SIGHT|LINES MARKET PULSE

May 12, 2025

MARKET PULSE

- Equities rose today, with the consumer discretionary and information technology sectors performing best.
- The S&P 500 rose 3.3%, the Dow Jones Industrial Average (Dow) was up 2.8%, and the Nasdaq rose 4.4%.
- Non-U.S. markets were up. The DAX (Germany) was up 0.3%, and the Nikkei (Japan) rose 0.4%.
- The 2-year Treasury yield rose to 4.00%, and the 10-year Treasury rose to 4.47%.

CATALYSTS

- U.S. equities rose today, approaching their highest levels in over two months. The rally is fueled by the announcement that U.S. tariffs on Chinese goods will be reduced from 145% to 30%, and Chinese tariffs on U.S. goods will be reduced from 125% to 10% for the next 90 days. This tariff relief was much more drastic than expected going into the talks this past weekend, but they do not include pre-Trump sector-specific tariffs nor the 20% fentanyl tariffs.
- Trade negotiations are ongoing with Japan, Norway, and India, with speculation of a near-term deal with India gaining traction. Additionally, President Trump is likely to speak with China's President Xi Jinping later this week, fueling optimism for further de-escalation.
- Investor sentiment has softened as both businesses and consumers grow more cautious about the economic outlook. Economists have revised their growth forecasts lower, and many have increased their probability for a recession. The consensus forecast is for the U.S. economy to expand 1.4% this year with a 40% probability of a recession.
- As the Q1 2025 earnings season progresses, uncertainty and tariffs are prominent themes in earnings calls. The blended growth rate stands above 13.5%, up from the 6.9% estimate in mid-April. Nearly 78% of companies reporting so far have exceeded consensus EPS expectations.

INVESTMENT STRATEGY OUTLOOK

- We continue to see the year defined by *Gravitational Shifts* – with a rebalancing of markets, the economy, and policy, now complicated by rising trade tensions.
- At the start of the year, our base case outlook projected U.S. GDP growth of 1.5% to 2.5%, indicating a positive but slower pace of economic growth compared to last year. Trade policies and ongoing uncertainty represent a meaningful *downside risk* to that forecast. Key "hard data" – actual results – has remained positive and resilient, while some "soft data," which can reflect *Animal Spirits*, has turned negative, adding to market volatility in the near term.
- **Stay diversified.** Investors should ensure they are properly diversified within their portfolios and avoid shifting strategies or chasing near-term performance.
- **Dollar cost average.** Invest cash earmarked for a long-term strategy gradually with the flexibility to add more during market weakness.
- **Look long term and stay anchored on your goals and objectives.** Market volatility can create opportunities, and long-term investors may find compelling opportunities, especially in areas aligned with durable long-term themes.
- For more insights and market commentary visit Stifel Insights.

Investing involves risks, including the possible loss of principal invested. Past performance does not indicate future results. The **Standard & Poor's 500 Index** is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. The **Dow Jones Industrial Average** is an index that shows how 30 large, publicly owned companies based in the United States have traded during a standard trading session in the stock market. The **NASDAQ Composite Index** is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market, and Capital Market. The **Nikkei 225** consists of the shares of the 225 largest companies in Japan. The **DAX Index** consists of the 30 most actively traded German companies on the Frankfurt Stock Exchange. The **Bloomberg U.S. 1000 Value Total Return Index** provides exposure to companies with superior value factor scores based on their earnings yield, valuation, dividend yield, and growth. The **Bloomberg U.S. 2000 Total Return Index** is a float market-cap-weighted benchmark of the lower 2,000 in capitalization of the **Bloomberg U.S. 3000 Index**. The **Bloomberg Magnificent 7 Total Return Index** is an equal-dollar weighted equity benchmark consisting of a fixed basket of 7 widely traded companies classified in the United States and representing the Communications, Consumer Discretionary and Technology sectors as defined by Bloomberg Industry Classification System (BICS). Dollar-cost averaging does not assure a profit or protect against a loss. Investors should consider their ability to continue investing during periods of falling prices.

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