

Week in review and ahead (vol.25-26)



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Week in review

Markets ended the holiday-shortened week higher, balancing the signing of the Iran MOU against the unexpectedly hawkish tone of new Fed Chair Warsh, who reaffirmed the Fed's commitment to fighting inflation while leaving rates unchanged as expected. The Fed's hawkish tone triggered a steep selloff, but markets recovered almost immediately as POTUS announced it signed the MOU while at the G7 meeting ahead of plan. While markets are expecting the Strait of Hormuz to return to normal activity ahead of U.S.-Iran talks on a permanent agreement, conflicting reports emerged, including Iran's claim that it closed the Strait on Saturday as Israel's operations in Lebanon continued. The prospect of oil supplies returning to pre-war levels was a key catalyst of market gains both domestically and globally.

All major U.S. indices advanced for the week as oil prices continued to decline following the MOU signing. The Dow briefly reached a record high before retreating after the Fed's FOMC meeting, finishing the week up 0.7%. Strength in technology, particularly semiconductors, drove the Nasdaq Composite to a 2.4% gain, while the S&P 500 and Russell 2000 rose 0.9% and 1.2%, respectively. Notably, the Russell 2000's gains were largely fueled by Thursday's MOU announcement, which offset pressure from increased rate-hike concerns.

Internationally, most major markets gained on expectations of geopolitical de-escalation. In Asia, Japan's Nikkei, and South Korea's KOSPI rose 7.9% and 6.2%, respectively, led by renewed strength in technology and semiconductor stocks, with the Nikkei posting its strongest weekly gain since August 2024. Japan's advance came despite the Bank of Japan raising rates by 25 basis points, as expected. In China, the CSI 300 gained 1.5%, even as May retail sales fell 0.6% year-over-year ("YoY"), missing expectations and slowing from April's 0.2% increase. Hong Kong's Hang Seng, however, declined 3.2% as investors reacted to the weak consumption data, although industrial production exceeded forecasts and improved sequentially. In Europe, most markets advanced, with Germany's DAX up 1.4% following a stronger-than-expected June economic sentiment reading. The UK's FTSE 100 fell 1.0%, pressured by growing political uncertainty after a popular mayor's victory in the Makerfield by-election fueled speculation over Prime Minister Starmer's leadership, and despite the Bank of England keeping rates steady.

Stock Market Cycles

NASDAQ Composite since 1995



Sources: Cleareconomics, NASDAQ
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Week in review – US macroeconomics

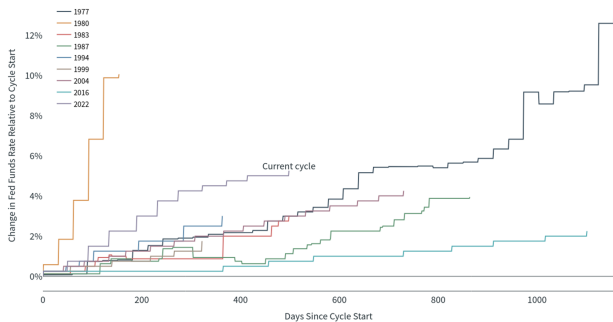
This past week’s US macroeconomic calendar was dominated by the Federal Reserve’s June 16-17th meeting, the first full policy meeting and Summary of Economic Projections (“SEP”) to be presided over by new Chair, Kevin Warsh. The balance of the week offered a timely read on the health of the consumer and the housing market, with retail sales for May, the latest credit-card delinquency and charge-off data, the homebuilder sentiment survey, and building permits and housing starts, rounded out by the weekly initial jobless claims and the Conference Board’s Leading Economic Index (“LEI”).

As widely expected, the Fed left its policy rate unchanged, but the statement’s emphasis on, and commitment to, price stability and the 2% objective,

alongside a dot-plot that turned decidedly hawkish, left little doubt as to the new Chair’s leanings. If there was any doubt that Chair Warsh would prove dovish, it was quickly squashed, at least for now. More consequential than the decision itself, and consistent with his long-standing critique of the Fed’s communication framework, expect the new Chair to move to curtail, if not eliminate, the forward guidance and forecasts the Fed has long furnished to markets, a shift that, while restoring optionality to policy, would remove a familiar anchor and likely elevate volatility.

Fed Rate Hike Cycles

Increase in target range lower limit or effective rate since 1977



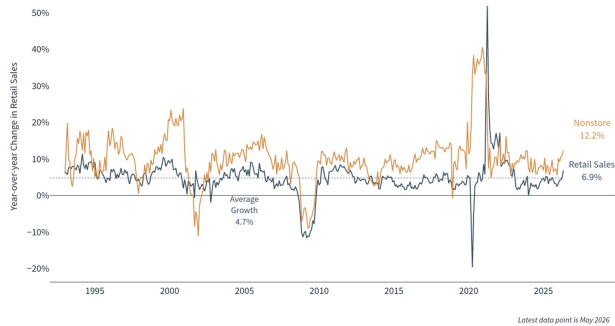
Sources: Cleareconomics, Federal Reserve
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The consumer, by contrast, looked decidedly resilient. Retail sales for May surprised firmly to the upside, rising 0.9% month-over-month (“MoM”) against the 0.6% expected and doubling the prior month’s pace, the strongest reading since March 2026. The strength was broad-based. Sales excluding autos rose 0.8%, matching March, while the ex-auto, ex-gas measure advanced 0.5% versus 0.3% prior, and the control group, which feeds directly into GDP, gained 0.7%, its best since the reported 0.8% of March’26. Reinforcing the constructive read on the consumer and household balance sheets, credit-card delinquencies and charge-offs continued to decline on a MoM basis in May, both falling below their respective three-month moving averages. The average delinquency

rate eased to 2.47% from 2.57%, below the year-ago 2.67%, while the average net charge-off rate slipped to 3.63% from 3.7%, also below the 3.92% of a year earlier. While positive, these should be viewed with some caution as these figures likely still reflect the lift from elevated tax refunds, and as such consumer-credit metrics should be watched closely in June and beyond for confirmation that the improvement may be sustained.

Consumer Spending

Retail Sales, YoY % Growth, SAAR

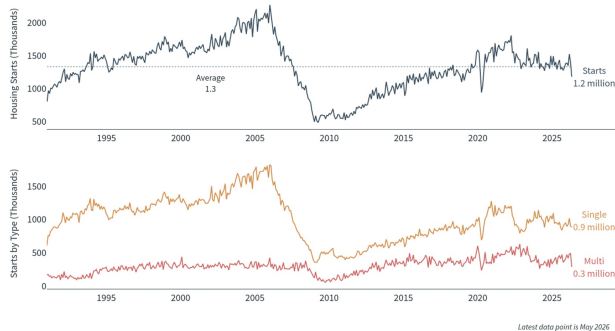


Sources: Cleonomics, U.S. Census Bureau
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40 thresholds for the 14th consecutive month. The hard data was not more encouraging. The building permits for May printed 1.413 million, shy of the 1.42 million expected and below the prior month's 1.423 million, while housing starts fell well short at 1.18 million against the 1.44 million expected and 1.39 million previously. With mortgage rates elevated alongside a long end of the curve demanding ever-greater compensation, the sector remains in search of a catalyst that, for now, stays absent.

Housing Starts

New privately-owned housing units started



Sources: Cleonomics, U.S. Bureau of the Census
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Investors will also monitor personal income and spending data for signs that wage growth is lagging inflation and potentially weighing on consumer demand. Rounding out the week's calendar are the final estimate of Q1 GDP, durable goods orders for May, and S&P Global's June PMI data, which will provide further insight into the strength of U.S. economic activity.

Number of the week: Five (5)

The number of task forces new Fed Chair Kevin Warsh unveiled at his debut FOMC meeting to review the Federal Reserve's core practices, spanning communications, the balance sheet, data sources, productivity and the labor market, and the inflation framework. More than the decision to hold rates, it was the institutional overhaul he had previously articulated that defined the meeting, signaling that the Warsh era will be shaped as much by how the Fed operates as by where it sets rates. The new Chair paired the announcement with a shorter, simpler policy statement, the end of explicit

The week's other macroeconomic data sent more mixed signals. Initial jobless claims came in at 226K, near the 225K expected, though the prior week was revised up to 230K, the highest since December'25. More notably, continuing claims jumped above 1.8 million for the first time since the week of March 20th, an early hint that those losing jobs may be finding it harder to secure new ones. The LEI offered a modest counterpoint, rising 0.1% which, together with an upward revision to the prior reading, marked the first back-to-back monthly gains since December 2021.

The housing market, however, continues to look subdued. Homebuilder sentiment disappointed, slipping two points to 35 and holding well below the

Week ahead

Markets will remain focused on developments in the Middle East after geopolitical easing supported risk assets last week. Investors will be watching reports that the Strait of Hormuz may be closed despite the recently signed MOU, while Iran's push for a broader regional ceasefire could further strain U.S.-Israel relations given Israel's opposition to the agreement. Attention will also turn to inflation, as markets assess the Fed's renewed commitment to combatting price pressures under Chair Warsh. Key data include May's core PCE inflation index, which is expected to slow to 0.2% MoM from 0.3% in April, along with several speeches from FOMC officials. A stronger-than-expected inflation reading could reinforce expectations for additional rate hikes and increase market volatility heading into the summer.

forward guidance, and a telling personal omission. He declined to submit his own dot in the Summary of Economic Projections, an unmistakable break with the Fed led Powell-era's emphasis on transparency. For markets long accustomed to being led by the hand, the message is that they will be given less, not more, a recalibration that restores the Fed's optionality but removes a familiar anchor and likely raises the premium on volatility.

If you have questions about how this may impact your investments, or how you should be positioned, please do not hesitate to contact us at claudio@caladocapital.com.

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