The Dow Group Newsletter

2nd Quarter Summary - 2025

Kenneth Dow, MBA, CFP®, CIMA®
Managing Partner, The Dow Group

1901 Butterfield Road, Suite 100
Downers Grove, IL 60515
630.716.8100
kenneth.dow@raymondjames.com
www.raymondjames.com/thedowgroup

June Market Review:

Equity markets continued to march higher in June, seemingly unfazed by heightened Middle East tensions (which were short-lived) and the looming July 8 deadline for the administration's pause on reciprocal tariffs. Despite an interim bout of volatility, it was a record-breaking month for the S&P 500 and the tech-heavy NASDAQ as both indices ended the month with new all-time highs. The Dow Jones Industrial Average was up 4% for June.

Nine out of the 11 sectors delivered positive returns, with Consumer Staples and Real Estate lagging.

Signs of an economic slowdown continued to mount, fueled by weak housing data, further cooling in the labor market and an unexpected deceleration in consumer spending. Lower oil prices have put downward pressure on inflation in recent months; however, the impact from tariffs is still expected to affect prices in the months ahead. The risk of higher inflation has kept the Federal Reserve (Fed) in wait-and-see mode, with policymakers holding the benchmark interest rate steady at 4.25%-4.5% in June, as expected.

While this month's decision was easy, future policy actions are likely to become more challenging as the Fed will need to balance the risks of softening growth and a murkier outlook for inflation. The market still has two rate cuts priced in by year-end 2025.

Bond yields edged lower in June, with the 10-year Treasury falling to a two-month low of 4.25% as signs of economic weakness began to emerge. Adding to the positive sentiment in the bond market were comments from several Fed officials, which pushed forward the expectations for a Fed rate cut to September, one month earlier than expected.

We'll get to the details below, but first, a look at the numbers year-to-date:

	12/31/24 Close	6/30/25 Close*	Change Year to Date	% Gain/Loss Year to Date
DJIA	42,544.22	44,094.77	+1,550.55	+3.64%
NASDAQ	19,310.79	20,369.73	+1,058.94	+5.48%
S&P 500	5,881.63	6,204.95	+323.32	+5.50%
MSCI EAFE	2,259.60	2,653.71	+394.11	+17.44%
Russell 2000	2,230.16	2,175.04	-55.12	-2.47%
Bloomberg Aggregate Bond	2,189.03	2,268.99	+79.96	+3.65%

*Performance reflects index values as of market close on June 30, 2025.

Equities grind higher: Equity markets have been in a slow grind over recent weeks, drifting slightly higher toward February's all-time highs. Consensus GDP estimates have stabilized near 1.4% for 2025 and have moved toward 1.6% for 2026. Corporate earnings expectations are moderate, despite tariffs.

Oil prices spike temporarily: Amid nonstop news on Iran, oil prices briefly approached 52-week highs in June after hitting a four-year low in May. With a ceasefire in place, oil prices have receded. Meanwhile, China has agreed to maintain a steady supply of rare earth exports to the US, reversing its earlier restrictions – but its commitment is limited to six months. The US already mines more than enough rare earths for its domestic needs, but doesn't yet have sufficient processing capabilities, which leaves them as a bargaining chip for China.

US economy weakening but shows resilience: The large rebound in the stock market in May wasn't enough for the Leading Economic Index to show a positive print last month. The Conference Board indicated it expects further weakening in economic activity for 2025 and 2026 under the pressure of tariffs, but is not expecting a recession this year. The trade deficit in goods and services declined to levels not seen since 2023 as the front-loading of imports during the first quarter of the year gave way to more normal levels. The recent weakness in the US dollar is also benefiting goods exports, which increased last month. Import prices were higher than expected in May, but the year-over-year rate continued to fall, which is good news for inflation going forward. The market for new homes is deteriorating faster than expected, but lower new housing inventories should keep home prices stronger than they would be otherwise. Existing home sales were better than expected in May, but prices showed signs of plateauing. Job numbers were stronger than expected in April and the Employment Index improved in May. Despite a net downward revision of 95,000 jobs during the previous two months, job growth remains healthy.

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Washington remains focused on tax cuts: The reconciliation bill was a key issue in June, with the Senate proposal permanently extending the 2017 Tax Cuts and Jobs Act, enhancing the Child Tax Credit and introducing provisions of no tax on tips and overtime. While the July 4 deadline for passing the provisions isn't impossible, it is ambitious. Bill passage may be pushed closer to the debt limit "X date," which is expected to fall between mid-August and early October.

Economic strain in the UK: As the July deadline nears, the UK and US are close to finalizing a largely symbolic trade deal which the UK is motivated to secure in light of its weakening economy. Chancellor of the Exchequer Rachel Reeves recently delivered a very tight Spending Review, sticking to previous budget plans but cutting most departmental budgets except for defense, healthcare and education. With little room left in the budget, tax hikes could be forthcoming this fall if productivity doesn't improve. Meanwhile, the Bank of England held interest rates steady at 4.25% in June, signaling a possible rate cut in August to support the economy.

The bottom line: It's safe to expect some give-and-take on tariffs and for the resulting negative headlines to spur volatility in the near future.

"Historically, when there's a geopolitical event, the market reacts quickly and then tends to look through the 'noise,'" said Raymond James Chief Investment Officer Larry Adam. "Ultimately, it's the fundamentals that matter."

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