

Dodging Bullets, For Now

This was a week when everything could've gone wrong—but didn't. Quite the opposite. Israel and Iran agreed to a ceasefire (for now), oil prices fell—easing inflation concerns—and US economic data continues to soften just enough to make rate cuts more likely, without sparking recession fears. The result? A more dovish Fed narrative is taking hold, and that's music to investors' ears.

Equities had a strong week, with some US indices hitting new all-time highs. Bonds also rallied, helped by the moderation in inflation expectations.

While most indices have surged, one thing has collapsed: volatility. The first half of 2025 has been a wild ride, with volatility peaking on April 8. Yet despite a long list of risks that could escalate at any moment, markets have found comfort in the status quo. As a result, volatility has dropped to levels just below where we began the year.

Impact: Periods of low volatility can offer a valuable window for active investors to position more defensively—in anticipation of the inevitable return of market turbulence.

Another asset that took a dramatic turn last week was oil. After briefly surging above $75 per barrel, prices fell sharply to $65 by week's end as tensions in the Middle East eased—calming fears of a potential supply disruption. Despite threats of a Strait of Hormuz closure and the ongoing conflict in the region since tensions began in October, not a single barrel has been lost from global supply.

Impact: This sharp drop in oil prices is likely to ease inflation concerns—particularly welcome news for US policymakers and consumers, especially with tariff-related pressures looming. Lower inflation expectations may continue to support both equities and bonds.

"Bad news is good news"—it sounds counterintuitive, but this old market axiom often holds true. The idea is simple: bad news for the economy can lead to good outcomes for investors. That's exactly what we're seeing in the latest batch of soft US economic data. Weaker consumer confidence and a widening current account deficit support the view that the economy is underperforming expectations.

Impact: This kind of environment—a slowing but not collapsing economy—gives the Federal Reserve room to cut rates or even consider broader easing to stave off a potential recession.

A dovish Fed is often synonymous with a bull market—and last week delivered a fair dose of dovish commentary. Michelle Bowman, one of the most hawkish members of the Federal Reserve, said she would consider voting for a rate cut as early as July if inflation pressures "remain contained." While Chair Powell maintained a more balanced stance—rate cuts are on the table, but there's no rush—markets are already pricing in a higher likelihood of easing.

Impact: This has pushed bond prices higher—benefiting more defensive portfolios—while the dollar fell to a three-year low, marking its worst first-half performance in over 50 years.

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