



WEEK OF JUNE 16, 2025

# Market Update

U.S. stocks slipped as geopolitical tensions flared following Israel's strikes on Iran, erasing early gains despite cooler inflation data and rebounding consumer sentiment. Apple lagged after a muted developer conference. Treasuries rallied, pushing yields lower on safe-haven demand and soft consumer and producer price reports, reviving Federal Reserve (Fed) rate cut expectations.

## Quick Hits

1. **Beyond the headlines:** What the Israel-Iran conflict means for your portfolio.
2. **Report releases:** Consumer inflation was softer than expected in May, and consumer sentiment increased from recent lows.
3. **Financial market data:** U.S. equities slipped on rising tensions between Israel and Iran.
4. **Looking ahead:** This week's data will focus on retail sales, housing, and the Fed decision.

## Beyond the Headlines: What the Israel-Iran Conflict Means for Your Portfolio

Although headlines from the Israel-Iran conflict are unsettling, from an investment standpoint, direct exposure to either country is minimal. Israel represents less than 0.5 percent of the MSCI ACWI—a global stock index that captures large- and mid-cap companies across developed and emerging markets. Iran isn't included in major global indices due to sanctions and market restrictions. While some U.S. technology companies maintain research and development facilities in Israel, they typically represent a small fraction of global operations and revenue. U.S. companies have no meaningful exposure to Iran. As a result, direct financial risk to most diversified portfolios is limited.

Where the conflict matters more is through spillover effects—especially in energy markets. Iran controls the Strait of Hormuz, a critical chokepoint through which about 20 percent of global daily oil flows. The majority of this oil comes from key U.S. allies. Saudi Arabia accounts for approximately 35 percent of oil traffic through the strait (roughly 7.1 million barrels per day), followed by Iraq (18 percent), United Arab Emirates (17 percent), Kuwait (12 percent), and Iran itself (9 percent). A serious disruption—such as an attempted closure of the strait—could severely restrict global oil supply and trigger a sharp rise in energy prices.

This risk isn't hypothetical. During the 1973 oil embargo, crude prices quadrupled in six months. In 1979, the Iranian Revolution caused prices to double again. Both events led to inflation and global economic pressure. Although today's energy markets are more diversified—thanks to U.S. shale output and lower energy intensity relative to GDP—disruptions still carry weight. Already, we've seen strikes on energy infrastructure in Israel and Iran, including damage to major refineries. If attacks continue, this could lead to higher energy costs not just regionally, but also for large oil importers—particularly China, which relies heavily on Iranian and Persian Gulf exports.

Adding to the uncertainty is the potential for regime change in either country, which would amplify volatility. Escalation could also draw direct or indirect military support from major global powers. The U.S., a close ally of Israel, has already increased naval presence in the region. China, which has growing energy and infrastructure interests in Iran, may be drawn further into regional diplomacy—or confrontation—depending on how the conflict unfolds.

Betting markets now assign a roughly 30 percent probability to a closure of the Strait of Hormuz—similar to levels seen in October 2023. Notably, such a move would not only disrupt global energy markets but would also conflict with Iran's own economic interests; oil exports moving through the strait account for 10 percent–20 percent of the country's GDP. This highlights how investors must monitor not just potential outcomes, but also the likelihood markets assign to them.

In summary, though direct exposure to Israel and Iran is negligible in most portfolios, indirect risks—particularly through energy prices, global alliances, and military tensions—are more material. Investors should maintain diversified exposure across asset classes, including commodities, defense sectors, and high-quality fixed income. Staying grounded in probability and fundamentals—what many portfolio managers refer to as base rates—is critical, especially when markets begin repricing geopolitical risks.

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## Report Releases: June 9–13, 2025

### New York Fed Consumer Sentiment Survey May (Monday)

Inflation expectations fell across the 1-, 3-, and 5-year periods; 1-year inflation expectations are now at 3.2 percent.



### Consumer Price Index (CPI) May (Wednesday)

Headline and core consumer prices were below expectations and the previous month's reading.

- Prior monthly CPI/core CPI growth: +0.2%/+0.2%
- Expected monthly CPI/core CPI growth: +0.2%/+0.3%
- Actual monthly CPI/core CPI growth: +0.1%/+0.1%
- Prior year-over-year CPI/core CPI growth: +2.3%/+2.8%
- Expected year-over-year CPI/core CPI growth: +2.4%/+2.9%
- Actual year-over-year CPI/core CPI growth: +2.4%/+2.8%



### Producer Price Index (PPI) May (Thursday)

Although producer prices increased modestly after falling in April, the readings were below expectations for headline and core producer prices.

- Prior monthly PPI/core PPI growth: -0.2%/-0.2%
- Expected monthly PPI/core PPI growth: +0.2%/+0.3%
- Actual monthly PPI/core PPI growth: +0.1%/+0.1%
- Prior year-over-year PPI/core PPI growth: +2.5%/+3.2%
- Expected year-over-year PPI/core PPI growth: +2.6%/+3.1%
- Actual year-over-year PPI/core PPI growth: +2.6%/+3.0%



### University of Michigan Consumer Sentiment Survey June (Friday)

Consumer sentiment increased notably after several periods of significant declines. Assessments of current conditions and future expectations improved in June, likely driven by softening inflation and easing tariff news.

- Expected/prior month sentiment: 53.6/52.2
- Actual month sentiment: 60.5



## >> The Takeaway

- Inflation eased in May, with CPI and PPI both below expectations. Core readings slowed, and 1-year inflation expectations fell to 3.2 percent, reinforcing disinflation trends.
- Consumer sentiment rose sharply in June; the University of Michigan survey reached 60.5, boosted by softer inflation and improved economic outlooks.

## Financial Market Data

### Equity

U.S. equities slipped as a late risk-off session on Friday erased earlier gains following Israel's strikes on Iran, which sparked a surge in oil prices and global uncertainty. Big tech was mixed—Apple lagged after a subdued Worldwide Developers Conference, whereas Tesla jumped on signs of a Trump-Musk détente. Inflation data was cooler than expected, with soft CPI and PPI reports, boosting hopes for eventual Fed rate cuts. Trade talks between the U.S. and China saw limited progress. Consumer sentiment rebounded sharply. Energy stocks led sector performance; financials and industrials dragged. Treasuries rallied, and gold and the dollar gained.

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	-0.36%	1.17%	2.24%	11.47%
Nasdaq Composite	-0.61%	1.57%	0.83%	10.65%
DJIA	-1.30%	-0.08%	-0.01%	11.13%
MSCI EAFE	-0.17%	0.56%	17.99%	15.59%
MSCI Emerging Markets	0.76%	3.07%	12.20%	13.94%
Russell 2000	-1.45%	1.73%	-5.24%	4.44%

Source: Bloomberg, as of June 13, 2025

### Fixed Income

Treasuries rallied sharply as geopolitical tensions and softer inflation data fueled a flight to safety. The 10-year yield dropped to 4.36 percent, erasing the previous week's rise, aided by strong demand across \$119 billion in Treasury auctions. May CPI and PPI reports reinforced expectations for Fed easing later this year, and rising jobless claims added to the dovish tone. Despite risk-off flows, credit spreads remained relatively stable, with investors differentiating between rate-driven moves and credit-quality concerns.

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.93%	2.68%	4.00%
U.S. Treasury	0.72%	2.57%	3.49%
U.S. Mortgages	0.94%	2.78%	4.18%
Municipal Bond	0.08%	-0.80%	0.61%

Source: Bloomberg, as of June 13, 2025

### >> The Takeaway

- U.S. equities fell as Israel-Iran tensions sparked a late-week sell-off, offsetting gains from cooler inflation and strong tech earnings.
- Treasuries rallied on safe-haven demand and soft CPI/PPI reports, reviving hopes for Fed rate cuts despite geopolitical uncertainty.

## Looking Ahead

With the Thursday holiday, this will be a shortened week of trading. That said, we expect plenty of data and news on retail sales, housing, and the Fed rate decision.

- The week kicks off Tuesday with the **retail sales release** for May and the **NAHB Housing Market Index** for June. Retail sales are expected to decline after increasing modestly in April, largely due to expected decreases in auto and gas purchases. Core retail sales are expected to increase with the impact of those components removed. Home builder sentiment has struggled in 2025, with mortgage rates remaining elevated.
- On Wednesday, we expect the release of **housing starts and building permits** for May and the **Federal Open Market Committee (FOMC) rate decision** for June. Housing starts and building permits are expected to remain relatively stable versus the prior month's readings. The FOMC is largely expected to hold rates steady.



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companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than \$50 million. One basis point is equal to 1/100th of 1 percent, or 0.01 percent. One basis point (bp) is equal to 1/100th of 1 percent, or 0.01 percent.

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