



The Weekly Market Update – 5/12/25: Tariff Clouds Give Way to Trade Deal Sunlight

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,659.91	-0.47%	0.86%	-3.77%	12.40%	6,144.15	8.6%
Dow Jones Industrial Average	41,249.38	-0.16%	-1.79%	-3.04%	9.08%	45,014.04	9.1%
NASDAQ Composite	17,928.92	-0.27%	3.64%	-7.16%	14.50%	20,173.89	12.5%
Russell 2000	2,023.07	0.12%	0.55%	-9.29%	2.49%	2,442.74	20.7%
MSCI EAFE (USD)	2,530.21	-0.24%	5.39%	11.87%	10.95%	2,536.37	0.2%
MSCI Emerging Markets (USD)	1,138.40	0.45%	3.36%	5.85%	8.84%	1,444.93	26.9%
Bloomberg Commodity Index	102.76	1.29%	-3.42%	4.05%	1.07%	237.95	131.6%
Barclays U.S. Aggregate Bond	91.41	-0.23%	-0.96%	1.08%	3.89%	112.07	22.6%

Source: FactSet

Investor sentiment has surged as progress on trade deals replaces extreme tariff uncertainty, and equities erase much of the steep decline that followed tariff “Liberation Day” on 4/2/25. News that the U.S. and China agreed to a 90-day pause on retaliatory tariffs (leading to trade deal negotiations) sparked a stock market rally as the widely followed U.S. S&P 500 opened nearly +3% higher on Monday, trading above 5,800 for the first time in over two months. Last week, the U.S. entered a trade agreement (in principle) with the U.K., and a month ago the president (Trump) announced a 90-pause on “reciprocal tariffs” with countries (other than China) to allow for trade deal negotiations. In February, as investors contemplated Trump’s largely undefined tariff strategy, we discussed whether the policy would be the “art of the deal” or if tariffs were “here to stay.” We still believe that final trade policy will include both as 10% global tariffs (even for China and the U.K.) remain in place, and country-specific deals will be pursued to open foreign markets for U.S. goods and, over time, reduce the U.S. trade deficit (either by lower imports or higher exports). The most challenging piece, in our view, is to create more domestic investment and a manufacturing resurgence, and while the outlines of recent trade agreements were light on that topic, several individual companies have announced plans to accelerate U.S. investment. Prior to the 4/2/25 comprehensive tariff announcement, the S&P 500 closed at a price level of 5,671, which at that point was down -3.6% year-to-date (YTD). Then it dropped more than -12% over the next four days, hitting its YTD closing low of 4,983 on 4/8/25. Four weeks later, the index had reversed that decline, and at 5,800 (early trading on 5/12/25), the S&P 500 rallied more than +16.0% from the low, putting the 2025 YTD decline at -1.4%. Gains from the early April lows were led by growth and technology stocks in general, which we attribute to strong earnings results (S&P 500 first quarter earnings growth +13.6% year-over-year with 91% of companies reported), as well as a more “risk on” investor sentiment, at least for now. We caution that risks remain as trade deals must move forward with more progress and a universal 10% tariff represents a much higher level than companies have faced in prior periods. We still advise broadly diversified portfolios in the current environment.

China trade progress unlikely to alter Federal Reserve Bank (Fed) policy. The Fed voted to hold its overnight fed funds interest rate target range unchanged (at 4.25% to 4.50%) at its third policy meeting of 2025 on 5/7/25. The Fed statement discussed the increasingly elevated risk of both higher unemployment and inflation, creating challenges for the Fed’s preferred policy path to bring fed funds rates lower (to a more neutral level) over time. This means the Fed will wait for more data before making its next change. This “wait and see” position was critiqued by some as it increases the chance of a policy mistake, especially if the economy slows in the second quarter. In our view, the China trade news validates the Fed’s position for now as a policy-driven slowdown can also be reversed by policy, and a positive deal with China (while admittedly not a done deal) will likely provide stimulus for the global economy.

No shortage of key data for investors this week. As trade deals and trade negotiations continue, Congress will continue to negotiate a budget bill that fixed income investors are watching closely (a higher deficit can lead to a spike in interest rates). Second quarter economic data begins to roll in this week, including April data for retail sales (consumer), inflation (consumer price index), industrial production (manufacturing), and housing starts (residential investment).

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The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities. Sectors that are called "defensive," are thought to be less exposed to economic cycles compared to "cyclical" sectors, and often attract investor interest during periods of economic weakness.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analysts' estimates from firms that submit estimates to FactSet for a given financial metric.

On 2/12/25, the Trump Administration announced a framework for its Reciprocal Tariffs, with a link to the memorandum, "[Fair and Reciprocal Plan](#)." On 3/26/25, the White House announced tariffs on imported automobiles and certain automobile parts. Here is a link to a [Fact Sheet](#) from the President that outlines the action. The President's [April 2, 2024 Tariff Announcement](#) is also linked. Also linked is the White House [Fact Sheet on the U.K. trade agreement](#).

The U.S. Census reports annualized monthly data on housing starts, permits, and completions. It is a widely followed measure to track construction activity in the residential housing market. New home sales measures sales of new single-family homes and is a measure of the demand for housing. Home price data is monitored by the S&P CoreLogic Case-Shiller Home Price Index.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members – the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and four of the remaining eleven Federal Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth.

The term "monetary policy" refers to the actions undertaken by a central bank, such as the Federal Reserve, to influence the availability and cost of money and credit to help promote national economic goals. The Board of Governors of the Federal Reserve System is responsible for the discount rate and reserve requirements, and the Federal Open Market Committee is responsible for open market operations. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and, in this way, alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment. Treasury security data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

S&P 500 earnings growth reflects the year-over-year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

The consumer price index (CPI) is a measure of average change, over time, in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics.

U.S. monthly receipts, outlay, deficit, or surplus are reported by the U.S. Treasury at fiscal.treasury.gov. Supporting data is also available from the Congressional Budget Office (CBO). Federal revenue (mostly tax receipts) and outlays is reported on a monthly and annual basis.

When we discuss "growth stocks", we are referring to companies that generate expected earnings growth (over a multi-year period) that is above expected earnings growth for the overall market (typically the S&P 500 index). The largest sector weights (by market capitalization) in the Russell 1000 growth index (as of 12/31/24) were Information Technology, Consumer Discretionary, and Communication Services. "Value" stocks are characterized by companies that trade at discounted valuations to an index, sector, and/or a peer group. The largest sector weights in the Russell 1000 value index (as of 12/31/24) were Financials, Industrials, and Health Care.

The U.S. Census reports retail sales through its Advance Estimates of U.S. Retail and Food Services. It is a survey that measures monthly sales for companies in the retail trade and food services sectors. This survey covers retail companies with one or more establishments that sell merchandise and related services to final consumers. These firms provide data on dollar value of retail sales for selected establishments.

In 2025, the U.S. Congress (both the Senate and House of Representatives) will work on a joint budget bill that is expected to include an increase in the debt ceiling and include spending priorities and spending cuts supported by the President. The reconciliation process is a way the expedite bills, as they can be passed by a simple majority vote in the senate as long as certain budgetary rules are followed.

Industrial Production: measures the change in the total inflation-adjusted value of output produced by our nation's industrial facilities, defined as factories (manufacturing), mines, and electric/gas utilities; reported by the Federal Reserve.