➢ Market and Economic Update – June 2025

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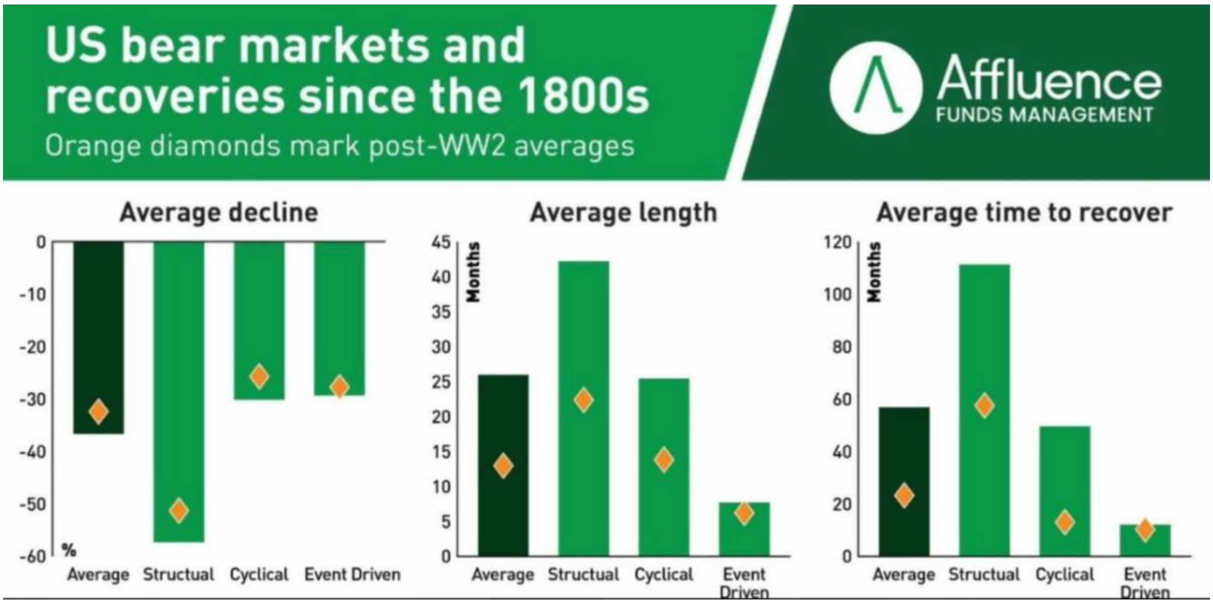
'If past history was all there was to the game, the richest people would be librarians.'

– Warren Buffett

The Markets

Where are we?



The graphs above show market declines and recoveries

Was the April 2nd market decline structural, cyclical or event-driven?

You are right, it was event-driven (tariff uncertainty).

What about the 2008 global financial crisis? Structural and dangerous.

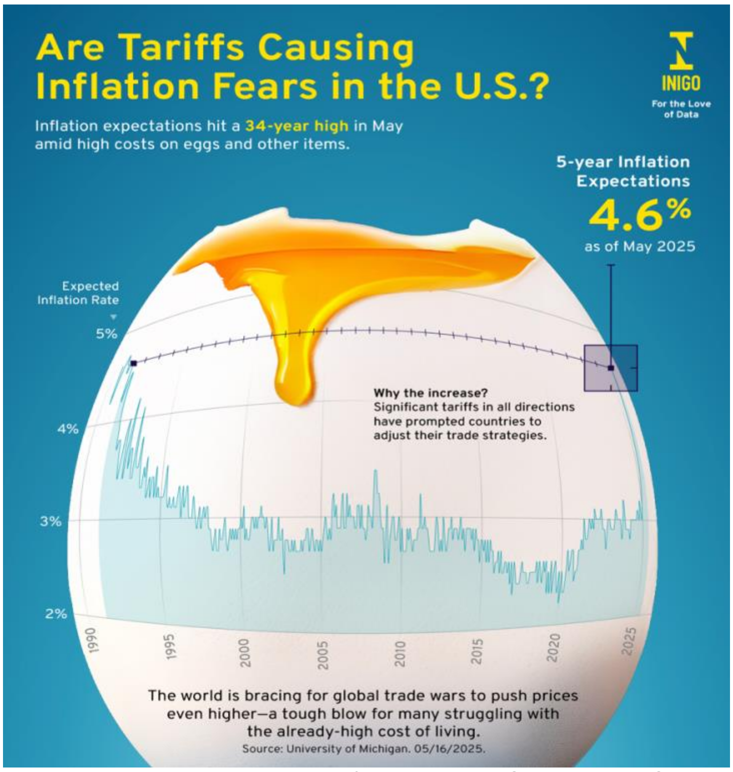
So, we usually expect an event-driven market decline to recover within a few months. The April 2nd sharp drop recovered in only a couple of weeks

We invest in the future, not the past, and so this brings us to the risk of stagflation.

Where does it sit (structural, cyclical, or event-driven)? Cyclical / Structural(!).

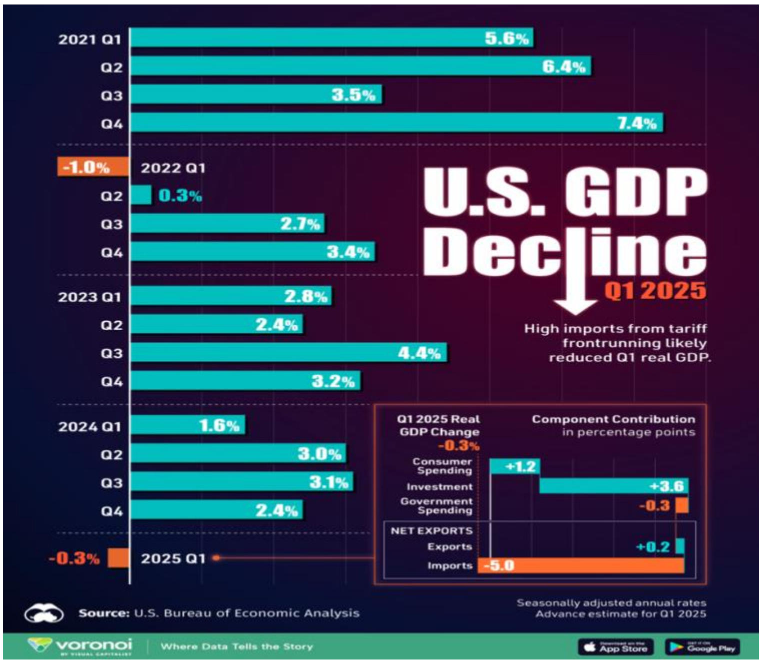
This is the reason why at WISEplanning, we did not rush in and broadly 'buy the dip' over April (apart from a few selected, favourably priced businesses). That event (the April 2nd decline in the US market) was not the whole song, just a few chords on one line of the music sheet, if you see what I mean(?).

Of course, we are not looking to time markets, just listen to the signals that might impact pricing.



The graph above shows one 5-year inflation estimate. Source: Visual Capitalist.

Estimates are not facts. They are worth being aware of, though. Anyway, keeping it simple, inflation could be considered a key component of stagflation.



The graph above shows US economic growth as measured by GDP.

Sluggish economic growth or a shrinking economy (e.g. Q1 2025 in America) could be considered another key component of dreaded stagflation, along with, for example, rising unemployment.

What this all means is that, whilst the probability of stagflation currently looks modest, it is an unusual cyclical process that can become structural and therefore significant, negative for trading prices (unless you have cash/portfolio flexibility and you like bargains!), as well as difficult to 'shake off'.

So, the stagflation item is less about the current probability of it and more about the potential impact. I will keep you posted.

Market Conditions

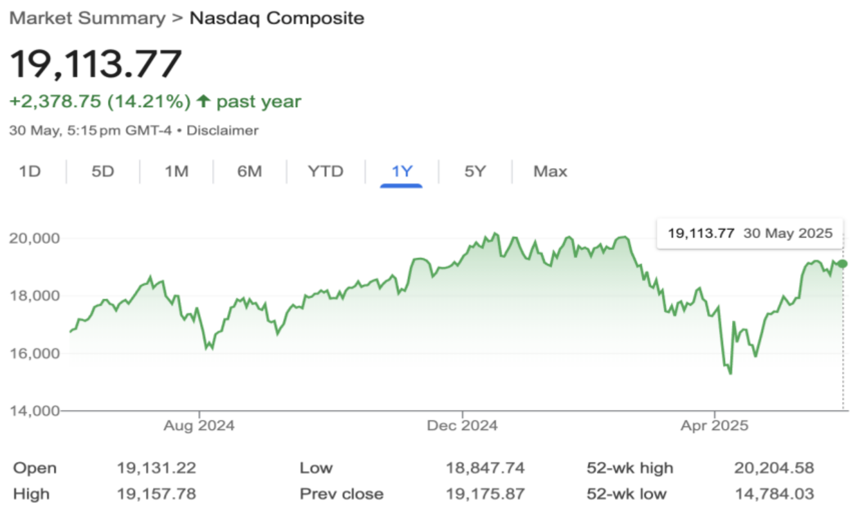
The US Share Market (Dow Jones) June 2024 – May 2025

The above graph tracks the movement in the Dow Jones over the last 12 months

The all-time high of 45,014 was reached on 4 December 2024. By the end of December, the Dow Jones Industrial Index had drifted back to 42,544 and currently sits at 42,270 (as of 30/05/2025).

Tariff uncertainty is keeping markets on edge currently. The market is aware of stagflation but not worried about it at the moment. I am not worried, but more focused on it than the market.

The US Share Market (Nasdaq) June 2024 – May 2025



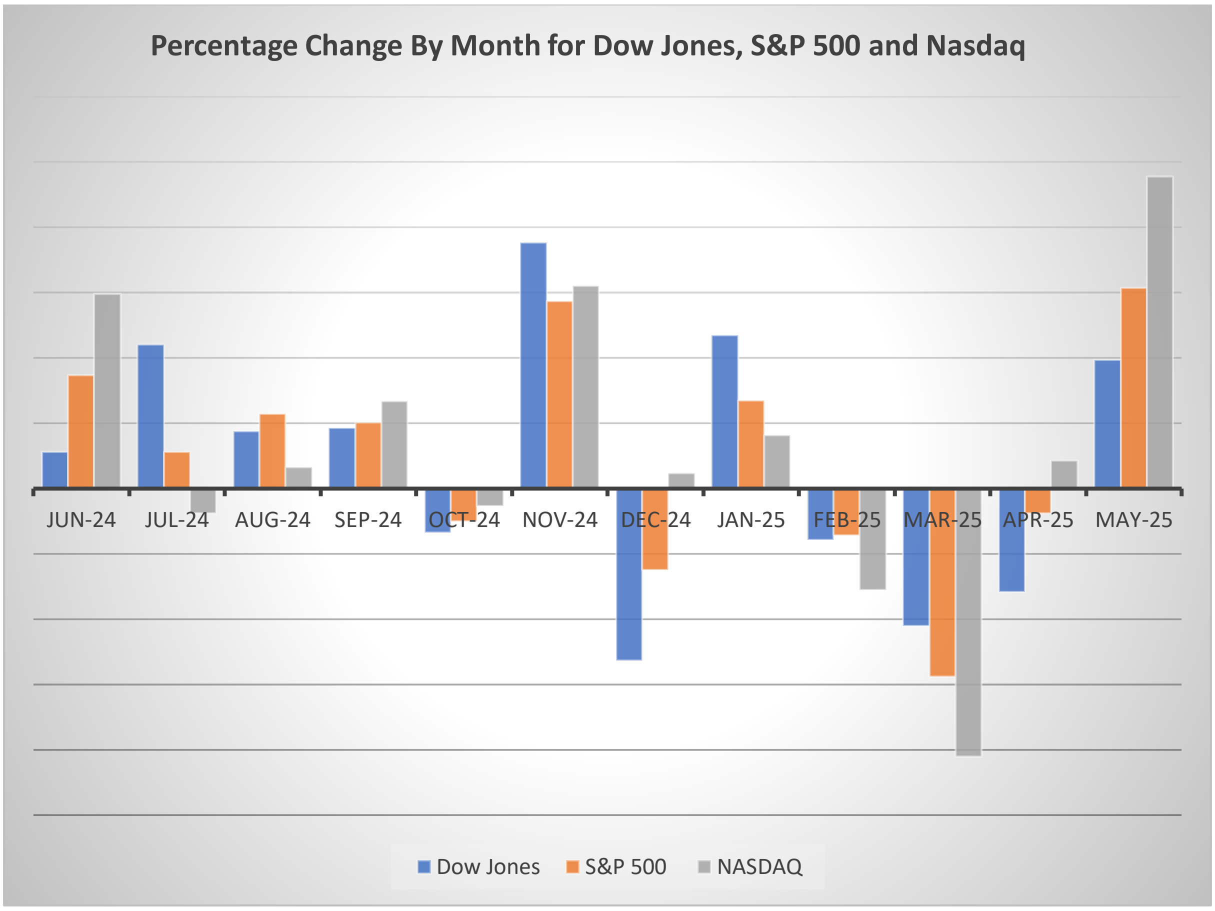
The above graph tracks the movement in the Nasdaq over the last 12 months.

Share Market Index Movement – USA

Volatility over May 2025

This was how it went for the month of 2025:

- The Dow Jones finished the month up by 3.94%
- The S&P 500 up by 6.15%
- The Nasdaq up by 9.56%



The graph above tracks market mood and the resulting movement across the Dow Jones, the S&P 500 and the Nasdaq.

The random US tariffs continue. Markets are feeling on edge. It will pass, but we are not there yet.

Stagflation could have a bigger impact on market sentiment and market prices if one or more of the drivers of stagflation spike. It would not be surprising to see the markets become very focused on any of those drivers if it senses that stagflation might emerge. A potentially material issue for trading prices at the current elevated level (a long way to fall).

This scenario is not the only scenario, and it is not inevitable. Should it materialise, we will all know it (and quickly too!). I am speculating here, though. It is not a fact.

Where to Next?

We have seen the US share market decline and rebound, going full circle.

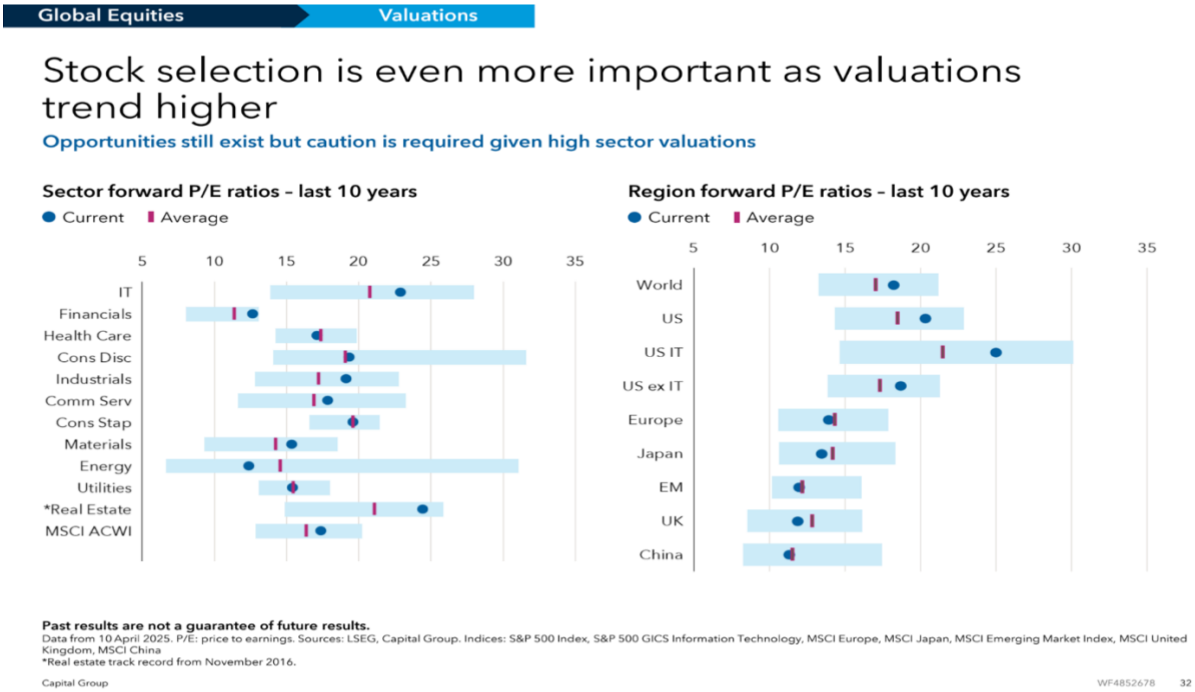
The market wants to get on with AI growth but is distracted by tariff uncertainty.

The US Court of International Trade recently ruled Trump's April 2nd global tariffs illegal, saying that he wrongly used emergency powers not meant for trade policy. Trump is unlikely to 'roll over' and give up.

Tariffs are still a 'work in progress' and may affect trading prices for a while yet.

Donald Trump, as you know, slammed the Fed for being too slow to respond to sluggish economic growth and 'late to the party'. The US Federal Reserve remains cautious about the next rate cut, waiting on upcoming data around inflation for a clearer picture and how to proceed.

Stagflation is a possible risk now, but if it actually materialises, it would be a bit further out into the future. The market's reaction to indicators that signal deflation is well worth watching for in the meantime.



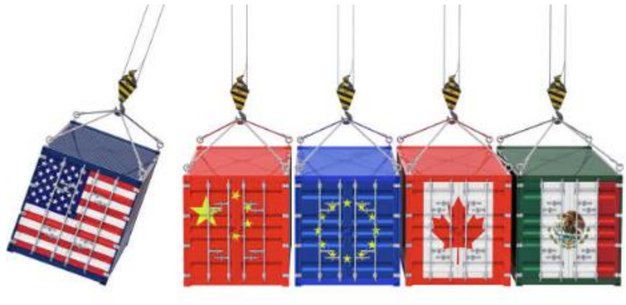
The two graphs above show sector forward P/E ratios (left side graph) and regional forward P/E ratios (right side). Forward P/E ratios look ahead 12 months.

The graphs above are worth some scrutiny.

With elevated trading prices and the threat of stagflation balanced by AI efficiencies and growth, we can still invest for growth in carefully selected, favourably priced, quality businesses. They are difficult to locate because trading prices are elevated.

This phase of the market cycle means holding existing investments, careful selection of any additional investments and a determination to hold steady should markets judder and swing dramatically as tariff negotiations unfold.

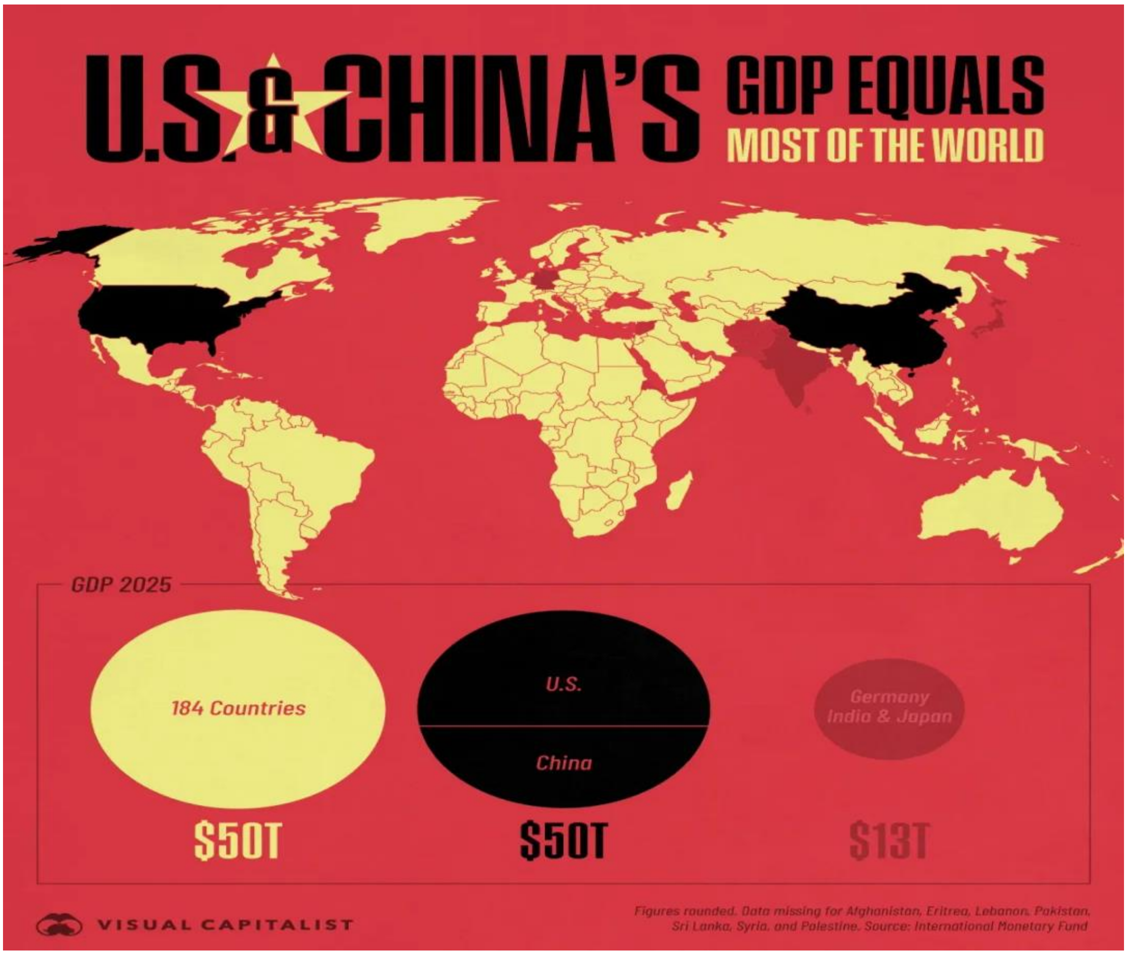
The Global Economy



With all the talk of international trade wars, it is important to have some perspective.

When we talk about rivalry between China and US, we forget that China's rise *and* the continued economic dominance of the United States is emergent from the *strong economic interdependencies between these two countries.*

This interconnectivity is predicated upon China's role as *producer* of first resort and the United States as *consumer* of first resort within the international economic system.



The image above shows that the combined GDP of the US and China, $50 trillion dollars, is equal to that of 184 countries.

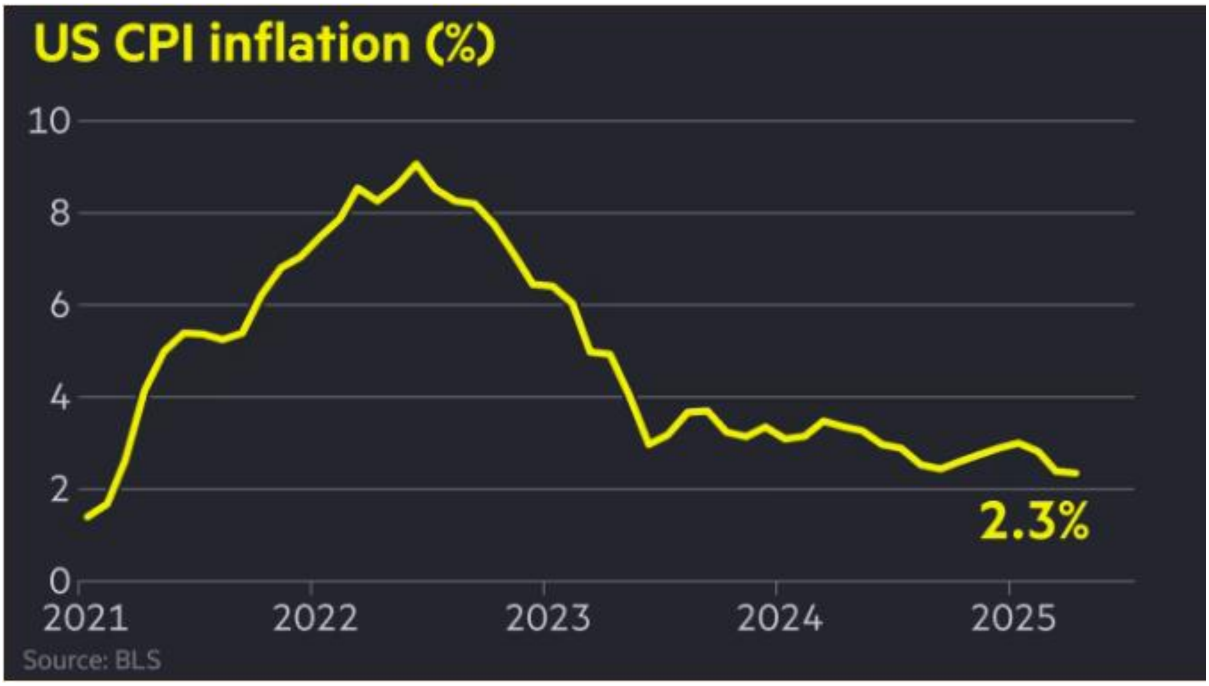
This interdependence has resulted in the economic rise of China and the relative decline of a lot of other countries – Germany and Japan being two notable examples.

This image serves as a reminder to us that successful economic development (i.e. growth) requires two cooperative counterparts serving two distinct roles. Ignoring the role of China as the producer and the US as the consumer of goods risks destabilising the international economic system in a way that hasn't been seen since the 1970s.

With that out of the way, let's move on to our monthly tour of the international economy…

United States

Inflation, as measured through the Consumer Price Index (CPI), dropped to 2.3% in April.

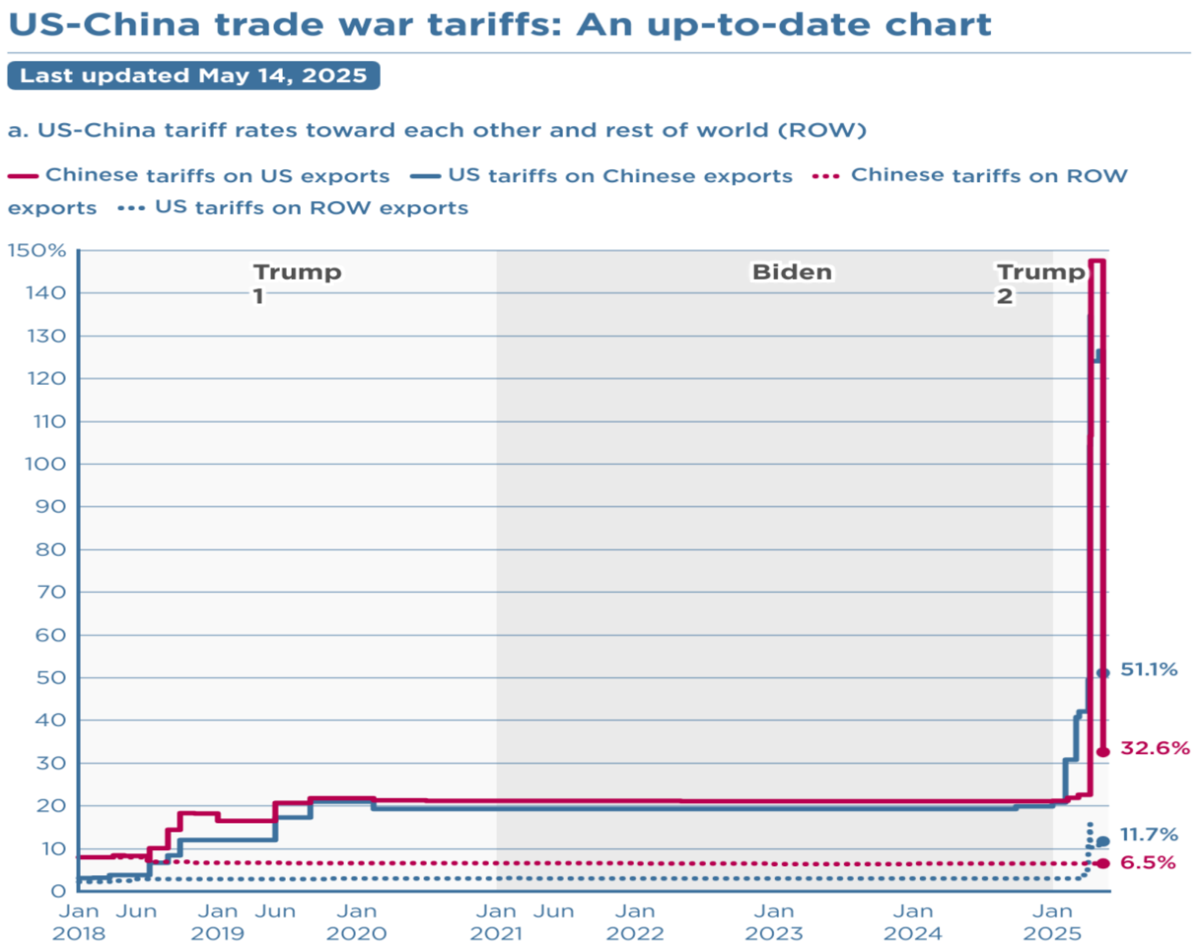


This graph shows US CPI inflation from 2021 to 2025.

Keep in mind that the impacts of tariffs on prices are yet to be shown in the data. The tariff impact should start to come through from this month onwards.

China

The trade war between the US and China entered a period of 'détente' during May. Namely, the US agreed to cut tariffs on Chinese goods from 150% to (roughly) 50%.



The graph above shows US and Chinese tariffs, on each other and the rest of the world (ROW), from January 2018 to May 2025.

It is expected that this reprieve will lead firms to stockpile goods for end-of-year sales events, like Black Friday and Christmas, to avoid any jitters caused by any potential intensification of trade tensions.

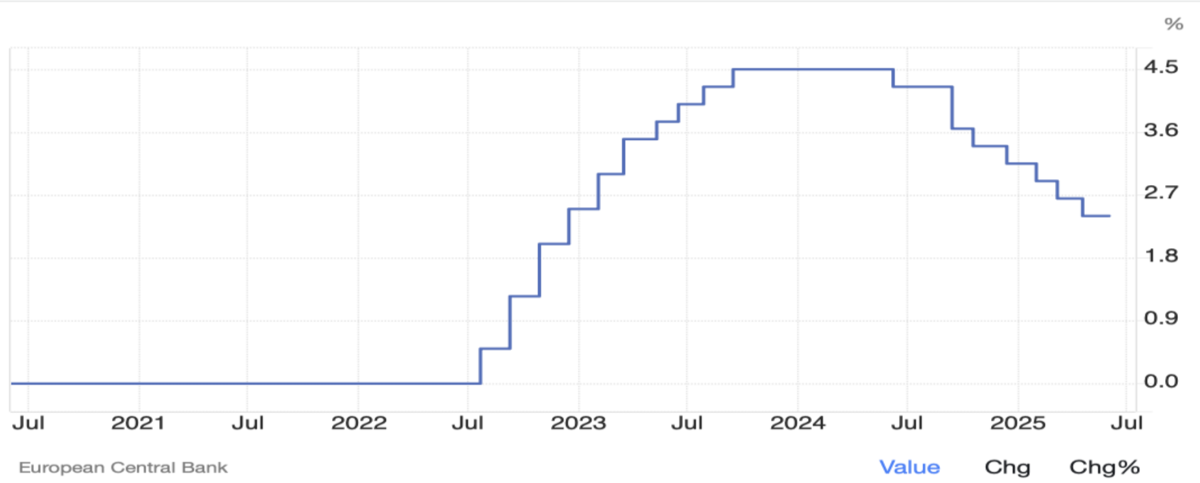
The crystal ball is still very cloudy, and it is safe to say that no one knows what is going to happen.

However, comments made by Treasury Secretary Scott Bessent indicate that there is acknowledgement that interdependence between China and the US is crucial for international economic stability.

This could act as a guide in future trade discussions between the US and China. However, I wouldn't bet the house on it.

Euro Area

One of the key central bankers in the Euro Area is calling for rate cuts to be halted until September in order to prepare for the potential impacts of the trade war.

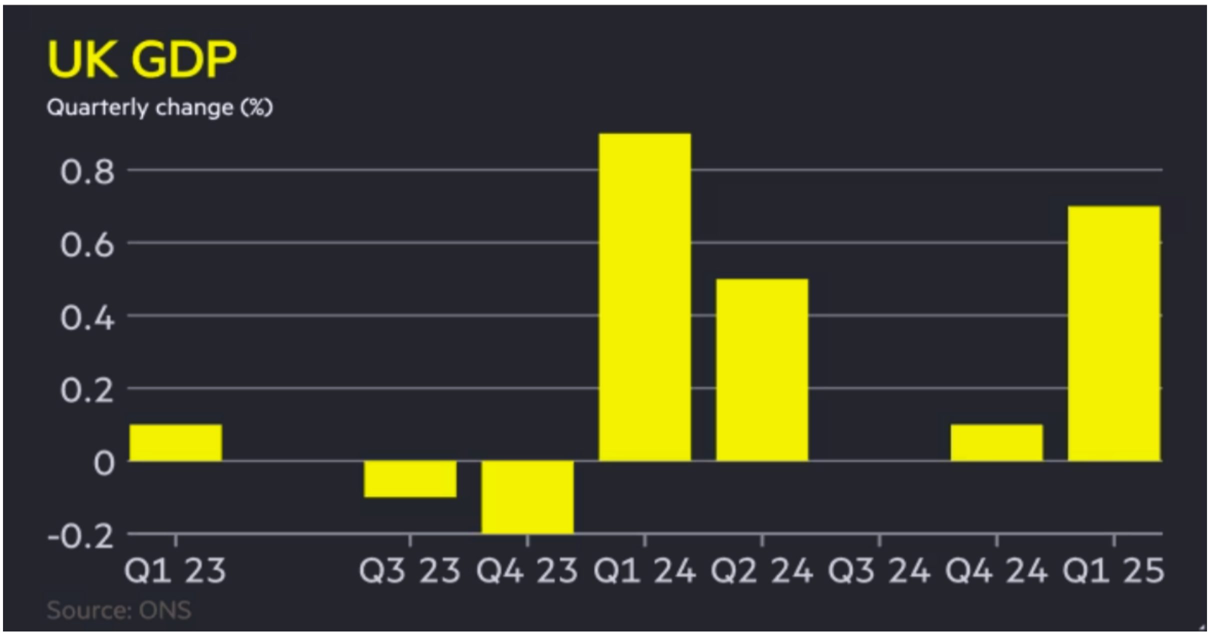


The graph above shows the ECB's key interest rate from July 2021 to the present day.

Despite this, 97.5% of economists surveyed reckon that the ECB would lower its key interest rate by 0.25% (25 basis points). The proof is in the pudding, and yes, that's what happened.

United Kingdom

GDP in the UK rose by 0.7% between Q4 2024 and Q1 2025

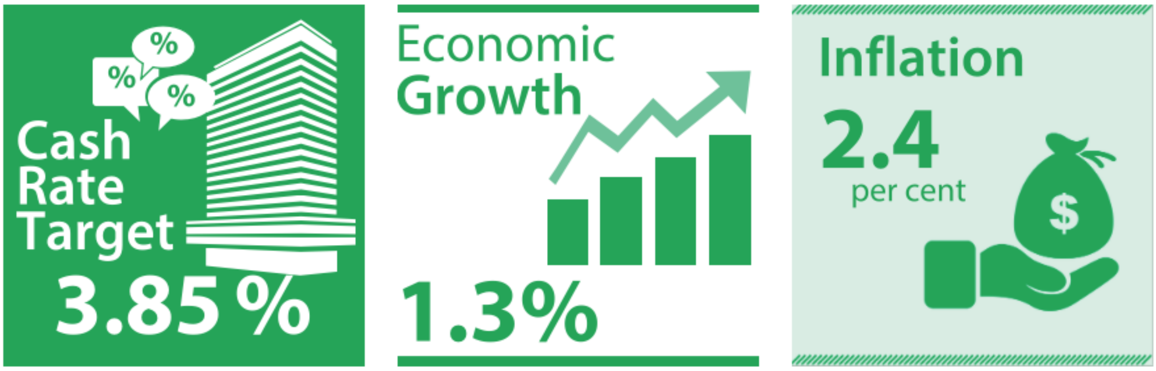


This graph shows quarterly GDP change in the UK from Q1 2023 to Q1 2025.

This GDP growth was largely driven by the services sector, and also signals a 0.2% annual increase between Q1 2024 and Q1 2025.

Australia

The latest Monetary Policy Statement (Statement on Monetary Policy as they refer to it) was released in May. The Reserve Bank of Australia noted that inflation was in their target range. As a result, the RBA decided to lower the cash rate target (their key interest rate) to 3.85%.



The figure above, sourced from the RBA's 'economic snapshot' graph pack, gives some key Australian economic data.

The RBA also noted that the outlook for Australian economy is highly uncertain, given the uncertainty surrounding the trade war. Bit of a wait-and-see situation in Australia for the next few months.

New Zealand

Two bits of economic news dominated the economic headlines over the last month – one more so than the other. First was, of course, the Budget – the Appropriations (Estimates 2025/2026) Bill.

There are two things to note when you are reading any Budget commentary or analysis. The first is that ***all government spending originates from the Crown Settlement Account (CSA)*** and that the ***government spends settlement cash (Reserve Bank money), not tax dollars.***

The second bit of news was the Reserve Bank's decision to lower interest rates. Namely, the RBNZ lowered interest rates from 3.50% to 3.25%, with inflation being within the RBNZ's target range

The graph above shows the Official Cash Rate (OCR) from 2008 to now, with some future projections too.

As a result of the government retreating further from economic stimulus (the government aims to be back in surplus by 2028/2029) and the non-government sector struggling to fill the spending gap created by this, the economic outlook continues to remain uncertain for New Zealand. This will be interesting to see come through in the data over the next several months.

Conclusion

The international economic outlook continues to remain uncertain. It remains difficult to predict what the steps will be in the trade war between China and the United States.

The 'onshoring' trend, where businesses move their production from China and elsewhere to the United States will take years to fully materialise. This uncertainty, coupled with governments pursuing fiscal surpluses, places uncertainty on the economic outlook.

As noted, incoming data will make for interesting reading.

Until next month!

"Our low interest rate for savings protects you from becoming an attractive target for identity theft."