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Economic Indicators | June 2025 | By Kim W. Suchy & Brett E. Suchy

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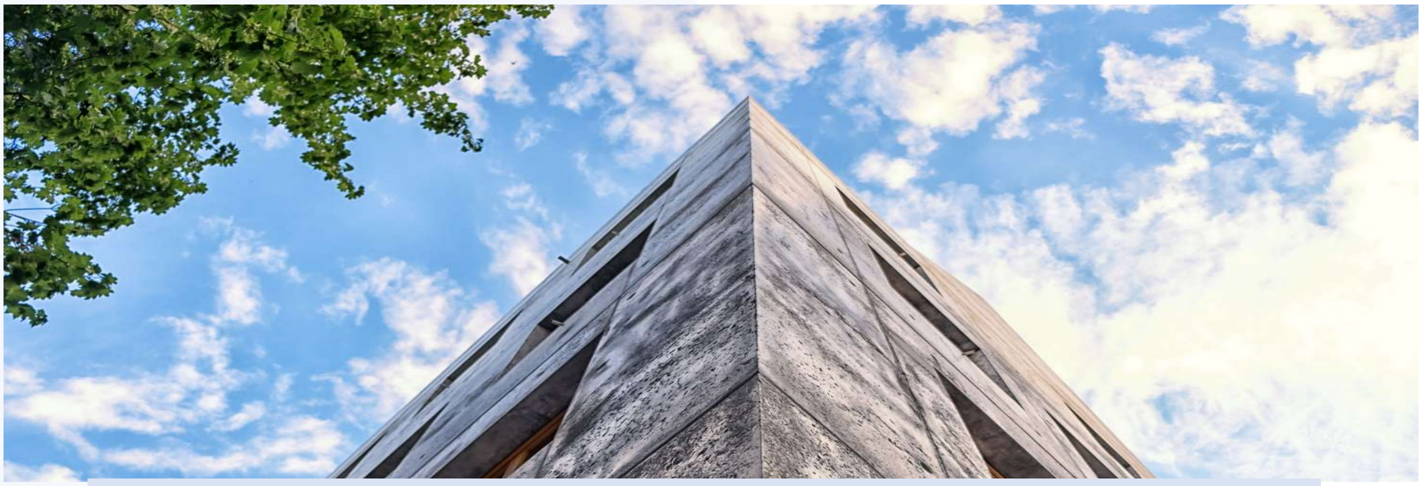

In May, Moody's downgraded the U.S. credit rating to Aa1 from Aaa, as it cites rising debt and growing fiscal challenges and brings the rating in line with Fitch's AA+ (2023) and S&P's 2011 downgrade. The U.S. rating tier equates with Austria and Finland and ranks below Australia, Canada, Germany, and Switzerland. Moody's alludes to the U.S.'s mounting debt levels and interest payments compared to similarly rated countries. Without impactful fiscal reforms, the U.S. deficit is projected to climb from 6.4% of GDP in 2024 to nearly 9% by 2035, with federal debt hitting 134% of GDP. While the House has passed a Bill to attack spending and enhance revenues, the lagged impact may hold credit ratings at current levels for some time. Besides, the Senate still has a poke at the pinata before policies can be implemented.

Moody's action has not shocked the markets as investors have been pricing in these risks for months. However, it may reinforce the trend of reduced appetite for U.S. assets, as global capital has gravitated towards Europe and other markets. Unlike in 2011 when S&P downgraded, U.S. Treasurys may not benefit from a flight-to-quality bid, especially given recent volatility surrounding tariff announcements. Treasury yields may face upward pressure, which could weigh on equity valuations. The Dollar remains under pressure, and downside risks persist although the Dollar has retreated less than 1% since the announcement.

The bottom line is the U.S. faces a structural imbalance between spending and revenues. According to the CBO, debt is already near the size of the economy and will surpass its historic high within four years. Spending is expected to rise from 23.3% of GDP in 2025 to 26.6% by 2055, while revenues lag, growing from 17.1% to just 19.3%. This is an unsustainable path. Here is a look at the drivers of this path:

- Weak demographics: As baby boomers retire and Americans live longer, spending on Social Security, Medicare and other benefits will increase significantly.

- Healthcare costs: According to the CBO, federal healthcare spending will rise from 5.8% of GDP in 2025 to 8.1% by 2055. The U.S. already spends more per person than peer nations, with outcomes that are subpar.

- Interest costs: With higher debt and stubbornly high interest rates, the government will pay $13.8T in interest over the next decade, making this the fastest-growing category of federal spending. Lower rates will help; so, will fiscal restraint. Expect some pressure on the Fed to lower rates and help stimulate economic growth.

- Insufficient revenue: The U.S. doesn't generate enough tax revenue to cover escalating spending. Tax breaks totaling $1.9T in 2024 add to deficits. Tariffs and onshoring of U.S. production should boost revenue.

A strong fiscal foundation is essential for economic growth and taking steps towards balancing a budget. Without reform, high debt and deficits could erode both consumer and business confidence, raise borrowing costs, crowd out prospective investments, and limit flexibility in future crises i.e. limited monies for issues like a pandemic. Conversely, responsible fiscal policy can support stronger economic growth, investment and opportunity.

We are monitoring both fiscal and monetary developments quite closely. We believe that aggressive steps towards fiscal prudence will help facilitate price stability which will be music to the Fed's ears and set the stage for lowering rates.

Thank you, as always, for your trust and confidence. As always, if you have any questions please give us a call.

POSITIVE DEVELOPMENTS

- Inflation eased in April, despite tariff-related price pressures. Both the headline and core CPI measures were weaker than expected in April, rising 0.2%. The *headline CPI* climbed 2.3% y/y, posting the lowest yearly rate since February 2021; Note, it was at 9.1% in June 2022.

- *New* home sales surprised to the upside in April, easily beating consensus expectations to post the largest monthly gain in nearly two years. Looking at the big picture, buyers purchased 743k homes at an a/r.

- Trump announces 25-yr. plan to accelerate nuclear due to accelerating demand for data centers and their energy demands. Uranium and utility stocks are surging.

- May's Consumer Confidence Index (CCI) survey showed that the CCI rebounded by more than expected. Much of the rebound occurred after May 12, when Trump halted the most severe tariffs on China. *Note, The CCI survey seems to be more sensitive to developments in the labor market than the alternative Consumer Sentiment Index (CSI) survey, which is more sensitive to inflation.*

NEUTRAL DEVELOPMENTS

- Retail sales in April inched up 0.1%, in line with expectations, though considerably slower than March's upwardly revised 1.7% (from 1.4%). Sales were up 5.2% versus a year ago.

- *Existing* home sales edged slightly lower in April, coming in just below expectations, with regional variation showing some resilience in the Midwest and stability in the South. While overall sales remain below last year levels, home prices continue to trend higher, with the median price rising 1.8% from last year.

- New orders for durable goods fell in April, but under the hood lay a much more subdued picture. The 6.3% decline in new orders was almost entirely due to the volatile purchases of commercial aircraft, which retreated after surging in March. Tariffs certainly played a role here, as airlines front-ran orders before anticipated tariff increases.

- Weekly jobless claims remain comfortably in the 220K range, neither indicating labor market stress nor overheating. Inflation, too, appears to be taming…these are two important fed goals.

NEGATIVE DEVELOPMENTS

- Bond yields have surged from a low of 4% on the 10-tr. Treasury. The catalyst came when Moody's downgraded the U.S. credit rating to A1 from AAA due to the growing federal deficit projected to be $1.9T and increasing interest payments.

- The Index of Leading Economic Indicators is weakening; notably, consumer's expectations have become continuously more pessimistic each month since January 2025.
  \- Uncertainty is also a major impediment for small business owners in operating their business in April, affecting everything from hiring plans to investment decisions. The *Small Business Optimism Index (SBOI)* fell for the 4th mo., dropping 1.6 pts. in April and 9.3 points over the 4 mo. period to 95.8; down from December's recent high of 105.1.

- Industrial production was weak for the second month in a row in April, reflecting uncertainty stemming from tariffs. *Headline production* was flat in April, after contracting 0.3% in March, which was its first loss since November.

- Home Depot and Hovnanian are two bellwethers of consumer spending trends, and their executives, at recent earnings calls, are seeing more cautious home-improvement and home-buying customer behavior.

- Home affordability remains a major hurdle for homebuyers, with the median home price rising to $438K in April, up 1.4% from last year and nearly 70% higher than in April 2020. Compounding the challenge, 30-yr. mortgage rates averaged 6.73% in April, climbing from March and further straining buyer budgets.

THE MARKETS

In May the global equity markets exhibited resilience despite a complex backdrop of trade tensions, monetary policy shifts, and sector-specific developments. The U.S. stock market, represented by the SP500, experienced a notable rebound, with the index posting 9 consecutive daily gains during the month. This rally was largely driven by strong earnings in the tech, industrial and communications sectors. Continued investment in AI infrastructure, is also helping to boost the market. However, sweeping import tariffs continue to be an uncertainty and headwind.

European markets outperformed their U.S. counterparts, helped by easing monetary policies from the European Central Bank and a rebound in industrial activity across the region. France and Germany led the surge, reflecting a modest shift in investor preference towards European equities.. Emerging markets also saw gains, supported by a decline in the U.S. dollar and a temporary 90-day pause on new tariffs for most countries, excluding China.

On the bond front, yields have increased slightly amongst Treasuries this past month. The 10-yr. Treasury cosed may yielding 4.39% which is 17 bps higher than the April close of 4.22%.

U.S Index	Last Month (% return)	YTD (%)
S&P 500	5.5	0.5
Dow Jones	3.9	-0.5
NASDAQ Comp	7.8	-1.1
Russell 2000	4.9	-7.1

Source: https://tradingeconomics.com/stocks

National Safety Month: Beyond the Helmet and Smoke Alarm

By: Brett Suchy

I don't know about you, but my hippocampus lights up every June when National Safety Month rolls back around. (For those who slept through Anatomy, the hippocampus is responsible for long-term memory). With there being a recognized holiday for every minute, day, week, and month, I'm surprised this stuck. Still, when June hits, I get that subtle reminder to re-visit all hazards. Back in the day, "safety" just meant rolling up your windows in sketchy parking lots or throwing on a helmet to ride a bike. But, fast forward to today and our biggest hazard might be staring back at us from the screen you're reading this on.

Of course, it is imperative to do the home and health staple checks: testing your fire alarms, making sure your locks are secure, booking your annual visit to your health practitioner etc. All of these we have become accustomed to. But, today, the safe zone extends so far into the digital realm and the number of bad actors get bigger by the day. Our phones, smart TV's, and even the voice-activated coffee maker can betray us, that is, if you ignore any of the signs or ignore the precautions. So, here's some info and how to stay ahead of the curve.

The Cyber Frontier

Did you know that the plastic box with blinking lights tucked in the corner of your living room is the gatekeeper between your home network and the wilds of the internet? Think of a router as a castle, it directs traffic, hands out IP addresses as "guest badges", and ideally keeps the riff raff out. Yet, most of us never update the firmware or change its default password. In today's world, "locking your doors" means a lot more than deadbolts, but locking down all the data that flows through your home network.

Common Threats

Phishing 2.0 has graduated from horribly spelled emails to eerily convincing texts that can mimic even some of your closest contacts. You could potentially receive a quick note from "Mom" or "Human Resources" pleading for a $100 Home Depot card or requesting data, only it's a hacker bot tuned into their cadence or sequence. Then, there are malicious "updates" – the pop-up prompts that claims your system is either outdated or infected and begging you for a new installation or security download, when you would just be installing malware. Lastly, your smart thermostat, for instance, can be co-opted. The Internet of Things (IoT), which is basically an everyday gadget with a Wi-Fi connection, has allowed attackers to turn these devices into data spies, or worse, part of a global botnet. These threats are highly integrated into our lives, and simply waiting for a misstep…

….And, we give them an opening every day. Reusing passwords like "Luna123" across several accounts is equivalent to putting your house key on top of the welcome mat. Next, having "auto-join" to public Wi-Fi networks set on your phone is a big no-no. You'll more than likely step into a network you don't want to be in. Bad actors on that network will simply harvest all your info. So, it's important to be selective and scrutinize the security of any public WiFi network that you are joining.

Next, let's talk about the 900 phone applications. Each time you download one, take caution on what permissions you are granting this app (location, contact lists, etc.). Does your flashlight app really need your contact list? But, if you allow it, well the flashlight app now knows who you know. Rest assured you can always revisit in your settings what share permissions you are granting your apps in the settings of your phone. No better month than June to check…

In addition, not super mainstream yet, but Deepfake voice scams can mimic your boss perfectly at 3AM, coaxing you into sending an irreversible wire. Also, AI-driven 'Spear-phishing' can analyze your social media posts and then craft hyper-targeted lures to your contacts.

The Price Tag

Ignoring these mistakes can come with a nasty price tag. According to CyberSainik, a home data breach can cost about $9,000 in recovery, which would cover everything from identity restoration to lawyer fees. Medical record hacks are estimated to be $150 per file, which combines the notification costs and credit monitoring services (I'm sure you've received one of these notices and have plenty of credit monitoring already). And, for small businesses, a serious ransomware can be fatal. According to a study by Cybersecurity Ventures found that 60% of small companies close within 6 months of being hacked.

Quick Bulletproofing

Fortunately, we can do something about it, albeit with some minor inconveniences depending on how you look at it. A password manager will generate and remember complex, unique credentials so you don't have to. Multi-factor authentication adds a second checkpoint, like a guard dog after the gate. And, try not to hit the "remind me later" button too many times on updates to apps or your phone. These updates are often patching holes, fixing bugs and keeping new threats out.

So, at the end of the day, safety boils down to awareness. We can always put fresh 9V batteries in the carbon monoxide detector, install biometric locks, but if we ignore the digital cracks, as my Dad would say, "you're asking for trouble". So, let's stay out of trouble, celebrate this holiday and upgrade our defenses and cyber shields. Stay secure, and cheers to a cyber-free worry summer.

NEWS YOU CAN USE

On June 20th at 9:42PM CST, the Astronomical summer kicks off…aka the summer solstice. This is the moment when the sun reaches its northernmost vault above the Tropic of Cancer. That marks the longest day and shortest night of the year in the Northern Hemisphere. Of course, more daylight means higher A/C bills and longer trading hours. Perhaps alongside the June Safety checks, you could start reviewing your energy plan and summer schedule to make the most of those extra "daylight dollars".

[EarthSky - June Solstice]

You've probably fumbled with music playlists while driving, but for Spotify users, their June update is your new co-pilot. "Car Mode" simplifies the app's interface for one-handed control, which includes bigger buttons, voice-search, and automatic "jump back" to your last track when you reconnect. It will also launch automatically when your phone pairs with your car's Bluetooth. Thus, there should be no more digging through those tiny menus mid-trip (less distraction).

[Spotify - Car Mode]

If you're self-employed, a gig worker, or anyone with income not covered by withholding, the IRS wants its second quarterly check by June 16, 2025. That's the deadline for 2025's estimated-tax payment, half your total quarterly bill. Missing it can trigger underpayment penalties, even if you expect a refund next spring. Always a pro tip, mark your calendar now, set a reminder in your phone, or enroll in auto-withdrawals so you never forget. Staying on top of these dates is the simplest way to avoid surprises come tax-time.

[IRS - 2nd Quarter Installment]

As always, if we can be of additional guidance, please feel free to call us at 312.485.6847.

Best regards,

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