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Timely Client Questions: Israel/ Iran, China, and Inflation

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How will geopolitical risk between Israel and Iran affect markets?

Thanks for your important question about how geopolitical tensions in the Middle East might impact global financial markets. While the humanitarian consequences of the escalating conflict are the top concern, it's important for investors to understand the impact on portfolios.

The situation is still developing and can change quickly, but here are some key insights:

• Israel's attack and Iran's retaliation come after unsuccessful discussions between the U.S. and Iran over reducing Iran's nuclear capabilities. Perhaps the biggest concern among investors is whether this conflict will escalate further. This is occurring even as the Israel-Gaza war rages on.

• It's important to keep these conflicts in perspective. While serious from a geopolitical perspective, they are generally not a reason to react with our portfolios. This has been true over the past several years and across history. While markets may demonstrate a "flight-to-safety pattern" over days or weeks, markets have also been resilient over longer time frames.

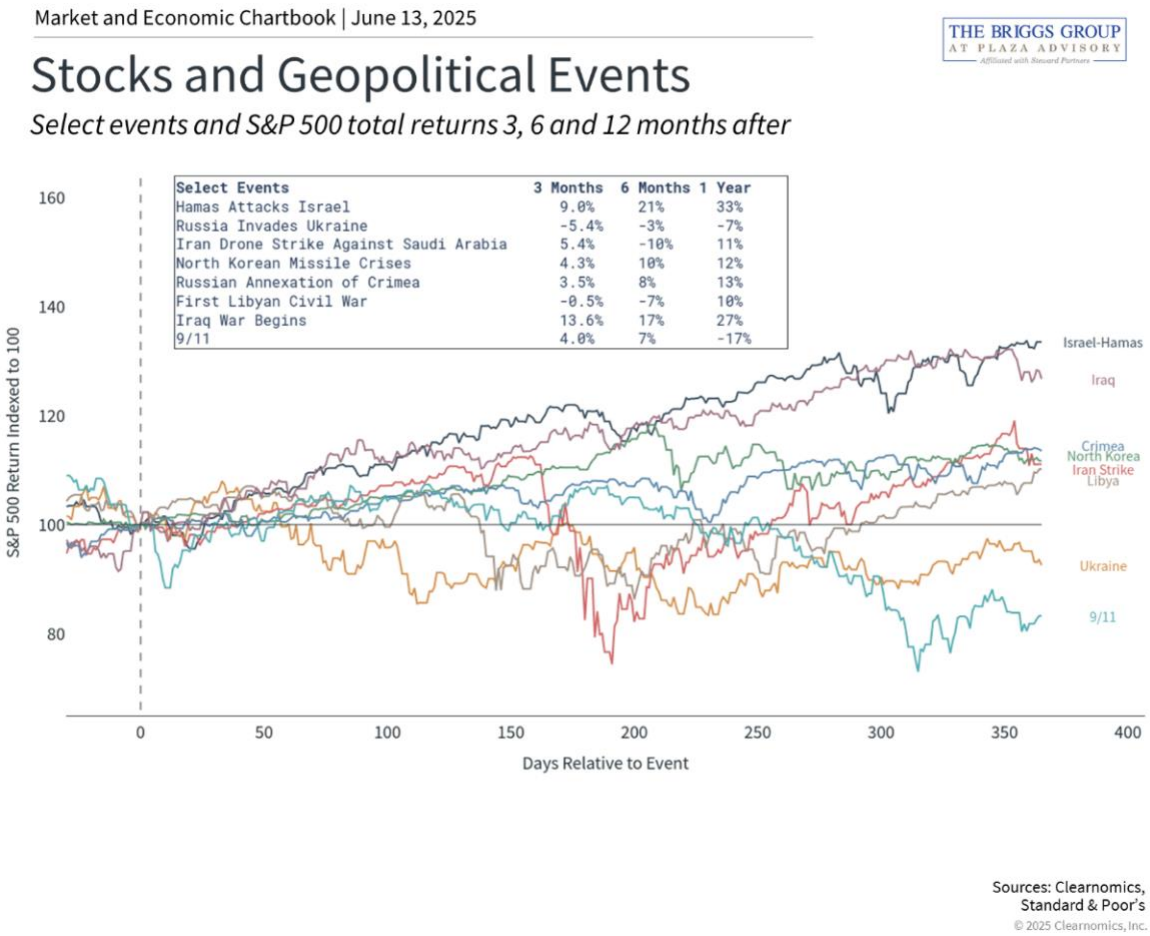
• Oil markets were immediately impacted with the price of Brent crude surging over 7% following the attack. While regional conflicts do not necessarily affect the broader market, oil prices can act as a transmission mechanism. Higher oil prices affect consumers and businesses all around the world, so disruptions to supply and demand can affect the global economy. That said, the jump in oil only brings prices back to where they were as recently as April.

• Some "safe haven" assets strengthened, with gold prices, the Japanese yen, the Swiss franc, and the U.S. dollar all gaining as investors sought refuge from geopolitical uncertainty. This is consistent with historical patterns during periods of heightened Middle East tensions. The exception is Treasury

yields which have increased, suggesting investors are not flocking to these bonds.

The included chart on geopolitics illustrates how markets have navigated various global tensions over time, showing that while short-term volatility is common during uncertain periods, markets have historically maintained their long-term upward trajectory despite major disruptions including wars, financial crises, and energy shocks.

While geopolitical events can create near-term market volatility, maintaining a long-term perspective and staying focused on your financial goals rather than short-term market reactions remains the most prudent approach to building wealth over time.



Have the U.S. and China reached a trade deal?

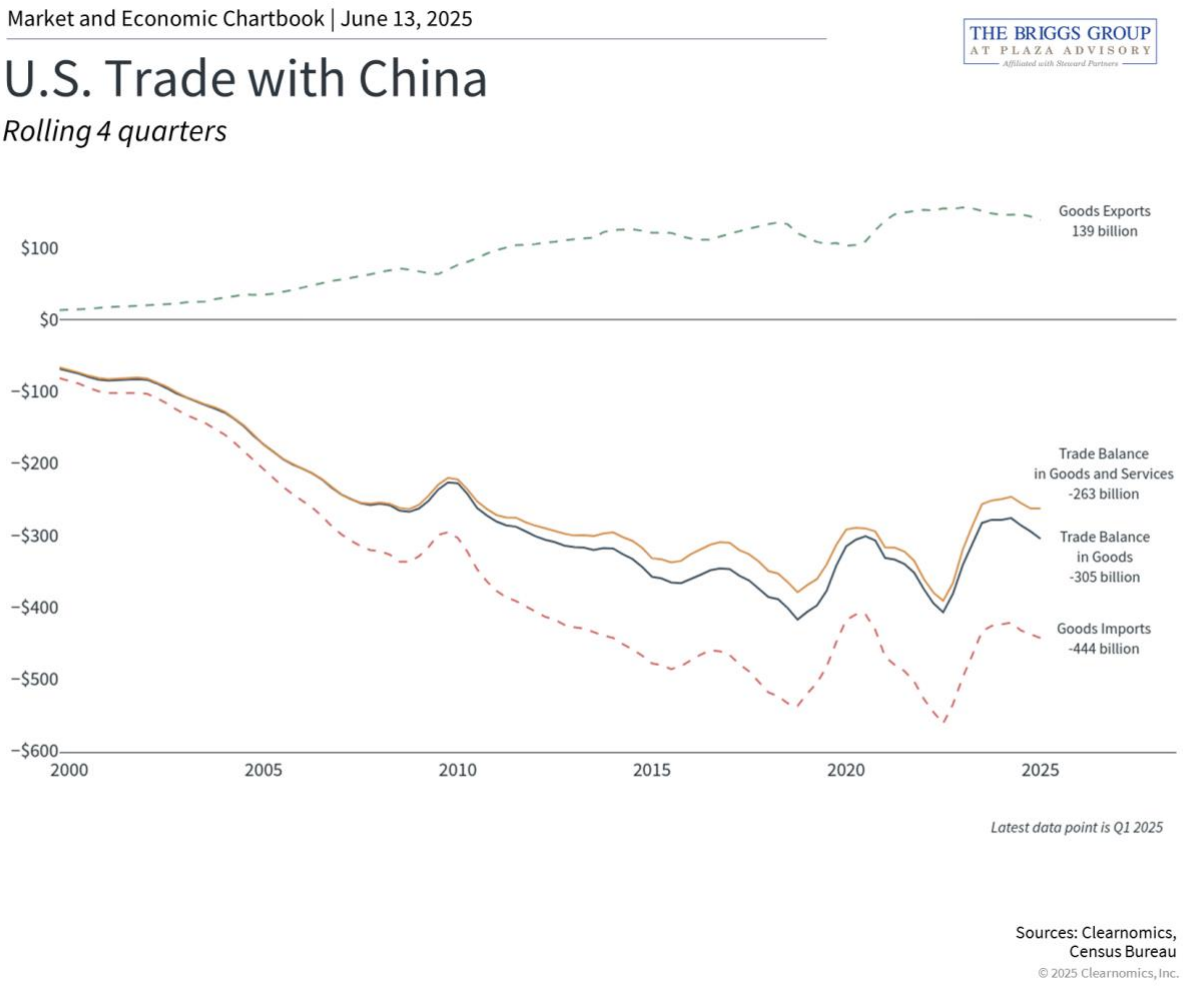
Thanks for your important question about a U.S.-China trade deal and the potential market impact. The situation is still evolving and, despite reports, it's not yet clear if a final deal has been reached. Here are some key points that may help provide perspective in the meantime:

• On June 11, President Trump announced via social media that a new trade deal had been reached with China. However, it's not yet clear if and when the deal will be finalized. China has also not confirmed key details of the deal.

• According to reports, this deal includes a 55% tariff by the U.S. on Chinese goods, a 10% tariff by China on U.S. goods, and the restoration of the ability for Chinese students to study at American universities. A key provision of the deal is for China to supply the U.S. with "rare earth metals" that are important for high-tech products.

• While these trade tensions have been the biggest source of market volatility this year, markets also recovered swiftly once initial deals were reached. This underscores the importance of focusing not on the tariffs themselves, but on the desire by the White House to achieve new agreements.

The included chart shows the U.S. trade imbalance with China, the key reason the administration would like to raise tariffs. This year has shown that while trade tensions can create periods of volatility, successful investing is ultimately about maintaining a long-term perspective to weather economic and geopolitical developments.



What does the latest CPI report tell us about inflation and tariffs?

Thanks for your important question about recent inflation trends and their impact on the economy and Fed policy. Consumer price index data is one of the most closely watched economic indicators because it directly affects monetary policy decisions and provides insight into the health of the economy.

Here are some key points from the latest data:

• The Consumer Price Index rose just 0.1% in May, slower than April's 0.2% increase and below

economist expectations. Over the past year, consumer prices rose 2.4% - suggesting price pressures continue to improve gradually.

• Core CPI, which excludes volatile food and energy prices, also rose only 0.1% monthly and 2.8% annually, providing evidence that underlying inflation trends are moving in the right direction.

• A measure called "super core" inflation, which excludes housing costs, has risen just 1.9% over the past year, while the Fed's preferred PCE measure shows annual inflation at 2.1%, very close to the central bank's 2% target.

• These recent figures suggest that inflation continues to improve. There are also no clear signs that tariffs have made their way into these consumer inflation figures just yet.

• The market still expects the Fed to cut rates possibly twice later this year. These inflation trends would put them on the path to doing so, although this also depends on the level of political and economic uncertainty.

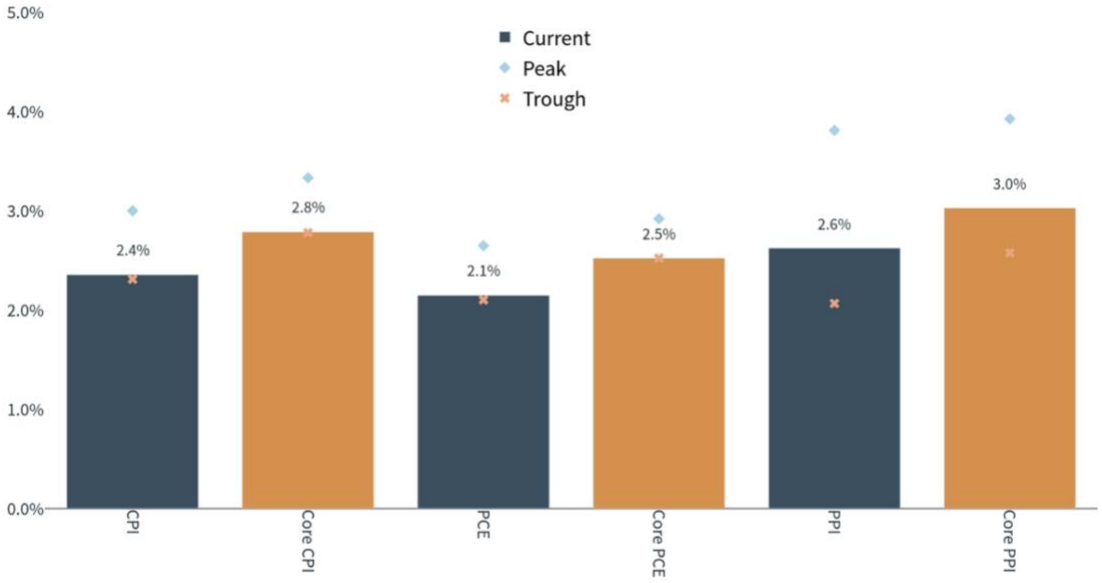
The included chart shows various inflation measures and how they have evolved over time, demonstrating that multiple indicators are converging toward the Fed's target range after the significant price increases of recent years.

While these encouraging inflation trends may influence the timing of future Fed policy changes, successful long-term investing focuses on broader economic fundamentals rather than short-term policy adjustments.

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Inflation Measures

Current year-over-year changes and 12-month peaks and troughs



Sources: Clearnomics,
Bureau of Labor Statistics,
Bureau of Economic Analysis

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