

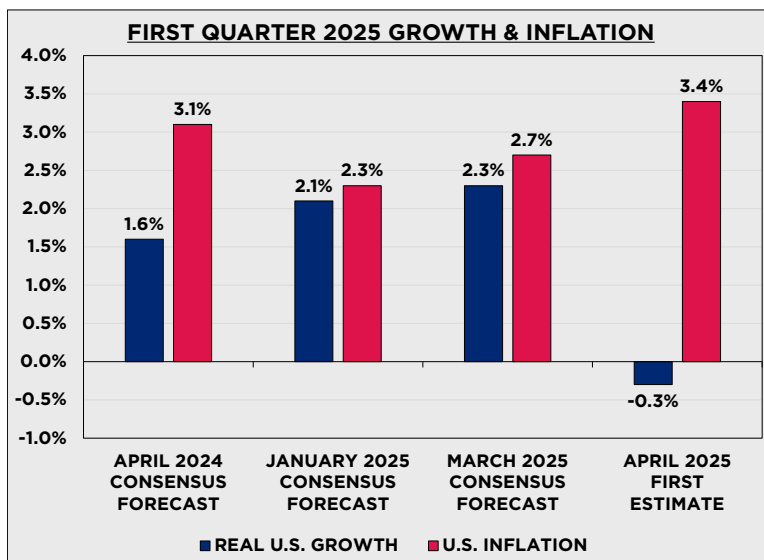
# Market update

May 1, 2025

Market volatility remained elevated in April and returns varied widely between and within market sectors. Notable in the year-to-date was the absolute 14.7% return gap between U.S. stocks and foreign stocks, with the advantage going to foreign. Among U.S. stocks, an equally notable return spread occurred in April between the best sector, technology (+1.6%) and energy (-13.6%). Extremes were found amidst commodities in both April and the year-to-date with sizable gains for precious metals and substantial losses for energy. In comparison, fixed-income market returns were modest and volatility was relatively benign.

	April	Y-T-D
• U.S. Taxable Bonds	+0.4%	+3.2%
• U.S. Stocks	-0.7%	-5.5%
• Foreign Stocks	+3.7%	+9.2%

Volatile financial markets are reflecting an increasingly uncertain economic outlook. Of growing concern has been the downtrend in consumer sentiment, which has fallen for four consecutive months. The latest reading matches the pandemic low and is the lowest since the challenging days of 1980. Growth expectations have fallen while inflation expectations have soared. While forecast levels for real growth rates are being scaled back, even the latest outlook may not be incorporating the first quarter contraction just reported. Tariff outcomes loom large both as potential levels have exceeded earlier expectations and as effective rates remain uncertain.



The perils of economic forecasting are clear as shown here for the latest quarter. Upward revisions to the 1Q2025 real growth forecast persisted right up to one month ago, even as concerns over the potential impact of tariffs had grown in recent months. While sentiment clearly has been shifting to slower growth, the first estimate of an outright contraction in real growth for the quarter generally was not expected. Inflation expectations have been equally challenging with the 1Q2025 first estimate well above the Federal Reserve's comfort zone. Stagflation now emerges as a descriptor of the U.S. economy consistent with the latest data. The course ahead for U.S. monetary policy is unclear in advance of the Fed's policy meeting next week. Calls for lower interest rates are bolstered by declining real growth but at odds with rising inflation. A real policy dilemma is at hand.