



Market Commentary

Weekly perspective on current market sentiment

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Last week's S&P 500 Index: -0.5%

Nice surprise

Key takeaways

- Going in, we thought the probability of last weekend's U.S./China trade talks yielding anything substantial was low.
- But lo and behold, there was a bit of a surprise in the outcome, and the initial market reaction was a strong positive for equities.

Last Thursday's and Friday's trading appeared to be dominated by market participants getting positioned for the much anticipated initial meeting in Geneva between trade negotiators for the United States and China that occurred over the weekend. Plenty of uncertainty surrounded the potential outcome, and a more risk-off mentality seemed a wise choice, in our view. We thought the outcome would be an agreement to have further discussions and the probability of anything substantial was low.

But lo and behold, there was a bit of a surprise in the outcome, and the initial market reaction was a strong positive for equities. So strong, in fact, that as of the time of this writing the S&P 500 Index is trading just 4.9% below the all-time record high set back in mid-February. Recall that in early April the index briefly touched the 20% pullback level from the intraday record high, hitting what some would call the threshold of a bear market. It's been a quick bounce back over the past five weeks or so that's been driven by a variety of factors including better-than-expected earnings and, particularly, guidance during the first-quarter reporting season as well as expectations that some trade deals would be announced (i.e., last week's U.K. deal). It also has helped that much of the reported data covering April has so far continued to show U.S. economic resilience.

The weekend trade agreement details as we currently know them show a 90-day pause or cooling-off period where both sides have reduced their tariffs. Without getting too far down in the weeds, the U.S. took its 145% tariff rate down to 30% while China lowered its rate from 125% down to 10%. Dramatic reductions by just about any measure. The joint statement released in the wake of the meeting carried a positive tone and suggested further negotiations will have positive outcomes and that neither side was seeking a complete decoupling. Of course, as always, the devil is in the details and a deal has not officially been inked. A lot can happen between now and then.

So the U.S. is now in two temporary tariff suspensions: one on a large group of countries that expires on July 12 and now the one with China that begins on May 14. It appears that even with the announced deals with the U.K. and other countries as well as the initial give-and-take with China the level of tariffs will remain in the double-digits. And keep in mind that at the same time the U.S. economy is slowing down and we believe will likely not see a notable rebound until late this year and as we move into 2026.

The bottom line is that many uncertainties remain. The U.S. is in the early stages of trade negotiations. Given that, our guidance is to continue to lean toward higher-quality large- and mid-cap U.S. equities. In fixed income, we favor exposure to investment-grade corporates and essential-service municipal bonds in the three-to-seven-year maturity range.

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