
# Market Commentary

May 2025

## Equity and Bond Market Update

(as of April 30, 2025)

| Index | YTD | 1-Year |
|---|---|---|
| Dow Jones Industrial Average TR | -3.9% | +9.5% |
| S&P 500 Total Return Index | -4.9% | +12.1% |
| Russell 2000 Total Return Index | -11.6% | +0.9% |
| MSCI EAFE Index (net) | +11.8% | +12.6% |
| MSCI Emerging Markets Index (net) | +4.3% | +9.0% |
| Bloomberg US Aggregate Bond TR | +3.2% | +8.0% |

## Recent Economic Indicators

| | Statistic | Data as of |
|---|---|---|
| Unemployment Rate | 4.2% | Apr 2025 |
| Gross Domestic Product (GDP) | -0.3% | Q1 2025 |
| Consumer Price Index (CPI) – Y/Y | +2.4% | Mar 2025 |
| Consumer Confidence (1985=100) | 86.0 | Apr 2025 |
| 30-year fixed mortgage rate | 6.88% | Wk of Apr 27 |
| Housing Starts (single family) | 940,000 | Mar 2025 |
| 10-Year Treasury Yield | 4.35% | 5/5/2025 |

April witnessed the return of considerable volatility as the so-called Liberation Day on April 2nd saw the Trump administration announce its wide ranging and higher than expected worldwide tariffs, creating a selling frenzy across all equity asset classes. Within just a week's time, both foreign and domestic indices saw declines of between -9% and -14%. Then one week later, a 90-day pause in implementation of the tariffs was announced for time to negotiate among effected countries and the U.S., which prompted a buying frenzy where both small-cap and large-cap U.S. broad-based indices catapulted +9% - +10% in just one day. Since that time through the end of the month, both the S&P 500 Index and small-cap Russell 2000, as well as foreign and emerging markets have recouped close to +11% to +12% since the drama began.

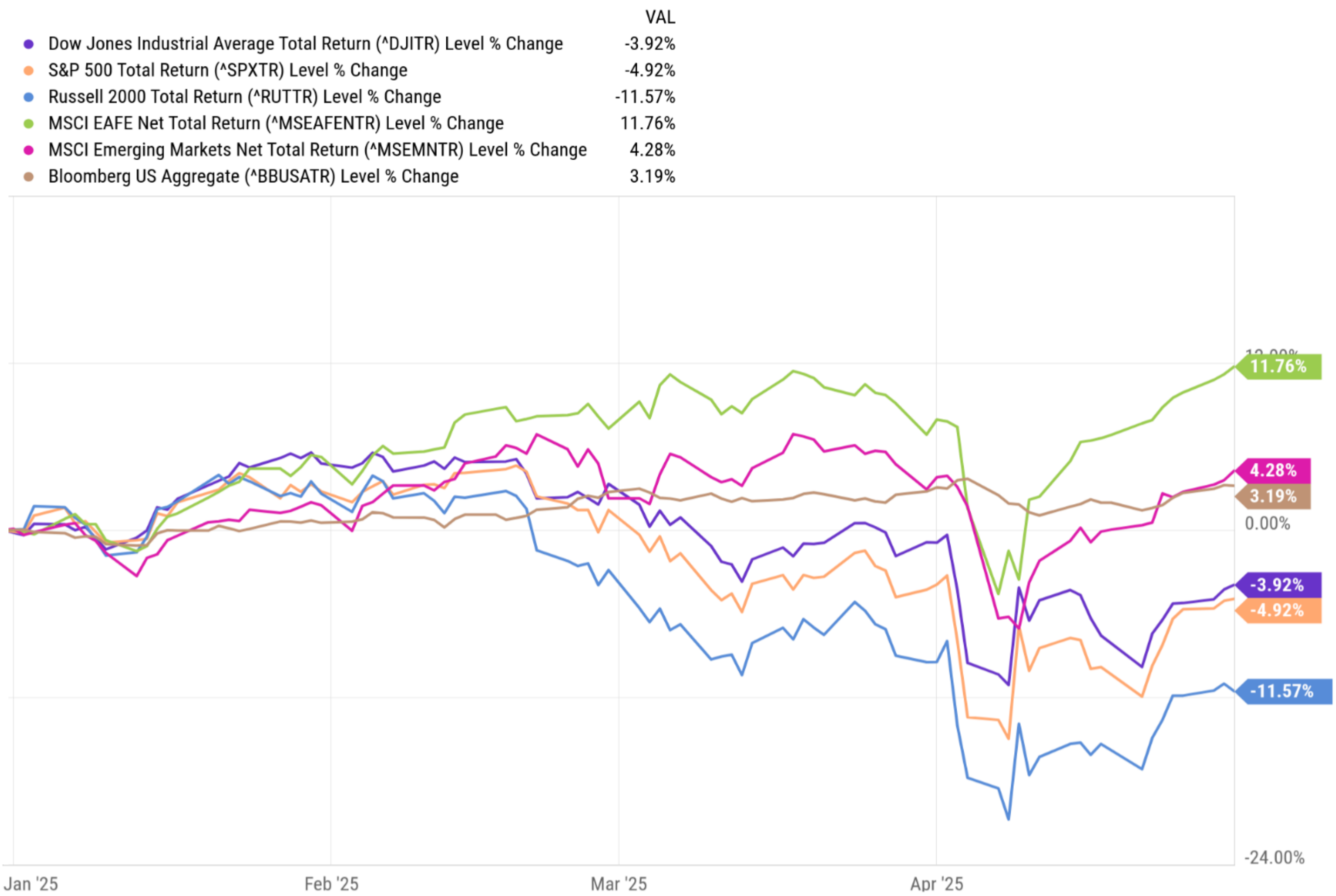
Throughout all of this intra-month volatility, the only index that closed out the month with a loss was the small-cap universe, which on a broad-based basis was only down -2.4% in April. All other major indices were either flat or still up for the month.

This is a classic case of why it is imperative to keep your long-term perspective in the forefront when it comes to investing in volatile stock markets and not let very short-term gyrations prompt knee-jerk reactions that will adversely affect your overall performance. We are not even halfway through aforementioned 90-day tariff pause, and both positive and negative developments will continue to rule short-term markets. At this point, no one has any idea what the end-game will eventually be, and even if perceived negative developments do materialize, buying and selling will be based solely on speculation of the effects of these trade policies in the future. We have not seen a jump in inflation nor have we seen an increase in the unemployment rate, so everything at this point is based only on talk and not on any factual data, positive or negative.

The Federal Reserve kept rates unchanged after their meeting adjourned on May 7th. As chairman Powell stated at the post-meeting press conference, they do not look at sentiment, but rather actual economic data to make monetary policy decisions, and it is too early to make any determinations. The economy is strong, employment is still in check, and there was no need to take any action at this time. Projections for where the Fed will have short-term rates by the end of this year range anywhere from up to 100 basis points of cuts to no rate cuts at all. Currently, if the status quo remains over the remainder of this year, there really is no reason to cut rates aggressively.

The Fed has a dual mandate… (1) keep inflation under control and (2) keep the economy at full employment. Their annual inflation target is 2% and full employment is considered an unemployment rate of 4%. After the COVID lockdowns and flash recession in early 2020, the U.S. government flooded the market with stimulus that drove inflation up to over 9% in mid-2022, after which the Fed aggressively hiked interest rates to bring that number down. By mid-2023, the Consumer Price Index (CPI) had decreased to under 3% and it felt like we were on our way to the target 2%. But getting from 3% to 2% has proven much more difficult than getting from 9% to 3%. Our last CPI reading from March was at 2.4%, still a bit higher than the Fed is comfortable with. The next release will be next week on May 13th, a reading from the month of April. The latest reading on the unemployment rate for April was 4.2%, close enough to be complacent to the target

Major Market Indices Price Return (YTD through April 30, 2025)




Source: YCharts

4%. Where the Fed is being cautious is (1) any potential Fed rate cuts could re-ignite inflationary pressures when the trajectory is slowly getting close to the target 2%, and (2) any extended pause could tighten up economic standards longer than necessary and push unemployment numbers up and drive the U.S. into recession.

We have already seen an advance estimate for the first quarter of 2025 Gross Domestic Product (GDP) of a contraction of -0.3%. This contraction was primarily due to an increase in imports (due to the perceived effects of rising prices due to proposed tariffs), and a decrease in government spending. These negative effects were partly offset by increases in investment, consumer spending, and exports (all signs of private sector strength). It is not a surprise that the negative effects are due to actions the administration is taking to even the playing field of global trade and cut domestic federal spending. But what is not discussed are that the positive effects on the GDP number show a still strong U.S. consumer and renewed interest in investing in the future of corporate profits. If we do see a continuation of a negative GDP number, and cross over two quarters of contraction (the accepted definition of recession), it shouldn't be expected to be deep and prolonged.

The positive effects on first quarter GDP from private sector investment should be something we should continue to see for years to come. In the past few months, multiple mega-cap and smaller companies have announced significant investments in the U.S., with a focus on manufacturing, technology, and AI. The total aggregate investment of these announcements is in the trillions of dollars, and will have positive effects on the U.S. economy far into the future. This is where investors should be focusing, not on the day-to-day fluctuations in our current stock market based on daily media headlines.

Always keep in mind that fear, panic, and optimism are not investment strategies, but rather emotions that drive short-term markets.

Please contact Lifestyle Asset Management, Inc. at (281) 612-2035 or by email at **pjackson@lsaminc.com** should you have any questions or comments.

Sources:
- S&P Dow Jones Indices website (us.spindices.com)
- MSCI Barra website (http://www.mscibarra.com)
- The Conference Board (www.conference-board.org)
- Bureau of Economic Analysis (www.bea.gov)
- JP Morgan Guide to the Markets
- CME FedWatch Tool (www.cmegroup.com)
- FTSE Russell (www.ftserussell.com)
- Bankrate.com (www.bankrate.com)
- Bureau of Labor Statistics (www.bls.gov)
- United States Census Bureau website (www.census.gov)
- Federal Reserve Bank of Atlanta (https://www.atlantafed.org/cqer/research/gdpnow)



The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The S&P 500 is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities. The index is meant to reflect the risk/return characteristics of the large capitalization U.S. universe.

The S&P 500® Equal Weight Index is the 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 in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

The Russell 2000 is an index measuring the performance of approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of the 3,000 largest stocks in the United States. The Russell 2000 serves as a benchmark for small-cap stocks in the U.S. and is meant to reflect the risk/return characteristics of the small capitalization U.S. universe.

The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. It is maintained by MSCI Barra, a provider of investment decision support tools; the EAFE acronym stands for Europe, Australasia and Far East.

The MSCI Emerging Markets Index is an index created by Morgan Stanley Capital International (MSCI) designed to measure equity market performance in global emerging markets.

The Barclays US Aggregate Bond Index is a broad-based benchmark index that measures the investment-grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS.

The Dow Jones Equity All REIT Index is designed to measure all publicly traded real estate investment trusts in the Dow Jones U.S. stock universe classified as equity REITs according to the S&P Dow Jones Indices REIT Industry Classification Hierarchy. These companies are REITs that primarily own and operate income-producing real estate.

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