Week in review and ahead (vol.22)

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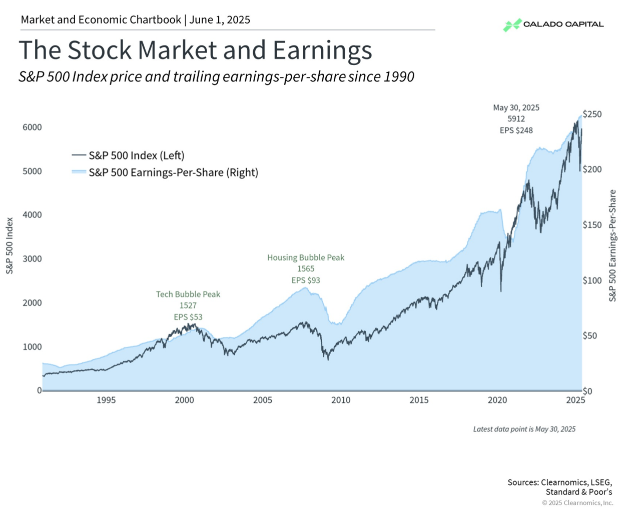
The US equity markets finished the holiday shortened week (and the month) strong, with the S&P advancing 1.9% for the week, while the tech-heavy Nasdaq and Dow Jones climbed 2.0% and 1.6%, respectively. For the month of May, the S&P advanced 6.2%, the best performance in a month since November 2023, helping to lift the index into positive territory for the year. While the other major indices in the US saw equally significant gains in May of nearly 8% and 4% for the Nasdaq and Dow Jones, respectively, the performance on the year remains just below break-even for both.

US equity markets benefited from continued strong US macroeconomic data and corporate earnings, including market bellwether NVDA with a blowout quarterly despite writing off $4.5 billion on stringer export controls. About 78% of companies belonging to the S&P500 and which reported earnings last week, beat earnings expectations lifting the % of Companies beating during the past quarter to the same level (of 78%) with nearly 95% of the Companies having reported to date. Overall earnings per share (EPS), on a trailing twelve-month basis, reach another record level with EPS at nearly $250.

With tariff risks and headline risks continuing, the markets appear to shrug these off quickly, all the while still reacting to it. Late Wednesday, news of a US federal trade court striking down POTUS worldwide reciprocal tariffs, including an order to stop collecting them, saw futures rally during the evening and early morning into the open on Thursday, only to see those gains fade as regular trading hours began (Thursday). The gains were fading even ahead of news of a successful appeal, as market participants acknowledged the likelihood of POTUS imposing tariffs otherwise. The appeal for the administration was successful, staying the order until the conclusion of the appeals court's hearing scheduled to begin this upcoming week. Separately, on Friday after authorizing Nippon's Steel's investment into US Steel and which is viewed more as a "partnership" instead of an acquisition, as initially intended (by Nippon Steel), POTUS announced to steelworkers it may increase tariffs on steel and aluminum further, likely doubling it to 50% (from 25%), in yet another signal that tariff (risks remain and) are here to stay.

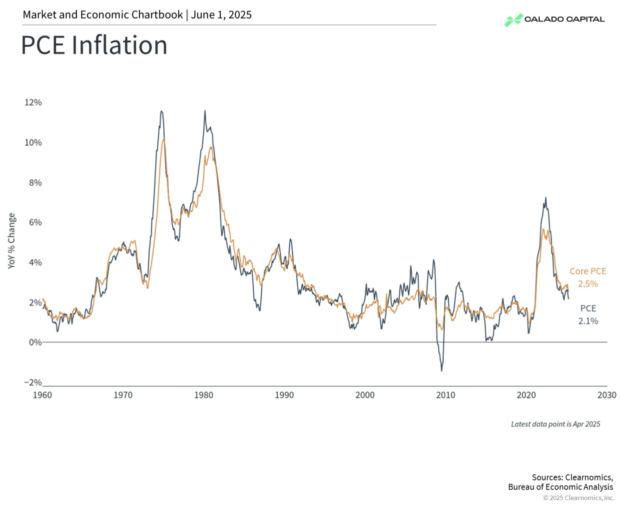


The macroeconomic data continues to show the US economy to be resilient, however, some signs of weakness of the consumer and in the labor market appear. With consumption making up nearly 70% of the GDP, the second estimate to Q1'25 GDP saw a downward revision in consumption component from 1.8% to 1.2%, the lowest since Q2'23 and sequentially well below the 4% reported for Q4'24. Nevertheless, the 2nd estimate for Q1'25 GDP improved marginally by 10 basis points to -0.2% (from -0.3%). As to the labor market, initial jobless claims of 240K were higher than the expected 230K and sequentially higher than the 226K reported for the prior week. On the continuing claims, those ticked up higher and remained above the 1.9M mark, above expectations of 1.89M.

On Friday, the personal income report for April showed continued strength, up 0.8% MoM compared to expectations of 0.3% and sequentially higher than the robust growth of 0.7% MoM reported in March. Personal spending, however, for April grew a moderate 0.2% MoM as expected and well below last month's growth of 0.7% MoM showing US consumers may reduce spending. With respect to inflation, core PCE, a closely watched gauge by the Fed, show marginal improvement, with MoM inflation growing 0.1% as expected and slightly up from the previous period, while the YoY rate for April was 2.5% compared to expectations of 2.6% and sequentially better than the rate for March of 2.7%. Nevertheless, the rate remains higher than the Fed's target of 2.0% and considering commentary by retailers, including the largest in the word, Wal-Mart, during their earnings call, much of the tariff impacts may not yet have been passed on to the consumer and/or reflective in the inflation data.

The housing market continues to show signs of weakness amidst higher mortgage rates, albeit inventory shows sign of improvement that saw a marginal decline in prices of -0.1% in April, the first decline since September 2022, and may offer some relief. Regardless, pending home sales fell -6.3% in April compared to expectations of a decline of -0.1%, however, more than reversing the surprise growth of 5.5% in March.

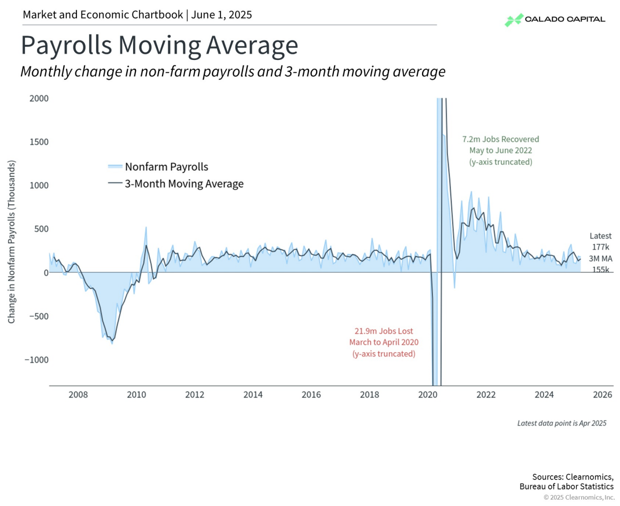
The most intriguing data set, however, was the report on the US trade deficit in April. After setting yet another record in March, a deficit of -162.3 billion, the advanced estimate for April reports a deficit of -87.6 billion, or nearly 50% decline in merely one month. While arguably the previous deficits that set new monthly records, may have been impacted by pulling orders ahead of tariffs, albeit inventory datasets, both on wholesale and retail may not support it (entirely which is somewhat odd), this may be the first dataset to show the impacts of tariffs on the US economy.



The market’s focus will be on the labor market next week, with non-farm payroll report and unemployment reports for May due on Friday and JOLTS (Job Openings and Labor Turnover Survey) on Tuesday. While the unemployment rate is expected to remain at 4.2%, the same as in April, payroll growth is expected to be 140K or about 16% less sequentially from the 177K reported for April. Similarly, job openings in the US (JOLTS) are expected to decline moderately from 7.2M to 7.1M. Should it fall below 7.1M, this would mark the lowest since December 2020.

The ISM and S&P reports on business, or the service and manufacturing sectors, are due early in the week. S&P's flash readings for May had both sectors' readings well in expansionary territories.

Besides macroeconomic data, markets will follow closely the administrations' appeal of the US trade courts ruling that the reciprocal tariffs (or the legal authorities the executive order was issued upon) were unlawful.



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 claudio@caladocapital.com.

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