

Week in review and ahead (vol.10)



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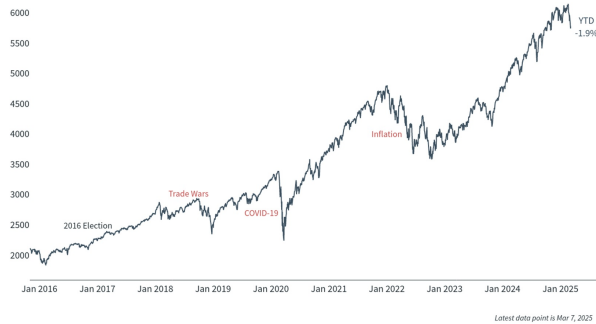
April 24, 2025

The calm and relaxed demeanor of Fed chair Powell during its speech midday Friday reversed another selloff in US equities and (temporarily) halting a "flight to safety" as treasury yields increased. While it did not prevent the S&P from posting its worst week since September 2024, declining by 3.1%, it did facilitate closing the week above the 200-day average. At the lows of the session the S&P500 had fallen below it before recovering about 100 points to close at 5,770. Virtually all S&P sectors participated in the selloff except for healthcare, which edged a slight 0.2% gain for the week, with financials, consumer discretionary and tech recording the stronger drawdowns, down 5.9%, 5.4%, and 3.4%, respectively for the week. The tech heavy Nasdaq Composite declined 3.5% for the week to 18,196, nearly 10% below its recent high in mid-February, while the Dow retraced 2.4%.

Globally, key equity markets closed higher for the week, except the UK being down 1.5%, in stark contrast to the US, with Hong Kong, Germany, China seeing the strongest weekly gains of 5.6%, 2%, and 1.6%, respectively driven by additional governmental stimulus in China, the second largest economy in the world, and the prospect of increased spending, defense and auto boost in Germany, the largest economy in Europe. For the year, the German DAX index is up 15%, in contrast the S&P500 is down 1.9% following the recent selloff. The development to date was unconceivable merely a month ago, at the pinnacle of US exceptionalism belief and sentiment that appears to dim.

Stock Market Performance

S&P 500 Index, recent period



Sources: Clearnomics,
Standard & Poor's
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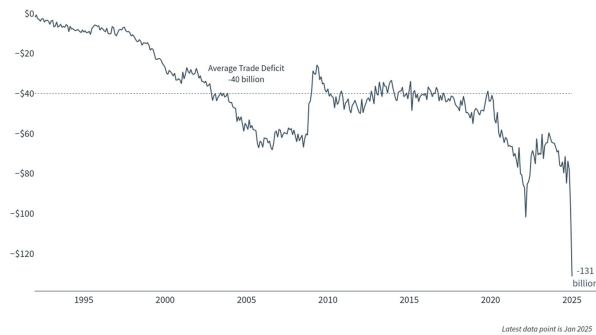
This past week's macroeconomic reports did not, however, seem to support the increasingly negative sentiment or fears on the US economy. Contrary to expectations, the ISM and S&P PMI for the US service sector came in above 50, at 53.5 and 51, respectively (denoting expansionary) with S&P mid-February reads expecting to fall below 50 or contracting. Similarly, the ISM and S&P PMI for the manufacturing sectors showed expansionary readings of greater than 50 for the second consecutive months after reporting contractionary readings previously. The labor market continued to display some resilience with weekly jobless claims coming in at 221K compared to 242K last month and below expectations of

235K. Equally, the non-farm jobs created in the month of February while below expectations of 170K, at 151K, up from 125K in January, was better than feared. The unemployment rate for February did tick up slightly to 4.1% from 4.0% and hourly wages came in slightly better than anticipated, growing 0.3% month-over-month ("MoM") and 4.0% year-over-year ("YoY").

Not all of the macroeconomic data reported last week, however, appears to contrast with the overall negative sentiment on economic growth. The US trade deficit ballooned to its largest balance ever of -131.4B, up 34% from the previous record of -98.1B just last month. Accordingly, monthly wholesale inventories in January increased to 0.8% after declining -0.4% in December. Data for February will not be available until April 9th, hence possible implications to Q1'25 GDP cannot be fully determined yet, but expectations are that it will drop from 2.3% in Q4'24 to 1.5-2%, depending on inventories. The sense, however, that businesses have been stockpiling to avoid tariffs will be closely watched with the upcoming advanced release in April. In general, tying up capital and stockpiling inventories (thereby increasing costs) are not ideal and besides "distorting" economic data for the near future may have implications on US employment. Initial signs to that end appear to emerge. The global outplacement firm Challenger, Gray & Christmas did report on Thursday that announced job cuts in February increased 245% to 172K, the highest since July 2020 amidst the pandemic, and the highest for the month of February since the Great Recession in 2009.

U.S. Trade Balance

Goods and Services, Monthly



Sources: Clearnomics,
U.S. Bureau of Economic Analysis
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With markets rebounding late on Friday, overall risk-off sentiment should remain in place as tariff risks are not abating and may continue to suppress consumer and business confidence. The Administration is steadfast at addressing trade balance deficits as it is perceived as trade inequity with its trading partners despite many economists disagreeing. The determination or measurement of such reciprocal tariffs that are scheduled to go into effect on April 2nd, remain uncertain and not clear as the Administration may not just base it on tariffs alone, but also on taxes its trading partners impose on US exports, like value added taxes ("VAT"), which in Europe average 21.8%. This uncertainty will keep

investors at edge, even with occasional rebounds likely on technical signals.

Next week's macroeconomic data will provide additional guidance on the state of the US economy with a key focus on inflation, employment, and sentiment. The retail (CPI) and wholesale (PPI) inflation reports for February are scheduled for Wednesday and Thursday, respectively. The core CPI (headline) expectations for February are 0.3% MoM and 3.2% YoY, lower by 0.1%-points from January, similarly core PPI expectations are 0.3% MoM and 3.3% YoY. On the labor market front, job openings for January are due on Tuesday, followed by the closely monitored weekly jobless claims on Thursday. Finally, the markets will get the preliminary read on consumer sentiment for March from the University of Michigan to conclude the week.

While the Fed's chair speech on Friday providing some calm to the markets, based on the prospect of more rate cuts for 2025 (which probability has increased from previously 1-2 cuts to now 2-3 cuts), even though Powell stated that the Fed is not in a rush to do so, next week's inflation reports should have markets (re-)focus on monetary policy. While monetary policy may address growth concerns in general, stagflation, or stagnant economic growth amidst high inflation, may not (necessarily) and complicate it.

If you have questions about how this may impact your investments, or how you should be positioned, please do not hesitate to contact us at c2info@ccapital2.com.

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