***Summary***

Economic data included a rise in durable goods orders and new home sales. On the negative side, existing home sales declined, as did consumer sentiment and the index of leading economic indicators.

Stocks saw gains globally last week, with some further optimism about U.S. trade deals coming to pass, including a de-escalation of U.S.-China tensions, and a walkback of the President's threat to fire the Chair of the Federal Reserve. Bonds fared positively along with falling yields, related to some reduction in inflation fears. Commodities were mixed, with energy falling with high supply and gold flows pulling back as global tensions abated a bit.

***Economic Notes***

(+/0) The preliminary **S&P Global US manufacturing PMI** for April rose by 0.5 to 50.7, surpassing the median forecast of 49.0 and furthering it into expansion. New orders and output rose, as the latter moved back into expansionary territory, while employment fell a bit, just slightly below neutral. Input and output prices each rose further into expansion in the 60's, at the highest levels in two years. Commentary from the sponsor noted that responses were tied to tariffs, specifically as they were expected to raise import prices and labor costs. Also, that the current stagnation in activity was due to, "any beneficial effect of tariffs are offset by heightened economic uncertainty, supply chain concerns and falling exports."

(0/-) The preliminary **S&P Global US services PMI** for April, on the other hand, fell by -3.0 points to 51.4, below the 52.6 level expected, but stayed in expansion. The underlying composition also came in weaker, with declines in new business and employment, although they remained in expansion. Pricing was mixed with a deceleration in input prices and an acceleration in output prices—with both remaining solidly in expansion. Commentary noted that services slowed during the month as the result of "weakened demand growth, notably in terms of exports such as travel and tourism."

(+) **Durable goods orders** rose 9.2% in March, exceeding the median forecast of 2.0%, and were sharply higher than the prior month. Removing transportation, orders were unchanged, while core capital goods orders rose 0.1%, below expectations of a 0.1% increase. This reflected the primary driver being a $26 bil. rise in orders of non-defense/commercial aircraft and parts (mostly Boeing), which tend to be lumpy from month to month. Core capital goods shipments rose 0.3%, well below the 0.7% expected, which was led by increases in orders for autos and metals, while defense aircraft and computers/electronics orders declined for the month. As with some other economic metrics, it appeared that durable goods orders could have been front-loaded a bit as companies attempted to jump the gun on tariffs. Over the past year, total orders rose 12%, which was identical when defense orders were removed, while removing transportation pared the gain to 2%.

(-) **Existing home sales** fell by -5.9% for March to a seasonally-adjusted annualized rate of 4.02 mil., relative to the -3.1% decline expected. As condos/co-op sales were unchanged, single-family sales falling -6% accounted for all of the change. Sales fell in every region, led by the West at -9% and South -

6%. Existing sales fell -2.4% over the past year, with some gains in the $500k+ segment, but declines in housing priced under $250k. The median existing home sales price rose 2.7% over the past year to $403,700, representing 21 straight months of increases. Inventory rose 8% from the prior month to an equivalent of 4.0 months' supply, still on the lower side of what constitutes a 'normal' market. Per the NAR, "Home buying and selling remained sluggish in March due to the affordability challenges associated with high mortgage rates," with other assumptions noted about the challenges in residential housing mobility due to affordability issues.

(+) **New home sales** rose by 7.4% in March to 724k seasonally-adjusted annualized units, exceeding the 1.3% rise expected, along with a slight 1% revision upward for the prior month. Sales saw the strongest gains in the South (58k), while the Northeast fell by -8k. Relative to a year ago, sales are up 6%, while the median new home sales price fell over -7% over the year to $403,600. However, that was due to smaller homes being built, and some demand erosion from high mortgage rates, although the supply of homes available remains relatively tight. The months' supply fell a bit to 8.3 for the month. Conditions are better for buyers of new homes relative to existing homes, due to even tighter supply conditions for latter, with owners less willing to give up low-interest rate mortgages if they don't need to.

(-) The final **Univ. of Michigan index of consumer sentiment** for April showed a drop of -4.8 points from the prior month (over -8%) to 52.2, representing four straight months of declines. Assessments of current conditions fell by -6%, while expectations for the future fell by -10%. The survey sponsor pointed out that expectations have fallen -32% since January, representing the sharpest three-month drop since the 1990 recession. Over the past year, the overall index has declined by a dramatic -32%. Inflation expectations for the coming year rose by 1.5% from March to 6.5% (the highest since 1981), while those for the next five years rose by 0.3% to 4.4%. Interesting, they noted that while the monthly decline was "particularly strong" for middle-income respondents, expectations deteriorated "for vast swaths of the population across age, education, income, and political affiliation," with uncertainty over trade policy and potential resurgence of inflation. As has been the case all year, the underlying concern is whether growing consumer pessimism translates to slowing spending.

(0) **Initial jobless claims** for the Apr. 19 ending week rose by 6k to 222k, on par with consensus expectations. **Continuing claims** for the Apr. 12 week fell by -37k, on the other hand, to 1.841 mil., well below the 1.869 mil. expected. Claims changes were most pronounced in the largest states, as would be expected, with some additional impact from weather, also as expected. There are no immediate signs of layoffs building up, which would be an early signal of tariff or economic slowing impacts on labor markets.

(-) The Conference Board's **Index of Leading Economic Indicators** declined by -0.7% in March, showing further deterioration from the revised -0.2% drop in February. For the month, the index was led downward exclusively by sharply negative results from consumer expectations, a drop in the S&P 500, and ISM new orders, which offset little change in results for the other seven indicators. For the six months ending in March, the LEI fell by -1.2%, which was an improvement from the -2.3% decline over the prior six month stretch from Mar.-Sept. 2024. Over the last semiannual period, the weakness in consumer expectations and ISM new orders were the primary downward drivers of the overall index. In their monthly narrative, the Conference Board pointed to "slowing economic activity ahead," and noted pending tariff announcements; however, "data does not suggest that a recession has begun or is about to start." At the same time, they revised their U.S. GDP growth forecast for 2025 downward to 1.6%, below long-term trend, and reflects the risks of "deepening trade wars," that could end up creating "higher inflation, supply chain disruptions, less investing and spending, and a weaker labor market." The Conference Board uses a rough recession threshold of just beyond a growth rate of -4%, along with a handful of other factors. Current levels have not yet re-entered the recession predictive range, in contrast to much of the past several years being spent in that status.

***Question of the Week***

***Can the Federal Reserve Chair actually be fired by a U.S. President? Is this tension between the President and Fed unusual?***

Despite being a consistent talking point over the past several months, financial markets reacted negatively last week to the President referring to Fed Chair Powell as a "major loser," and comparing him to a golfer who "can't putt." The comments again raised concerns about his possible interest in firing him from the position. (Powell succinctly dismissed such action as "not permitted by law" during an earlier FOMC press conference.) Unsurprisingly, the uncertainty surrounding the debate was not taken well investors last Monday. Though, it appeared the message was received by Tuesday, as the President noted the comments were misinterpreted and he has "no intention of firing him," though he "would like to see him be a little more active…to lower interest rates," and he "might call." (Many have correctly presumed interest rate levels to be the real crux of the issue.) As it stands, Powell's term expires in May 2026, meaning a replacement will be needed sooner than later.

Why the beef? Like many politicians historically and perhaps even more acutely so based on his prior real estate background, the President prefers lower interest rates to higher. He has pointed to the ECB's recent moves toward easing policy as an example of a rate-lowering path that the U.S. should emulate (although economists would point out differences between the two include their central bank mandates as well as Europe's lower growth and lower inflation). Lowering interest rates can certainly be growth-stimulative in the near-term, which helps favorability ratings as well as mid-term election prospects, not to mention cutting the cost of Treasury debt financing. This was just the most recent example of several Presidential battles with Fed Chairs over the last century, with perhaps the most significant being that of LBJ and William Martin in the mid-1960s, when an alleged near-physical altercation ensued at the President's Texas ranch.

Is the criticism warranted? The Fed has been more closely watched and scrutinized than ever in recent decades, now that interest rate policy has become so transparent in real time. In prior eras, before the mid-1990s, specific interest rate targets weren't even announced, let alone projected in materials like a 'dot plot' and hashed out in press conferences. Public opinions of Fed Chairs have varied, both at the time and with the benefit of hindsight, particularly if their tenures include a crisis of some sort. Chair

Volcker was hailed as a hero in the early 1980s for raising rates decisively and breaking rampant inflation. Successor Chair Greenspan (who served for over 18 years) was held in high regard at the time for helping encourage economic growth but has since been criticized somewhat in hindsight for keeping policy too loose for too long, arguably laying a groundwork of financial excesses prior to the Great Financial Crisis. Subsequent Chairs Bernanke and Yellen were similarly scrutinized at the time, as their more academic approaches to the job were coupled with less direct communications at times, while history seems to judge them more favorably through their predictability in approach and the former's efforts at preventing the GFC from being worse, despite a long regime of zero interest rates seen as perhaps too long. So far, Chair Powell has been viewed by many as having provided adequate guidance through a difficult pandemic period, although forever haunted by the description of resulting high inflation as "transitory" (which was accurate, although it lasted for longer than anyone expected). The job requires real time decisions using incomplete information, with a low likelihood of making everyone happy. This is made more difficult in the U.S. by the Fed's dual mandate—with "maximum employment" added in the late 1970s to the normal "price stability" goal. Including labor is beyond the scope of most key regions' central banks (which primarily focus only on inflation/price stability) and raises potential of contradictions between the two mandates, essentially being at odds with itself. Fed Chairs have hinted at this potential problem, but nothing can be adjusted without Congressional action.

Would firing Powell even be possible? The President has already sent the U.S. Supreme Court an emergency petition to fire the heads of the National Labor Relations Board and Merit Systems Protection Board. Such requests lean against a nearly-century old precedent limiting the President's power to dismiss independent agency board members except in cases of neglect or malfeasance. In the case of Powell, the Federal Reserve Act provides that each board member shall hold office for 14 years, "unless sooner removed for cause by the President." As there hasn't yet been a firing of the chair in the Fed's century-long history, the crux of any legal question surrounding a potential firing could be how "for cause" is defined, as well as any potential precedent being set from the prior two cases surrounding "neglect" or "malfeasance." Obviously, each of these terms is subjective. The interpretation of those definitions could be key to the legal case surrounding potential firings of federal agency leadership.

For constitution-related reasons, courts have been reluctant to move decision-making power about U.S. government financial matters (funding and spending) away from Congress, with the Fed being a policy agent of sorts. In a more extreme hypothetical case, and a firing were to happen, markets would probably need time to absorb potential ramifications of how current Fed leanings could change under the 'uncertainty' of a new leader. This would be aside from the precedent of a firing itself, which could undermine global perceptions of the Fed's independence, taken as a cornerstone of investor confidence in U.S. monetary policy. After considering the toned-down comments a day later, and taking the likelihood of an outright Fed Chair firing off the table for now, there will be a change in early 2026 regardless. So far, a front-runner is Kevin Warsh, formerly a Fed governor during the GFC, with more conservative political and free market leanings—considered fairly in line with the current administration's views. A President putting forth nominees in line with preferred party policy is not unusual or particularly alarming, and in fact happens often, assuming the views are mainstream enough to allow for Senate confirmation. By contrast, recent potential nominees, such as those favoring controversial views like a return to a gold standard, haven't been seen as broadly viable.

As was found out on Tuesday, and some expected all along, the Fed firing comments simply looked to be a form of pressure to cut rates and move the political focus away from economic slowing caused by tariff uncertainty. Powell and the Fed have not been moved to ease so far, and will likely do so only if the dual mandates of price stability and labor warrant it. If tariffs and uncertainty stay in place, and the potential for recession rises accordingly, the chances of rate cuts in response to the economic impact certainly rise with time, so all the political pressure could be moot.

***Market Notes***

| **Period ending 4/25/2025** | **1 Week %** | **YTD %** |
|---|---|---|
| DJIA | 2.52 | -5.23 |
| S&P 500 | 4.60 | -5.68 |
| NASDAQ | 6.73 | -9.81 |
| Russell 2000 | 4.10 | -11.88 |
| MSCI-EAFE | 2.85 | 9.89 |
| MSCI-EM | 2.71 | 2.75 |
| Bloomberg U.S. Aggregate | 0.69 | 2.68 |

| **U.S. Treasury Yields** | **3 Mo.** | **2 Yr.** | **5 Yr.** | **10 Yr.** | **30 Yr.** |
|---|---|---|---|---|---|
| 12/31/2024 | 4.37 | 4.25 | 4.38 | 4.58 | 4.78 |
| 4/18/2025 | 4.34 | 3.81 | 3.95 | 4.34 | 4.80 |
| 4/25/2025 | 4.32 | 3.74 | 3.88 | 4.29 | 4.74 |

U.S. stocks rose sharply last week, despite Monday starting off poorly, with the President's comments about firing Fed Chair Powell causing some consternation, as noted earlier. In typical recent back-and-forth fashion, Tuesday saw a recovery along with a quick walkback on the Powell firing talk, along with Treasury Secretary Bessent's comments that alluded to tariff de-escalation, with current levels at an "unsustainable" path. There were further hints that the 145% rate on China won't persist as the administration expects to reach a deal "in the very near future," and the President intending to be "very nice" to China.

By sector, gains were strongest in technology (widespread, with hopes for progress on trade deals) and consumer discretionary (largely Tesla, despite weaker earnings, but apparently due to Elon Musk announcing that he'll spend more time with the company than DOGE), with each rising over 7%, while defensive consumer staples lagged with a decline of a percent. Real estate was little changed for the week. The positive news is that the S&P 500 has rebounded by 11% from the most recent Apr. 8 low point when it had fallen -19% from the Feb. 19 peak, almost a bear market, although the index is still down -10% from the peak.

Earnings continue to roll in, with just over 35% of companies in the S&P 500 now having reported, per FactSet. Three-quarters have noted a positive earnings surprise, with blended Q1 year-over-year earnings growth upgraded to now over 10%, although expectations for Q2 have fallen from over 9% to now 6%. The strongest gains have come from health care (over 35%), communications (over 20%), and tech (over 15%), while energy and materials continue to show negative results.

Foreign stocks also experienced gains, led by Europe and Japan, slightly beating also-positive results in the U.K. and emerging markets. As in the U.S., hopes for a reduction in trade tensions fueled stronger sentiment as recession fears waned, although odds still appear to remain higher in Europe than in the U.S., as noted by the ECB's own economists. By country, EM was led by substantial recovery gains in Brazil, China, and Mexico.

Bonds also saw gains last week, with improved sentiment over tariffs pointing to perceptions of perhaps lower inflation and lower chances of recession. High yield and floating rate bank loans gained a percent, as spreads contracted during the week. Foreign bonds were mixed with a rising dollar holding back developed market debt, while emerging market bonds fared positively along with general risk-taking.

Commodities were mixed for the week, with gains in industrial metals and agriculture offset by declines in energy and precious metals. Crude oil fell by over a percent to $63/barrel, with mixed messages about global demand with an uncertain U.S.-China trade path forward, as well as progress toward a U.S.-Iran nuclear deal. Natural gas prices corrected by nearly -9% with warmer temperatures on the heels of waning winter heating demand and higher inventories.

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.

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