Summary

Economic data for the week included U.S. GDP growth for Q1 coming in negative, as well as weaker manufacturing, construction spending, and consumer sentiment. On the positive side, home prices continued to rise, albeit at a slower rate, while the employment situation report came in a bit better than expected, still showing growth.

Equities saw gains globally, buoyed by positive earnings and hopes for U.S. trade deals. Bonds fell back along with higher interest rates and a stronger U.S. dollar. Commodities fell back along with weaker crude oil demand expectations.

Economic Notes

(-) The advance report of **U.S. real GDP growth** for the first quarter came in at a negative rate of -0.3%, a bit below the -0.2% median forecast, and well below the Q4-2024 above-trend growth pace of 2.4%. Nominal GDP, which includes real growth plus inflation, rose at an annualized 3.5% for Q1 and 4.7% over the past year. The underlying components in the quarterly data, though, were a bit messy and point to a potential undercount of true economic activity. Per the Bureau of Economic Analysis, the decline in real GDP primarily reflected an increase in imports (by 41%, mostly in goods, and served to remove a substantial -5.0% from the overall growth figure), in addition to a decrease in government spending (by over -1%, trimming -0.2% from growth). Imports were no doubt related to a ramp-up by companies to front-run expected upcoming tariffs, which ended up being officially effective in early April, even aside from gold imports that dramatically skewed the Atlanta Fed GDPNow estimate until their methodology was adjusted to account for that. On the opposite side, growth was quite positive in investment (22%, mostly in areas like technology equipment and transportation, adding 3.6% to the total), consumer spending (2%, adding 1.2%), inventories (caused by the imports, adding 2.2%), and exports (2%, adding 0.2%). The **GDP price index** rose at an annualized 3.7% in Q1, and equating to a rise of 2.6% from a year ago. The PCE price index for Q1 rose by an annualized 3.6%, while the core PCE price index ex-food and energy rose 3.5%, with the latter continuing to run far higher than the 2.0% Fed target.

Interestingly, the initial Atlanta Fed **GDPNow** estimate for Q2 was first reported as a positive 2.4%, then downgraded to 1.1% by the end of the week as more data rolled in. (Starting in May, their updated methodology is now 'gold-adjusted,' and removes the impact of the Q1 problem resulting in a sharply lower net exports figure from global gold bullion movements, which are significant in dollar value, but not indicative of true economic activity the model is trying to capture.) The total assumption included contributions from consumer spending (1.3% of the total), non-residential fixed investment, and government spending; these were offset by declines in net exports and private inventories. The Blue Chip economist consensus growth rate fell to just under 1.0%, with the top 10 and bottom 10 forecasts falling between a wide range of -1.0% and +2.5%. While one quarter of barely below-zero GDP growth is not yet a recession, a second straight quarter of negative growth in Q2 could be, at least in a classic definition. Although in the U.S., the NBER is required to weigh in and 'officially' label downturns as recessions, which doesn't require the two negative quarters rule to necessarily hold true. As the NBER tends to label recession starting points in hindsight, it doesn't help us as much in at the time and also explains why historical equity market returns have tended to dramatically fall prior to and/or into recessions, and bottom during them, starting the recovery as the recession is technically still happening in many cases. This is in contrast to a knee-jerk rule used by some investors of investing only when conditions 'feel good,' but flee stocks during recessions; unfortunately, the timing of underlying recovery conditions can risk underperformance.

(+) **Personal income** rose by 0.5% in March, a tenth stronger than expected, with gains in proprietors' income leading other segments, and transfer income down. **Personal spending** for the month rose 0.7%, also exceeding expectations by a tenth, and led by a gain in real goods spending more than services. The **personal saving rate** fell by -0.2% to 3.9%. Year-over-year, personal income rose 4% and spending was up 6%, with the latter being divided into 4% for goods and 6% for services. **PCE inflation** fell by a few hundredths on a headline level, rounding to no change, and a sharp decline from the 0.4% rise of the prior month. **Core PCE** rose by a few hundredths, rounded down to zero, a tenth short of expectations. On a year-over-year basis, headline and core PCE rose by 2.3% and 2.6%, respectively, each of which was several tenths slower than the pace of the prior month, pointing to inflation progress, but still well above target.

(-/0) The **ISM manufacturing index** for April fell by -0.3 of a point to 48.7, down a bit further into contraction, but above the 47.9 expected. The underlying components were mixed, with new orders and employment improving, but staying in contraction, while production fell further into contraction. Supplier deliveries rose further into expansion, as did prices paid to the near-70 level—the latter the highest in nearly three years. The press release mentioned tariffs over two dozen times, notably in regard to lowered production activity, with special concern noted surrounding the exceptionally-high import tariff rate on China. In fact, respondents noted an inability to sustain pricing under those conditions to provide an "acceptable margin." Similarly, the **S&P Global US manufacturing** final April report was downgraded by -0.5 to 50.2, just above the neutral 50 level and staying in expansion, with revisions down in most key categories.

(-) **Construction spending** reversed course by falling -0.5% in March, in contrast to a 0.2% increase expected by consensus. Public residential spending rising 0.2% was the only positive piece of the report, with declines in all other groups, notably in private non-residential, down nearly a percent. As construction costs fell by over a quarter-percent on a seasonally-adjusted basis, real spending actually improved, only falling by a few tenths of a percent.

(+) The **S&P Case-Shiller 20-city home price index** for February rose 0.7% before seasonal adjustment, and 0.4% after seasonal adjustment. For the month, San Francisco, Seattle, and Los Angeles led with gains of 1.5-2.0%, while Tampa and Miami fell by -0.3% each. Year-over-year, the index rose by 4.5%, a slight deceleration from the prior month's 4.7% increase. by city, New York led with an 8% rise, followed by Chicago and Cleveland, while Tampa fell over -1% on the most negative side. Per S&P, "home prices have shown notable residence," despite high mortgage rates and affordability challenges.

(0/+) The **FHFA house price index** rose 0.1% in February on a seasonally-adjusted basis, in addition to an upward revision to the prior month. By region, monthly changes were strongest in New England (+1%) and weakest in Pacific (-1%). Year-over-year, all regions were in the positive, led by Middle Atlantic (NJ/NY/PA, up 7%), while Pacific lagged (up only 1%). This index provides a broader view of the U.S. real estate market, incorporating all 50 states and over 400 cities, but also demonstrates a deceleration of the house appreciation we have become used to. Nationally, the index rose 3.9% over the trailing 12 months, a sharp drop from the 7.3% for the prior year ended Feb. 2024.

(-) The Conference Board's **index of consumer confidence** fell by -7.9 points to 86.0 in April, below the 88.0 median forecast, and lowest level since May 2020. By segment, assessments of present conditions fell by about a point, while expectations for the future fell by over -12 points. The labor differential noted a slight improvement in the opinion that jobs were both plentiful and 'hard to get,' to a lesser degree. Respondent expectations for inflation rose by nearly a percent to 7.0%, the highest since Nov. 2022. Specifically, the sponsor noted that consumers "explicitly" noted concerns about tariffs and rising prices "having negative impacts on the economy."

(-) The **JOLTS** government job openings report for March showed a decline of -288k to 7.192 mil., below the 7.500 mil. median forecast. Openings fell across the board, led by trade/transports/utilities (-62k), private education/health services (-61k), and government (-59k). The job openings rate fell by -0.2% to 4.3%, while the hiring rate was unchanged at 3.4%. On the departure side, the layoff rate fell a tenth to 1.0%, and the quits rate ticked up a tenth to 2.1%. Interestingly, the federal government hiring rate was also unchanged, while that layoff rate fell by -0.3% to 0.6%, showing a decreasing impact of DOGE in month perhaps.

(-) **Initial jobless claims** for the Apr. 26 ending week rose by 18k to 241k, above the 223k median forecast. Continuing claims for the Apr. 19 week rose by a more dramatic 83k to 1.916 mil., well above the 1.865 mil. expected. It appeared that NY was the primary driver of claims activity, based on the timing of spring break in their school system, with other states showing mixed results. Otherwise, activity does not appear indicative of deterioration.

(+) The employment situation report for April came in a bit stronger than expected. **Nonfarm payrolls** rose by 177k, exceeding the median forecast of 138k, and just a bit lower than the prior month's 185k rate, which included a -43k downward revision from the initial figure. Strength in the report was highest in healthcare (58k), transportation (29k), and leisure/hospitality (24k); the weakest segments were non-durable goods manufacturing (-3k), retail (-2k), and other services (-1k). Federal government payrolls fell by -9k, which appeared to be a continuation of DOGE efforts; this was in contrast to a 19k rise in state/local government jobs, which appear to be unfazed by DOGE. The **U-3 unemployment rate** was unchanged at 4.2%, as expected on a seasonally-adjusted basis (although it fell -0.3% to 3.9% on a non-adjusted basis), with a 436k rise in household employment, with a slightly higher rise in the labor force size. That appeared to be due to a rise in the self-employed as well as those on unpaid leave. The U-6 underemployment rate fell another tenth to 7.8% on a seasonally-adjusted rate (and -0.6% on a non-adjusted basis). **Average hourly earnings** rose 0.2% for the month, a tenth below expectations, while the year-over-year rate of change decelerated slightly to 3.8%. The **average workweek** length was unchanged at 34.3.

Market Notes

Period ending 5/2/2025	1 Week %	YTD %
DJIA	3.00	-2.39
S&P 500	2.94	-2.91
NASDAQ	3.43	-6.72
Russell 2000	3.24	-9.02
MSCI-EAFE	3.17	13.37
MSCI-EM	3.37	6.22
Bloomberg U.S. Aggregate	-0.30	2.37

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
4/25/2025	4.32	3.74	3.88	4.29	4.74
5/2/2025	4.33	3.83	3.92	4.33	4.79

U.S. stocks rose for the second straight week, with nine straight positive days. However, the S&P 500 price index is still down -7% from the Feb. 19 peak. By sector, industrials, technology, and communications saw the strongest gains, over 4%, while energy was the only sector in decline, with sentiment tied to falling crude oil prices, and minimal gains for defensive consumer staples and health care. Real estate also gained over 3%, despite higher interest rates.

By Tuesday, comments from the administration that U.S. automakers would be given tariff relief helped sentiment, along with comments pointing to progress in major trade negotiations, although no further key announcements were made. Strong earnings reports from Microsoft and Meta helped the overall mood, although Apple and Amazon did not, with the latter assumed to be further negatively impacted by tariff effects. Overall, per FactSet, with over 70% of companies now having reported Q1 earnings, the blended EPS growth rate is running at 12.8% year-over-year, with a similar 76% of firms reporting an earnings surprise, well above expectations from March 31. Additionally, nearly a quarter of the reporting firms mentioned ‘recession’ during their calls, versus just a handful earlier in the year. Of that total earnings growth figure for Q1, companies with less than 50% of revenues from the U.S. saw growth of 14.9%, while companies with more than 50% revenue from the U.S. grew at 11.8%. For Q2, S&P earnings growth expectations still call for 5.7%, which is sharply lower than Q1, but just a shade below the long-term average. Earnings growth for 2025 as a whole is estimated at 9.5%, while 2026 stands at an even more robust 11.1%. Of course, the impact of tariffs and uncertainty surrounding policy, as well as any recession, could alter these estimates in coming weeks and months.

Foreign stocks also experienced gains, due to signs of stronger manufacturing and economic performance abroad as well as some hopes for tariff relief. In fact, eurozone GDP in Q1 improved a few tenths to 0.4%, helped by the periphery of Ireland, Spain, and Italy, while Germany and France saw weaker, but still-positive growth. Emerging markets fared similarly to developed, with the exception of strong returns in Taiwan, which tend to be correlated to the global technology sector.

Bonds fell back as U.S. Treasury interest rates ticked higher, with governments faring a bit better than investment-grade corporates. However, high yield and floating rate bank loans earned positive returns. Foreign bonds were held back by a stronger U.S. dollar last week.

Commodities retreated last week, with a stronger dollar along with declines in energy, agriculture, and precious metals. Crude oil fell by over -7% last week to $59/barrel, due to continued concerns over weakening global demand as U.S. tariffs wear on with little progress, coupled with ample supply as OPEC+ was expected to announce another hike to production limits. This was offset by a 17% rise in natural gas prices, with some warmer weather expected, which raises air conditioning demand.

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.