The Weekly Market Update – 6/2/25: May Flowers Follow April Showers

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,911.69	1.88%	5.34%	0.51%	12.02%	6,144.15	3.9%
Dow Jones Industrial Average	42,270.07	1.60%	0.64%	-0.64%	9.26%	45,014.04	6.5%
NASDAQ Composite	19,113.77	2.01%	10.49%	-1.02%	14.21%	20,173.89	5.5%
Russell 2000	2,066.29	1.30%	2.70%	-7.35%	-0.19%	2,442.74	18.2%
MSCI EAFE (USD)	2,600.33	0.80%	8.31%	14.97%	10.39%	2,603.00	0.1%
MSCI Emerging Markets (USD)	1,157.34	-1.16%	5.08%	7.61%	10.33%	1,444.93	24.8%
Bloomberg Commodity Index	99.99	-2.64%	-6.03%	1.24%	-2.92%	237.95	138.0%
Barclays U.S. Aggregate Bond	91.51	0.82%	-0.86%	1.19%	2.49%	112.07	22.5%

Source: FactSet

Equities surged in May and delivered the best month of 2025 (to date) for U.S. stocks. The widely followed S&P 500 equity index gained +6.2% (price return, not including dividends) in May, which followed a rare three consecutive months of declines (February -1.4%, March -5.8%, and April -0.8%), with the strongest one calendar month gain since November 2023. Over the past several weeks, we have discussed a positive shift in investor sentiment that coincided with a series of 90-day delays in tariff policies with expectations now focused on successful trade deals (still elusive at this point) rather than tariffs. Ten of eleven S&P 500 GICS sectors (as measured by MSCI's Global Industry Classification Standards) were positive for the month with leadership (top 3 performing sectors) from Technology, Communication Services, and Consumer Discretionary, which, combined, comprised 51.8% of the equity market capitalization of the index (as of 5/31/25). We attribute the market's recent leadership rotation back into growth stocks to better-than-expected year-over-year (Y/Y) earnings growth in the first quarter, slowing U.S. economic growth, and underperformance of growth stocks in the first quarter (creating the potential for larger gains from lows on a rebound). The May rally put the S&P 500 back into positive territory (barely) for the year-to-date (YTD, as of 5/31/25), showing a +0.5% gain. For the YTD, seven sectors were positive (four negative), with leadership from Industrials, Utilities, and Consumer Staples. Of the three leading growth sectors above, only one was positive YTD (Communication Services), while both Consumer Discretionary and Technology, despite aggressive gains from the early April lows, remained down YTD as growth stocks lagged. Through May, the S&P 500 traded at 21.4x estimated earnings (price-to-earnings, or P/E, ratio) over the next four quarters, after trading at 18.0x estimated earnings in early April. Equities surged in May even as earnings estimates modestly declined (-3.4% lower on 5/31/25 vs. 3/31/25), driving the market P/E back to an elevated position, in our view. This suggests some near-term caution ahead as we await details on trade deals and federal budget negotiations, but we remain optimistic regarding progress on both issues.

First quarter (1Q25) earnings results were impressive, but second quarter (2Q25) expectations are modest. Through May, 98% of the S&P 500 constituents had reported first quarter equivalent financial results with Y/Y earnings growth tracking at +12.8%, vs. +6.5% reflected in consensus estimates at the end of March. While not as strong as the +18.4% Y/Y growth in the previous quarter (4Q24 vs. 4Q23), the actual results vs. estimates were the best in the previous six quarters. All 11 GICS sectors outperformed expectations in 1Q25 as corporate results successfully navigated tariff uncertainty and weak consumer confidence. 2Q25 S&P 500 earnings are estimated to grow +4.9% Y/Y and have trended lower from an estimate of +9.4% just two months ago. This suggests that economic fears linger despite progress on trade and recent market gains, but with 2Q25 two-thirds completed, earnings could deliver another positive surprise.

The May nonfarm payrolls (jobs) report is key for investors after recent labor data has exceeded expectations. The U.S. Bureau of Labor Statistics (BLS) May report (on 6/6/25) is expected to show a gain of +130 thousand (K) jobs. The estimate reflects a slowdown from an average monthly jobs gain of +160K the past three months and will be watched closely as the prior two months each exceeded estimates. Corporate commentary, while cautious due to tariff uncertainty, has not led to elevated layoffs so far, and another strong jobs report would be well received by investors, in our view.

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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, exchange-traded companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. Today the NASDAQ Composite includes over 3,000 companies. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance.

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.

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.

The Trump Administration on 2/12/25 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.

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 forward price-to-earnings ratio (P/E) is calculated by using the closing price of the S&P 500 by the weighted average (by market capitalization) divided by the weighted average of consensus earnings estimates of all constituents. As of 5/31/25 the average forward P/E (estimates for the next four quarters) for the past 15 years was 18.7x.

In 2025, the U.S. Congress (both the Senate of 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.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data as a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at www.bea.gov.

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 Conference Board conducts a monthly Consumer Confidence Survey design to reflect prevailing business conditions and potential outcomes in the months ahead. It surveys consumer attitudes, buying intent, and expectations stratified by age and income in nine U.S. regions.

A second widely followed survey of consumer confidence is conducted monthly by the University of Michigan. Its Survey of Consumers, surveys personal finances, business condition, unemployment and inflation.

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys. The household survey measures labor force status by demographics, while the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component of the establishment survey is drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work.