



Santa Fe, New Mexico

WEEK OF MAY 12, 2025

Market Update

U.S. stocks pulled back after recent gains, led by declines in health care and communication services. Meanwhile, on the global trade front, the U.S. and U.K. reached a tariff framework and U.S.-China trade talks were held in Switzerland.

Quick Hits

1. **Beyond the headlines:** The recent plunge in consumer sentiment should be viewed in context.
2. **Report releases:** Service sector confidence increased over the previous month, remaining in expansionary territory.
3. **Financial market data:** U.S. equities moved slightly lower, relinquishing some gains from the recent rally.
4. **Looking ahead:** The focus this week will be on inflation, retail sales, and consumer sentiment.



LIFETIME
Asset
Management

Beyond the Headlines: Consumer Sentiment in Context

Markets are paying close attention to updates on U.S. inflation. Headline and core CPI—short for the Consumer Price Index—are expected to tick up from March’s levels but remain relatively stable on a year-over-year basis, hovering around 2.3 percent and 2.8 percent, respectively. Core CPI excludes more volatile food and energy components, providing a clearer view of underlying inflation trends.

Another data point is the University of Michigan consumer sentiment survey, with the preliminary reading for May expected on Friday. Interest in the survey has surged; it recently reached its highest level on Google Trends since June 2022. First conducted in 1946, the 50-question poll asks 900–1,000 consumers about views on current conditions and future expectations.

The spotlight is on a sharp decline in sentiment, one of the steepest in recent memory. Many attribute the drop to consumer concerns about proposed tariff increases, which would have raised prices as much as 28 percent before the announcement of a 90-day pause in their implementation.

Although the recent readings are meaningful, it’s important to consider broader context. Several underlying factors may be influencing the results:

- **Methodology shift:** In 2024, the survey transitioned from telephone to online polling, which has shown signs of introducing downward bias.

- **Election effects:** Sentiment often shifts based on which political party is in power, with respondents typically more optimistic when their preferred party wins.

- **Sample composition:** Changes in the political and demographic mix of respondents can create variability.

- **Initial reactions:** Sharp policy news, such as tariffs, can prompt strong emotional responses that may evolve after consumers better understand the true impact.

Consumer sentiment remains a critical economic indicator, especially in a country where consumption drives nearly 70 percent of gross domestic product (GDP) and close to 30 percent of global demand. As with many survey-based measures, however, it should be viewed through a lens that accounts for data and context.

In other words, the path forward isn’t about nailing short-term predictions—it’s about preparing wisely for long-term outcomes.

“Most investors try to
be Nostradamus
when they should
aspire to be
Rip Van Winkle.”
-Meb Faber



Report Releases: May 5–9, 2025

Institute for Supply Management (ISM) Services Index
April (Monday)

Service sector confidence remained in expansionary territory.

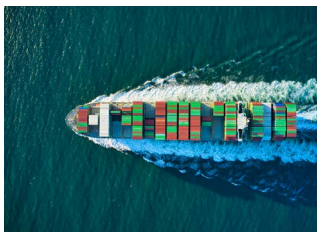
- Expected/prior month ISM Services index: 50.2/50.8
- Actual ISM Services index: 51.6



U.S. Trade Balance
March (Tuesday)

The U.S. trade deficit grew more than expected, which could be due to rising imports ahead of U.S. tariffs.

- Expected/prior U.S. trade deficit: –\$137.6B/–\$123.2B
- Actual U.S. trade deficit: –\$140.5B



Federal Open Market Committee (FOMC) Rate Decision
May (Wednesday)

As widely expected by economists and investors, the Federal Reserve (Fed) left rates unchanged after the May FOMC meeting.

- Expected/prior federal funds rate upper limit: 4.50%/4.50%
- Actual federal funds rate upper limit: 4.50%



Wholesale Inventories
March (Friday)

Wholesale inventories grew less than expected. Certain areas, including electrical, lumber, and farm products, saw lower inventory levels.

- Expected/prior change in wholesale inventories: +0.5%/+0.5%
- Actual change in wholesale inventories: +0.4%



>> The Takeaway

- The Fed left rates unchanged as it continued to preach data dependence.
- Despite the widening U.S. deficit, wholesale inventories rose less than expected due to lower inventories in certain sectors.

Financial Market Data

Equity

U.S. equities moved modestly lower after their recent strong rally. Health care, communication services, and staples were among the laggards. Alphabet, in particular, came under pressure amid rumors that the Department of Justice might force the company to sell parts of its digital advertising business. Other firms fared better as the U.S. announced a framework agreement with the U.K. on trade. U.S. and Chinese trade officials met over the weekend to discuss a potential deal on tariffs.

| Index | Week-to-Date | Month-to-Date | Year-to-Date | 12-Month |
|-----------------------|--------------|---------------|--------------|----------|
| S&P 500 | −0.45% | 1.66% | −3.35% | 10.00% |
| Nasdaq Composite | −0.26% | 2.78% | −6.95% | 10.48% |
| DJIA | −0.14% | 1.46% | −2.52% | 6.60% |
| MSCI EAFE | −0.03% | 1.42% | 13.64% | 11.98% |
| MSCI Emerging Markets | 0.50% | 2.37% | 6.85% | 10.18% |
| Russell 2000 | 0.14% | 3.03% | −8.90% | −1.12% |

Source: Bloomberg, as of May 9, 2025

Fixed Income

Treasury yields rose across the curve as the Fed and Chairman Jerome Powell stood pat on the federal funds rate. Powell preached patience when interpreting the impact of tariffs through data. News of a trade framework with the U.K. and negotiations with China likely lifted the growth outlook, giving way to slightly higher yields. The 10-year yield rose 5 basis points (bps), closing the week at 4.38 percent.

| Index | Month-to-Date | Year-to-Date | 12-Month |
|-------------------|---------------|--------------|----------|
| U.S. Broad Market | 0.35% | 2.20% | 5.32% |
| U.S. Treasury | 0.00% | 2.42% | 5.07% |
| U.S. Mortgages | 0.31% | 2.47% | 5.85% |
| Municipal Bond | 3.35% | −0.77% | 0.81% |

Source: Bloomberg, as of May 9, 2025

>> The Takeaway

- Equities moved slightly lower, reversing some of the recent strong rally.
- The Treasury yield curve moved slightly higher across the curve as the Fed held rates steady.

Looking Ahead

The focus this week will be on inflation, retail sales, and consumer sentiment.

- The week kicks off Tuesday with the **CPI release** for April. Headline and core consumer prices are expected to accelerate on a monthly basis and remain steady on a year-over-year basis.
- On Wednesday, the **retail sales report** and **Producer Price Index (PPI)** for April will be released. Retail sales are expected to remain flat. Headline and core producer prices are set to increase after declining in March.
- Finally, on Thursday, the **University of Michigan consumer sentiment survey** for May will be released. Consumer sentiment is expected to increase modestly after multiple periods of significant declines.



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the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than \$50 million. One basis point is equal to 1/100th of 1 percent, or 0.01 percent. One basis point (bp) is equal to 1/100th of 1 percent, or 0.01 percent.

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