

# THE BIG PICTURE

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## PRESSURE RELEASE

- The US trimmed some tariffs for 90 days on Chinese imports from 145% to 30%, while China reduced its reciprocal tariffs in response
- China's central bank took additional steps to stimulate their economy, a welcome development to the Trump administration and its desire for more Chinese domestic consumption
- Markets hailed these developments as a significant de-escalation in trade tensions
- The pause on some China tariffs also led to a recovery in consumer confidence and expectations in May after five months of steady decline (source: The Conference Board)
- However, many firms appear reluctant to make long-term capital spending plans as exorbitant tariff rates could return after a 90 day pause
- Energy and transportation stocks remained weak over concerns that tariffs will, in fact, harm future growth prospects

A person is captured mid-jump on a bed with white linens. The person is wearing dark blue jeans and a dark top with white polka dots. The room is bright, with large windows in the background showing a view of a brick building. A black text box with white text is overlaid on the image.

## STOCKS BOUNCE

- The S&P 500 made a sharp “V-shaped” recovery after signs of tariff progress
- The index regained all of its post liberation day losses with the speed of the rebound catching some investors off guard
- The S&P 500 also reclaimed its closely watched 200-day moving average
- In a further sign of strength, 60% of S&P 500 stocks moved above their 200-day moving average while 58% of stocks rose to a 1-month high - a thrust reading historically associated with strong forward returns
- The rally was led by the large cap technology and industrial sectors as well as strength in small caps
- It will now be important to see if stocks can definitively eclipse their January highs rather than stall out on concerns over rising bonds yields, which tend to weigh on long-duration assets like growth stocks
- After staging a brief four-week rally, the US dollar rolled back over on increasing concerns about fiscal risks that lie ahead



## Q1 EARNINGS DELIVER

- The remarkable recovery in US stocks in recent weeks has been supported by notable strength in Q1 corporate earnings including strong results from technology and healthcare firms
- As of May 16th, 78% of S&P 500 companies have posted first quarter earnings that surpassed analyst estimates – above the 10-year average of 75% [Source: FactSet]
- With more than 90% of companies now having reported, the year-over-year growth in earnings per shares is running at a healthy rate above 13%
- Despite the backup in 30-year yields, investment grade and high yield credit spreads showed little signs of stress
- However, the future impact on corporate earnings from potentially sweeping tariffs remains unclear
- After the May rebound in stocks, valuation levels are also once again approaching stretched levels at 21.4 times forward earnings, about 15% above the 10-year average [Source: FactSet]

## FED WAIT-AND-SEE



- The Federal Reserve left its policy rate unchanged at 4.25-4.50% for the third consecutive meeting
- The Fed reiterated its wait-and-see approach, opting for greater clarity from tariff impacts on incoming hard data
- As foreign-born workers continue to leave the labor market, stable unemployment allows the Fed to take a patient approach on rate cuts
- But April's benign CPI inflation report provides the Fed with some flexibility to cut rates in response to future economic deterioration
- With many retailers still working through pre-tariff inventories, consumers have, thus far, not been squeezed by higher tariffs
- While acknowledging import price-inflation risks, Fed Chair Powell cautioned that tariffs could also adversely impact demand – revealing the delicate balance Fed officials must strike as part of their dual mandate calculus
- Markets pushed the likelihood for the first rate cut from June into the fourth quarter as investors reset expectations for the timing of Fed easing



## RISING BOND YIELDS

- Capital rotation and foreign selling of US assets continued as long duration Treasury yields crept steadily higher due to widening deficits
- New tax and spending proposals in Washington are projected to add trillions to the national deficit in the coming years
- In addition, ratings agency Moody's downgraded the US credit rating over deficit concerns
- Store of value assets like gold and digital currency rallied sharply, in part, due to debt and dollar debasement worries
- Japanese long bond yields spiked to 24-year highs as traders further punished unsustainable debt
- Rising bond yields are not necessarily a drag on equities if deficit expansion can stimulate economic growth and a weakened US dollar provides a boost to liquidity conditions
- At the same time, the backup in the long-end of the yield curve may complicate Fed policy options

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# Glossary

## Consumer Confidence

An economic indicator that measures the degree of optimism that consumers feel about the overall state of the economy and their personal financial situation. If the consumer has confidence in the immediate and near future economy and his/her personal finance, then the consumer will spend more than save.

## Inflation

Inflation is defined as a sustained increase in the general level of prices for goods and services. It is measured as an annual percentage increase as reported in the Consumer Price Index (CPI).

## Moving Average

A moving average (MA) is a widely used technical indicator that smooths out price trends by filtering out the noise from random short-term price fluctuations. Moving averages can be constructed in several different ways and employ different numbers of days for the averaging interval.

## S&P 500

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 and is meant to reflect the risk/return characteristics of the large cap universe.

## V Bottoms (and Tops)

V Bottoms (and Tops) are popular chart patterns among traders due to their potential for identifying trend reversals. These patterns are characterized by sharp and sudden price movements, creating a V-shaped (or inverted V-shaped) formation on the chart.

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