Weekly Economic & Financial Commentary

United States: **One Day or Another: FOMC Still in Wait-and-See Mode**

- In this week's most closely-watched release, the FOMC elected to maintain its federal funds rate target at 4.25%–4.50%, citing continued economic resilience and still-elevated inflation. With the incoming data broadly continuing to point to a U.S. economy that is slowing but not grinding to a halt, the FOMC remains in a holding pattern as it awaits a fuller picture of how tariffs play out in the data.
- Next week: Home Sales (Mon. & Wed.), Durable Goods (Thu.), Personal Income & Spending (Fri.)

International: **More Daylight, More Monetary Policy Decisions**

- The days got longer this week, and equally long was the list of foreign central banks meeting to deliver monetary policy decisions. The Bank of Japan, Bank of England and Chilean central bank held rates steady, as expected, while Norway's central bank surprised market participants with a rate cut. The Swiss National Bank and Sweden's central bank both delivered rate cuts, and the Brazilian central bank hiked rates, in our view, for the last time this easing cycle.
- Next week: Eurozone PMIs (Mon.), Canada CPI (Tue.), Banxico Policy Rate (Thu.)

Interest Rate Watch: **Outlook for Fed Policy Remains Highly Uncertain**

- Although the median dot in the FOMC's "dot plot" continues to look for 50 bps of rate cuts by the end of the year, Chair Powell suggested in his press conference after this week's FOMC meeting that the outlook for monetary policy is highly uncertain.

Credit Market Insights: **A Compression in Spreads**

- Corporate bond markets have settled into a more stable rhythm in recent weeks, following a period of heightened volatility earlier this year. Credit investors are still focusing on potential risks, but the extreme high-risk sentiment has cooled. For now, spreads are continuing on their previous trend of cautious optimism.

Topic of the Week: **What's Behind the Recent Rise in Home Supply?**

- Resale inventories are normalizing. The reasons? Weak demand as a result of persistently high mortgage rates, the return to office, easing of the mortgage rate lock-in effect, rising "hidden" homeownership costs and cooling labor market all appear to be behind the climb in supply.

Wells Fargo U.S. Economic Forecast

	Actual				Forecast				Actual		Forecast	
	2024				2025							
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2023	2024	2025	2026
Real Gross Domestic Product [1]	1.6	3.0	3.1	2.4	-0.2	3.4	0.0	0.5	2.9	2.8	1.6	1.9
Personal Consumption	1.9	2.8	3.7	4.0	1.2	2.2	0.4	0.4	2.5	2.8	2.2	1.8
Consumer Price Index [2]	3.2	3.2	2.7	2.7	2.7	2.6	2.9	3.0	4.1	3.0	2.7	2.9
"Core" Consumer Price Index [2]	3.8	3.4	3.3	3.3	3.1	3.3	3.7	3.8	4.8	3.4	3.5	3.1
Quarter-End Interest Rates [3]												
Federal Funds Target Rate[4]	5.50	5.50	5.00	4.50	4.50	4.50	4.25	3.75	5.23	5.27	4.25	3.75
Conventional Mortgage Rate	6.82	6.92	6.18	6.72	6.65	6.80	6.65	6.55	6.80	6.72	6.66	6.51
10 Year Note	4.20	4.36	3.81	4.58	4.23	4.40	4.30	4.25	3.96	4.21	4.30	4.33

Forecast as of: June 11, 2025 [1] Compound Annual Growth Rate Quarter-over-Quarter [2] Year-over-Year Percentage Change
[3] Quarterly Data - Period End; Annual Data - Annual Averages [4] Upper Bound of the Federal Funds Target Range

Source: U.S. Dept. of Commerce, U.S. Dept. of Labor, Federal Reserve Board and Wells Fargo Economics

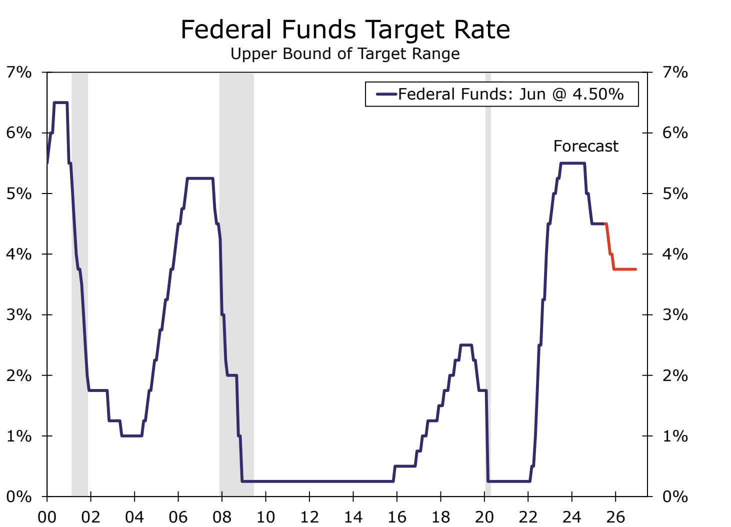
Submit a question to our "Ask Our Economists" podcast at askoureconomists@wellsfargo.com.

U.S. Review

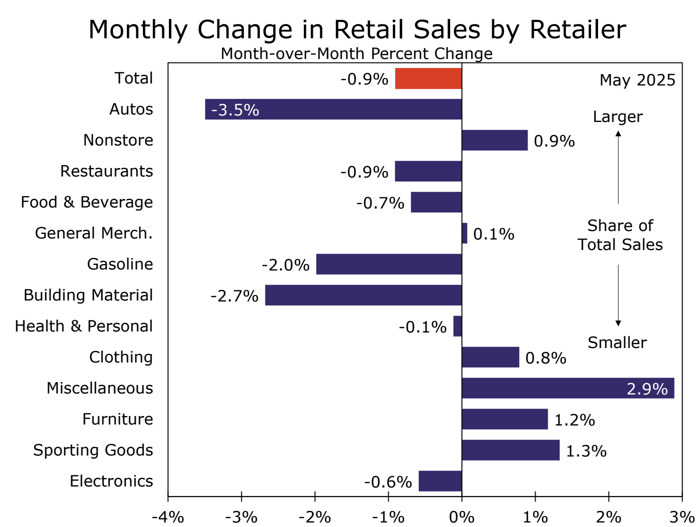
One Day or Another: FOMC Still in Wait-and-See Mode

The most closely watched event of the week was the Federal Open Market Committee's June policy announcement. The Committee elected to maintain its federal funds rate target at 4.25%–4.50%, citing continued economic resilience and still-elevated inflation (chart). While market volatility has eased and economic uncertainty has diminished somewhat since May, the Committee still characterizes the level of uncertainty as "elevated." As discussed in further detail in Interest Rate Watch, the FOMC also released an updated Summary of Economic Projections. The updated SEP reflects a more stagflationary outlook, with lower GDP growth and higher core PCE inflation and unemployment forecasts for 2025 and 2026. Further, the Committee's latest "dot plot" shows the median member still expects 50 basis points (bps) of rate cuts by year end-2025, with projected cuts for 2026 reduced from 100 bps to 75 bps. Trade policy uncertainty continues to present a hurdle in the outlook for the FOMC. Discussing the impact of tariffs on the data thus far, Chair Powell remarked "we're beginning to see some effects, and we do expect to see more of them over the coming months". The expectation for further impact from tariffs is keeping the FOMC in a "wait-and-see" mode, even as inflation data have been, on balance, favorable since the prior meeting.

This cautious stance on the outlook from the FOMC extends to the consumer, as when asked about tariffs in his post-meeting press conference, Chair Powell noted that "ultimately, the cost of the tariff has to be paid, and some of it will fall on the end consumer." This is starting to be borne out in the data. Retail sales fell 0.9% in May, dragged down by a sharp 3.5% decline in auto dealer sales, the largest monthly drop so far in 2025. April's previously reported gain was also revised down to a slight decline, indicating a weaker pace of sales than initially thought. Control group sales—which exclude autos, gas, building material stores and restaurants—edged up 0.4%, but that may overstate the strength in underlying consumer spending at present, as most of the May weakness came from categories excluded from the measure (chart). Outside of declines in several goods categories, restaurant and bar sales declined 0.9% in May, a worrying sign for the outlook of services spending. Overall, May's retail sales report hints at a modest softening in consumer demand, particularly for bigger ticket purchases such as autos, which may partially reflect payback after the initial tariff-induced pull forward earlier this year.



Source: Federal Reserve Board and Wells Fargo Economics



Source: U.S. Department of Commerce and Wells Fargo Economics

Following weak retail data, May's industrial production report offered little reassurance about the state of the manufacturing sector. Total industrial production fell 0.2%, the third decline in five months. This brings year-over-year growth to just 0.6%. Weakness was concentrated in utility output, as the measure dropped 2.9% and weighed heavily on the headline. Manufacturing, which makes up about three quarters of industrial production, edged up 0.1% after a 0.5% decline in April, reflecting a stagnating trend. A 4.9% rebound in motor vehicle & parts output stood out, but likely reflects monthly noise rather than a revival spurred by trade policy. High-tech manufacturing remains one bright area, with this category of production rising 0.4%. Yet, trade policy continues to stall capex decisions, limiting a potential rebound in the industrial sector.

Adding to signs of a slowdown, May's housing starts report showed a sharp 9.8% drop in new housing starts, the weakest pace since the pandemic lows of 2020. A stark 29.7% decline in multifamily starts and a soft 0.4% gain in single family starts following two months of declines both kept the pace of starts depressed. High mortgage rates, increased resale supply, and broad economic uncertainty continue to pressure builders. Builder sentiment has also continued to worsen. The NAHB Housing Market Index fell to 32 in June, its lowest since 2022.

The incoming data broadly point to a U.S. economy that is slowing but not grinding to a halt. Consumer and business spending reflect signs of caution as well as a lull after a pull-forward in demand to get purchases in ahead of tariffs. It's ultimately too soon to know how growth-hampering recently imposed tariff policy will be, but like many businesses today, the Fed is waiting to see those effects before acting. (Return to Summary)

U.S. Outlook

Weekly Indicator Forecasts

Domestic

Date	Indicator	Period	Consensus	Wells Fargo	Prior
23-Jun	Existing Home Sales (SAAR)	May	3.95M	3.93M	4.0M
24-Jun	Consumer Confidence	Jun	99.0	99.1	98.0
25-Jun	New Home Sales (SAAR)	May	693K	682K	743K
26-Jun	GDP Annualized (QoQ)	Q1 T	-0.2%	-0.2%	-0.2%
26-Jun	Personal Consumption (QoQ)	Q1 T	—	1.2%	1.20%
26-Jun	Durable Goods Orders (MoM)	May	6.9%	8.8%	-6.3%
26-Jun	Durables Ex Transportation (MoM)	May	0.0%	0.2%	0.2%
27-Jun	Personal Income (MoM)	May	0.2%	0.2%	0.8%
27-Jun	Personal Spending (MoM)	May	0.2%	0.1%	0.2%
27-Jun	PCE Price Index (MoM)	May	0.1%	0.1%	0.1%
27-Jun	PCE Price Index (YoY)	May	2.3%	2.3%	2.1%
27-Jun	Core PCE Price Index (MoM)	May	0.1%	0.1%	0.1%
27-Jun	Core PCE Price Index (YoY)	May	2.6%	2.6%	2.5%

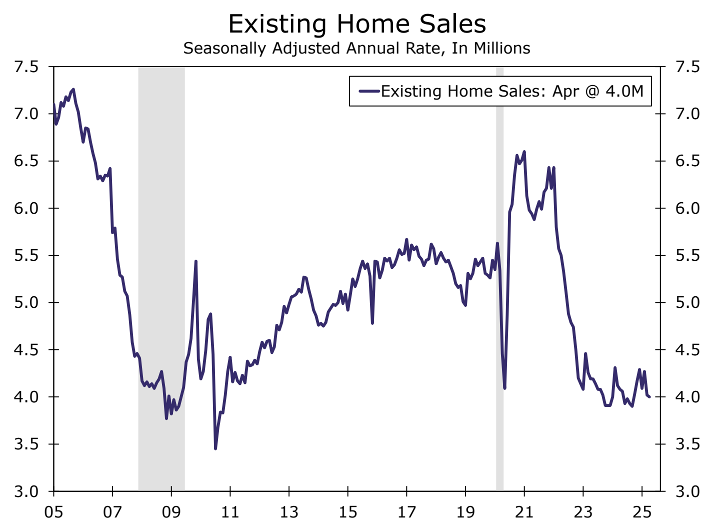
Forecast as of June 20, 2025

Source: Bloomberg Finance L.P. and Wells Fargo Economics

Existing & New Home Sales • Monday & Wednesday

The housing market is softening amid elevated rates, prices eroding affordability and increased uncertainty denting buying and building conditions. Single-family housing starts rose modestly in May, but remain weak, and building permits fell to a five-year low last month, indicating less construction in coming months. Homebuilders cite current sales conditions as being at their worst point since 2012. Tariffs and a crackdown on immigration are bidding up construction costs, but lower demand is also weighing on builder sentiment. Existing home sales slipped for the third time in four months to 0.5% in April, to a 4.0 million annualized pace, and while new home sales rose to the highest level in three years, it was likely only a temporary pop.

For May, we expect more of the same and for sales to remain within their narrow ranges from the past couple of years. We look for existing home sales to slow to a 3.93 million seasonally adjusted annual rate in May, which would near recently-hit lows (chart). For new home sales, we expect they also slipped but to a 682K rate. Mortgage rates have moved higher again in recent months, eroding demand. Inventory also remains a challenge. Slower sales have allowed for a slight uptick in available supply, but most of the new supply has come from new construction and overall inventories remain low, keeping prices elevated and demand strapped. We expect it will be some time before we see the housing market regain its footing.

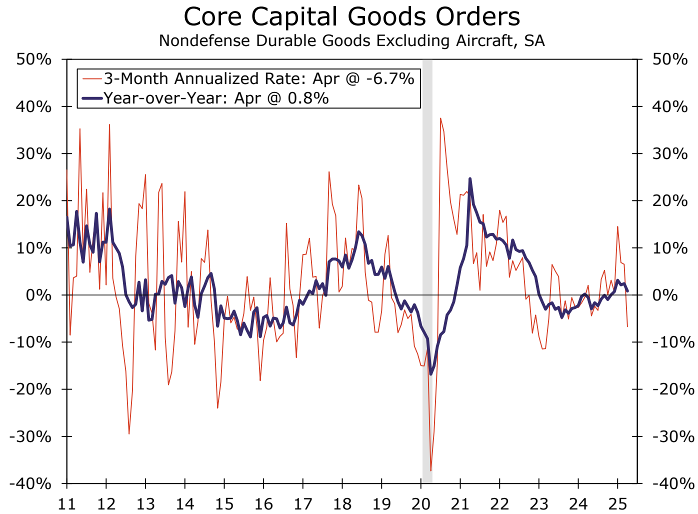


Source: NAR and Wells Fargo Economics

Durable Goods • Thursday

Demand for new durable goods is softening. Overall, orders have been heavily driven by aircraft in recent months. After surging north of 7% in March, orders collapsed 6.3% in April. We expect a similar aircraft-induced surge to be behind an almost 9% pop in new orders for durable goods in May, given Boeing reported more than 300 new orders for aircraft placed during the month. Excluding transportation, the gain was likely much more muted at around 0.2% last month.

Orders can be volatile month to month, and core capital goods—which exclude aircraft and defense orders—are a better indication of underlying demand for capex among private businesses. This measure suggests demand is slowing after businesses pulled forward some purchases, mostly for information processing equipment, ahead of tariffs (chart). Conditions ultimately are not supportive of increased appetite for capex today. Not only are businesses confronted with increased confusion around trade policy, but financial conditions are still relatively tight and the outlook for economic growth and policy remains uncertain. We expect equipment investment to slow in the second quarter, and nondefense capital goods shipments will be the measure to watch in next week's release.

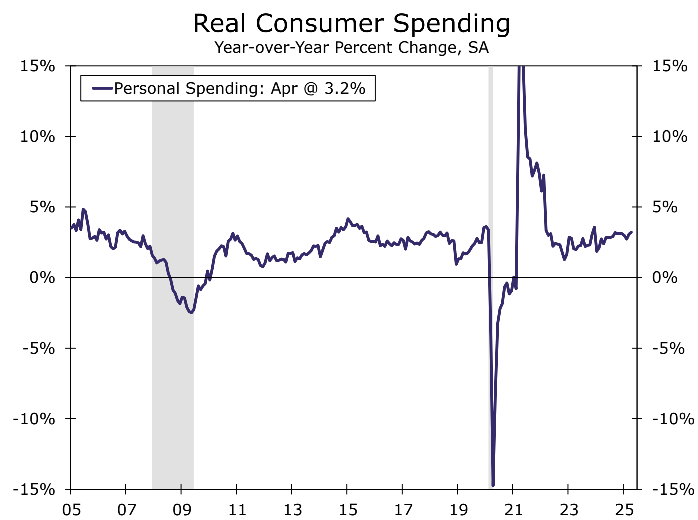


Source: U.S. Department of Commerce and Wells Fargo Economics

Personal Income & Spending • Friday

All eyes are on the consumer. Between potential weather effects and some consumers having pulled forward demand for large durables in March and April in anticipation of tariffs, it's been tough to get a clear read on the resilience of consumers today. The May retail sales data suggest some slowing. There was payback at auto dealers and building material & garden stores. However, there were also signs of softening at other retailers, notably at restaurants, last month. The control group measure—which strips away these components as well as sales at gas stations—was fairly steady, suggesting underlying goods consumption held up during May.

Next week we'll get the broader personal income & spending report where we look for a muted 0.1% gain in personal spending. After accounting for slightly higher prices during the month, we look for real, or inflation-adjusted, spending to slip 0.1%. Lower auto sales are set to dent spending, and we anticipate seeing a bit more slowing across broader services categories. Even with a slight pullback in May, real spending would still likely be running ahead of its prior cycle (2010-19) average annual run rate of ~2.3% (chart).



Source: U.S. Department of Commerce and Wells Fargo Economics

We also expect the income data to reveal that households still largely have the means to spend today. Personal income shot higher in April amid adjustments to social security payments, which accounted for half of the 0.8% gain in total income. Beyond that, there were also upward revisions to prior months' data revealing stronger momentum around income growth and therefore more support for spending in the near term. So far, tariffs haven't meaningfully lifted consumer prices and households are still spending. Over the next few months we'll be paying close attention to signs of a meaningful pullback in discretionary purchases to see if consumer pessimism is realized, resulting in a more choosey consumer.

(Return to Summary)

International Review

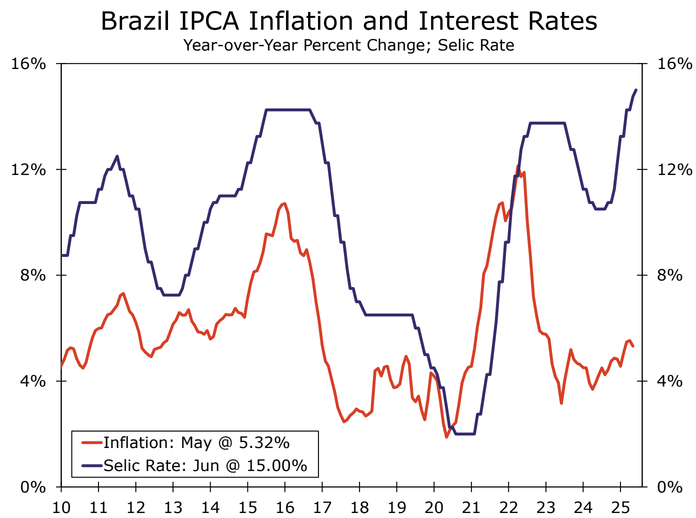
More Daylight, More Monetary Policy Decisions

The days got longer and longer this week, and equally long was the list of foreign central banks meeting to deliver monetary policy decisions. To start, the Bank of Japan (BoJ) offered the latest assessment of its monetary policy stance at this week's announcement, signaling that it will continue a gradual and cautious approach to normalizing monetary policy. The BoJ held its policy rate steady at 0.50% as expected, and adjusted its future bond purchase plans, also as expected. The BoJ indicated that amid recent strains in Japan's government bond markets, particularly for longer-term bonds, it would slow the pace at which it reduces its bond buying activities. Through until Q1-2025, the BoJ confirmed it would reduce its JGB purchases by around ¥400B per quarter. However, from Q2-2026 through Q1-2027, the central bank announced it would reduce its JGB purchases by just ¥200B per quarter. Should those purchase plans transpire, the BoJ's bond holdings will be around 16%-17% lower than their mid-2024 peak by early 2027. Regarding the economic outlook and interest rates, Governor Ueda said uncertainty around trade was very high, potentially hurting corporate profits, winter bonuses and next year's wage talks, while also saying inflation expectations aren't yet anchored at the 2% target. At the same, Ueda said interest rates would be raised if the economic outlook is met. For now, our view remains for an October rate hike so long as it is supported by solid economic data and favorable trade developments, though we acknowledge the risk of the next rate hike being delayed beyond October is growing.

The Bank of England (BoE) held its policy rate at 4.25%, a widely expected move, and the decision and accompanying commentary was somewhat mixed. On the more dovish side, three policymakers voted for a 25 bps rate cut (while six supported the rate hold), and the monetary policy announcement highlighted "substantial disinflation progress over the past two years," weakness in underlying U.K. GDP growth and that officials continue to expect a significant slowing in pay growth over the rest of this year. On the less-dovish side, policymakers noted that inflation is not expected to fall back toward the central bank's 2% inflation target until next year and that they are continuing to monitor the risks of inflation persistence. In terms of the outlook for monetary policy, officials communicated that, "a gradual and careful approach to the further withdrawal of monetary policy restraint remains appropriate" and that monetary policy will need to "remain restrictive for sufficiently long." We remain comfortable with our forecast for a once-per-quarter pace of rate cuts, with the next 25 bps reduction coming in August. With that being said, if measures of wage growth and inflation display more softness than anticipated in the coming months, this could further tilt the risks toward a more accelerated pace of BoE easing.

Norway's central bank, the Norges Bank, also met this week and shocked markets with a 25 bps policy rate cut to 4.25%, earning it entrance to the club of advanced economy central banks in easing mode (with the exception of Japan). Prior to this meeting, the consensus expectation—as well as our own—had been that the central bank would wait until the third quarter of this year to make such a move, given its cautious commentary in previous meetings about potential rate cuts. This marked the first rate cut since the policy rate was lifted to a peak of 4.50% in late 2023. In providing rationale for the decision to "begin a cautious normalization of the policy rate", policymakers noted that in recent months underlying inflation has declined somewhat faster than expected, and that they now see slowed-than-expected inflation next year. The Norges Bank also published updated economic projections with this release. The central bank sees inflation returning to around 2% over the medium term, and downwardly revised its 2026 and 2027 CPI inflation forecasts. Its mainland GDP growth forecasts were revised upwards for the near term and were unchanged for the medium term, and the policy rate forecast was taken down a notch in the near term. Looking ahead, officials communicated that "if the economy evolves broadly as currently projected, the policy rate will be reduced further in the course of 2025." We see the central bank maintaining a once-per-quarter pace of rate cuts going forward.

In other news among central banks in Europe, the Swiss National Bank (SNB) cuts its policy rate by 25 bps to 0.00% as widely expected, noting that with this move it would be "countering the lower inflationary pressure" that has been seen in the country's price data as of late. Headline CPI inflation was -0.1% year-over-year in May, just below the SNB's inflation target of 0%-2%. Policymakers also note that while Swiss GDP growth was strong in the first quarter, this was likely due to temporary factors related to anticipated changes in global trade policy, and that growth will likely slow and remain subdued over the rest of the year. Officials were cautious about forward guidance—given that any further rate cuts would take the policy rate negative—with Governor Schlegel highlighting that negative interest rates can have undesirable side-effects and present economic challenges. We maintain our forecast for 0.00% as the terminal policy rate of this cycle. Sweden's central bank, the Riksbank, also met this week and lowered its policy rate by 25 bps to 2.00% in line with the consensus expectation. Policymakers cited slowing economic growth momentum and noted that inflation is expected to be somewhat lower than previously forecast, and signaled that the new forecast for the policy rate "entails some probability of a another cut this year."



Source: Bloomberg Finance L.P. and Wells Fargo Economics

Source: Datastream and Wells Fargo Economics

In the emerging markets, the Brazilian Central Bank (BCB) hiked rates by 25 bps to 15.00% as we expected, and policymakers highlighted still-elevated headline and underlying inflation and some strength in economic activity and the labor market in providing justification for the decision. We view this as the peak of the central bank's rate hiking cycle and believe that officials will hold rates here for some time as they wait to see the lagged effects of monetary policy more fully trickle into the economic data and put a damper on inflation and inflation expectations. In other EM central bank news, Chile's central bank held its policy rate at 5.00%, and in our view will keep rates steady until the third quarter, and the Philippine Central Bank lowered its policy rate by 25 bps to 5.25%.

In a week jam-packed with foreign central bank announcements, the most notable batch of data was the latest round of economic figures from China. May activity data were mixed, but arguably solid overall. Retail sales were firmer than forecast, unexpectedly quickening to 6.4% year-over-year. A government initiative subsidizing home appliances likely continued providing some boost to consumer spending. However, May industrial production growth slowed a bit more than expected to 5.8%, suggesting the manufacturing sector continues to face some headwinds even as tariffs were rolled back in mid-May. Meanwhile, the property sector remains under pressure, with May year-to-date property investment down 10.7% compared to the same period last year. In addition, new home prices and used home prices both registered larger month-over-month decline in May than seen in April. Overall, the data suggest Chinese growth held up quite well during the first half of this year, but could slow going forward. We forecast Chinese GDP growth of 4.7% in 2025, close to the government's 5% target, but see GDP growth decelerating to 4.0% in 2026.

(Return to Summary)

International Outlook

Weekly International Indicator Forecasts					
Date	**Indicator**	**Period**	**Consensus**	**Wells Fargo**	**Prior**
23-Jun	Eurozone Manufacturing PMI	Jun	49.8	—	49.4
23-Jun	Eurozone Services PMI	Jun	50.0	—	49.7
24-Jun	Canada CPI (YoY)	May	1.7%	—	1.7%
26-Jun	Banxico Policy Rate	26-Jun	8.00%	8.00%	8.50%

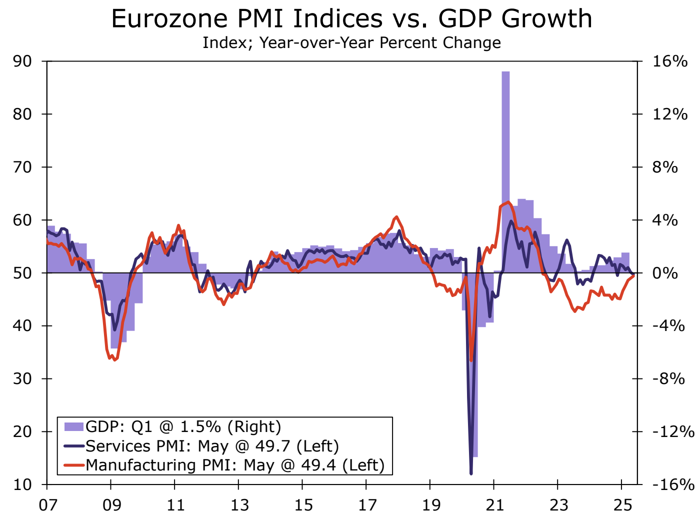
Forecast as of June 20, 2025

Source: Bloomberg Finance L.P. and Wells Fargo Economics

Eurozone PMIs • Monday

The Eurozone June manufacturing and service sector PMIs scheduled for release next week could provide important insights into the prospects for the region's economy as we head into the second half of this year. While these closely watched sentiment surveys have been somewhat mixed in recent months, they remain subdued overall, at levels that would be historically consistent with broadly stagnating Eurozone economic growth. The manufacturing PMI improved in May to 49.4, boosted by the potential for fiscal stimulus in Germany and, more broadly, increased defense across Europe. That has helped to offset some of the concerns from increased tariff tensions. In contrast, the services PMI slipped last month to 49.7, as the uncertainty surrounding tariffs has weighed on confidence and activity in the service sector.

For June, the consensus forecast is for a modest improvement in the PMI surveys, given some de-escalation of tariff tensions globally and, more specifically, as a proposed increase in tariffs on U.S. imports from the European Union was postponed while the two sides seek to reach agreement. The manufacturing PMI is expected to rise to 49.8, while the services PMI is also expected to rise to 50.0. A more resilient reading in the PMI surveys could be consistent with a more gradual and orderly slowdown in the Eurozone economy in the quarters ahead, which would also be consistent with the view that ECB monetary easing its nearing its end.

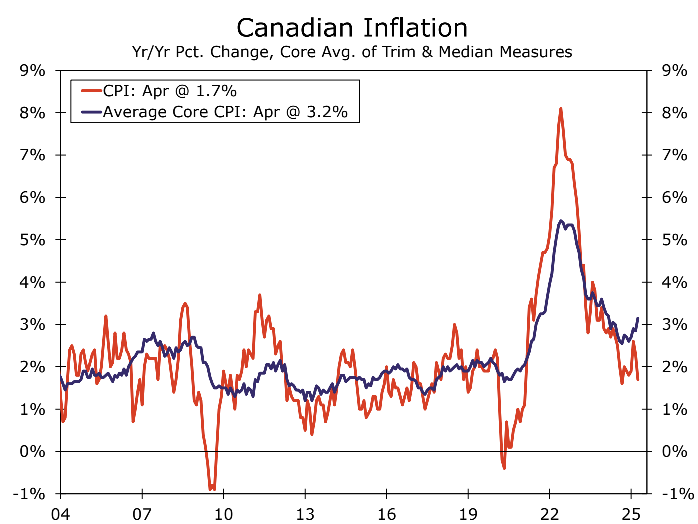


Source: Datastream, Bloomberg Finance L.P. and Wells Fargo Economics

Canada CPI • Tuesday

Canada's May inflation figures are released next week, which should be one of the more influential data points ahead of the Bank of Canada's (BoC) next monetary policy announcement in late July. We doubt the May inflation data will be decisive on their own, however, as another round of monthly employment and inflation figures and the Q2 business outlook survey are also slated for release ahead of the next central bank decision.

That said, the May CPI reading could begin to sway the BoC toward remaining on hold, or resuming its rate cut cycle after a pause at its two most recent meetings. Headline CPI inflation was depressed in April by the removal of the federal carbon tax, and with energy prices having generally been lower since, the consensus forecast is for a similarly subdued reading for May headline inflation. The headline CPI is currently expected to rise just 1.7% year-over-year. There will likely be more focus from market participants on core inflation trends. After average core inflation quickened in April to 3.2% year-over-year, some deceleration is expected in May. A particularly sharp slowdown to, say, 2.9% or less could strengthen the case for the Bank of Canada to resume cutting interest rates at its July announcement. If on the other hand core inflation eases



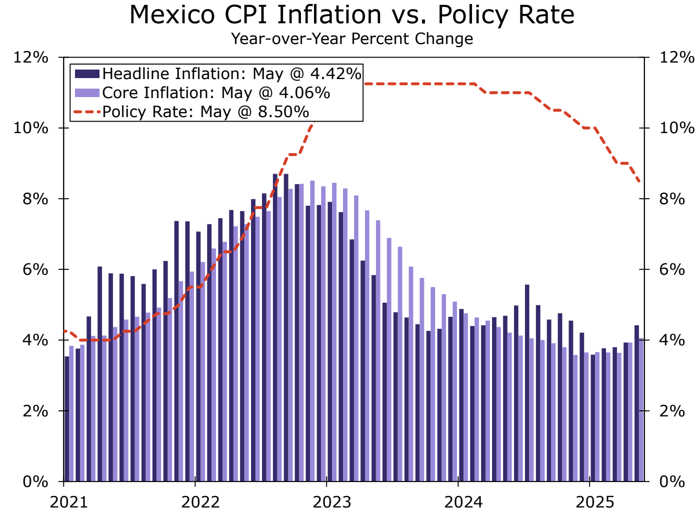
Source: Bloomberg Finance L.P. and Wells Fargo Economics only slightly, or not at all, that could solidify the case for the BoC to extend the pause in its monetary easing cycle.

Banxico Policy Rate • Thursday

Mexico's central bank, Banxico, delivers its monetary policy announcement next week. Along with the consensus, we expect a 50 bps reduction in the Overnight Rate to 8.00% which, if delivered, would be the fourth 50 bps rate cut in a row.

To be sure, Mexican inflation has quickened somewhat in recent months, with May headline CPI inflation at 4.42% year-over-year, with higher food prices contributing to the acceleration, and core CPI inflation at 4.06%. That said, we still see a 50 bps rate cut as the most likely outcome. At its May announcement, Banxico signaled it could continue calibrating the monetary policy stance and consider adjusting it in "similar magnitudes" even as policymakers adjusted their near-term inflation forecasts higher. Mexico's economy, meanwhile, showed noticeable weakness around the turn of the year, while the resilient performance of the Mexican peso also offers scope for the central bank to continue steadily along its monetary easing path. Against this backdrop and despite the recent uptick of inflation, we expect another 50 bps policy rate cut at Banxico's June announcement.

(Return to Summary)



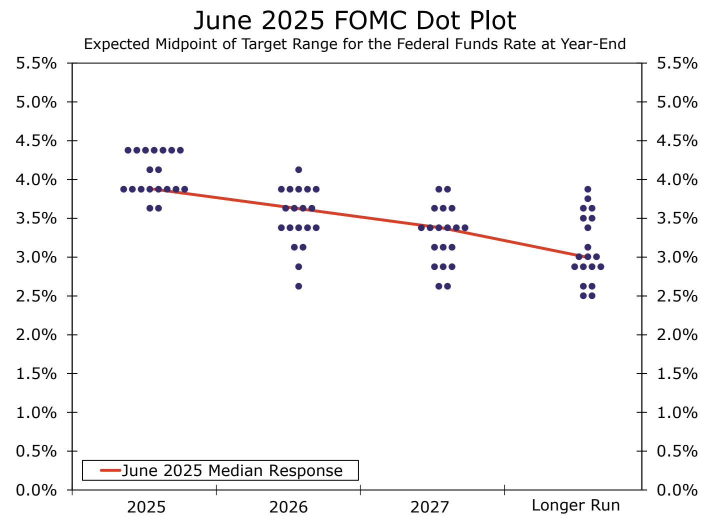
Source: Bloomberg Finance L.P. and Wells Fargo Economics

Interest Rate Watch

Outlook for Fed Policy Remains Highly Uncertain

The Federal Open Market Committee (FOMC) met this week and, to no surprise, it unanimously decided to maintain its target range for the federal funds rate at 4.25%-4.50%. According to its post-meeting statement, the Committee continues to view the pace of economic activity as "solid" and continues to characterize the rate of inflation as "somewhat elevated." With the economy remaining resilient and inflation still above the FOMC's target of 2%, the Committee felt little need to ease policy.

As is customary at its June meeting, the FOMC released its Summary of Economic Projections (SEP), which summarizes the macroeconomic forecasts of the 19 individual Committee members. Contained in the SEP is the so-called "dot plot," which shows each FOMC member's assessment of the appropriate level for the federal funds rate over the next few years. The dot plot that was released this week continued to show the median FOMC participant thinks that 50 bps of policy easing by the end of this year would be appropriate (chart). However, seven members judge that the Committee shouldn't cut rates at all this year. Furthermore, there is a wide dispersion of dots for year-end 2026.



Source: Federal Reserve Board and Wells Fargo Economics

In short, there is a high degree of uncertainty among the Committee members regarding the appropriate stance on monetary policy going forward. The outlook for Fed policy clearly depends on the evolution of the economy in the coming months, which will be determined, at least in part, by U.S. trade policy. If tariffs cause economic growth to slow significantly, thereby leading to higher unemployment, then the FOMC will likely ease policy. On the other hand, however, if tariffs lead to a meaningful rise in inflation, then the FOMC will likely refrain from easing policy, if not hike rates.

As we discussed in our most recent U.S. Economic Outlook, we think the FOMC will look through any one-off price increases caused by tariffs and instead concentrate on the growth-eroding and unemployment-increasing effects of higher import duties. We currently think the FOMC will commence an easing cycle in September, and look for 75 bps of rate cuts by the end of the year. That said, we readily acknowledge that the FOMC may refrain from cutting rates if inflation expectations rise and/or wages accelerate. When referring to the dot plot in his post-meeting press conference, Chair Powell noted that "no one holds these rate paths with a great deal of conviction." He went on to say that policymakers "think they will learn a great deal on tariffs over the summer." We readily agree, and we stand ready in coming months to make changes to our outlook for Fed policy depending on economic developments.

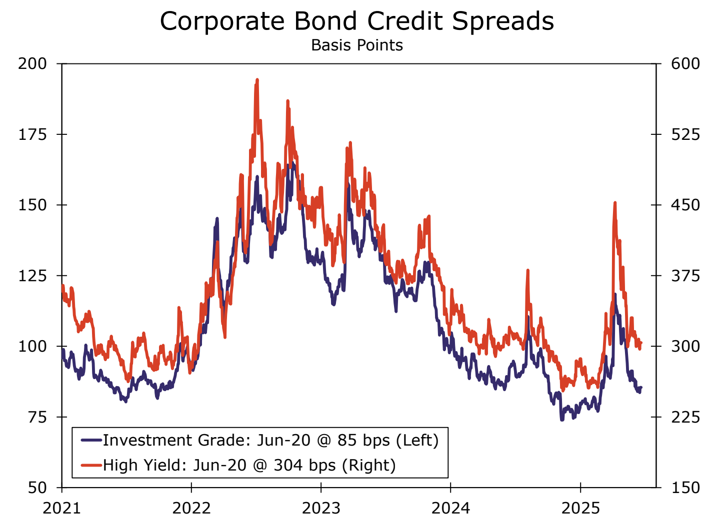
(Return to Summary)

Credit Market Insights

A Compression in Spreads

Corporate bond markets have settled into a more stable rhythm in recent weeks, following a period of heightened volatility earlier this year. High-yield (HY) and investment-grade (IG) corporate bond spreads—key measures of risk appetite and credit market sentiment—have narrowed, signaling a return to more normalized conditions.

To put things into perspective, both IG and HY spreads surged in April 2025, and HY spreads peaked at levels not seen since early 2023, a period where concerns for an impending recession were still swirling amid financial market stress. The recent widening was triggered by the announced "Liberation Day" tariffs, an event that sparked broad-based risk aversion.



Source: Bloomberg Finance L.P. and Wells Fargo Economics

Heightened uncertainty and concerns around the economic headwinds associated with tariffs led to a flight to 'safe-haven' assets, such as gold and Treasuries. The risk-off shift was stark across most asset classes. IG yield spreads, which were hovering around 100 bps, stepped up to nearly 120 bps, and more risky HY bond spreads increased from roughly 300 bps to 450 bps.

Since then, however, credit markets have cooled. The spreads for IG and HY bonds have retracted to around 85 bps and 304 bps, respectively, today, much more in line with recent historical averages. This cool down reflects a broad stabilization across markets, helped in part by a pause in the implemented tariffs in addition to economic data that have not shown signs of drastic deterioration. Furthermore, market sentiment has recovered significantly, leading credit investors to find optimism again. Given both are off their recent highs, we suspect that the risk premium demanded by investors has eased considerably and there has been a rebalancing of positioning after the April shock.

In short, while the elevated spread levels in April highlighted real concerns over the economy's trajectory, the bond market has since readjusted. Credit investors are still focusing on potential risks, but the extreme high-risk sentiment has cooled. For now, spreads are continuing on their previous trend of cautious optimism.

(Return to Summary)

Topic of the Week

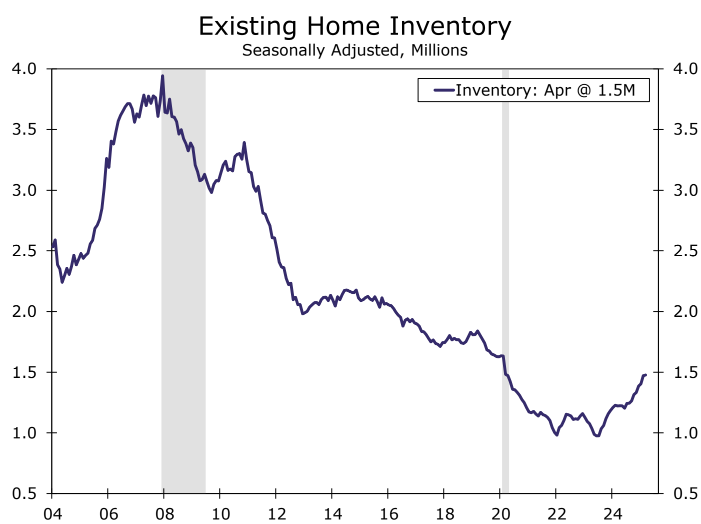
What's Behind the Recent Rise in Home Supply?

The past several years have been anything but normal for the housing market. Ever since the pandemic, the residential sector has experienced a roller-coaster ride in mortgage rates, rapid home price appreciation, extremely low resale supply and a wave of new single-family and multifamily development. Through the first half of 2025, the script is starting to flip. Home sales generally remain weak, in large part due to persistently high mortgage rates. Yet, the underlying dynamics are shifting. Construction is now pulling back, home price appreciation is softening and inventory is on the rise.

As displayed in the chart, the count of existing homes available has climbed higher over the course of the past year. In April, resale inventory reached 1.5 million units, marking the highest level since 2020. Supply is rising from a historically low base. Between 2022 and 2023, average resale inventory amounted to just over 1 million units, well below the level registered over the past several cycles. We also note that resale supply is not rising at an exponential rate and the increase has been concentrated geographically. For example, the upturn has been most apparent in the Sun Belt region and less evident in the Northeast and Midwest. Still, inventory counts are up almost everywhere over the past year.

Why is resale supply now rising? For one, persistently elevated mortgage rates and weak buyer demand are allowing for-sale inventory to come up. Furthermore, the mortgage rate lock-in effect is starting to ease somewhat. Although the differential between the rate on total outstanding mortgage debt and current mortgage rates remains wide, consistently elevated interest rates since 2022 has led to an increase in the share of homeowners holding mortgages with rates closer to the 7% which prevails currently. Such homeowners are not as constrained by the "golden handcuffs" of having a low mortgage rate and are more likely to list their home for sale, especially as more options become available.

The gain in resale supply may also be the result of an increase in forced sales. Although the labor market is still generally holding up, it clearly has lost luster recently. Layoffs generally remain low, yet a decline in the rate of hiring and rise in continuing jobless claims suggests job-seekers are having a more difficult time finding employment. What's more, stricter hybrid work policies mean fewer fully remote workers, and the fact that more employees are being called back into the office appears to be forcing some owners to sell. The lagged impact of inflation may be another factor. The cumulative rise in prices for building materials, insurance premiums and other "hidden" homeownership costs might be pushing affordability-stretched owners to list as these unexpected costs mount.



Source: NAR and Wells Fargo Economics

With more supply available, home price appreciation is now slowing. According to the S&P CoreLogic National Home Price Index, home prices were up 3.4% on a year-to-year basis in March, cooling from the 5.0% annual rate averaged in 2024. Even with higher supply, a dramatic decline in prices seems unlikely given slightly better affordability and availability conditions will likely help support demand moving forward. A modest up-shift in mortgage purchase applications this year is evidence that slower home price growth and normalizing supply are already starting to pull some buyers off the sidelines.

(Return to Summary)

Market Data • Mid-Day Friday

U.S. Interest Rates

	Friday 6/20/2025	1 Week Ago	1 Year Ago
SOFR	4.28	4.28	5.33
Effective Fed Funds Rate	4.33	4.33	5.33
3-Month T-Bill	4.31	4.35	5.37
1-Year Treasury	3.85	3.85	5.24
2-Year Treasury	3.92	3.95	4.74
5-Year Treasury	3.98	4.00	4.27
10-Year Treasury	4.40	4.40	4.26
30-Year Treasury	4.91	4.89	4.40
Bond Buyer Index	5.25	5.27	3.90

Foreign Exchange Rates

	Friday 6/20/2025	1 Week Ago	1 Year Ago
Euro ($/€)	1.151	1.155	1.070
British Pound ($/£)	1.346	1.357	1.266
British Pound (£/€)	0.855	0.851	0.846
Japanese Yen (¥/$)	145.930	144.070	158.930
Canadian Dollar (C$/$)	1.373	1.359	1.369
Swiss Franc (CHF/$)	0.818	0.811	0.891
Australian Dollar (US$/A$)	0.646	0.649	0.666
Mexican Peso (MXN/$)	19.148	18.958	18.372
Chinese Yuan (CNY/$)	7.180	7.183	7.260
Indian Rupee (INR/$)	86.590	86.091	83.648
Brazilian Real (BRL/$)	5.507	5.544	5.450
U.S. Dollar Index	98.774	97.921	105.588

Source: Bloomberg Finance L.P. and Wells Fargo Economics

Foreign Interest Rates

	Friday 6/20/2025	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	1.72	1.72	3.35
3-Month U.K. Govt Bill Yield	4.21	4.23	5.19
3-Month Canadian Govt Bill Yield	2.67	2.68	4.63
3-Month Japanese Govt Bill Yield	0.42	0.44	0.01
2-Year German Note Yield	1.85	1.86	2.83
2-Year U.K. Note Yield	3.92	3.94	4.16
2-Year Canadian Note Yield	2.66	2.72	3.91
2-Year Japanese Note Yield	0.73	0.74	0.29
10-Year German Bond Yield	2.52	2.54	2.43
10-Year U.K. Bond Yield	4.54	4.55	4.06
10-Year Canadian Bond Yield	3.32	3.37	3.34
10-Year Japanese Bond Yield	1.40	1.41	0.96

Commodity Prices

	Friday 6/20/2025	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	75.26	68.04	82.17
Brent Crude ($/Barrel)	76.86	74.23	85.71
Gold ($/Ounce)	3368.73	3432.34	2360.09
Hot-Rolled Steel ($/S.Ton)	872.00	862.00	725.00
Copper (¢/Pound)	482.30	483.55	456.20
Soybeans ($/Bushel)	10.49	10.42	11.91
Natural Gas ($/MMBTU)	3.95	3.49	2.74
Nickel ($/Metric Ton)	14,860	14,950	17,107
CRB Spot Inds.	563.20	562.50	552.31

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

Via The Bloomberg Professional Services at WFRE

Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Grein	Economist	704-410-0369	Shannon.Grein@wellsfargo.com
Nicole Cervi	Economist	704-410-3059	Nicole.Cervi@wellsfargo.com
Jeremiah Kohl	Economic Analyst	212-214-1164	Jeremiah.J.Kohl@wellsfargo.com
Aubrey Woessner	Economic Analyst	704-410-2911	Aubrey.B.Woessner@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Anna Stein	Economic Analyst	212-214-1063	Anna.H.Stein@wellsfargo.com
Ali Hajibeigi	Economic Analyst	212-214-8253	Ali.Hajibeigi@wellsfargo.com
Azhin Abdulkarim	Economic Analyst	212-214-5154	Azhin.Abdulkarim@wellsfargo.com
Coren Miller	Administrative Assistant	704-410-6010	Coren.Miller@wellsfargo.com

Required Disclosures