Market analysis | May 12, 2025

At a glance

Stocks were mixed last week, with tariff uncertainty and concerns of looming economic slowing weighing on investor sentiment. The Federal Reserve remains on hold, evaluating incoming inflation and employment data.

Number of the week

13.6%

The year-to-date gain in the MSCI EAFE Index through May 9.

Term of the week

MSCI EAFE Index – A market index including approximately 1,000 companies representing the stock markets of 21 countries in Europe, Australasia and the Far East (EAFE).

China's official trade figures for April noted exports to the U.S. fell 21% from prior year levels. Chinese exports still rose, with more goods sent to the rest of the world. High frequency data monitoring U.S. rail and truck shipping activity suggest tariffs have yet to dent the supply of goods within the U.S. However, the falling number of container ships headed to the U.S. from China and activity at the Port of Los Angeles suggest an impact may emerge in coming weeks. U.S. and China representatives are beginning trade talks in Switzerland.

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Global economy

Quick take: U.S. and China trade activity slowed in April after both countries implemented tariff rates of more than 125% on the other. Despite tariffs constraining imports from China, economic activity expanded in the U.S. in April, according to purchasing manager indexes (PMIs), with ongoing strength in consumer spending and resilient service sector activity.

- **The 125% tariffs between the U.S. and China hampered trade activity in April**. China's official trade figures for April noted exports to the U.S. fell 21% from prior year levels. Chinese exports still rose, with more goods sent to the rest of the world. High frequency data monitoring U.S. rail and truck shipping activity suggest tariffs have yet to dent goods supply within the U.S. However, the falling number of container ships headed to the U.S. from China and activity at the Port of Los Angeles suggest an impact may emerge in coming weeks. U.S. and China representatives are beginning trade talks in Switzerland. The U.S. and United Kingdom (U.K.) also announced a trade agreement that retains 10% tariffs on imports from the U.K., with exemptions on steel and aluminum.
- **Service sector activity and consumer spending remain important drivers of economic growth**. S&P Global PMIs indicated services activity continued to expand in April, though at a more gradual pace than in prior months. The S&P composite index was weaker than economists forecasted but still reflected expanding economic activity. Timely consumer spending data remain healthy, with weekly retail sales growth near 7% year-over-year while debit and credit card transactions corroborate solid consumer spending growth.
- **Economic data to be released this week may show early signs of tariff impacts.** Economists expect Tuesday's Consumer Price Index (CPI) release to show 2.4% inflation in April. The recent decrease in oil prices can help offset tariff price increases, and economists forecast a 2.8% increase in April core CPI, which ignores volatile energy prices. Inflation surveys reflect concerns of higher inflation ahead, and the University of Michigan Consumer Sentiment Index will update one-year expected inflation results, which rose to 6.5% in the last survey. The U.S. Census Bureau will also report retail sales data for April on Thursday.

Equity markets

Quick take: Stocks were mixed last week as tariff uncertainty and concerns of looming economic slowing weighed on investor sentiment and equity prices. International and larger U.S. equities are outpacing domestic and smaller companies. Earnings reports and guidance from the big box retailers beginning this week will undoubtedly impact investor sentiment heading into midyear.

- **International equities remain a bright spot while U.S. small-company stocks and technology lag.** The popular broad-based global indices were mixed last week. As of Friday's close, for the year, the developed- and emerging markets-oriented MSCI EAFE and MSCI Emerging Markets Indices are up 13.6% and 6.9%, respectively. This compares to the negative returns for the S&P 500 (-3.3%,) technology-oriented-NASDAQ (-7.0%), and small cap-oriented Russell 2000 (-8.9%). Ongoing tariff-related uncertainty hurt returns of U.S. equities.
- **Lagging performance of the Consumer Discretionary and Information Technology sectors stand out.** Consumer Discretionary is the worst-performing sector year-to-date by a wide margin, down 11.5% followed by the 8.0% decline of Information Technology. Goods from these two sectors are most negatively impacted by tariffs.
- **First quarter earnings results are in line with or above expectations.** As of Friday's close, 90% of S&P 500 companies have released results. Sales and earnings are up 4.2% and 12.3%, respectively, according to Bloomberg. This compares to expectations of 4.2% and 7.0% for sales and earnings, respectively, heading into the quarter. Another 2.0% of S&P 500 companies plan to release results this week.
- **Big box retailer earnings reports will provide insight into spending trends on discretionary items.** Walmart is scheduled for Thursday, followed by Home Depot and Target next week; Costco plans to report on May 29. To date, banks and credit card companies report consumer spending remains resilient with no widespread areas of deterioration. Airlines note domestic travel demand is slowing, while select restaurants, such as McDonald's and Chipotle, reference moderating traffic.
- **Projected consensus analyst earnings for 2025 and 2026 remain stable, with downside bias.** Consensus projections currently reflect S&P 500 earnings of approximately $264 and $298 per share for 2025 and 2026, respectively, according to Bloomberg, FactSet and S&P Cap IQ, indicating year-over-year growth of 8.0% and 13.0%. We expect analysts further temper earnings growth projections after the release of second quarter results and company guidance beginning in mid-July.

Bond markets

Quick take: Treasury yields rose last week in reaction to the announced trade agreement with the U.K. The increase in Treasury yields weighed on bond prices across the market, but certain pockets delivered positive returns, benefiting from a decline in the investor compensation for bearing credit risk.

- **The Federal Reserve (Fed) kept interest rates steady but expects to ease policy later in 2025.** The Fed held its target federal funds interest rate in a range of 4.25%-4.50% following its regularly scheduled two-day meeting, a widely anticipated outcome. The Fed has held rates steady since previously cutting rates 1% in 2024. The Fed statement noted that risks of higher unemployment and higher inflation have risen since March. The Fed has held off cutting so far this year due to resilient economic data, the uncertain impact of tariffs and lingering above-target inflation. Chairman Jerome Powell said during the press conference the Fed remains in a good position to exercise patience before changing policy rates, citing a still-solid U.S. economy. Bonds price in investor expectations for two to three 0.25% cuts later in 2025. Upcoming inflation data, including the CPI to be released on Tuesday, should help inform Fed policy as officials balance the Fed's full employment and price stability mandates.
- **The Bank of England (BOE) cut rates by 0.25% last week,** citing growth risks from United States trade policy. Some members of the BOE's Monetary Policy Committee favored a larger cut while others preferred to hold rates steady. The BOE noted it is taking a "careful and gradual approach" to monetary policy, and bond yields price in expectations for two more cuts this year.
- **Credit conditions continued to stabilize**. The yield difference between corporate bonds and Treasuries, referred to as spreads, declined after the trade announcement with the U.K. Lower yield spreads suggest investors are comfortable taking on credit risk for less compensation. The tax-equivalent yield spread on investment-grade municipal bonds relative to Treasuries remains larger than usual. High issuance has been a headwind for municipal bonds, with higher yields needed to incentivize enough investor demand to meet bond supply.

Real assets

Quick take: Publicly traded real estate prices fell slightly last week, weighed by rising Treasury yields and a pullback in equity prices. Broad commodity exposures had positive returns while global infrastructure prices were close to unchanged.

- **Publicly traded real estate investment trust (REIT) prices fell 0.5% last week.** Rising Treasury yields and wavering investor sentiment were headwinds for REIT prices last week. The lack of trade negotiation progress weighed on markets early in the week, including REITs, which also reacted negatively to rising Treasury yields. Higher Treasury yields can draw investor demand away from real estate and toward income opportunities in bonds, while also increasing financing costs, a key input for real estate investors and companies. Most REIT first quarter earnings releases slightly disappointed analysts' expectations. Single-family housing starts and building permits to be released on Friday this week will provide additional context on residential real estate conditions.
- **Broad commodity exposures gained 1.2% with a boost from oil and precious metal prices.** Gold and silver prices rose early last week amid uncertainty around trade negotiations and held onto gains for the remainder of the week. Many investors view precious metals as safe havens in times of economic uncertainty. Oil prices rose last week despite the Organization of the Petroleum Exporting Countries (OPEC) increasing oil production caps. Rising oil prices may be incorporating investor expectations for progress in trade negotiations between the U.S. and China that ultimately improves the outlook for global economic growth.
- **Global infrastructure prices rose 0.4% last week.** Gains in industrial companies offset price declines in energy companies while utilities were close to unchanged. Grupo Aeroportuario, which represents 4%-8% in some global infrastructure indices, reported a strong increase in airport terminal passengers compared to 2024.