

Weekly Market Commentary

Kevin Warsh Could Shake Up the Fed

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Client Summary

Markets continue to adjust to changing Federal Reserve leadership, global events, and shifting economic trends. While uncertainty remains, there are also signs of resilience that may support long-term growth. Below are the key takeaways from this week's market commentary to help guide your perspective.

Positive Factors

- **Economic Growth Supported by Investment:** Business spending on infrastructure and technology (like data centers and AI) is helping keep economic growth stable, even in a higher interest rate environment.
- **Potential for Lower Inflation Over Time:** Some inflation pressures appear tied to supply disruptions (like energy), meaning prices could ease if geopolitical tensions improve.
- **Global Central Banks Aligning Policy:** Central banks worldwide are moving toward similar interest rate strategies, which can help create more stability in global markets.
- **Oil Prices Contained (for Now):** Despite geopolitical conflict, oil prices have remained relatively stable due to lower demand from China and increased supply flexibility.

Concerning Factors

- **Uncertainty Around Federal Reserve Direction:** New leadership at the Fed is taking a less predictable approach, making it harder for markets to anticipate future interest rate moves.
- **Geopolitical Risks Remain Elevated:** Ongoing tensions in the Middle East continue to affect energy markets and could disrupt global growth if conditions worsen.
- **Risk of Higher Interest Rates:** Some policymakers still favor raising rates further, which could slow borrowing, spending, and market performance.
- **Oil Market Could Shift Quickly:** If China's demand rebounds or supply disruptions intensify, oil prices could rise sharply and reintroduce inflation pressures.

LPL Research's Perspective

- **Balanced but Cautious Outlook:** LPL Research believes the economy can continue growing at a steady pace, supported by investment and productivity gains.
- **Expect Periods of Market Volatility:** Uncertainty around policy, geopolitics, and energy markets may lead to short-term ups and downs in markets.
- **Constructive Long-Term View:** Advances in technology and infrastructure spending are viewed as positive drivers that could support future growth.
- **Positioning for Opportunity:** Research currently favors stocks over bonds but with a more cautious approach to help manage potential volatility.

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Tracking #1127346 | #1127347 (Exp. 06/2027)