Shearwater Creek Investment Matters

Market Update: June 2025

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From an investment standpoint, not much has changed in the markets since our last update. Equity markets have been choppy and mostly moving sideways—same story with bonds and yields. After bouncing back from the “Liberation Day” tariffs, the market now seems to be in wait-and-see mode, looking for more data before making its next move. We expect this period of consolidation to continue, and a pullback in the coming weeks wouldn’t surprise us. Below, we’ll highlight a few key things we’re keeping an eye on.

The Federal Reserve just wrapped up its June meeting and kept the federal funds rate steady at 4.25%–4.50%. While they maintained their projection of two rate cuts this year, it doesn’t look like they’re in a hurry to make those moves. Interestingly, they’ve now reduced their forecast for next year to just one rate cut. The Fed also signaled concern that inflation might creep up in the months ahead. While they acknowledged the economy remains strong, they did lower their GDP forecast for the year. They also made it clear that their outlook could shift depending on how the data evolves—something they admitted they’re not especially confident about right now.

Like the Fed, we’ve been a little surprised by how resilient the economic data has been. Even though soft data—like surveys and sentiment indicators—has been negative for a while, it hasn’t really shown up in the hard numbers. Employment has softened a bit, but nothing alarming. Consumers are still spending more year over year, and incomes are rising. While we do think the risk of a recession is higher now than it was at the start of the year, we’re still not seeing clear signs that one is around the corner.

On the policy and geopolitical front, a few major issues continue to influence markets. The three big ones for us are tariff policy, the extension of the 2017 tax cuts, and growing tensions with Iran.

Market Update: June 2025

We still don’t have much clarity on tariffs. Right now, it looks like a baseline rate of 10% is sticking for all trade partners. But in July, the “90-day pause” on higher tariffs ends, and it’s anyone’s guess what happens next. Until we get more direction, tariffs will remain a source of uncertainty for both businesses and markets.

As for the 2017 tax cuts, the extension is currently working its way through Congress. Both the House and Senate have passed their own versions through the reconciliation process, and now they’ll have to hammer out a final bill. We’ve said it before, and we still believe it won’t be a smooth process. With razor-thin margins in both chambers, every vote counts. There are a number of competing priorities—from the SALT cap to spending cuts to concerns about the deficit—that need to be resolved. In the end, we do think they’ll get something passed, but expect some changes from the original 2017 bill. Letting those tax cuts expire would almost certainly trigger a negative market and economic reaction, which no one seems eager to provoke.

Then there’s the conflict between Israel and Iran, which could have serious economic implications. Whether or not the U.S. gets directly involved, the key issue is oil. Since tensions escalated, oil prices have already jumped more than 14%. If prices keep climbing, it could put pressure on inflation and hit consumers hard. Despite the world moving toward greener energy, oil still plays a major role in manufacturing, transportation, shipping, and airline costs—not to mention household budgets.

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All in all, there are definitely some headwinds facing both the markets and the economy. That said, the U.S. economy—and especially the consumer—has continued to show remarkable strength. Remember, the recession everyone was predicting back in 2022 never actually materialized. At the start of this year, we expressed concerns about valuations and thought the market looked a bit expensive. Now, six months later, markets are basically flat. If the economy holds up and consumer spending stays strong, this pause in the bull market might just be the setup for the next leg higher. In fact, U.S. equities are trading at more attractive valuations today than they were in January.