

Weekly Market Commentary

China Holds Keys to Post-War Oil Prices

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Client Summary

Recent economic data paints a mixed but generally constructive picture for investors. The U.S. economy continues to display resilience, while China's slower growth is influencing global markets, particularly energy prices. Understanding both the opportunities and risks can help investors stay focused on their long-term financial goals.

Positive Factors

- **Strong U.S. Economic Growth:** The U.S. economy continues to expand at a healthy pace, supported by resilient consumers and business investment.
- **Inflation Is Moving in the Right Direction:** Core inflation has continued to moderate, helping reduce concerns about additional interest rate increases.
- **AI Investment Supports Growth:** Businesses are investing heavily in AI, data centers, and technology, helping drive productivity and economic activity.
- **Oil Price Pressures Have Been Limited:** Softer demand from China has helped offset some of the upward pressure on oil prices from Middle East tensions.

Concerning Factors

- **China's Economy Remains Uneven:** China's recovery continues to face challenges, including weaker demand and a sharp decline in crude oil imports. A prolonged slowdown could weigh on global economic growth.
- **Geopolitical Risks Remain Elevated:** Ongoing tensions in the Middle East could disrupt energy supplies and lead to higher oil prices, which could create renewed inflation pressures.
- **Import Costs Are Rising:** Although domestic inflation has improved, the cost of imported goods continues to increase. Higher prices for industrial materials, consumer products, and imports from China could eventually affect consumers and businesses.
- **Job Market Growth Is Slowing:** While employment conditions remain healthy overall, hiring has moderated, and some groups—particularly recent college graduates—may face a more challenging job market.

LPL Research's Perspective

- **The U.S. Remains Better Positioned Than Many Global Economies:** LPL Research believes the U.S. economy is likely to continue outperforming many international peers, supported by healthy consumer spending and ongoing business investment.
- **China Will Play a Major Role in Oil Prices:** LPL Research believes the direction of oil prices will depend heavily on China's economic growth and energy demand. Continued weakness in demand could limit oil price increases even if geopolitical tensions persist.
- **Inflation Risks Have Not Disappeared:** While inflation trends have improved, rising import prices and potential energy price shocks suggest investors should not assume inflation is fully under control.
- **Staying Invested Remains Important:** LPL Research maintains a constructive outlook, supported by above-trend U.S. growth, moderating inflation, and continued investment in innovation and technology. However, investors should remain diversified and prepared for periods of market volatility.

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