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Doll's Deliberations®

Weekly Investment Commentary

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Summary

Stocks were higher as the S&P 500 increased to 5.33%—only 3% off its February record close. Stocks rallied post the announcement that the U.S. and China would ease trade tensions. Best performers were technology (8.21%) and consumer discretionary (7.76%); laggards included healthcare (0.31%) and real estate (0.94%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	3.50	0.89
S&P 500	5.33	1.81
NASDAQ	7.21	-0.26
Russell 1000	4.54	1.07
Russell 1000 Growth	7.09	0.19
Russell 1000 Value	3.27	3.77
Russell 2000	3.57	-5.63

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	6.55	2.08
Consumer discretionary	7.76	-4.60
Consumer staples	1.56	6.92
Energy	3.46	0.68
Financials	3.53	7.28
Heathcare	0.31	-2.82
Industrials	5.59	9.43
Information technology	8.21	-0.40
Materials	2.53	3.92
Real estate	0.94	3.98
Utilities	2.48	9.44

Key takeaways

1. April retail sales slowed, but signs of resilience in discretionary spending and labor data suggest U.S. consumers are holding up.
2. April's CPI and PPI came in cooler than expected, but tariff-driven supply shocks will likely keep the Fed from reducing rates anytime soon.
3. Either soft data bounces back or hard data weakens, or some combination of both occurs.
4. Unemployment claims will probably be the first piece of hard data to show weakness—consumers are worried about their jobs and credit.
5. Yields have crept back toward cycle highs (approaching 4.60% for 10-year and 5.00% for 30-year Treasurys) as recession fears lessen and tariff tensions ease.
6. With tariffs being walked back closer to pre-"Liberation Day" levels, and the "One, Big Beautiful Bill" looking unlikely to provide any noticeable decrease in deficit levels, 10-year Treasury yields have rallied as the equity market recovered, with equities up 18% from the closing lows, while the 10-year Treasury yield has increased 40-50 basis points (bps) from its early April lows.
7. The delay of capital expenditures due to uncertainty around tariff policy is freeing up capital that can be redirected toward more accretive uses, such as share buybacks.
8. The U.S.-China trade truce triggered a market rally, but tight policy, lingering inflation risks, tariff-related drag, and now higher valuations still support a defensive stance.
9. President Trump is scrambling to bring forward fiscal stimulus to bandage the self-inflicted economic wound that tariffs created.
10. OPEC+'s recent decision to accelerate the unwinding of its previous output cuts and the prospect of further supply hikes in the months ahead have increased the downside risks to oil prices.

Rising equities reflect easing tariff tensions

President Trump has pulled back considerably from claiming he will pursue trade tariffs regardless of the near-run economic damage. The main takeaway from the past few months is that there are limits to how far U.S. trade policy can be pushed when Treasury and equity markets riot (as well as increasing complaints from the business sector). However, it is still possible that Trump could flip and return to an aggressive tariff stance now that the financial markets have rebounded so strongly, especially if the economy proves resilient.

While the U.S.-China tariff "deal" represented a welcome de-escalation, it remains only a 90-day arrangement and leaves U.S. tariffs both much higher than before and high enough to still impose significant costs on U.S. consumers. It also means lingering uncertainty for the U.S. and global business sector. The world, including the U.S., still faces unpredictable U.S. trade policies. The bottom line is that although the peak in trade worries may be in the past, conditions remain uncertain and may yet change again for better or worse. As it stands, U.S. tariffs are notably higher than on Jan. 1, and it is still uncertain as to whether the tariff war will completely fade away.

For now, global financial markets have shifted back to risk-on because of the administration's retreat on the trade war. This shift may persist for a while now that the administration is moving on to get approval of a historically huge $5 trillion fiscal spending package, partly to offset near-term weakness in the economy. The key to equity and credit markets holding up will be whether the Treasury market can stay calm, and earnings estimates can hold reasonably well. While the dollar may stabilize for a while as oversold conditions unwind, we expect further weakness over the long run.

International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	3.53	4.84
MSCI ACWI EX U.S.	1.58	12.55
MSCI EAFE	0.81	14.20
MSCI EM	3.14	10.09

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	-0.23	1.97
Bloomberg U.S. Corp High Yield	0.75	2.30
Bloomberg U.S. Gov/Credit	-0.21	1.89
Bloomberg U.S. T-Bill 1-3 Month	0.05	1.57

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	0.00	1.43
Commodities (DJ)	-1.68	3.87
Global listed private equity (Red Rocks)	3.21	0.85
Currencies (DB Currency Future Harvest)	0.68	-1.40

While downside U.S. economic risks have also eased somewhat, the country's inflation outlook has not, and arguably may worsen. Rather than a big one-off spike in consumer goods prices due to massive tariffs, the less-bad economic outlook compared with a month ago means that the pressure on domestically generated consumer prices will persist. There is a dearth of economic slack in the U.S., resulting in greater ongoing price and wage pressures compared with recent decades.

The danger for equity markets is that investors shift from worrying about the economic fallout due to the escalating trade war to celebrating a reduction in economic risks, to then having to face rising Treasury yields and/or further earnings estimate declines. The trade war was bearish for earnings expectations, whereas higher bond yields will compress P/E ratios and eventually could undermine corporate earnings if yields rise to economically restrictive territory.

Conclusion

The sizable pivot in the tariff war has allowed risk asset prices to recover. Near-term prospects are favorable, assuming there is no pivot back to aggressive trade actions. Nevertheless, sticky inflation and the likelihood that the global economic expansion will stay on track underscore the risk of higher bond yields beyond the near run, especially in the U.S. where already huge budget deficits are set to increase. The U.S. dollar was oversold and may bounce further in the near run. However, a rebalancing of portfolios away from the U.S. should persist as the premium equity valuations associated with the U.S. exceptionalism theme have further to unwind.

Source: Bloomberg as of May 16, 2025

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