Summary

Economic data included gains in both manufacturing and services PMI measures, as well as in new home sales, while existing home sales fell back. The index of leading economic indicators continued to deteriorate, although it still doesn't point to recession at this time.

Equities declined in the U.S., but fared better overseas, in keeping with 2025 year-to-date trends. Bonds similarly lost ground domestically with higher long-term interest rates, while foreign were mixed. Commodities were also mixed, with gains in metals offset by declines in energy.

Economic Notes

(+) The preliminary **S&P Global US manufacturing PMI** for May rose by 2.1 points to 52.3, moving more strongly from neutral into expansion, in contrast to expectations for a slight decline. Under the hood, output and employment both increased slightly, remaining around neutral, while new orders fared better, further into expansion. Prices for inputs and outputs both expanded by several points further into the mid-60s, which remains quite expansionary. Underlying commentary noted that pre-tariff frontloading might have helped boost new orders in advance, with higher output prices being "overwhelmingly linked to tariffs." They also noted that business confidence improved following the pause on higher tariff rates.

(+) The May preliminary **S&P Global US services PMI** similarly rose, by 1.5 points to 52.3, further into expansion and above the 51.0 expected. The respective components included gains in new business by a fraction of a point further into expansion in the low 50s, while employment pulled back by a point, back into contraction. Input and output prices rose here, too, to around 60, which is quite expansionary, pointing to continued inflation pressures.

(-) **Existing home sales** fell by -0.5% in April to a seasonally-adjusted annualized rate of 4.00 mil. units, well below the 2.0% increase expected, but an improvement on the -6% decline in March. Breaking things down, single-family sales fell by a few tenths of a percent for the month, while condos/co-ops fell by nearly -3%. Regionally, the Midwest saw gains of 2%, while the West and Northeast saw drops of several percent. Overall, national sales were down -2% from a year ago. The median sales price rose 2% to $414,000. The supply of existing homes ticked up by 9% from the prior month to the equivalent of 4.4 months' supply, up about a month from last year at this time. Dynamics appear little-changed, with sticky longer-term U.S. Treasury yields and wider spreads contributing to still-high mortgage rates, along with depressed inventory. As the ever-optimistic NAR put it, home sales have been running at "75% of normal or pre-pandemic activity for the past three years," and that "pent-up housing demand continues to grow, though not realized," with hopes that a drop in mortgage rates will help unleash this demand.

(+) **New home sales** rose 10.9% in April to a seasonally-adjusted annualized rate of 743k units. By region, the Midwest led with a gain of 50k, while the Northeast lagged with a -4k decline. Nationally, it represented a 3% rise in sales over the past year. The median sales price came in at $407,200, 2% below that of a year ago. Inventories fell by over -10% for the month to 8.1 months' supply, but were 5% higher than levels of a year ago.

(-) **Initial jobless claims** for the May 17 ending week ticked down by -2k to 227k, below the 230k expected. Continuing claims for the May 10 week rose by 36k to 1.903 mil., well above the lesser gain to 1.882 mil. expected. Changes in claims were largest in several higher-population states, notably IL and MA, with fewer elsewhere. Continuing claims numbers have bounced back-and-forth dramatically in 2025, but remain in the higher side compared to the past year, but only by about 150k from lower levels in 2024, and a shade above pre-Covid rates.

(-) The Conference Board's **Index of Leading Economic Indicators** fell by -1.0% in April, further than the downwardly-revised decline of -0.8% for the prior month of March. That represented the largest monthly drop in two years, back at a time when a recession was feared but didn't happen as expected. For the month, most of the ten inputs fell in the negative, led by consumer sentiment, ISM new orders, and building permits, as well as weaker performance from the S&P 500 stock index. During the trailing six-month period, the LEI fell by -2.0%, led by sentiment, ISM new orders, and stock results being the primary negative drivers; that period matched the rate of decline of the prior six-month period of Apr.-Oct. 2024. In their regular commentary, The Conference Board noted rising consumer pessimism, while also weaker manufacturing data, all of which caused “a warning signal for growth;” however, the six-month rate of change “did not fall enough to trigger the recession signal.” Their forecast is for U.S. real GDP growth to come in at 1.6% in 2025, well down from last year’s pace, with “the bulk of the impact of tariffs likely to hit the economy in Q3.” Their data is as much ever-changing and in conflict as everyone else’s.

Question of the Week

Are the Congressional budget plan, Moody’s credit downgrade, and rising interest rates all related?

To some degree. By mid-week, stocks were pressured by continued movements higher in U.S. Treasury yields, in perhaps some aftermath from the prior weekend’s downgrade of U.S. debt by Moody’s—the last of the three primary rating agencies to do so. (S&P and Fitch had announced slight downgrades in Aug. 2011 in response to the debt ceiling crisis and contentious political environment at the time.) Last week also included a weaker-than-expected $16 bil. auction for 20-year Treasuries, albeit that being a more nichy and lower volume location on the curve relative to the more popular 10-year segment, and even the 30-year to some extent. While many economists continue to view the U.S. dollar as the undisputed world ‘safe haven’ currency, with few challengers to the status, in theory, any credit downgrade could serve to embed some degree of additional risk premium into an issuer’s debt.

These upward yield shifts have been at least partially related to concerns from the Congressional tax plan (titled “The One Big Beautiful Bill Act,” which passed the House by one vote), as it appears to pressure fiscal deficits ever wider. (The Republican-led Senate has already pointed to concerns over the passed bill for that reason.) As with other policy developments this year, progress on the 2017 tax extensions has created back-and-forth and market-driving news events. While many in Congress agree on general themes, such as Republicans being generally unified on lower tax rates, it gets tricky when particular line items are threatened. For instance, poorer regions in red states reliant on Medicaid, and sensitive to Federal funding cuts, create a policy conundrum, where fiscal budget cuts on a macro level threaten constituent well-being on a micro level. Similar struggles confront some Republican representatives from blue states (particularly NY, NJ, and CA), who have been pushing back to raise SALT tax deductions up from the current $10k limit, where these happen to be far more valuable. In total, tax cuts reduce near-term federal revenue, which could partially be offset by also hoped-for stronger economic growth from the lower burdens on businesses and consumers. This is if everything were to play out as policymakers hope, but Congressional pushback has been mounting in response to higher deficit spending and the overall high and rising debt load.

Market Notes

Period ending 5/23/2025	**1 Week %**	**YTD %**
DJIA	-2.43	-1.56
S&P 500	-2.58	-0.82
NASDAQ	-2.45	-2.71
Russell 2000	-3.45	-8.06
MSCI-EAFE	1.30	15.84
MSCI-EM	-0.08	9.96
Bloomberg U.S. Aggregate	-0.45	1.56

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
5/16/2025	4.37	3.98	4.06	4.43	4.89
5/23/2025	4.36	4.00	4.08	4.51	5.04

U.S. stocks fell back last week, with every sector ending in the negative. More defensive consumer staples and communication services fared slightly better, with minimal declines, while energy and technology suffered the sharpest losses upwards of 3-4% (the latter led downward by Apple, as specific tariffs on phones were threatened). Real estate fell by over -3% as well, due to interest rate movements.

Later in the week, concerns over Congress' tax plan and higher deficits caused financial market concern, related to higher interest rates, and Friday's announcement of the administration's new trade focus on Europe, with hints at perhaps a 50% blanket tariff kept a dark cloud over sentiment (although that was postponed over the weekend until early July).

Foreign stocks were helped by a nearly -2% decline in the U.S. dollar, with net gains in the U.K. and Japan, as well as a lesser increase in Europe. Economic data was mixed for the continent, which raises odds of perhaps easier central bank policy looking ahead. Amazingly, it's been nearly a decade since the Brexit vote, but it appears that the U.K. and Europe are in the midst of establishing closer ties, including trade and defense, which appeared to help sentiment. Emerging markets were little-changed in a more normal mixed week on net, as gains in China and Mexico (along with central bank key rate cuts), offsetting weakness in Brazil and Turkey.

Bonds fell back domestically, along with rising U.S. Treasury yields at the longer end of the yield curve. Investment-grade and high yield corporates fared slightly worse than governments, while floating rate bank loans experienced minimal change for the week. Foreign unhedged bonds fared well, however, along with a substantial drop in the value of the U.S. dollar, while emerging markets had mixed results. In particular, Japanese long-term yields rose to their highest levels in decades, with expectations for higher inflation related to a greater demanded term premium.

Commodities gained for the week, helped by a falling dollar, with gains in precious metals, agriculture, and industrial metals offsetting declines in energy. Crude oil fell by near a percent last week to $62/barrel, with continued concerns over weaker Chinese demand yet high supplies, exacerbated by OPEC+ leanings towards increasing production even further.

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.