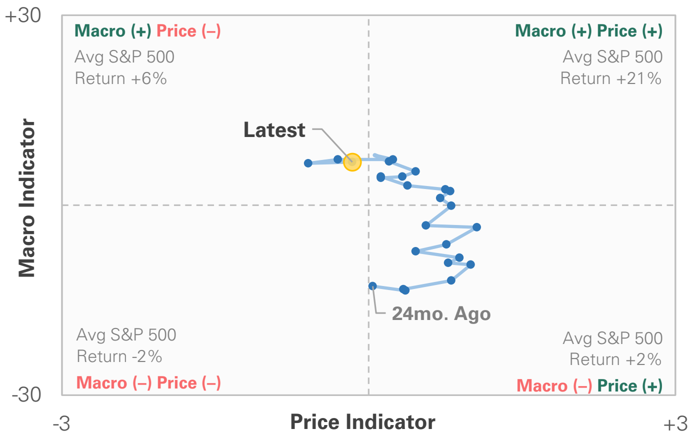
Source: MarketDesk. Based on a composite of technical breadth measures.

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	3.3%	-2.4	0.5	-3.2	-2.4	-3.0	-1.4	11x	14.4x	27%	27x	46		-0.3	-
	U.S. Large Cap	1.9%	-2.0	1.1	-1.9	-2.0	-2.4	3.2	14x	18.3x	16%	46x	51		0.2	-
	U.S. Small Cap	1.2%	-1.7	1.7	3.1	-1.8	-1.6	2.3	14x	19.8x	23%	53x	51		0.1	-
	U.S. Sector Rotation	1.4%	-1.8	0.9	2.3	0.6	0.6	6.7	14x	17.7x	13%	49x	53		0.3	-
	U.S. Momentum	1.0%	-0.5	1.4	2.1	-7.6	-6.1	5.4	16x	29.6x	61%	42x	49		-0.4	-
Major Indices	S&P 500	1.3%	-1.1	2.4	5.6	1.9	1.7	9.3	15x	21.5x	83%	24x	59		0.0	-
	Russell 2000	1.2%	-1.2	3.5	2.5	-4.2	-4.6	6.1	17x	23.4x	57%	61x	61		0.2	-
	NASDAQ	0.6%	-0.9	2.9	10.5	3.2	3.6	10.5	17x	26.6x	80%	32x	61		0.0	-
	MSCI EAFE	3.0%	-2.0	0.8	5.3	17.7	17.2	14.4	11x	14.8x	72%	18x	38		-0.7	-
	MSCI EM	2.5%	-1.7	2.2	5.0	11.7	12.5	11.7	10x	12.7x	79%	15x	64		0.1	-
U.S. Factors	Equal Weight	1.6%	-1.2	1.3	2.0	2.6	1.7	9.0	13x	16.8x	64%	22x	54		-0.1	-
	Growth	0.5%	-1.1	3.0	10.5	1.0	1.4	12.0	17x	25.6x	64%	33x	61		0.6	-
	Value	2.0%	-1.0	1.7	1.0	4.1	3.1	10.3	12x	16.1x	71%	18x	56		0.5	-
	Momentum	0.9%	-0.7	2.0	13.2	12.7	11.8	18.0	13x	26.9x	91%	39x	46		-0.3	-
	Low Volatility	1.6%	-1.8	-0.5	-0.5	4.3	4.1	10.8	16x	19.1x	63%	22x	33		-1.3	-
	High Beta	0.6%	-0.1	5.9	12.9	5.2	4.7	10.6	-186x	20.3x	85%	51x	69		0.4	-
U.S. Sectors	Technology	0.6%	-0.4	5.4	13.4	4.3	4.1	6.3	14x	26.9x	90%	29x	73		0.9	-
	Consumer Staples	2.5%	-1.9	-1.1	1.9	2.3	2.9	6.3	16x	19.4x	37%	22x	25		-1.8	OS
	Consumer Discr.	0.8%	-1.5	-1.0	7.2	-7.4	-6.0	17.2	17x	25.1x	76%	39x	43		-0.6	-
	Utilities	2.8%	-1.6	0.6	2.4	8.7	7.2	18.9	15x	17.8x	49%	21x	38		-0.9	-
	Health Care	1.8%	-2.6	2.1	-9.0	-1.4	-2.8	-7.5	14x	16.0x	43%	20x	54		-0.4	-
	Real Estate	4.0%	-0.9	3.3	-0.5	4.4	2.0	11.8	14x	16.5x	54%	22x	56		0.1	-
	Financials	1.4%	-1.5	0.0	1.5	5.9	4.3	22.9	9x	16.3x	95%	18x	39		-0.8	-
	Comm Svcs	1.0%	-0.1	3.9	9.2	5.5	6.0	22.0	-169x	19.1x	28%	72x	64		0.7	-
	Energy	3.2%	1.7	7.8	-4.7	7.4	3.6	0.7	-251x	15.6x	50%	85x	78		1.9	OB
	Industrials	1.4%	-1.1	0.7	7.3	8.4	8.3	17.1	14x	23.4x	88%	26x	46		-0.5	-
	Materials	1.9%	-1.6	1.3	0.9	4.0	3.9	-1.1	12x	19.4x	78%	22x	54		-0.1	-
U.S. Credit	U.S. Corp HY	5.8%	-0.1	1.2	1.7	4.3	3.6	9.1					49		0.7	-
	U.S. Corp IG	4.4%	-0.4	2.1	0.4	3.3	3.1	4.5					53		1.2	-
	UST (1-3Y)	3.9%	0.0	0.4	0.9	2.5	2.3	5.2					43		0.1	-
	UST (7-10Y)	4.4%	-0.1	1.4	0.4	4.1	3.9	4.0					50		0.7	-
	UST (+20Y)	4.9%	-0.6	3.0	-4.0	0.4	1.0	-3.9					52		0.7	-
Volatility	CBOE VIX	-	2.1	-0.1	0.3	-4.0	2.8	6.9					56		0.3	-
	MOVE (Bond VIX)	-	4.6	-5.8	-2.1	3.2	-5.2	-0.5					52		-0.4	-
FX	U.S. Dollar Index	-	1.0	-1.1	-4.8	-8.8	-8.8	-6.3					46		0.0	-
Oil	WTI Oil	-	12.8	25.4	14.7	15.1	11.4	4.9					87		2.5	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.

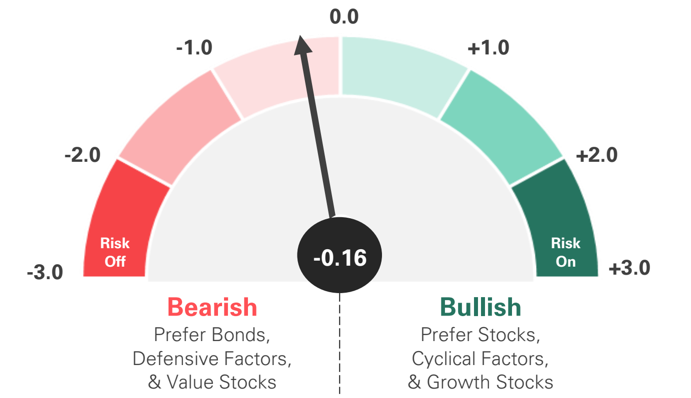
Figure 10: Simple Asset Allocation Framework (SAAF)



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	$271	$279	$288	$293	$307
	-10%	-5%	-3%	0%	+3%	+5%	+10%
19.0x	4777	5042	5148	5307	5467	5573	5838
20.0x	5028	5307	5419	5587	5754	5866	6145
21.4x	5383	5682	5801	**5981**	6160	6280	6579
22.0x	5531	5838	5961	6145	6330	6453	6760
23.0x	5782	6103	6232	6425	6617	6746	7067

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 $251. 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 21.4x.

Economics & Interest Rates

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

Monday	Tuesday	Wednesday	Thursday	Friday
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	
Jul 7	**Jul 8**	**Jul 9**	**Jul 10**	**Jul 11**

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	-2	+2	+1	+6	*4.3%*	**4.35%**	*5.4%*
2-Year	+4	+1	-5	-6	*3.5%*	**3.94%**	*4.8%*
5-Year	+3	-1	-11	-11	*3.4%*	**3.99%**	*4.6%*
10-Year	+4	-0	-15	+3	*3.6%*	**4.39%**	*4.8%*
30-Year	+5	+1	-16	+17	*3.9%*	**4.89%**	*5.1%*
Prime Rate	-	-	-	-	*7.5%*	**7.50%**	*8.5%*
30Yr Mtge	-0	-4	-4	+15	*6.6%*	**6.88%**	*7.4%*
US Corp IG	+3	-3	-16	-3	*4.7%*	**5.23%**	*5.6%*
US Corp HY	-3	-9	-22	-13	*7.2%*	**7.60%**	*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).

MarketDesk

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