Market Commentary 6/18/25

An Oxford Harriman & Company Market Commentary

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Volatility returned last week due to trade tensions and a sudden geopolitical shock, even though economic data showed moderating growth and lower inflation.

Investors digested a fragile U.S.–China trade truce, a steady but slowing labor market, and an escalation in the Israel–Iran conflict that sent safe-haven assets soaring. In this commentary, we break down the key developments, from Washington to the Middle East, and discuss what they mean for markets, interest rates, and long-term investors.

U.S. - China Trade Truce on Shaky Ground

The U.S. and China resumed high-level trade talks, aiming to salvage last month's Geneva trade truce amid mutual accusations of non-compliance. After two days of negotiations, officials in London announced a vague "framework" agreement to keep the truce alive but offered few concrete details or concessions.

Despite headlines touting a deal, market reaction was muted. The S&P 500 barely moved on the news as investors waited for clarity on whether the truce would hold. Analysts noted the announcement lacked specifics and a "real resolution" and described it as essentially an agreement to keep talking rather than a final agreement. It is likely negotiations around tariffs and tech restrictions will remain a headwind.

Labor Market: Moderate Growth Amid Demographic Shifts

New data show the U.S. job market cooled slightly in May but remains resilient. Employers added 139,000 non-farm jobs during the month, topping forecasts of 130,000. This suggests hiring is slowing from last year's pace, reflecting businesses' caution in the face of trade uncertainty. Also, payroll figures for March and April were revised down by 95,000 jobs combined, indicating the spring job gains were weaker than initially reported. The unemployment rate held steady at 4.2% for a third straight month, still historically low. However, that steadiness masked a concerning trend that hundreds of thousands of Americans left the labor force.

An aging workforce and pandemic-era retirements have kept senior participation well below pre-2020 levels, a potential structural headwind limiting labor supply.

Approximately 625,000 people dropped out in May, causing the participation rate to dip to 62.4%, the lowest reading since February. This decline in workforce participation is especially pronounced among older workers, as many Americans aged 55+ continue to exit the job market (through retirement or discouragement). An aging workforce and pandemic-era retirements have kept senior participation well below pre-2020 levels, a potential structural headwind limiting labor supply.

Lower Inflation Eases Pressure on the Fed

Despite worries that tariffs and supply snarls would increase prices, inflation came in surprisingly subdued. The latest Consumer Price Index and Producer Price Index each rose just 0.1% in May (month-over-month), slower than economists expected. On an annual basis, consumer inflation was only 2.4% year-over-year, barely increasing from April and below forecasts of 2.5%.

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Markets interpreted the soft inflation news as a green light for a dovish Fed. With both consumer and wholesale prices rising at only a tenth of a percent, investors are betting the Federal Reserve will still cut interest rates later this year.

However, looking ahead, there are now concerns about oil prices due to the fighting in the Middle East that we will discuss below. This escalation briefly pushed crude prices higher, raising the specter of energy-driven inflation later in the year. Fed policymakers will be carefully watching if the oil spike is temporary or a sustained trend. For now, many believe the inflation outlook is benign, which is positive for stocks and bonds. However, given tough base effects and the rise in the price of certain commodities, we believe the benign inflation outlook may be a bit optimistic.

Middle East Tensions Shake Markets as the Week Ends

Late last week, an unexpected geopolitical surprise hit the markets as Israel launched major airstrikes against Iran, targeting Iranian nuclear facilities and military sites in a dramatic escalation of their long-standing conflict. The operation, the largest Israeli strike on Iranian soil to date, fueled immediate fears of a broader Middle East war. Iran retaliated by launching drones and missiles toward Israeli territory, raising the stakes of a potential prolonged confrontation. This conflict news arrived overnight on Thursday into Friday, and global markets reacted swiftly in classic risk-off fashion. Investors rushed into safe-haven assets and sold riskier positions in response to the uncertainty.

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Market Outlook and Long-Term Investment Implications

We are balancing cautious optimism with prudent defense. The U.S. economy shows a mix of steady but slower growth and lower inflation, which we believe is positive for equities and bonds. The labor market continues to add jobs, and inflation running near 2% suggests the economy can grow without the Fed tightening.

However, potential risks remain. The U.S.-China trade truce, while still active, could collapse, and this could quickly sour business sentiment and further strain supply chains. Geopolitical tensions, now exemplified by the Israel–Iran conflict, introduce the prospect of an oil price shock or broader instability that could hurt global growth.

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Sources:
reuters.com
cnbc.com

The coming weeks may see volatile swings in energy and commodity prices and, by extension, in inflation numbers, which could cause short-term jitters about Fed policy.

Please reach out at any time if you have questions about how the events discussed above impact your portfolio.

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The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.

The Consumer Price Index (CPI) is a measure of the cost of goods purchased by average U.S. household. It is calculated by the U.S. government's Bureau of Labor Statistics.

The Producer Price Index (PPI) is an inflationary indicator published by the U.S. Bureau of Labor Statistics to evaluate wholesale price levels in the economy. PM-12172026-8081747.1.1