CROSSMARK GLOBAL INVESTMENTS

June 2, 2025 | Issue 5.23

Doll's Deliberations®

Weekly Investment Commentary

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Summary

Equities increased (S&P 500 1.90%) last week, offsetting some of the prior week's loss. Highlights included lots of tariff crosscurrents and NVIDIA's earnings. Best sectors were real estate (2.75%) and technology (2.36%), underperformers included energy (-0.43%) and materials (0.90%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	1.67	0.08
S&P 500	1.90	1.06
NASDAQ	2.02	-0.74
Russell 1000	1.85	0.99
Russell 1000 Growth	2.31	-0.27
Russell 1000 Value	1.33	2.50
Russell 2000	1.72	-6.48

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	2.12	3.59
Consumer discretionary	1.71	-5.96
Consumer staples	1.80	8.45
Energy	-0.43	-3.88
Financials	1.80	5.86
Heathcare	1.88	-3.10
Industrials	1.49	8.83
Information technology	2.36	-1.57
Materials	0.90	3.63
Real estate	2.75	3.35
Utilities	1.15	9.07

Key takeaways

1. Durable goods orders fell 6.3% in April after four months of gains. This weakness suggests softer shipments in the coming months, which will negatively impact GDP growth.
2. Consumer confidence surged to 98.0 in May, a significant jump from April's five-year low.
3. As reflected in numbers 1 and 2 above, "hard" data is slowly deteriorating (durable goods) and "soft" data is slowly improving (consumer confidence).
4. Business tax refunds to small businesses are becoming a large, unrecognized source of stimulus in 2Q, running at a $225 billion annualized rate.
5. Fed minutes reflect the risks of both higher unemployment and inflation. Such a scenario could pit the Fed's goals of stable prices and maximum employment against one another.
6. The net cost of the "Big Beautiful Bill" is estimated at nearly $2.4 trillion over 10 years. This is slightly higher than the $2.1 trillion in tax revenue expected from Trump's trade fight. In other words, tariffs may largely offset the tax cuts.
7. With all the back and forth on the "Big Beautiful Bill" and DOGE, we want to reinforce our assertion that the ONLY way to seriously address the debt/deficit problem is via entitlement cuts.
8. Trump's threat to impose a 50% tariff on the EU re-awakened trade fears. Walking that threat back and the EU accelerating talks have repaired that temporary fear.
9. The courts ruled unfavorably on the legality of most of President Trump's tariffs. The ruling has been appealed and adds to the uncertainty around tariffs. Although the administration will attempt other options to impose the tariffs, if not successful, that will lessen both the growth-dampener and inflation-enhancer impacts.
10. Full-year EPS estimates for the S&P 500 continue to drift lower, now sitting at $262 implying a 7% growth rate. Downward revisions thus far largely reflect the direct impacts of the tariffs.

Are we out of the woods yet?

As the dust settles after a volatile first five months of the year, investors are biased to buy risk assets. Record or near-record highs are frequently recorded in a wide range of markets, including equities, credit, real estate, gold, etc. Clearly, there is no shortage of investable liquidity.

This year's recession scare had nothing to do with monetary policy or the level of bond yields. The implication is that the environment is still pro-growth, albeit with some headwinds from higher tariffs and heightened economic uncertainty. The trade outlook is still muddled, with last week's U.S. court rulings adding to the uncertainty; still the angst about the trade war is likely past the worst. That said, the administration will challenge any court setbacks, and still has tools it can employ to enact tariffs.

Even assuming trade angst gradually recedes, the investment backdrop will remain challenging, as risk asset valuations may eventually be under downward pressure from sticky inflation and competitive interest rates. Although the U.S. tariff pivot has reduced the case for a recession, it has also raised the likelihood that inflation stays sticky. The most likely outcome is slowing growth and stubborn inflation, with mildly better growth in much of the rest of the world. Offsets to the economic headwinds from higher tariffs and increased policy uncertainty include ongoing fiscal stimulus, lower policy rates in the past year, and lower energy prices. Importantly, the world economy was performing well, and in some cases improving, coming into 2025.

While a decent economic outlook is directionally supportive of equity markets, the powerful price rebound since the tariff pivot has reduced future upside. The U.S. market is losing some support from global investors and will face a modest drag on the earnings expectations front. Moreover, higher bond yields will ultimately be equity-bearish. While 10-year government bond yields are below their cycle highs, further out on the yield curve the picture is quite different. The surge in yields for long maturity debt may be a warning of greater overall bond market weakness ahead. The bear-steepening in the yield curve is an indication that the disinflation/low inflation era of the previous four decades is over.

Government debt trends rarely impact bond market pricing and investor sentiment because they have historically been slow moving. In recent decades, large budget deficits usually only occurred during recessions, when deflation concerns dominated and private credit demands were subdued. This decade has seen a break in that pattern, as historically large deficits have persisted even during the economic expansion.

International equity markets (Index total return %)	**Last week**	**Year-to-date**
MSCI ACWI	1.42	5.40
MSCI ACWI EX U.S.	0.59	14.33
MSCI EAFE	0.85	16.82
MSCI EM	-0.04	9.91

Fixed income markets (Index total return %)	**Last week**	**Year-to-date**
Bloomberg U.S. Aggregate Bond	0.66	2.23
Bloomberg U.S. Corp High Yield	0.73	2.67
Bloomberg U.S. Gov/Credit	0.68	2.24
Bloomberg U.S. T-Bill 1-3 Month	0.03	1.74

Alternatives (Index total return %)	**Last week**	**Year-to-date**
Real estate (FTSE NAREIT)	2.61	1.78
Commodities (DJ)	-2.56	3.05
Global listed private equity (Red Rocks)	1.37	0.24
Currencies (DB Currency Future Harvest)	0.29	-1.86

Conclusion

Further bumps are probable and economic uncertainty will persist, but tariff concerns have likely peaked. The implication is directionally positive for U.S. and global growth, albeit with the downside of reinforcing sticky inflation. Equity markets may celebrate improved prospects for a continuation of the global economic expansion for a while longer. However, equity bulls will need to pay attention to de-rating pressures and earnings shortfalls.

Source: Bloomberg as of May 30, 2025