Summary

Last week, the Federal Reserve kept policy interest rates unchanged, as expected, along with mixed economic data. Within the minimal data released last week, ISM services rose a bit, further into expansion.

Equities were mixed last week, with declines in the U.S. large cap offset by gains in small cap and in Europe. Bonds pulled back with higher interest rates, with falling recession fears. Commodities were also mixed, with gains in energy and precious metals.

Economic Notes

(0) The **FOMC meeting** for May ended with the policy rate being kept steady at 4.25-4.50%, as expected. Fed Chair Powell's post-meeting press conference started with an optimistic tone, in keeping with the FOMC statement, with most questions pointing to uncertainty around potential tariff effects that are being watched "extremely carefully." He mentioned continued "sour" sentiment surrounding said tariffs which ended up being "substantially higher" than the Fed and other economists expected, but current talks with various countries such as China could change the forward picture "materially," and "it's not at all clear" what should be done at the moment. He reiterated that 'soft' data like consumer confidence has not been as predictive of actual behavior in recent years. As tariff-related evidence is not in the data yet, this emphasized a "wait and see" posture for now, mostly as byproducts of government policies aren't yet knowable, so the committee doesn't yet know what the forward path will be. But so far, the "economy is doing fine," and still "healthy" and "in a good place." Tariff potential aside, the inflation picture was described as "good."

In short, Powell put it as, "We don't know what the response to the data will be until we see more data." Also mentioned was the potential "tension" between inflation and labor goals, which "hasn't been faced in a very long time," but is being kept in their thinking. And calls from the President "won't affect how they do their job at all." In a tongue-and-cheek moment, in response to a question about U.S. debt levels, "Congress doesn't need our advice on fiscal policy any more than we need their advice on monetary policy." Lastly, despite a reluctance by Powell to address comments made by the President about the Fed, "I've never asked for a meeting with a President, and I never will." (By contrast, he mentioned that it's always been the other way around.) However, post-meeting, in response, the President quipped that he didn't plan to ask for such a meeting, adding that, "It's like talking to a wall," but did again call for lower rates, which Powell was reluctant to do as "he's not in love with me." It seems the century-long tension between the Fed and various administrations continues.

(+) The **ISM services/non-manufacturing index** rose by 0.8 of a point in April to 51.6, further into expansion and above the expected slight decline to 50.2. Since the pandemic recession in mid-2020, 56 of 59 months have been in expansion. Under the hood, new orders rose by nearly 2 points, further into expansion, as some companies mentioned plans to increase U.S. activity. Employment rose 3 points to 49, nearly back to neutral. Business activity fell by several points, but remained in expansion, while prices paid continued to rise by several points to a 65 level, the highest in two years. The official release mentioned tariffs over a dozen times, with commentary that they were especially affecting small businesses, which import products from China at a higher rate, as well as "uncertainty" as the key theme, with U.S. policy described as having been "maddingly inconsistent" by one respondent. The latter is especially interesting, as post-election sentiment that was optimistic about de-regulation and favorable tax policy has been reversed somewhat by this year's policy back-and-forth. In contrast to the ISM, the final April **S&P Global US services PMI** was revised down by -0.6 of a point to 50.8, below the prior 51.4 reading.

(+) **Initial jobless claims** for the May 3 ending week fell by -13k to 228k, just below the 230k median forecast. Continuing claims for the week of Apr. 26 saw a sharper decline of -29k to 1.879 mil., well below the 1.895 mil. expected. Initial claims reflected a drop in NY, reversing a jump the prior week due to school spring break, while other results were mixed by state. Conditions continue to look benign, with no signs of obvious layoff activity. In fact, the difficulty in finding qualified workers could potentially magnify this effect, as laying off workers in a slowdown and then re-hiring could end up being more difficult than in the recent past.

(0) **Nonfarm productivity** fell by a quarterly annualized rate of -0.8% in Q1, in keeping with expectations, but down from the 1.7% rate of Q4-2024. It was also the first decline in nearly three years, led by output falling by -0.3% and hours worked rose by 0.6%, along with a weaker quarter for U.S. GDP. Over the past full year, the productivity rate fell by -0.6% to 1.4%. Since the start of 2020, just prior to the pandemic, productivity has risen at a 2% annualized pace. **Unit labor costs** (which represents compensation divided by output) rose 5.7% on an a seasonally-adjusted pace, beating the 5.1% rate expected, as well as surpassing the 2.0% gain of the prior quarter. Year-over-year, labor costs decelerated by -0.6% to 1.3%.

Market Notes

Period ending 5/9/2025	**1 Week %**	**YTD %**
DJIA	-0.14	-2.52
S&P 500	-0.45	-3.34
NASDAQ	-0.26	-6.96
Russell 2000	0.14	-8.89
MSCI-EAFE	-0.08	13.28
MSCI-EM	0.49	6.74
Bloomberg U.S. Aggregate	-0.17	2.20

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
5/2/2025	4.33	3.83	3.92	4.33	4.79
5/9/2025	4.34	3.88	4.00	4.37	4.83

U.S. large cap stocks fell back last week, while small caps saw gains. Sector results were mixed, with gains of a percent in industrials and consumer discretionary offset by a -4% drop in health care from several disappointing quarterly reports. Real estate also fell back by nearly a percent, due to higher yields. These results came along with an improvement in sentiment surrounding apparent progress the U.S. administration is making toward lowering quoted maximum tariffs last month. This included a Thursday announcement of a trade deal reached with the U.K. in addition to expected progress with Chinese negotiations taking place in Switzerland, although the final outcome for that key relationship remains quite unclear. (S&P futures were up several percent as a slashing of tariffs was announced this morning.) Congressional discussions about extending the current tax policy set to expire at the end of 2025 has also been ramping up, with rumors mixed about the imposition of a higher rate on millionaire earners.

Foreign stocks were similarly mixed, with gains in Europe and Japan offset by declines in the U.K. Trade policy with the U.S. continued to drive sentiment, with a focus on effects on domestic economies. The Bank of England lowered their key interest rate by -0.25% to 4.25% (in a close 5-4 vote, as is often the case in their meetings, but reduced the odds of future cuts). Norway and Sweden held rates steady. On the other end, in EM, the central bank of Brazil hiked rates by 0.50% to 14.75%. In EM, gains in China, Brazil, Mexico, and Turkey were offset by a sharp drop in India, due to their escalating military conflict with Pakistan.

Bonds lost some ground last week as interest rates ticked higher, along with recession fears abating a bit along with optimism for a better trade outcome. Corporates fared better than governments, with floating rate bank loans faring positively. Foreign developed markets fared negatively as well, coupled with a stronger U.S. dollar.

Commodities rose overall for the week, led by energy and precious metals, the latter of which continued to rally with uncertainty around global trade outcomes, while agriculture fell back. Crude oil rose over 4% last week to $61/barrel, as optimism over trade talks reduced fears of recession-related weaker demand. The lower oil price is a negative for the commodity asset class, but generally a positive everywhere else as an economic input, including downward pressure on inflation measures.

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.