Summary

On a holiday-shortened week, economic data included a slight upgrade to Q1 U.S. GDP growth, and improvement in personal income, spending, and consumer sentiment, while durable orders fell back.

U.S. stocks saw a positive week, outperforming the rest of the world, due to variety of trade-related news items. Bonds fared positively as interest rates fell back in the U.S. Commodities fell across the board, with crude oil prices remaining range-bound.

Economic Notes

(0) The second estimate of **U.S. GDP** growth for Q1-2025 showed a slight upgrade of a tenth of a percent to a still-negative -0.2%. The update included an upward revision to investment and government spending, while consumer spending, housing, and structures were revised downward a bit. Overall, very little changed on a net basis from the first release, with net exports remaining the overwhelmingly negative driver for the distorted report (due high imports of metals and the general front-running of tariffs), although most other areas were positive for the quarter.

The **Atlanta GDPNow** estimate for Q2, after a few revisions as data continues to be added, bumped up from 2.2% to 3.8% last week. By segment, consumer spending remains robust as a 2.3% expected contributor, along with nonresidential fixed investment and government; inventories offset to the negative, much like in Q1. The recent upgrade was due to a reversal in expected net exports from strongly negative to strongly positive, a category that has been as convoluted as tariff announcements, reversals, and subsequent behavior. The Blue Chip economist estimate has also improved a bit, now showing over 1% growth expected, albeit within a wider-than-normal range between the average estimates for the top 10 (+3%) and bottom 10 (-1%) contributors.

(+) **Personal income** rose 0.8% in April, well above the 0.3% increase expected, helped by higher payments from the Social Security Fairness Act, which applied to certain public sector workers. **Personal spending** rose 0.2%, on par with consensus. The personal saving rate came in at 4.9%, and both personal income and spending are up over 5% for the past year. **PCE inflation** rose 0.1% on both a headline and core basis for April, the latter removing food and energy, while core services ex-housing were unchanged. Year-over-year, headline PCE decelerated by two-tenths to 2.1%, a four-year low, as did core PCE to 2.5%—both showing further inflation progress, albeit backward-looking.

(-) **Durable goods orders** fell by -6.3% in April, just below the -7.8% median forecast decline, and in sharp contrast to the 8% gain the prior month. For April, removing transportation, including a -$20 bil. drop in non-defense aircraft/parts for the month, which is a choppy series, orders increased by 0.2%. For the month, orders were led by gains of a percent in computer/electronic equipment, machinery, and metals. Capital goods orders fell by -1.3% in the month, while core capital good shipments fell by only -0.1%. Aircraft orders, which are high value and less consistent, tend to add a variable component to the overall indicator, and the category may end up seeing a boost from the administration's recent Middle

East trip, which resulted in a flurry of aircraft orders. Year-over-year, durable goods orders overall gained 3%, or roughly barely positive when inflation is considered, with transportation up 6%, resulting in a 2% year-over-year rise if transportation is removed.

(0) The **S&P Case-Shiller 20-city home price index** for March declined -0.1% on a seasonally-adjusted basis, while it rose 1.1% on an unadjusted level. Year-over-year, the index rose 4.1% nationally, which was a deceleration from the 4.5% of the prior month. Of the component cities, New York experienced the strongest one-year gain (8%), followed by Chicago and Cleveland (around 6% each), while Tampa came in last place (showing a price decline of -2%).

(0) The **FHFA house price index** showed a -0.1% seasonally-adjusted decline for March, but a 0.7% increase for the 1st quarter of 2025. The year-over-year gain was 4.0%, led by Middle Atlantic (7%) while the Pacific region was weakest (2%), which was a slight deceleration from the Q4-2024 annual gain of 4.6%. As with the Case-Shiller, house prices continue to rise outright on an annual basis, but at a flattening rate.

(0) The final **Univ. of Michigan consumer sentiment index** for May rose 1.4 points from the prior month at 52.2, above expectations of 51.5. Assessments of current conditions and future expectations both rose similarly, by over a point each. Inflation expectations for the next year fell by -0.7% to 6.6%, while those for the next 5 years fell by -0.4% over the month to 4.2%. This was a calmer reading than others we've seen recently, reflecting the calming somewhat in the tariff-related news. In the words of the survey sponsor, sentiment "turned a corner in the latter half of the month following the temporary pause on some tariffs on China goods," and that consumers see the economic outlook as "no worse than last month" but also "remained quite worried about the future." That wasn't much of a change in tone from the prior few months, with consumers perhaps becoming more comfortable with being uncomfortable.

(+) The Conference Board **index of consumer confidence** rose by 12.3 points to 98.0 in May, well above the 87.1 level expected. While assessments of present conditions rose by 5 points, expectations for the future gained more sharply, by over 17 points. The labor differential, though, fell back a bit, with jobs being 'hard to get' rising slightly more than jobs being 'plentiful.' The survey measure of 12-mo. ahead inflation fell by -0.5% to 6.5%, in contrast to other indicators. Per the survey sponsor, about half of responses were received in after May 12, the date when the U.S./China 90-day tariff pause was announced, and that improvement was already visible prior to the trade deal, but "gained momentum afterwards."

(-) **Initial jobless claims** for the May 24 ending week rose by 14k to 240k, above the 229k forecast. The largest increases were in MI, CA, and NE, while they declined the most in IL and TX. Continuing claims for the May 17 week rose 26k to 1.919 mil., above expectations of 1.890 mil. Continuing claims are still ticking higher on average, being now at a high last seen in Nov. 2021, per the Dept. of Labor, so this has become an area to watch for any early signs of labor distress. While no sharp spikes have surfaced, anecdotal layoffs in manufacturing facilities in several states were mentioned as a contributor. The Memorial Day weekend may have also been a contributor as much as other factors.

(0) The **FOMC minutes** from the May meeting provided some usual quotes, providing more color on their underlying thinking. Specifically, the committee is “well positioned to wait for more clarity” on the economic outlook, keeping their “moderately restrictive” monetary policy stance intact. Even if tariffs were not noted as a key issue, as impacts were not yet felt in the hard data in the short time between announcements in early April and the May meeting, they were hinted at, via a risk that “inflation could prove to be more persistent than expected,” as uncertainty about the outlook “had increased further.” At the same time, the meeting occurred after the China retaliatory tariffs were applied, but before they were given a 90-day pause. Perhaps most importantly for potential policy, the FOMC viewed 2025 recession odds as “almost as likely” as their baseline forecast. Uncertainty remained a primary theme here, too, with members noting feedback they’ve received about postponed business capex plans in light of unclear prospects, as well as government funding cuts putting some strain on certain sectors like universities and hospitals.

(0) Late Wednesday, the three-member **U.S. Court of International Trade** put a pause on most of the President’s tariffs and invalidated several executive orders. They specifically noted that the 1977 International Emergency Economic Powers Act did not give the President “unbounded” authority, and that many of the actions “exceed any authority granted to the President by IEEPA to regulate importation by means of tariffs.” However, this ruling only appeared to apply to broad sweeping tariffs, such as the 10% baseline tariff rate, as well as other rates imposed broadly on specific nations China, Canada, and Mexico. Overall, the ruling would apply to about 7 percentage points of the total tariff rate (roughly half of this year’s increase in total tariff rate). However, the ruling didn’t apply to tariffs imposed on specific industries (like autos, steel, etc.), which were done under different Presidential authority than IEEPA (such as Sections 122 and 301). However, already by Thursday, the U.S. Court of Appeals for the Federal Circuit, granted a temporary administrative stay, which gives the courts time to review legal arguments over the next few weeks.

As was widely assumed prior to this year, and the subject of the legal case, broad ‘permanent’ tariff policy has traditionally required Congressional approval, with executive actions intended to apply only in certain circumstances (like “unusual and extraordinary” threats, such as war) and/or on a time-limited basis. While too early to forecast, the ruling is likely to be appealed, along with perhaps some reapplications of the same tariffs under the other acts. Obviously, much of the legal case is tied in with the semantics, such as the administration’s inclusion of immigration and fentanyl under the interpreted definition of “emergency,” as opposed to these being simply political priorities that legal scholars have been less amenable to. And what happens to tariff revenues already collected under these disqualified policies? Certainly, more to come.

Market Notes

Period ending 5/30/2025	1 Week %	YTD %
DJIA	1.67	0.08
S&P 500	1.90	1.06
NASDAQ	2.02	-0.74
Russell 2000	1.32	-6.85
MSCI-EAFE	0.89	16.87
MSCI-EM	-1.12	8.73
Bloomberg U.S. Aggregate	0.88	2.45

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
5/23/2025	4.36	4.00	4.08	4.51	5.04
5/30/2025	4.36	3.89	3.96	4.41	4.92

U.S. stocks ended positively, after having started off strongly on Monday following the announced one-month reprieve of the 50% EU tariff, in addition to an improvement in consumer sentiment (which has been hard to come by as of late). The Wed. U.S. trade court ruling against the administration's tariffs resulted in a rally early Thurs., although the gain was tempered, considering that appeals are likely, and it is unknown how other tariffs might be reconfigured to fall under other legal authority. Again, optimism is present, but uncertainty remains. Over the past few weeks, markets have already appeared to discount the worst of the tariffs, celebrating the pauses, and assuming deals will be made in coming months to lower the overall punitive rate. By Fri., trade tensions with China had again ramped up with the President's claim that agreements were violated and Treasury Secretary Bessent noting that U.S.-China trade talks were "a bit stalled."

Most sectors ended in the positive for the week, led by technology and communications; energy was the sole exception, losing some ground along with oil prices. Real estate actually fared best of all, gaining nearly 3% as long-term interest rates fell back. A closely-watched market highlight was Nvidia's quarterly results, which were positive, although operating margins had fallen back a bit from highs to 'just' 50% (those for the broader S&P 500 are just under 13%, per FactSet).

Foreign stocks lagged U.S. stocks for the most part, with only Japan coming close, followed by gains in Europe and the U.K. European results were driven by mixed economic and inflation data but helped by the U.S.-EU tariff news. Emerging markets were pulled down by a -3% decline in China, along with a re-emergence of U.S. trade frictions later in the week.

Bonds gained, along with the court decision on tariffs, some pushback against the Congressional tax bill, and continued slowing in PCE inflation, which helped ease long-term U.S. Treasury rates. A strong auction for 7-year Treasury notes also helped sentiment, in contrast to the weaker 20-year auction the prior week. Investment-grade corporates fared best, and floating rate bank loans lagged, despite all falling in a narrow band of returns. Foreign bonds were largely positive as well, despite the U.S. dollar ending up slightly.

Foreign yields have been making their own headlines, particularly in Japan, as a rise in long-term yields the prior week continuing. Despite the government hinting at a pared back issuance (to reduce market supply fears), the unique 40-year part of the curve saw a tick up to 3.33% at auction, as these were met with lower demand. As with much of the developed world, rising debt-to-GDP ratios (250% in Japan) have been pushing on a need for more risk premium at the longer end of the curve, in addition to higher inflation readings, and their long-term quantitative easing policies unwinding. For the first time in many years, the 30-year Japan yield has risen significantly above the 30-year China yield, thought unthinkable just a few years ago when the latter was priced at a 2.00% spread over the former. However, much of Japan's debt remains domestically held (much of which by the central bank), which reduces supply/demand spillovers to some degree, but the debt level remains very high compared to other nations.

Commodities were down across the board, with declines of over a percent in industrial metals all the way to several percent for the other groups. Crude oil fell over a percent last week to $61/barrel, with prices bouncing around between a narrow band of $61-62 for most of the week. Energy markets remain stuck with concerns over still-lackluster demand along with high OPEC+ production.

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.

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