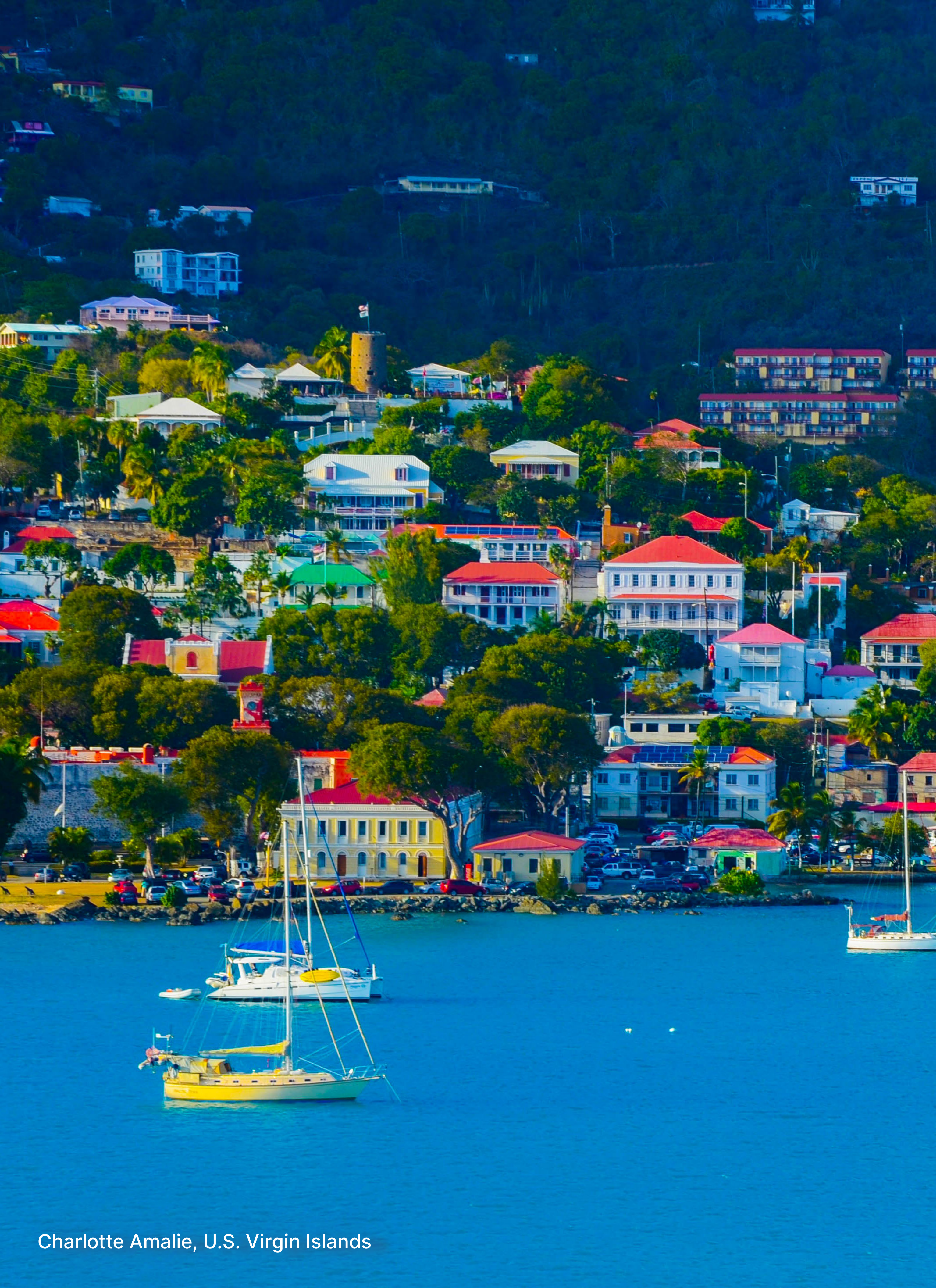


Charlotte Amalie, U.S. Virgin Islands

WEEK OF JUNE 23, 2025

Market Update

U.S. equities were mixed; signals from the Federal Reserve (Fed), soft retail sales, and renewed Middle East tensions kept investors cautious. Sector performance was uneven, with strength in energy and financials offset by weakness in health care and defensively positioned sectors. Treasuries, supported by cooling housing data and lingering geopolitical uncertainty, firmed slightly.

Quick Hits

1. **Beyond the headlines:** After U.S. strikes on Iranian nuclear sites, what's next for global markets?
2. **Report releases:** Retail sales and home builder confidence fell more than expected last month..
3. **Financial market data**: U.S. equities were mixed as investors weighed Middle East conflict concerns.
4. **Looking ahead:** The focus this week will be on home sales, consumer confidence, durable goods, and personal income and spending.

Market Update—June 23, 2025

Beyond the Headlines: After U.S. Strikes on Iranian Nuclear Sites, What's Next for Global Markets?

The recent escalation between Israel and Iran—marked by U.S. bombing of three suspected nuclear facilities in Iran—has renewed fears of regional instability and global economic consequences. Although direct portfolio exposure to Iran remains minimal due to sanctions and capital restrictions, the broader risk lies in global market disruptions, particularly surrounding the Strait of Hormuz and the potential for geopolitical contagion.

Volatility Flashpoints: Energy, Trade, and Inflation

Roughly 20 percent of global oil flows through the Strait of Hormuz. In the 1970s, partial blockades and OPEC-led embargoes led to soaring energy prices, widespread inflation, and a global recession. The energy landscape today is more diversified—thanks to U.S. shale production and liquefied natural gas exports—but a major disruption would nonetheless send oil and gas prices sharply higher. Sectors most exposed include transportation, chemicals, heavy manufacturing, and utilities (which remain highly sensitive to energy input costs).

The geopolitical dynamic is more multipolar today. China, now the world's largest energy importer, sources more than 37 percent of its crude oil from the Strait of Hormuz. India is even more exposed, with a larger share of its total oil supply relying on shipments through the region. A prolonged disruption in the Strait of Hormuz could dampen industrial output in China and India, triggering ripple effects across global supply chains. For U.S. investors, this introduces second-order risks: American companies that depend on Chinese manufacturing—such as automakers, electronics firms, and consumer goods producers—could face input shortages, delays, or increased costs.

Implications for Growth Stocks, Rates, and Cybersecurity

Another transmission mechanism is inflation and interest rate expectations. Higher oil prices could push inflation upward, complicating the Fed's efforts to ease monetary policy. Growth stocks—particularly in sectors such as technology and biotechnology—are sensitive to changes in interest rates. If inflation persists or rises, valuations in these segments could compress because of higher discount rates.

Europe, once highly reliant on Russian energy, now benefits from diversified imports via the U.S., Norway, and North Africa—offering some resilience amid geopolitical uncertainty.

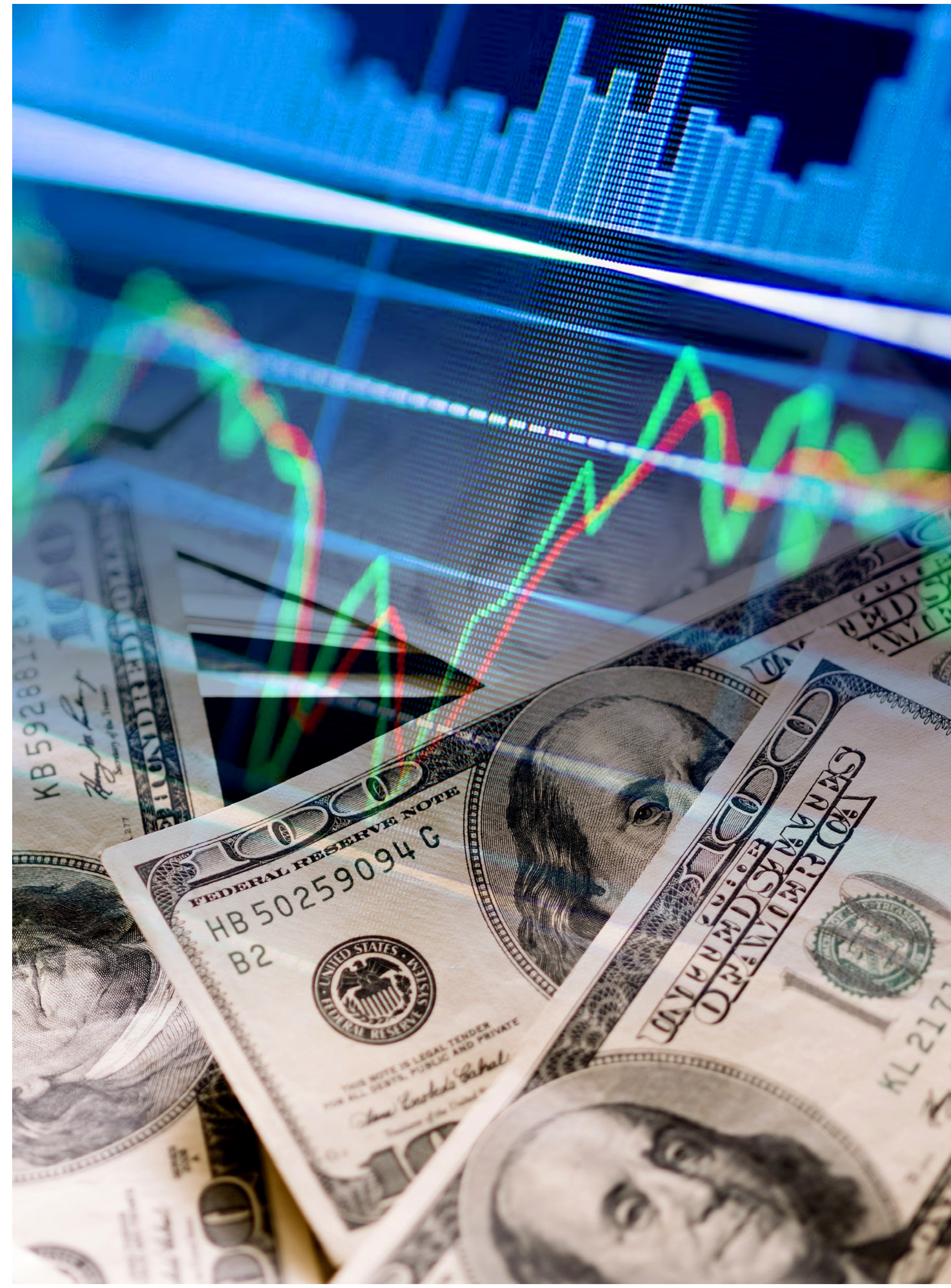
In addition, if tensions spill over to the Taiwan Strait, serious consequences for global semiconductor supply could arise. Much of the world's advanced chip manufacturing is concentrated in that region; any disruption would ripple through industries ranging from AI and consumer electronics to automotive and defense.

Another area to watch is cybersecurity. Conflicts involving Iran, Russia, and China often include coordinated cyberattacks that target critical infrastructure, financial systems, and corporate networks. These nations have well-documented cyber capabilities and state-sponsored hacking groups. If tensions escalate, demand for cybersecurity products and services—ranging from endpoint protection to cloud infrastructure defense—could rise significantly, benefiting companies in this space.

A prolonged disruption in the Strait of Hormuz could dampen industrial output in China and India, triggering ripple effects across global supply chains.

Key Takeaways

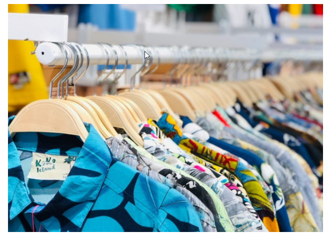
Investors should monitor volatility in energy-intensive sectors and those reliant on Chinese manufacturing. Cybersecurity stands out as a potential beneficiary amid heightened geopolitical risk, whereas growth sectors remain sensitive to inflation and interest rate pressures. U.S. sectors such as financials, health care, defense, and domestic utilities may offer relative insulation from adversarial nations' direct influence.



Report Releases: June 16–20, 2025

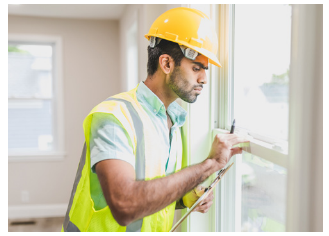
Retail Sales
May (Tuesday)

Retail sales fell more than expected, with notable drag from reduced auto sales.
- Expected/prior month retail sales monthly change: –0.6%/–0.1%
- Actual retail sales monthly change: –0.9%



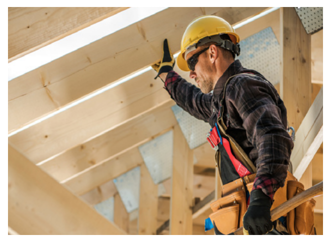
National Association of Home Builders (NAHB) Housing Market Index
June (Tuesday)

Home builder confidence neared pandemic-era lows as economic uncertainty and heightened rates weighed on consumers.
- Expected/prior month NAHB Housing Market Index: 36/34
- Actual NAHB Housing Market Index: 32



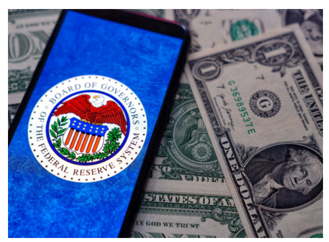
Housing Starts and Building Permits
May (Wednesday)

Housing starts and building permits declined more than expected, aligning with recent dents in home builder sentiment.
- Expected/prior month housing starts monthly change: –0.8%/+2.7%
- Actual housing starts monthly change: –9.8%
- Expected/prior month building permits monthly change: +0.0%/–4.0%
- Actual building permits monthly change: –2.0%



Federal Open Market Committee (FOMC) Rate Decision
June (Friday)

The FOMC kept rates unchanged, meeting expectations.
- Expected/prior federal funds rate upper limit: 4.50%/4.50%
- Actual federal funds rate upper limit: 4.50%



>> The Takeaway

- Retail sales fell in May and home builder sentiment dropped in June, signaling consumer and housing market weakness amid elevated rates and uncertainty.
- Housing starts and permits declined more than expected in May. The Fed held rates steady at 4.5 percent, matching expectations.

Financial Market Data

Equity

U.S. equities were mixed; they stabilized after the previous week's declines driven by Middle East conflict concerns. Investor attention shifted to the June FOMC meeting, at which interest rates were left unchanged and lingering inflation was cited. Energy, technology, and financials outperformed, whereas health care and communication services lagged. Broader market performance reflected cautious optimism, with strength in select consumer and industrial firms offset by continued weakness in rate-sensitive and defensively positioned sectors.

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	−0.12%	1.05%	2.12%	10.49%
Nasdaq Composite	0.22%	1.80%	1.06%	10.54%
DJIA	0.07%	−0.01%	0.06%	9.76%
MSCI EAFE	−1.45%	−0.90%	16.28%	14.21%
MSCI Emerging Markets	0.05%	3.12%	12.26%	11.82%
Russell 2000	0.44%	2.18%	−4.82%	5.97%

Source: Bloomberg, as of June 20, 2025

Fixed Income

Treasuries strengthened modestly as geopolitical tensions and soft macro data supported demand across the yield curve. The 10-year declined slightly, with the curve steepening amid steady jobless claims and a sharp drop in housing starts. The Fed held rates steady at 4.25 percent–4.5 percent and reiterated concerns about lingering inflation, though some officials hinted at potential cuts as soon as July. Weaker May retail sales and ongoing conflict concerns contributed to a defensive bid, whereas credit markets remained stable despite rising uncertainty around global trade and energy risks.

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	1.08%	2.95%	4.32%
U.S. Treasury	0.89%	2.81%	3.74%
U.S. Mortgages	1.16%	3.05%	4.44%
Municipal Bond	0.33%	−0.64%	0.58%

Source: Bloomberg, as of June 20, 2025

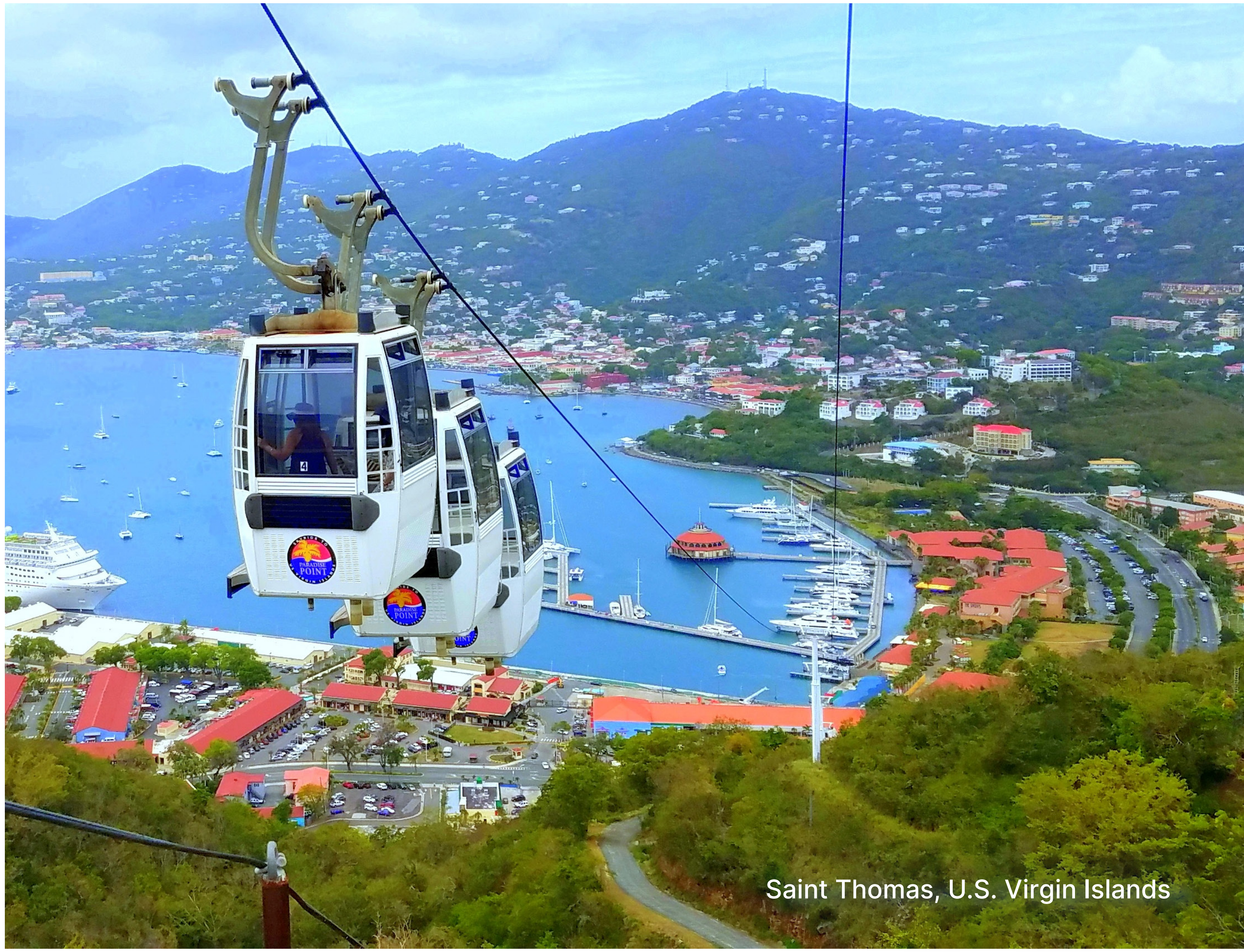
>> The Takeaway

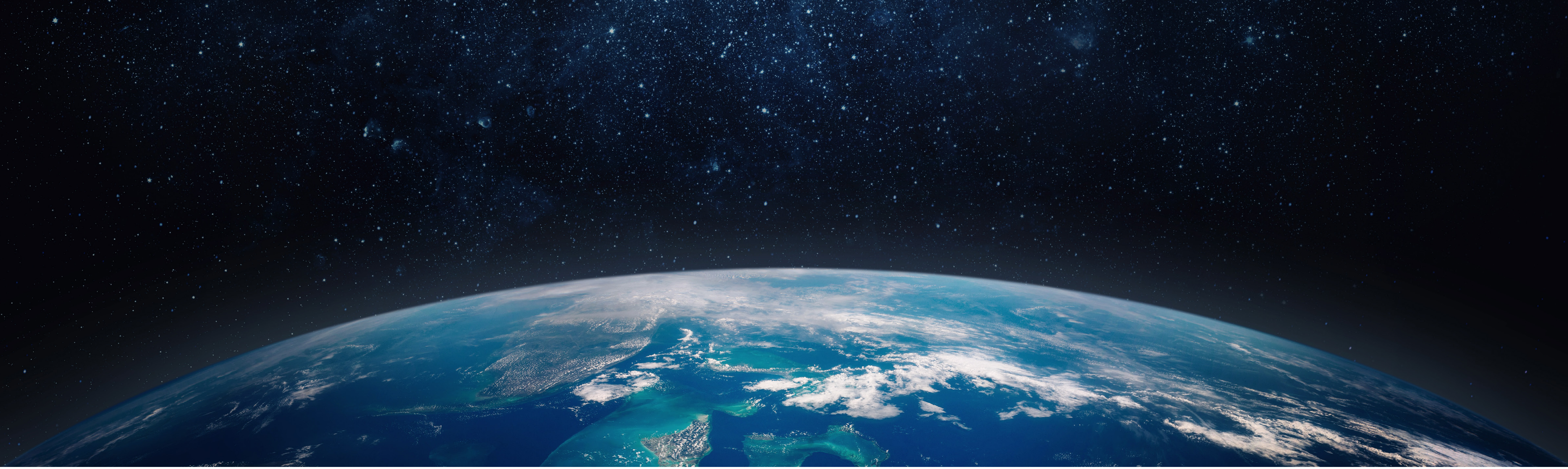
- Equities were mixed as investors balanced soft economic data, Fed policy signals, and geopolitical tensions. Sector performance was uneven, with strength in energy and technology offset by weakness in defensively positioned sectors.
- Treasuries firmed slightly on weaker retail sales and housing data, and stable credit markets reflected contained risk sentiment.

Looking Ahead

It will be a busy week for economic releases, with a focus on home sales, consumer confidence, durable goods, and personal income and spending.

- The week kicks off Monday with **existing home sales** data for May. Sales are expected to fall 1.3 percent.
- On Tuesday, the **Conference Board Consumer Confidence Index** for June will be released. Consumer confidence is expected to rebound modestly after recent periods of significant declines.
- The preliminary **durable goods orders report** for May will be released on Thursday. Orders are expected to rebound strongly after declining in April.
- Finally, on Friday, we'll see the **personal income and personal spending report** for May. Both are expected to show modest growth.





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