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May Market Update

Hope you are doing well. Last month brought volatile markets early in April, yet it also presented moderating inflation metrics and a strong finish for large-cap technology stocks. With all of these developments in mind, now feels like a good time to share an overview of what happened and what could be ahead. Read on for a monthly summary of what you should know.

Major U.S. Stock Indexes

April was a remarkably volatile month on Wall Street, courtesy of tariff talk and uncertainty. However, major U.S. stock indexes finished the month well off their lowest levels seen during the early part of the month.

Here's how major U.S. stock indexes fared in April:

- The S&P 500 declined by [0.76%](#).
- The Nasdaq 100 rose by [1.52%](#).
- **The Dow Jones Industrial Average decreased by [3.17%](#).**

A Month of Tariff Uncertainty & Volatility

The ongoing tariff talk has been a rollercoaster ride of volatility. Here is the tariff-talk roundup:

- Starting out the month of April, additional imposed and imminent retaliatory tariffs sent major U.S. stock market averages sharply lower, experiencing their worst week since 2020.
- At the close of the first trading week of the month, the Dow landed in correction territory, and the Nasdaq Composite landed in bear market territory (a 20% or greater decline from a recent high).
- But hold the phone. As the month progressed into the second week, we not only got some unprecedented volatility, but we also got some tariff relief.
- The tone on tariff uncertainty seemed to be one of less concern towards the end of the month, as investors looked for more progress

on tariffs.

Inflation Moderation

Inflation metrics showed more signs of moderating in April – a welcome sign during a period of market turbulence.

Consumer Price Index (CPI)

- The Consumer Price Index (CPI) for March (April data release) reported an annual inflation rate of 2.4%. This reading represents a decline of 0.1% from the previous month and a decrease from 2.8% in February, reaching a six-month low. This data was two ticks lower than Dow Jones estimates, which predicted an inflation rate of 2.6%.
- **Additionally, Core CPI, which excludes food and energy prices, reached a four-year low in March. This development is quite encouraging news for the economy, especially given the lingering concerns about inflation related to tariffs.**

Producer Price Index & Core PCE

- The March Producer Price Index (PPI) dropped unexpectedly in March, with the wholesale pricing metric showing a 0.4% drop, supportive of an easing inflation narrative.
- Core Personal Consumption Expenditures (PCE), the Fed's preferred inflation gauge, was released towards the end of the month, so it is the freshest piece of inflation data. Data showed that Core PCE softened to 2.6% in March, matching consensus estimates and reaching a multi-year low.

Putting together the inflation metrics released in April, one could surmise a cooling narrative, while the future impact of tariffs is yet to be known.

Q1 Earnings Season

- As May begins, we have the meat of earnings season underway.
- At the time of writing, several Magnificent 7 earnings reports are yet to be announced.
- However, we did get stronger than expected Q1 revenue from Meta, and strong results from Microsoft.

Fed & Treasuries

There was no Fed meeting in April, but the next meeting is right around the corner on May 7th-8th. Meeting minutes from the last Fed meeting were released in April, however.

- Meeting minutes showed concerns over the potential impacts of tariffs on inflation. As a result, the tone was one of rate cuts being on hold.
- At the close of the last trading day of April, Fed Funds futures markets are pricing a [high probability \(91.6%\)](#) that the Fed will leave rates unchanged at the May meeting.

- Looking ahead to the June Fed meeting, probabilities show a mixed picture, with a [59.6%](#) chance of a quarter-point cut by the Fed, as of the market close on April 30th.
- The U.S. 10-year note yield finished April around 6.9 basis points lower than March's monthly closing level, settling near [4.177%](#).

GDP Contraction

- The U.S. economy shrank at a [0.3%](#) annualized rate in the first quarter of 2025, based on Gross Domestic Product (GDP) data, as policy uncertainty weighed on the minds of Americans.
- Imports for the first quarter soared ahead of tariffs, affecting GDP data to the downside.
- The Q1 GDP data print was a tick worse than estimates by Bloomberg economists for a contraction of 0.2% and was the first quarter of negative GDP growth since Q1 2022.

Labor Market

- Amid last month's high stock market volatility, payroll data was strong, with 228,000 jobs created in March, compared to [expectations](#) of 140,000. The unemployment rate rose slightly to 4.2%.
- The healthcare sector led job creation, and average hourly earnings increased by 0.3% in March. Although strong labor market data typically garners market attention, the report released at the beginning of April coincided with tariff turbulence.

The Consumer: Retail Sales vs. Sentiment

- Data from the University of Michigan indicated that consumer sentiment dropped to one of its lowest levels recorded in April, marking the fourth consecutive month of decline. However, the reading of 52.2 was better than the expected 50.8.
- **In March, retail sales skyrocketed, with analysts comparing it to a ["gigantic clearance sale"](#) due to expectations of rising prices in the coming year. Consumers rushed to buy items, particularly in the motor vehicle sector. This resulted in a 1.4% sales increase that exceeded the Dow Jones' 1.2% forecast and was a significant rise from February's 0.2% rise.**

May Flowers?

Spring sprung with a wild month of April for the financial markets. By the end of April, as attention turned to the May 8th Fed meeting and earnings, the broader tone had at least somewhat shifted away from extreme pessimistic sentiment.

Tariff and policy uncertainty is alive and well, but earnings are at the front of the market's collective minds at the time of writing. All the while, the markets are digesting the contracting GDP data released on the last day of April.

While nobody can know what is ahead, April was a testament to the importance of [staying calm and collected](#) during periods of market volatility for the long-term investor. As markets experienced high volatility and doubt during April, the close of the month looked much better than the beginning.

If you would like to discuss the current market outlook and explore investment strategies based on your objectives or market developments, please feel free to contact your advisor.

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