Market Perspectives

May 2025

TURTLE CREEK
WEALTH ADVISORS

Tariff optimism produces big stock gains in May

Index	MTD	QTD	YTD	2024	2023	2022
S&P 500	6.29	5.57	1.06	25.02	26.29	-18.11
Dow Jones Industrial Average	4.16	0.95	0.08	14.99	16.18	-6.86
Russell 2000	5.34	2.91	-6.85	11.54	16.93	-20.44
NASDAQ Composite	9.65	10.61	-0.74	29.57	44.64	-32.61
Europe, Australia, & Far East (EAFE)	4.72	9.62	17.31	4.35	18.85	-14.05
MSCI Emerging Markets	4.31	5.71	8.89	8.05	10.27	-19.78
Bloomberg Barclays U.S. Aggregate Bond	-0.72	-0.33	2.45	1.25	5.53	-13.04

As of 5.31.2025; Returns in percent

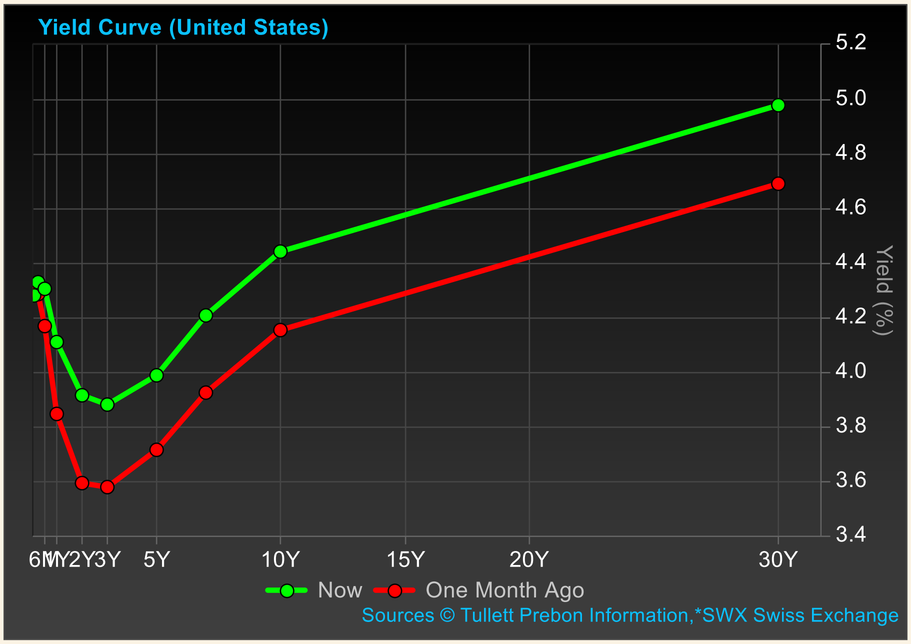
FINANCIAL MARKET PERFORMANCE

Stocks were higher in May as the S&P 500 and Nasdaq Composite posted their best months since November 2023. A de-escalation of tariffs between the US and China was the big upside catalyst. The S&P 500 rose 6.3%, the Nasdaq Composite was up 9.6%, and the small cap Russell 2000 index gained 5.3%. The gain in the S&P 500 marked the biggest gain in the month of May for the index since 1997, while it has now risen 19% from its early April low and has produced a positive return for the year (see below). Big Tech was a standout during May as the Magnificent 7 rose 14% in the aggregate. Specifically, Tesla gained 22.8% and Nvidia jumped 24.1%.

Source: FactSet As of 6.2.25

Foreign stocks also produced solid gains during May, as the MSCI EAFE index rose 4.7% and the MSCI Emerging Markets index jumped 4.3%. The good news on US tariffs coupled with a drop in the US dollar were the key drivers of these gains.

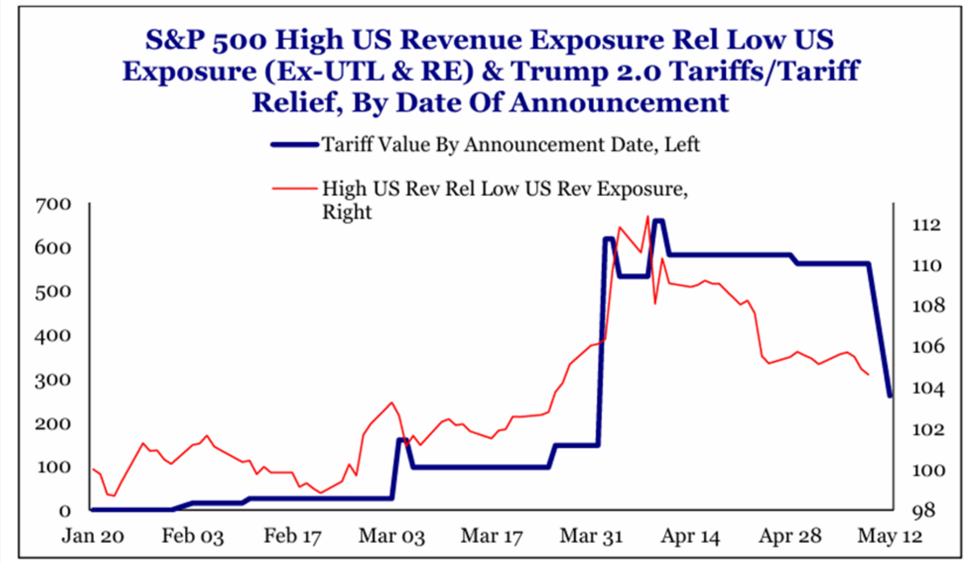
Bonds fell during the month as interest rates rose on hopes of stronger 2025 economic growth, concerns over persistent budget deficits, and the expectation of fewer Fed rate cuts this year. The policy-sensitive 2-year Treasury yield jumped over 30 bp, and the 10- and 30-year yields were up around 25 bp (see below). As a result, the Bloomberg Aggregate Bond index fell 0.7%, but High Yield bonds, which tend to be more highly correlated to equities, rose 1.7%. The US dollar fell 0.1%, while Gold was down 0.1%, its first decline in five months. Finally, WTI crude oil was up 4.4% despite continued threats of production increases coming out of OPEC.



Source: FactSet As of 6.2.25

PERFORMANCE DRIVERS

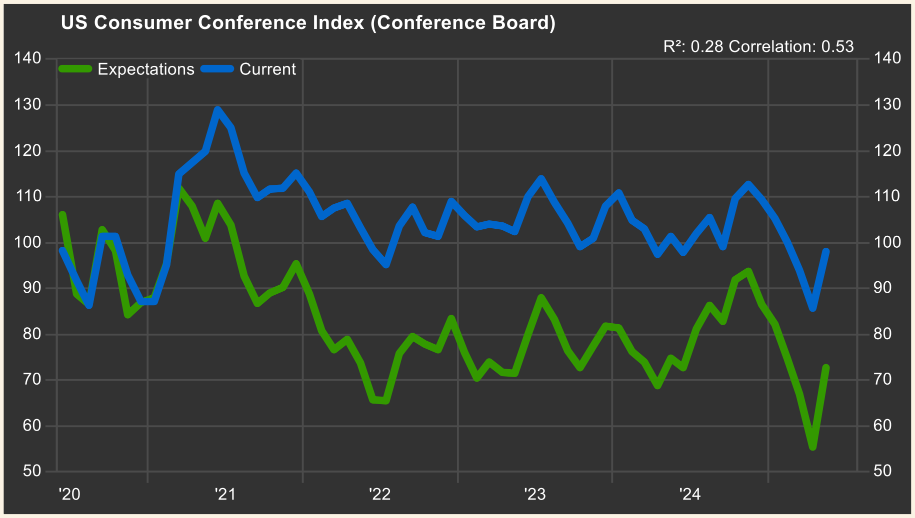
The biggest factor driving markets in May was the US agreement to a 90-day cut of tariffs on Chinese goods from 145% to 30%, while China cut its tariff on US goods to 10% from 125%. This reduced the total tariff impact by 50% (see below). The US earlier this month came to an agreement with the UK to cut tariffs, while the White House has repeatedly said it is close to deals with partners including Japan, South Korea, and India. However, reports have noted challenges to Trump administration's goal of striking dozens of deals before the July 9th deadline when reciprocal tariffs are scheduled to kick back in. Trump also announced he would implement a 50% tariff on the EU as of June 1, though later extended the deadline to July 9th.



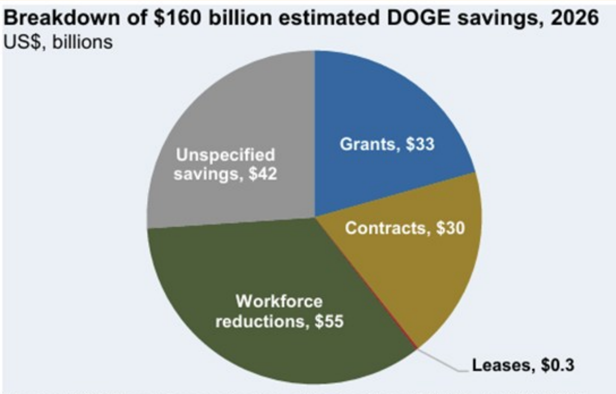
Source: Strategas; As of 5.12.25

Despite the reprieve, trade headline volatility remains the key market overhang. The US Court of International Trade blocked some of Trump's tariffs on May 28th. However, a federal appeals court temporarily reinstated the tariffs as it considers the White House appeal, while the case may be taken up by the US Supreme Court very soon. However, the White House is reportedly considering alternative tariff powers it could employ, including a temporary 15% tariff for 150 days, followed by a lengthy notification and comment process. Treasury Secretary Bessent also said that talks between the US and China are "a bit stalled," and may need to be revived through call between Trump and China's Xi. Also, talks with the EU face a number of challenges, including US demands that EU make unilateral tariff cuts.

Other pieces of the bullish narrative this month included corporate profit margins holding up in spite of tariff-driven pressures, Artificial Intelligence (AI) tailwinds after strong Nvidia results and Middle East deals, resilient consumer trends (evidenced by broadly strong results from consumer-facing companies), and a recent ramp in M&A and IPO activity. There was also some improvement in soft data following the US/China de-escalation, specifically May Consumer Confidence jumped by the most in four years (see below). Finally, with Q125 earnings season essentially complete, S&P 500 companies reported 12.9% earnings growth, (the second-straight quarter of double-digit earnings growth), which was materially stronger than the 7.2% expected at the end of the quarter.



Source: FactSet As of 6.2.25

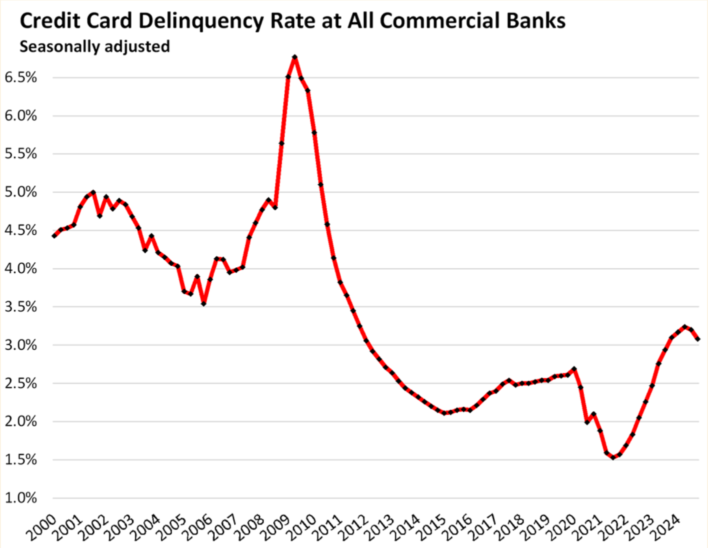


Source: DOGE, workforce reduction estimates from JPMAM; As of 4.20.25

BEAR NARRATIVE

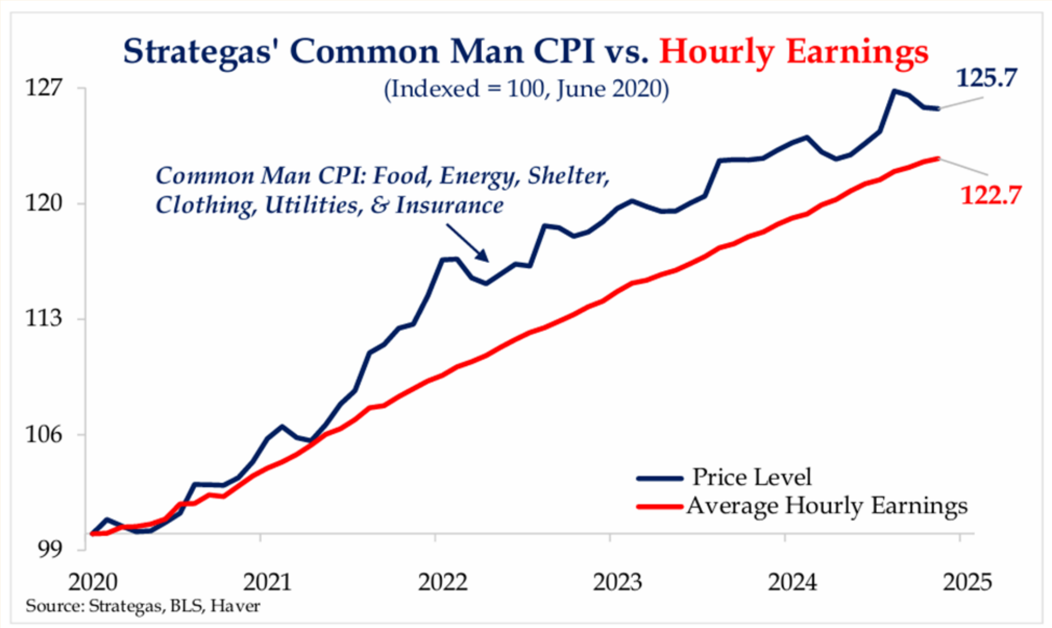
The increase in Treasury yields was the big piece of the bearish narrative this month. The 10-year yield jumped above 4.50% for the first time since February, while the 30-year yield jumped above 5.15%, the highest since October 2023. The upward pressure was tabbed to a number of factors, notably concerns around the budget and deficits amid reconciliation negotiations, i.e. the "Big Beautiful Bill". The House approved version resulted in an estimated cost of nearly $4 trillion, while there has been a growing focus on an expected lackluster growth tailwind from the bill, including tax cuts. Now the Senate will take up the bill, and it's likely there will be some alterations before final approval. However, with a projected deficit of $1.9 trillion this fiscal year (while DOGE has only identified $160 Bn in cuts to date), and a national debt of $37 trillion and counting, the US fiscal imbalances must be addressed at some point in the near future (US deficit issues and rising debt interest expense was the key reason that Moody's opted to lower the credit rating of the US during May).

Other factors that played into the rise in yields included ongoing inflation concerns and an increasingly hawkish Fed. Markets are now pricing in less than 50 bp of cuts through year-end, down from ~85 bp of cuts at the start of the month, as the Fed sees no need to hurry on rate cuts given the continued strength of the employment market as well as the potential inflationary impact of tariffs. US Treasury yields were also impacted by upward pressure in global bond yields, notably Japanese government bonds. Consumer credit also came into focus, as student loan debt moved back into required repayment status during May. It's estimated that up to 9% of student loans are now at least 90 days past due, and this will likely exacerbate the rise in credit card delinquencies seen over the past few years (see below).



Source: Federal Reserve Board of Governors; As of 12.31.24

The other concern for consumers is the persistence of inflation. Although certain items have fallen this year, such as gasoline prices at the pump, other items remain sticky, including housing. The below chart compares the rise in necessary expenses to the rise in incomes since 2020 and demontrates that consumers have fallen behind in their purchasing power.



Source: Strategas; As of 6.2.25

WHAT TO EXPECT & INVESTMENT PORTFOLIO IMPLICATIONS

We've been recommending portfolio diversification and patience all year, and this approach has paid off through the first 5 months, despite lots of volatility. In fact, balanced portfolios, holding US and foreign equites as well as bonds and alternatives, in general have outperformed the major US equity averages this year. And now that the potential for an economic recession this year seems to have largely dissipated, we'd expect more stable markets going forward. Despite the fact that bullish factors seem to outweigh bearish factors today, there is still a lot of uncertainty, especially with regard to tariffs. Investors should not be surprised to see further large swings in asset prices. Ultimately, though, we continue to believe a long-term patient approach focused on diversification is the best strategy for investors.

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