

Week in review and ahead (vo.20)



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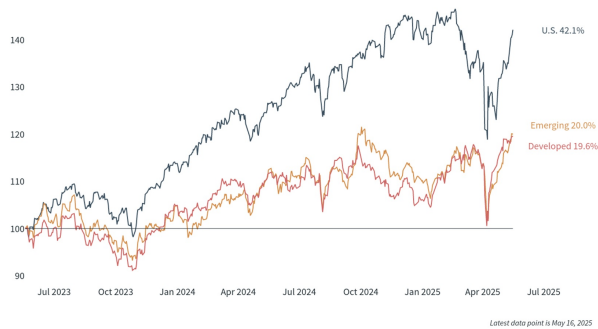
US equity markets had a strong week, lead by tech, on a wave of positive sentiment after US-China trade negotiations during last weekend surprised by halting the April 2nd (and subsequent retaliatory) tariffs for 90-days, on par with the rest of the world, and each party vowed to hold additional negotiations. Tariffs on China imports were reduced to 30% (of which 20%-points are tied to fentanyl), while US imports to China will be charged 10%.

The sentiment was lifted throughout the week as inflation data, both for retail and wholesale, or CPI and PPI, were better than expected as many feared the tariff impact would begin to manifest in the monthly data. The S&P ended the week up 5.3% and turned positive on a year-to-date (YTD) basis. The tech-heavy Nasdaq ended the week higher by 7.2% while the Dow Jones was up 3.4%. Despite having the best week of 2025, in terms of gains, the Nasdaq's performance remained just below break-even for the year, at -0.36%. In contrast, the S&P500 is now up by 1.56% on a YTD basis.

Similarly, internationally, all major equity indices closed the week out higher as easing trade tensions among and between the two largest economies further lifted sentiment globally. India's BSE Sensex showed the greatest advance with 3.6% gains for the week, while China and Japan edged 0.6% and 0.7% of weekly gains, respectively. In Europe, major indices, while gaining on the week did close below their respective 52-week highs. Accordingly, returns in Europe continue to outpace those of the US, however, given the recent rally in the US, widened the "return-gap" as measured for the last two (2) years with some believing that the current appreciation in US risk assets may have more room to go.

Global Stock Market Performance

S&P 500, MSCI EAFE, and MSCI EM (USD). Prior 2 years

Sources: Clearnomics, MSCI, Standard & Poor's, LSEG
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With trade tensions easing, at least for the time being, markets are shifting their focus to Capitol Hill where lawmakers are looking to make the tax cuts under the first Trump administration, and which are scheduled to cease this year, permanent. The challenge of course is to agree on a bill that considers and ideally addresses the existing budget deficit. The first draft of the House Ways & Means Committee, however, is estimated to add \$5 trillion to the deficit by 2034, well above previous levels considered and, if passed, could elevate US debt to nearly 130% of GDP.

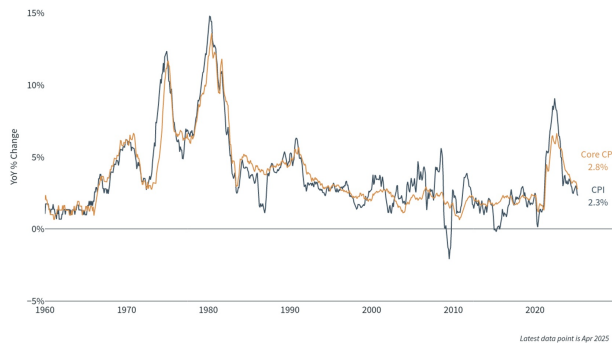
While macroeconomic data last week continue to surprise favorably in the US,

both on the inflation and labor front, treasury yields rose for most of the week as the bond markets are growingly concerned about the impact of tariffs on inflation but also a growing debt and debt service. The yield on the 10year surpassed 4.5% on Wednesday, but retreated to close just below 4.5% at 4.445% on Friday. Better than expected inflation data for April, albeit elevated compared to March for the most part, did little to convince the (bond) market that the Fed may cut rates extensively, with general expectations now lowered towards two (2) cuts or less for 2025.

The core CPI, or retail inflation, increased 0.2% month-over-month ('MoM') compared to expectations and the previous month of +0.3% and -0.1% MoM, respectively. For the year, the core CPI grew 2.8% in April, the same as expected and as reported for the previous month of March. The core PPI, or wholesale inflation, actually saw a decline of 0.5% MoM, the largest since 2020, compared to expectations of increasing by 0.3% and an increase of 0.2% reported for the previous period. While positive, it should be noted that the initially reported core PPI MoM for March was equally reported to have declined, surprising markets at the time, only to see it revised now by +0.4% (to 0.2%). For the year, however, core PPI rose by 3.1%, slowing from the pace recorded in March of 3.4%. The core index, for both CPI and PPI, excludes the volatile prices of energy and food.

Consumer Price Index

CPI and Ex Food and Energy, YoY % Change



Sources: Clearnomics,
Bureau of Labor Statistics,
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Jobless claims for the week were 229K, same as last week and as expected. Similarly, continuing claims came in below 1.9M. While the labor market continues resilient, both on initial and continuing claims, retail sales ex-auto, however, showed some deceleration in April, growing only 0.1% compared to an expected increase of 0.3%. Considering the increase of 0.8% in March, US consumers reduced spending in April, possibly as a consequence of spending ahead of tariffs. Markets will focus on consumer spending given some of the commentary from the largest retailer, Walmart, last week during its quarterly earnings announcement.

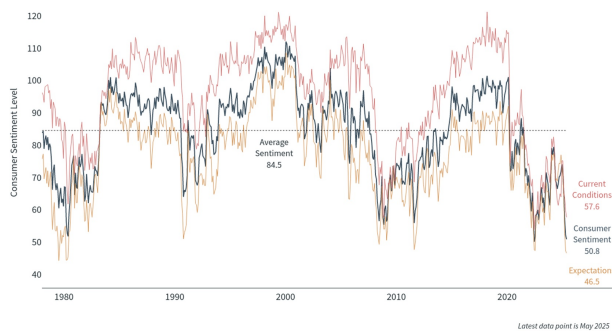
While it did beat on earnings for the

quarter, however, missing on revenues, it was the reference that it would expect prices to increase later in May due to tariffs that caught most of the attention. Next week will see a number of retailers report their quarterly earnings with markets focusing on guidance and possible tariff impacts. It should not come as a surprise that a high number of S&P500 companies have cited "tariffs" on their respective earnings calls, per FacSet.

Generally, better than expected earnings has provided tailwinds to lift sentiment in markets (at least for now), however, remarks by Walmart's CFO do signal that the full impact of the tariffs has not yet "made" its way into the real economy. With guidance and earnings outlook generally lowered for the upcoming quarters, many US corporations do expect an impact on margins in some fashion. Meanwhile, consumer sentiment continued to deteriorate. The preliminary results for May (with a reading of 50.8) denote the second lowest level in the history of the University of Michigan conducting and reporting it based on consumer surveys, which started in 1946. The lowest level was recorded and reported in 1952.

Consumer Sentiment

University of Michigan Surveys of Consumers - Consumer Sentiment, Current Economic Conditions and Consumer Expectations



Sources: Clearnomics,
University of Michigan,
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After markets closed on Friday, Moody's downgraded the US debt from Aaa to Aa1 on the continued increase of the deficit. With this downgrade the US lost its last top credit rating. Standard & Poor's (S&P) downgrade occurred in 2011, while Fitch did so back in August of 2023, and maintained the US' rating at those levels since. With Moody's decision on Friday, all credit agencies maintain the US' credit rating a notch below the top tier. While the timing differed, fiscal deterioration were at the core for all, however, S&P's concerns of the political gridlock to raise the debt ceiling triggered their downgrade nearly 14 years ago. Consequently, after hours trade on Friday, which was light by volume, showed some retracement of the levels set at close and expectations are that the trading week

(set to begin tonight with the open of markets in Asia and US futures trading) may see some volatility as a consequence.

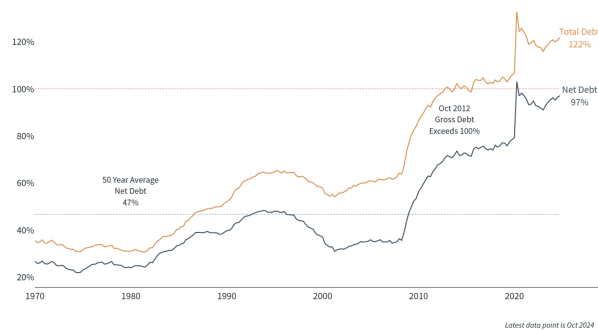
As for macroeconomic data, this upcoming week will be light on reports with jobless claim due on Thursday and new home sales data on Friday. Concerns that the housing market is slowing were somewhat confirmed last week with housing starts and building permits dropping from the previous month's levels (albeit housing starts managed to tick up slightly from the previous month's low activity) amid a drop in home builder confidence that continues well within contractionary territory.

Market and Economic Chartbook | May 18, 2025



Federal Debt to GDP

U.S. federal debt as a percentage of GDP, gross and net



Sources: Clearnomics,
U.S. OMB
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