

May 2025

MONTHLY MARKET INSIGHTS

Key takeaways:

- US equities rallied to end the month near flat after Trump's "Liberation Day" tariff announcements led the S&P 500 to briefly enter bear market territory.
- The administration's partial rollback of tariff policy helped stabilize risk assets, but the average U.S. tariff rate remains significantly elevated, creating lasting uncertainty for businesses and investors.
- Q1 Gross Domestic Product ("GDP") fell -0.3% on a temporary import surge ahead of tariff implementation while underlying domestic demand remained firm, suggesting potential for near-term stabilization.

Volatility surged in April, culminating in the VIX index¹ peaking at 60.13 on April 7, a level only seen in periods of material market dislocation.² Following a sharp early-month selloff, equity indices recovered to finish April roughly flat. The S&P 500 ended down -0.76%, the Russell 2000 fell -2.38%, but the Nasdaq posted a modest 1.52% gain, buoyed by a rebound in technology stocks.³

At the heart of April's turbulence was "Liberation Day", when President Trump announced a series of drastically higher tariffs against most US trading partners. In rapid succession, sell-side economists revised their 2025 outlooks to incorporate a heightened risk of recession, echoing the concerns we raised in our April outlook.⁴ Equity markets responded violently to the announcements. From the April 2nd close through the April 7th low, the S&P 500 fell -14.74%, briefly entering bear-market territory by declining over -20% from its previous high. The panic extended beyond equities into rates and currencies. Initially, 10-year Treasury yields declined on recession fears, but the rally in bonds quickly reversed as yields surged from 3.86% to 4.59% in a matter of days, an exceptionally swift move for Treasury yields.⁵ Simultaneously, the US dollar depreciated sharply, with the DXY index⁶ down -4.36% for the month.⁷ Both moves reflected growing concern among investors about the long-term credibility of the US dollar as the global reserve currency and increasing hesitation from international buyers around the prospects of owning US debt. While we are confident that the US Dollar will retain its reserve currency status, declining demand for US Treasuries from international buyers is a growing risk and could bias yields upwards over time.

Faced with the combined pressures of rising yields, a weakening dollar, and an equity market selloff, the administration partially reversed course. President Trump announced a 90-day pause on the most aggressive tariffs while maintaining the 10% baseline universal tariff rate and raising duties on Chinese imports to 145% in response to retaliatory measures taken by the Chinese Government.⁸ The administration's

1. The CBOE Volatility Index (VIX), measures expected market volatility using a portfolio of options on the S&P 500.

2. Bloomberg

3. Id.

4. Hatzius, Jan, et al. "Moving to a Recession Baseline (Hatzius / Mericle / Phillips / Walker)." US Economics Analyst, Goldman Sachs, 9 Apr. 2025, publishing.gs.com/content/research/en/reports/2025/04/09/33922b9d-fd1d-4fb0-8ec2-cd210648b57f.pdf.

5. Bloomberg

6. The DXY is an index of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies.

7. Bloomberg

8. Carew, Sinead, and Shashwat Chauhan. "Wall Street Rebounds Sharply after Trump Announces 90-Day Tariff Paus." Reuters, 9 Apr. 2025, www.reuters.com/markets/us/futures-struggle-trumps-reciprocal-tariffs-shake-up-global-trade-2025-04-09/.

softening stance on trade policy assuaged investor's deepest fears and sparked a relief rally in equities. By month-end, US equity markets had largely retraced their losses following the Liberation Day announcement.

Despite the market's rebound, we believe near-term risks remain skewed to the downside. While investors welcomed the rollback on tariffs, average tariff levels still remain substantially higher than historic averages. According to the United States International Trade Commission, the average tariff on imports in February was 2.3%, consistent with levels seen over the past five years.⁹ Estimates from Yale's Budget Lab place the forward-looking average effective tariff rate at 15.6%, even after the partial rollbacks.¹⁰ While the precise trajectory of future tariff policy is uncertain, it is likely that a structurally higher tariff regime is now in place.

Also of concern, consumer and business survey data continues to deteriorate. The University of Michigan's Consumer Sentiment Index fell to 52.2, a historically low reading.¹¹ Small business confidence has followed suit, with the Vistage CEO Confidence Index at its lowest level since the depths of the COVID-19 pandemic.¹² Concerns are not limited to small companies. General Motors CEO Mary Barra noted in a shareholder letter that new tariffs on imported cars and parts could cost the company between \$4 billion and \$5 billion.¹³ Several public companies, including UPS, JetBlue, and Skechers, have withdrawn forward guidance citing macroeconomic uncertainty and evolving trade policy.

To date, the impact of recent policy shifts has largely been reflected in "soft" data such as sentiment surveys and corporate commentary. However, early signs of pressure are beginning to emerge in "hard" data as well. US GDP contracted by -0.3% in the first quarter of 2025, a headline figure that appears more negative than the underlying fundamentals suggest.¹⁴ Of the major components, only net exports and government spending were negative contributors, while personal consumption, private investment, and inventory changes showed continued strength. Net exports alone detracted -4.8% from GDP, as companies rushed to import goods ahead of tariff implementation.¹⁵ This effect is expected to normalize in Q2, but further downstream impacts, including price increases and margin pressures, may weigh on consumption and investment.

The labor market remains a critical area of focus. Initial jobless claims have shown some increases, with the most recent weekly figure at 241,000, above the 4-week average but not overly concerning.¹⁶ The unemployment rate has ticked higher to 4.2%, still low by historical standards but above recent averages.¹⁷ Sustaining positive economic growth through the remainder of the year will likely depend on the labor market's ability to absorb tariff shocks without further deterioration. Historically, rising unemployment can accelerate quickly and is difficult to reverse once it gains momentum.

In parallel with economic developments, tensions between the executive branch and the Federal Reserve ("Fed") re-entered the spotlight. President Trump criticized Fed Chair Jerome Powell on social media, stating his "termination cannot come fast enough".¹⁸ Trump's criticism was the result of the Fed's decision to refrain from rate cuts so far this year. Chair Powell, speaking at the Economic Club of Chicago, reaffirmed the Fed's cautious stance and cited both inflation and growth risks stemming from recent policy changes.¹⁹ While tension between the Fed and the Presidency is not new, or unique to this administration, any serious threat to the central bank's independence could significantly

9. Bloomberg

10. "State of U.S. Tariffs: April 15, 2025." The Budget Lab at Yale, Yale University, 15 Apr. 2025, budgetlab.yale.edu/research/state-us-tariffs-april-15-2025.

11. Bloomberg

12. "WSJ Small Business CEO Survey." Vistage, 7 Apr. 2025, www.vistage.com/wsj-small-business-index/.

13. Isidore, Chris. "GM CEO Mary Barra: Tariffs Will Cost US \$5 Billion, and Prices 'Will Stay at the Same Level.'" Yahoo! Finance, CNN, 1 May 2025,

14. Bloomberg

15. Id.

16. Id.

17. Id.

18. Picchi, Aimee. "Trump Says Fed Chair Jerome Powell's 'Termination Cannot Come Fast Enough.'" CBS News, CBS Interactive, 17 Apr. 2025, www.cbsnews.com/news/trump-powell-federal-reserve-termination-fire-interest-rates/.

19. "Speech by Chair Powell on the Economic Outlook." Board of Governors of the Federal Reserve System, 16 Apr. 2025,

destabilize markets. Such a move would likely increase the risk premium on US debt and complicate the administration's own goal of lowering long-term interest rates.

Moving forward, our base case for the US economy is slow growth and elevated recession risk, particularly if trade uncertainty leads to widespread layoffs. On the upside, continued capital investment into artificial intelligence infrastructure by major technology firms (Alphabet, Meta, and Microsoft) remains a tailwind for productivity and economic growth. Fiscal policy is another possible upside catalyst, as the Trump administration will soon need to address the expiration of the 2017 Tax Cuts and Jobs Act. Extending the act would merely maintain the status quo, while additional proposed cuts, such as exempting incomes under \$150,000 from taxation, could stimulate growth.²⁰ However, additional tax cuts would reignite questions about the government deficit and will require congressional approval, where narrow Republican majorities may necessitate some bipartisan support.

We remain cautiously positioned in client portfolios and have used recent market strength to incrementally shift toward a more defensive posture. In equities, we favor less cyclical sectors such as healthcare and have increased our emphasis on global diversification. Global diversification should prove paramount as economies continue to decouple and currency market volatility remains elevated. In periods of heightened volatility, we believe it is essential for investors to stay disciplined, remain aligned with their long-term strategy, and be prepared to take advantage of short-term dislocations when they arise.

20. Raisinghani, Vishesh. "Trump's Goal for Americans Is 'no Tax' for People Making under \$150K a Year, Says Howard Lutnick. Is It Realistic?" Yahoo! Finance, moneywise, 22 Mar. 2025, finance.yahoo.com/news/trump-goal-americans-no-tax-104700471.html.

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