

## **Summary**

On a Good Friday-shortened week, economic data included gains in retail sales, while industrial production and housing starts fell back.

Equities experienced a slightly mellow week compared to the one prior, ending lower for U.S. large cap stocks, but a positive week for U.S. small caps and foreign developed markets overall. Bonds fared positively as interest rates fell back. Commodities also fared positively in several areas, including precious metals and energy.

## **Economic Notes**

(+) **Retail sales** rose by 1.4% in March, right on par with expectations, and surpassed the 0.4% gain of the prior month. Autos led with a 5% gain, followed by a 3% rise in building materials, and a -2% drop in gasoline sales, along with lower prices. Removing autos trimmed the gain to 0.5%, while core/control sales (removing autos, gasoline, and building materials) rose a similar 0.4%, a bit below expectations. It appeared that at least some degree of purchasing activity was front-loaded to preempt tariff increases in coming months, so could have been an exaggeration of 'regular' sales, but there was strength in segments such as restaurants/bars as well, along with sporting goods and electronics. Overall, sales rose just under 5% for the past year, which was a small increase of a few percent in 'real' after-inflation terms.

(-) **Industrial production** fell by -0.3% in March, a tenth below expectations, and a reversal of the prior month's 0.8% increase. By segment, manufacturing production rose by 0.3% (led by auto production up 1%), along with a gain in mining/petroleum of 0.6%. However, these were offset by utilities production, which declined by -6% due to a warmer month than the previous one. Overall, industrial production rose just over 1% on a year-over-year basis, but remained quite mixed by segment, with high-tech equipment up 11%, followed by gains in utilities which tend to be weather-driven but more recently by artificial intelligence energy demands, while autos/parts declined -5%. **Capacity utilization** fell by -0.4% to 77.8% in the month.

(-) The **Empire manufacturing index** rose by 11.9 points to a -8.1 level, exceeding the median forecast of -13.5. It remained in contraction, although at a less severe level. The underlying composition improved as well, with gains in new orders, shipments, and employment, although all remained in contraction as well. Prices paid ticked up by 6 points to a sharply expansionary 51 level, with prices received also rising. However, the 6-mo. ahead business conditions index fell by a dramatic -20 points to a level of 7, the lowest in four years. This regional index remains more volatile month to month than broader national indexes, such as the ISM, which reduces its usefulness a bit.

(-) The **Philadelphia Fed manufacturing index**, on the other hand, fell by a dramatic -38.9 points in April to a contractionary -26.4, below the slightly positive 2.2 reading expected. In fact, this was the second-lowest level recorded outside of a recession. Most components within the report were weak as well,

including shipments, employment, and especially new orders, which saw a dramatic reversal of fortune from March. Price paid ticked up another few points to 51, the highest level in nearly three years. Expected business conditions six months out, though, rose by a point to a further positive 7 level, partially retracing a dramatic decline of over -20 points in March. The New York and Philadelphia regional manufacturing indicators have been fraught with extreme volatility relative to the broader ISM manufacturing measure.

(-) **Housing starts** fell by -11.4% in March to a seasonally-adjusted pace of 1.324 mil. units, below the -5.4% drop expected by consensus, along with a downward revision for the prior month. Single-family starts fell by -14% to lead the decline, while multi-family starts were down -4%. By region, the Midwest saw substantial gains of 76%, while starts in the West and South fell by double-digits. Starts remain up 2% over the past year, which masks the divergence of multi-family up 49% and single-family down -10%. **Building permits**, on the other hand, rose by 1.6% in March to a seasonally-adjusted pace of 1.482 mil. units, better than the -0.6% drop expected, and a reversal of the decline the prior month. Permits were led by gains in multi-family of nearly 10%, while single-family fell a few percent. As has been the case for some time, new housing starts remain well below the level needed to keep up with demographic and scrappage demand, which keeps supply artificially low and home prices elevated. This was echoed by homebuilder D.R. Horton’s recent comments that the spring selling season had started more slowly, “as potential homebuyers have been more cautious due to continued affordability constraints and declining consumer confidence.”

(-/0) **Initial jobless claims** for the Apr. 12 ending week fell by -9k to 215k, well below the 225k expected. Continuing claims for the Apr. 5 week rose by 41k to 1.885 mil., well above a small rise to 1.850 mil. expected. Initial claims were mixed by state, with some higher claims in the Midwest that could have been related to recent flooding in the region. Otherwise, the data doesn’t point to any labor market negativity.

### **Market Notes**

<b>Period ending 4/18/2025</b>	<b>1 Week %</b>	<b>YTD %</b>
DJIA	-2.66	-7.56
S&P 500	-1.49	-9.83
NASDAQ	-2.62	-15.50
Russell 2000	1.11	-15.35
MSCI-EAFE	4.10	6.60
MSCI-EM	2.15	-0.10
Bloomberg U.S. Aggregate	0.91	1.98

<b>U.S. Treasury Yields</b>	<b>3 Mo.</b>	<b>2 Yr.</b>	<b>5 Yr.</b>	<b>10 Yr.</b>	<b>30 Yr.</b>
12/31/2024	4.37	4.25	4.38	4.58	4.78
4/11/2025	4.34	3.96	4.15	4.48	4.85
4/18/2025	4.34	3.81	3.95	4.34	4.80

U.S. stocks settled down from the volatility of the prior week, although it was relative, ending in the negative on net, although small cap stocks saw gains. By sector, energy led with gains of over 5%, followed by materials and more defensive consumer staples and utilities. On the negative side were declines of over a percent in technology (largely Nvidia and Microsoft), consumer discretionary (Amazon, Starbucks, and Tesla), and communications. Nvidia (along with a group of related companies) was hampered by news that its specialized H2O chips, quality-restricted to satisfy prior export limitations to China, could be disallowed and placed in same category as other unavailable specialized chips. Real estate also gained over 5% along with lower yields across the U.S. Treasury curve.

Per FactSet, 12% of S&P 500 firms have reported Q1 earnings results so far, with over 70% showing a positive earnings surprise and over 60% with a positive revenue surprise. The expected blended year-over-year earnings growth rate remains over 7%, with ‘Magnificent 7’ companies expected to lead with 15% earnings growth, with 5% for the ‘other 493,’ in keeping with recent trends, although the gap between the two primary groups has been slowly closing. While this has been described as a potential ‘throwaway’ pre-tariff quarter, most attention is focused on management commentary about tariff preparations and impacts on bottom lines, in addition to how much guidance is given or pulled away due to current high levels of uncertainty.

However, specific government trade policy and monetary policy response remained top of mind for financial markets. U.S. Treasury Secretary Bessent reassured domestic corporate executives to stop worrying, as there will be “a lot more clarity on the way forward over the next 90 days,” not on only tariffs, but also tax policy and deregulation. In a speech last week to the Economic Club of Chicago, Fed Chair Powell referred to the recent tariffs as “significantly larger” than they expected, and even larger than their “upside case,” with their likely economic effects “which will include higher inflation and slower growth,” all of which creating a potentially “challenging scenario” with their dual mandate goals “in tension.” Perhaps markets were most unnerved, again, by the uncertainty narrative by his point that there “isn’t a modern experience for how to think about this.” As he again reiterated the balancing act between keeping inflation under control and slowing economic growth, with seemingly more focus on the former as an underpinning for policy. Markets took this to mean that rate cuts may not be immediate, with a ‘higher for longer’ theme again, with the Fed not coming to immediate aid.

Foreign stocks fared better than U.S. again, along with a decline in the U.S. dollar, with the U.K. and Europe experiencing gains of several percent, exceeding Japan, which was little-changed. The ECB cut policy interest rates by another quarter-percent, to 2.25%, with policy language pointing to concern over the forward growth impact from trade uncertainty. Emerging markets eked out little change, with gains in Mexico and India as well as China, which is in the middle of the most intense U.S. tariff rates and trade policy negotiations. On the bright side, Chinese GDP for Q1 came in at 5.4%, exceeding expectations.

Bonds fared positively across the board, as U.S. Treasury yields settled back down in line with global trade uncertainty and expectations for weaker economic growth, should current tariff rates stay in place. However, high yield also fared positively as spreads contracted a bit. Foreign bonds were boosted by a weaker dollar, in both developed and emerging groups.

Commodities generally earned gains for the week, with energy and precious metals each up several percent, offsetting little change in industrial metals and agriculture. Crude oil rose nearly 5% last week to \$64/barrel, with some drivers being higher Chinese demand and Middle East concerns, including Gaza airstrikes and U.S. political pressure on Iran to curb production and exports as part of nuclear negotiations.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

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Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.