

Eye for an Eye

Key Takeaways

- The retaliatory nature of the Iran conflict continues to test investor confidence, despite the fragile ceasefire having been signed. Markets are likely to encounter episodic volatility, with ongoing military activity in the broader Middle East region.
- In a departure from previous market expectations for rate cuts, the new Fed under Chair Warsh has taken on a hawkish bias.
- Global stocks reached new highs despite declining investor sentiment, ongoing geopolitical unrest, and policy uncertainty.

Indicator	Impact	Insights
Economic Growth	●	Continued strength from expanding business activity, consumer spending, and a resilient job market bode well for growth outlook.
Inflation	●	Declining energy prices should help ease some pressure, but inflation remains elevated across key service categories.
Fed Policy	●	Prior expectations for rate cuts under new Fed Chair Kevin Warsh's leadership has waned with growing inflation concerns.
Stock Market	●	Broadening gains and earnings acceleration beyond concentrated leadership supports further upside in global equity markets.

● = Positive ● = Neutral ● = Negative

Economic and Market Review

Despite the signing of the Memorandum of Understanding (MOU) with Iran, “eye for an eye” military responses continued. Investors had to navigate geopolitical risks and economic resilience. Earlier in the quarter oil prices moved higher, but prices have fallen back toward pre-conflict levels. Equity markets weathered volatility but appeared more driven by earnings growth. The economy remained resilient but with mixed results. Through May, U.S. retail sales ex-autos rose 7.5% y/y, while real average hourly earnings declined -0.8% y/y, highlighting pressure on purchasing power.^{1,2} Payrolls exceeded expectations, PMI surveys indicated growth, and employment appeared to moderate.^{2,3} Core PCE price index tracked near expectations at 3.4%, reinforcing a “steady but elevated” inflation backdrop.¹ The Fed held rates steady, but cast a more hawkish stance under the new leadership of Chair Kevin Warsh. Treasury yields ended flatter with the 2-year rising roughly 30 bps compared to the 10-year rising about 10 bps.⁴ Central banks of Eurozone, Japan, and Australia, raised their policy rates, all citing inflation.³ Equity markets returns were positive overall with breadth improving and leadership broadening beyond mega-cap technology into financials, industrials, and small caps. Earnings remained a key driver, with Q2 U.S. earnings expected to rise over 23% y/y. Fixed income markets experienced turbulence, with rising yields and a flattening curve.³

Outlook and Positioning

The outlook remains conditionally balanced. Economic growth is intact, with a stable near-term outlook for inflation amid a strong corporate earnings backdrop. However, interest rates remain elevated and geopolitical risks persist. We favor diversified global equity exposure with emphasis on quality and broadened market participation, alongside a more neutral duration posturing with fixed income.

Sources: Members Trust Company Research, 1 U.S. Bureau of Economic Analysis, 2 U.S. Bureau Labor of Statistics, 3 Financial data and analytics service provider FactSet, 4 U.S. Department of Treasury, ETF tickers SPY, IJH, IJR, IDEV, EEM, and AGG used as index proxies. Non-deposit investment products available through Members Trust Company are not deposits of or guaranteed by the trust company, a credit union or credit union affiliate, are not insured or guaranteed by the NCUA, FDIC or any other governmental agency and are subject to investment risks including possible loss of the principal amount invested. Members Trust Company, owned and managed by credit unions nationwide, is a special purpose federal thrift regulated by the Office of the Comptroller of the Currency. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. Net return includes stock price and net dividend income performance, which includes the impact of taxes on dividends. Past performance is not indicative of future results. Any opinions expressed are those of the presenter and do not necessarily reflect the position of Members Trust Company. The information above is obtained or compiled from sources we believe to be reliable. We do not guarantee that such information will be free from errors or omissions, whether human or mechanical, nor do we guarantee its timeliness, accuracy or completeness. This material is intended for general informational purposes only and does not constitute legal or tax advice. Please consult a qualified professional for legal or tax guidance.

