

Markets Rally on Ceasefire Agreement

President Trump and Iranian President Masoud Pezeshkian signed a 14-point memorandum of understanding today at the G7 Summit in Versailles, with the intent of ending the 108-day war in the Middle East. Although it's not a peace treaty, the "framework for negotiations" is expected to end hostilities and allow for near-term stability in the region. Key provisions in the agreement include an immediate ceasefire, removal of the U.S. navel blockade, reopening of the Strait of Hormuz, the lifting of U.S. sanctions, the unfreezing of Iranian assets and at least \$300 billion in reconstruction and economic development funds. These funds are expected to be loans from private sources, *although details remain fuzzy.*

Several critical issues remain, including the regional conflict between Israel and Hezbollah and Iran's nuclear program. A 60-day negotiation window will allow for discussions on Iran's existing uranium stockpiles and its nuclear future. President Trump warned that military action could resume if Iran were to violate any terms of the agreement.

Oil prices began falling in anticipation of today's signing with WTI crude down roughly \$10 per barrel over the past week to around \$75, the lowest in over three months, while AAA reported the average price for a gallon of unleaded gasoline slipped just under \$4 for the first time since March. Since higher energy prices were responsible for driving overall inflation higher, the hope is that lower energy prices will quickly reverse the trend.

The much-anticipated agreement to negotiate and yesterday's FOMC meeting dominated investor attentions this week, but there was no shortage of market news. On Wednesday, U.S. retail sales for May rose +0.9%, almost double the +0.5% median forecast. Gasoline sales were up +3.4%, although the increase reflects higher pump prices and not increased demand. Sales at non-store retailers and sales of motor vehicles made significant contributions to headline growth. In contrast, sales at electronics and appliance stores as well as eating and drinking establishments were down last month.

Control group sales, which exclude sales at food service establishments, auto dealers, building materials stores and gas stations, rose a healthy +0.7%. Since the control group data feeds directly into the GDP calculation, yesterday's release boosted the GDPNow real time measure of Q2 economic growth to a solid +3.0%. Although still relatively early, it appears that second quarter GDP has picked up considerably from Q1's lackluster +1.6%.

On Tuesday, the import price index for May jumped +1.9% following a revised +2.0% increase in April. On a year-over-year basis, import prices are up +6.7%, the most in nearly four years. The sharp rise is primarily the result of higher costs for airfare and plastics, driven in part by the war in Iran. Computer equipment, including semi-conductors, also contributed to the gain, representing price pressures from the massive global A.I. buildout.

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The export price index (which measures prices received by U.S. exporters) rose another +1.3% in May following a record +3.5% jump in April. The May import/export price indexes, along with last week's quite warm producer price index, suggests inflationary pressure is likely to linger.

In other news this week, U.S. housing starts dropped -15.4% in May to an annualized rate of 1.177mm units, well below the 1.418mm median forecast and the slowest since May 2020 during the nationwide pandemic shutdown. The main driver of the unexpected weakness was multifamily starts, which plunged -40%. Single family starts were down just -1.9% for the month.

On a related note, homebuilder sentiment as measured by the National Association of Homebuilders fell 2 points in June to 35. Readings below 50 in this series indicate a majority of builders see housing conditions as poor. This marks the 14th consecutive month below 40, the longest such streak in 15 years. Housing is extremely rate sensitive, both for homebuilders and homebuyers, and the 30-year mortgage rate is still around 6.50%. Recent increases in supply should ease prices, but affordability is still a big issue in the housing space.

The data takeaway this week is clearly mixed. Inflation is still a problem, consumers are still spending, housing conditions remained stressed, while GDP growth, driven largely by A.I. infrastructure buildout is improving, but uneven. Recent easing of geopolitical tensions and lower energy prices have proven positive for the financial markets, but questions remain.

Market Indications as of 2:20 P.M. Central Time

DOW	Up 114 to 51,607 (HIGH: 52,000)
NASDAQ	Up 400 to 26,421 (HIGH: 27.094)
S&P 500	Up 69 to 7,429 (HIGH: 7,610)
1-Yr T-bill	current yield 3.98%; opening yield 3.97%
2-Yr T-note	current yield 4.18%; opening yield 4.18%
3-Yr T-note	current yield 4.19%; opening yield 4.20%
5-Yr T-note	current yield 4.23%; opening yield 4.25%
10-Yr T-note	current yield 4.45%; opening yield 4.48%
30-Yr T-bond	current yield 4.90%; opening yield 4.93%

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