Summary

Economic news last week included inflation metrics showing improvement on both a consumer and producer level. Also, data included slightly higher retail sales and housing starts, unchanged industrial production, but weaker consumer sentiment that continues a negative trend.

Equities gained globally, as U.S.-China trade negotiations lowered chances of economic slowing. Bonds were mixed, with yields higher but credit spreads tighter. Commodities were also mixed, with crude oil and industrial metals higher.

Economic Notes

(0) **Retail sales** rose by 0.1% in April, just exceeding the consensus forecast calling for no change, and a deceleration from the stronger gain the prior month. Gasoline station sales fell -0.5% along with lower petroleum prices, while building materials rose 0.8%. Removing autos didn't change the result much, while core/control sales fell -0.2%, in contrast to a 0.3% rise expected. While sales for furniture stores and electronics/appliances gained 0.3% in the month, sporting goods, misc. retailers, and department stores each fell several percent on the negative side. From a year ago, total retail sales were up 5%, which translates to a few percent of 'real' growth after inflation is factored in. Future months may well hinge on how well trade negotiations progress, with currently high tariff quoted rates slated to raise costs for a variety of goods. In fact, Walmart noted last week that consumer price increases are "unavoidable"—which could put a direct damper on buying sentiment.

(0) **Industrial production** was unchanged in April, in contrast to the 0.1% rise expected, but was better than the slight decline the prior month. Manufacturing production falling -0.4% was the primary negative factor, led by auto production down -2%, but offset partially by business equipment up 0.2%, including high-tech equipment up nearly 2%. Utilities rose 3.3% to aid the total production figure. **Capacity utilization** fell back a tenth to 77.7%. Over the past year, overall industrial production rose 1.5%, led by high-tech equipment (8%) and utilities (4%), while motor vehicle production declined (-4%). It's not a bad guess that economic activity in general has been pared back in anticipation of tariff-related uncertainty, as managers have difficulty planning for not only changes in goods prices and availability, but also future consumer demand in periods of such extreme back-and-forth policy shifts.

(0) The **Consumer Price Index** rose by a rounded 0.2% in April on both a headline level and core after removing food and energy on a seasonally-adjusted basis, and 0.3% for each on an unadjusted basis. Price changes for the underlying items were mixed for the month, with energy commodities prices down a few tenths, and certain food items (meat/eggs more so than others) down a bit further, along with airfares, internet services, used cars, and apparel. Gains were seen in auto insurance and medical care (by 0.5%), while shelter costs also remained somewhat stable, yet rising another 0.3%.

Year-over-year, headline CPI decelerated by a tenth to 2.3%, while core CPI remained unchanged at 2.8%. In fact, the 2.3% reading was the lowest 12-month number since Feb. 2021, which was the last sub-2%

figure before the pandemic inflation spike began. Services costs rose 3.7% for the year, aside from information technology costs, which continued to deflate per their longer-term trend. Both durable and nondurable goods saw a modest below-zero deflationary result for the year. Using the often-interesting alternative metrics, prices did show continued improvement over that stretch, as "all items less shelter" rose only 1.4%, and core-like "all items less food, shelter, and energy" bumped up by 1.8%. Housing overall remained a significant inflation source, up 4%, as were contributions from utilities, education, and health care. Despite the Fed's efforts in first raising rates and holding them steady for longer, inflation in that latter group has been structural, rather than cyclical, making it extraordinarily sticky and hard to unwind or offset by monetary policy actions. The April report obviously also didn't include the impact of tariffs, which have just begun to work their way into supply chain dynamics and pricing, and, assuming no radical grand bargains are reached, represent a likely upward push on pricing looking forward. Such inflationary pressures keep the Fed somewhat hawkish, absent a sharp deterioration in the economy that would force their hand toward rate cuts instead.

(+) The **Producer Price Index** fell by -0.5% in April on a headline basis, and -0.4% for core, removing food and energy; both were in sharp contrast to increases of 0.2% and 0.3% expected by consensus. Headline prices were affected by a -1.0% decline in food and -0.4% for energy. Similar to CPI, core prices were held down by airfares, among others, although medical care prices continued to rise. Over the past year, headline PPI rose 2.4%, while core less food and energy was up 3.1%, with overall goods up 0.5% over that period, while services rose 3.3%. Coming months will also be interesting to watch, with tariff impacts likely hitting PPI before CPI.

(0) **Housing starts** rose by 1.6% in April to a seasonally-adjusted rate of 1.361 mil. units, falling short of the 3.1% increase expected. Underlying results were split by segment, though, with single-family starts falling by -2%, but multi-family starts rising 11%. Regionally, the Northeast and South rose in the double-digit percents, while those in the West and Midwest fell in the double-digits. **Building permits** fell by -4.7% to a seasonally-adjusted rate of 1.414 mil. units, also short of the -1.2% decline expected. Over the last 12 months, housing starts have declined by nearly -2%, which hides the dramatic split between single-family starts being down -12% while multi-family remain up over 30%. The former continues to contribute to difficult conditions in the housing market, with unaffordability sustained by high prices and high mortgage rates. This is aside from possible negative effects from tariffs on the cost of building materials, which could challenge this further.

(-) The preliminary **Univ. of Michigan index of consumer sentiment** for May fell by -1.4 points to 50.8, below the expected increase to 53.4. Assessments of current conditions fell by -2 points, while expectations for the future fell by nearly -1 point. Inflation expectations for the coming year ticked up significantly again by 0.8% to 7.3%, while 5-year expectations rose a less severe 0.2% to an also very high 4.6%. The survey sponsors noted that answers were received just before the U.S.-China trade deal announcement, which may have added to the especially sour tone, in keeping with recent months' news tendencies. If the headline reading were to stand as the final number for the month, it would be the second-lowest reading in the history of the survey. The 1-year inflation number would be the highest since the early 1980s when actual inflation was far more problematic. Interestingly, long-term inflation expectations included “a particularly large monthly jump among Republicans,” as did the decline in overall confidence from the same political group. This was in contrast to earlier surveys since the 2024 election, where both confidence and inflation expectations generally fell among party lines (Democrats pessimistic/Republicans optimistic).

(0) **Initial jobless claims** for the May 10 ending week were unchanged at 229k, just above the median forecast calling for a slight drop to 228k. Continuing claims for the May 3 week ticked up by 9k to 1.881 mil., below the expected 1.890 mil. Claims changes were also small by state, with the largest states representing the most, as would be expected. Observers have been closely eyeing the claims figures for potential tariff-related deterioration, but that hasn’t happened as of yet.

Market Notes

Period ending 5/16/2025	**1 Week %**	**YTD %**
DJIA	3.50	0.89
S&P 500	5.33	1.81
NASDAQ	7.21	-0.26
Russell 2000	4.51	-4.78
MSCI-EAFE	0.94	14.35
MSCI-EM	3.09	10.04
Bloomberg U.S. Aggregate	-0.19	2.01

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
5/9/2025	4.34	3.88	4.00	4.37	4.83
5/16/2025	4.37	3.98	4.06	4.43	4.89

U.S. stocks earned strong returns last week, beginning with the S&P 500 rising over 3% on Monday with news from the prior weekend of substantial progress with China on a de-escalation of trade tensions. This included a suspension of earlier tariff rates for 90 days for a continuation of talks, with U.S. tariff rates on China falling from 145% down to 30% (and China-on-U.S. tariffs reduced from 125% to 10%). Cooler inflation also helped sentiment a bit, although many see those prior-month figures as being on borrowed time if/when tariff impacts creep through. Every sector ended positively last week, led by substantial gains of nearly 8% in both technology (led by Nvidia) and consumer discretionary (led by Tesla), while normally-defensive health care gained only a few tenths of a percent (completely due to weakness in UnitedHealth). Real estate also gained about a percent, despite higher yields.

The 20% gain from the near-term low on Apr. 8 has ranked as one of the stronger short-term rallies over the past few decades, only surpassed by shock recoveries during Covid (Apr. 2020), GFC conclusion (Apr. 2009), Desert Storm (Feb. 1991), Enron (Aug. 2002), and LTCM (Nov. 1998). This has naturally come along with reduced tariff-induced recession risks. So far, being bullish when markets are fearful, having reached a near-bear market -20% decline, has been again productive.

Foreign stocks also experienced a positive week, albeit to a lesser degree with some downward pressure from a stronger U.S. dollar. Europe and the U.K. outperformed Japan, while all lagged stronger results from the emerging markets, where several larger nations experienced gains. As has been the case for months, trade progress between the U.S. and key trading partners has been a global catalyst for stronger equities—as odds for a trade-related global recession decline. At the same time, European economic growth has also improved, which has helped the fundamental case.

U.S. Treasury bonds fell back slightly as interest rates ticked a bit higher across the curve, though investment-grade and high yield corporates, as well as floating rate bank loans, saw positive returns as credit spreads continued to contract in keeping with strength in equity markets. The U.S. dollar rose by nearly a percent, resulting in a mixed bag for foreign bonds, with emerging markets outperforming developed. Over the weekend, Moody's became the last of the three major credit rating agencies to downgrade U.S. debt, from Aaa to Aa1, due to the buildup of the U.S. deficit and related likelihood of further supply issuance looking ahead. Overall, such downgrades haven't taken away from the role of Treasuries as the world's primary safe haven, especially relative to other alternatives, but have pointed to signs of vulnerability.

Commodities were mixed, as slight gains in energy and industrial metals offset declines in precious metals, as investors moved away from safety towards risk for the week. Crude oil rose 2% last week to $62/barrel, with prices remaining low from high production levels but some improved prospects for demand as risks of global recession fell a bit. This offset another volatile week in natural gas, which fell sharply in reaction to cooler weather forecasts.

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.