ECONOMIC UPDATE MAY 2025

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Stock returns were mixed in April. Tariffs created uncertainty and resulted in volatility for US stocks. Large cap stocks in the S&P 500 Index fell 15% from April highs but finished the month with only a -0.68% loss extending its year-to-date loss to -4.92%. Small cap stocks in the Russell 2000 also struggled but ended -2.31% lower for the month and -11.57% lower for the year. A weaker dollar helped international stocks perform much better: the MSCI EAFE Index of developed market international stocks gained 4.58% and now has an 11.76% year-to-date return. Emerging market stocks were up 1.31% in April and have gained 4.28% so far this year. The yield on the 10-year Treasury bond fell to 4.18%. The Barclays US Aggregate Bond Index earned 0.39% for the month and is up 3.18% in 2025.

For the first time in three years, GDP growth was negative. Initial estimates for GDP growth in the first quarter of 2025 came in at -0.3%. Tariffs and policy uncertainty seem to bear the blame as consumers and businesses held off on spending. The Department of Government Efficiency also contributed to a decline in government spending. Something to note, imports soared (trying to beat the tariffs) and imports subtract from GDP. Without the front-loaded imports, analysts estimate GDP growth would have been positive, possibly as high as 3% to 4%. Strategas Research currently has recession odds at 45% for 2025.

Companies have started to report earnings for the first quarter and of the S&P 500 companies that have reported so far, 72% have beaten their earnings estimates and 62% have beaten their revenue estimates. Earnings are up 14% year-over year on 4% revenue growth. However, future earnings projections are being revised down because of tariffs and possible recession. Inflation has held steady so far with Core PCE inflation at 2.8%. Higher prices are expected in the future as a result of companies passing some of the costs of tariffs through to consumers.

The unemployment rate has traded in a range between 4.0% and 4.2% since May of 2024. It is currently 4.2% but is expected to rise, possibly to around 5% by year-end according to David Kelly of JPMorgan. The Federal Reserve currently projects a 4.4% unemployment rate at year-end, but they have not updated their projection since the tariffs were announced.

Since December 2024, the Federal Reserve has maintained current interest rates, emphasizing a data-driven approach. They project two rate cuts in 2025, though some analysts anticipate three or more if a recession occurs. Money markets currently yield 4%, but this could decrease with rate cuts. Long-term yields have been declining and may drop further in a recession, enabling the Treasury to issue maturing debt at lower costs and extend maturities to reduce short-term obligations. However, potential inflation from tariffs could push long-term rates higher.

We continue to encourage investors not to try and time the market by trading in and out of the market and instead, invest according to risk tolerance. If you have questions about the strategy for your account, please contact your advisor.

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