ACIMA PRIVATE WEALTH
ECONOMIC & INVESTMENT PERSPECTIVES
May 1, 2025

## APRIL: US EQUITY TARIFF TANTRUM CONTINUES
## GROWTH, INFLATION, EMPLOYMENT & THE FED

**Figure 1: 4/30/2025 Returns** (source: FactSet)
*Conditional formatting: green (high) to red (low) for each time period*

| Bonds | ETF | Month | YTD | 1YR | vs. 52-wk High | vs. 52-wk Low |
|---|---|---|---|---|---|---|
| US Aggregate Fixed Income | AGG | 0.4% | 3.2% | 8.0% | -3.0% | 4.2% |
| Investment Grade Corp Bonds | LQD | -0.3% | 2.2% | 7.5% | -5.3% | 4.4% |
| U.S. 20+ YR Treasuries | TLT | -1.4% | 3.5% | 5.6% | -12.0% | 5.4% |
| Muni Bonds | MUB | -0.4% | -0.9% | 1.5% | -3.7% | 4.4% |
| US High Yield | HYG | 0.1% | 1.4% | 9.3% | -2.2% | 4.7% |
| Non-US Corp Bonds | IBND | 6.0% | 10.6% | 12.4% | -1.5% | 12.6% |
| Emerging Markets Bond LC | EMLC | 3.1% | 7.5% | 9.3% | -4.2% | 6.7% |
| **Global Equity** | | | | | | |
| ACWI Global Equity | ACWI | 0.5% | -0.4% | 12.0% | -5.8% | 15.5% |
| ACWI Global Equity ex US | ACWX | 2.7% | 9.2% | 12.5% | -1.7% | 16.2% |
| International Developed | EFA | 3.7% | 12.1% | 13.1% | -0.5% | 17.5% |
| Emerging Markets | EEM | 0.1% | 4.6% | 9.3% | -7.8% | 14.6% |
| **Global Equity by Region** | | | | | | |
| United States | VTI | -0.7% | -5.5% | 11.2% | -10.1% | 15.4% |
| Europe | IEUR | 4.0% | 15.9% | 14.6% | -0.5% | 17.7% |
| Asia ex-Japan | AAXJ | -0.3% | 2.3% | 10.3% | -10.3% | 14.7% |
| China | MCHI | -5.0% | 10.2% | 26.3% | -13.6% | 29.3% |
| Japan | BBJP | 4.3% | 6.6% | 8.8% | -3.5% | 19.4% |
| Latin America | ILF | 5.7% | 19.1% | -2.8% | -13.5% | 19.5% |
| **US Equity** | | | | | | |
| US S&P 500 | IVV | -0.7% | -4.9% | 12.1% | -9.5% | 15.3% |
| NASDAQ 100 QQQ | QQQ | 1.4% | -6.9% | 12.7% | -12.1% | 18.2% |
| US Large Growth | IWF | 1.6% | -8.6% | 14.2% | -12.6% | 18.8% |
| US Large Value | IWD | -3.1% | -1.1% | 8.3% | -9.1% | 11.7% |
| US Eqwt S&P 500 | RSP | -2.4% | -3.0% | 6.6% | -10.1% | 12.5% |
| US Mid Cap | IJH | -2.5% | -8.4% | 1.0% | -16.7% | 13.5% |
| US Small Cap | VTWO | -2.4% | -11.6% | 0.8% | -20.6% | 13.5% |

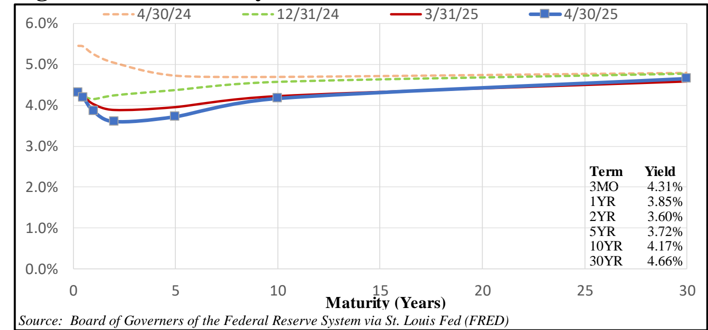
Investors endured a rollercoaster ride in April as stocks lurched from one tariff announcement to the next, moving aggressively lower after higher-than-expected tariffs were announced on 4/2. The S&P 500 closed 19% below all-time highs on 4/8 before rallying after tariff implementation was delayed. Performance highlights for April and year-to-date (YTD) are below.

- **Bonds:** The US Aggregate index (AGG) rose 0.4% this month (+3.2% YTD). Long-term Treasuries (TLT) are very sensitive to interest rates, falling 1.4% (+3.5% YTD) as long yields rose. Corporate bonds (LQD) and high yield (HYG) underperformed. Non-US bonds outperformed as the dollar weakened.
- **Global equity:** ACWI +0.5% in April (-0.4% YTD).
- **US Equity:** The broad market (VTI) fell 0.7% (-5.5% YTD); the S&P 500 (IVV) lost 0.7% (-4.9% YTD) and is now 9.5% below all-time highs set in mid-February. Small stocks (VTWO), which are highly sensitive to US economic growth, were down 2.4% (-11.6% YTD) and are more than 20% below all-time highs. Most sectors were flat or down for the month, but energy stocks (XLE) fell 13.9% as oil prices dropped to $58 per barrel on fears of slowing global growth and demand.
- **Non-US Equity:** Stocks outside of the US continued to outperform. Developed markets (EFA) gained 3.7% (+12.1% YTD), with solid gains of more than 4% in Europe (IEUR) and Japan (BBJP), partially due to currency strength versus the weak US dollar. Emerging market stocks (EEM) gained 0.1% (+4.6% YTD), with the gains of more than 4% in multiple markets (India, Brazil, Canada, Korea); China (MCHI) was the outlier, down 5.0% (+10.2% YTD) due to trade tensions with the US.

## Interest Rates and the Economy

Interest rates have been volatile amid concerns about tariffs, inflation and economic growth. Short-term yields moved lower as investors priced in the increasing potential for an economic slowdown or recession and the need for more aggressive rate cuts by the Federal Reserve (Fed). While the Fed is expected to hold rates steady when they meet May 6-7, investors continue to focus on incoming economic data to set expectations for future rate cuts, with three or four more 0.25% cuts expected later this year. The yield curve (Figure 2) plots the interest rates for various US Treasury maturities. US 10-year Treasuries now yield 4.17%.

**Figure 2: US Treasury Yield Curve**

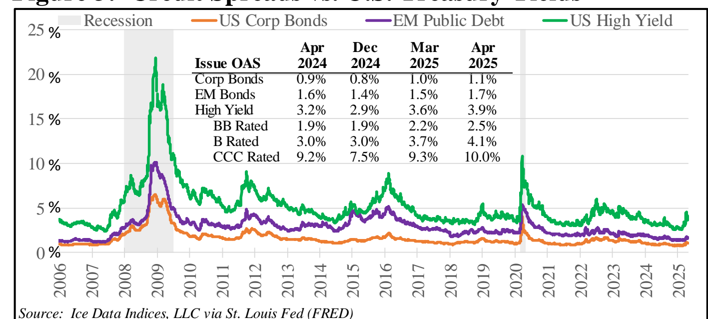


*Source: Board of Governers of the Federal Reserve System via St. Louis Fed (FRED)*

For bonds other than US Treasuries, we track the option-adjusted spread (OAS) between their yields and Treasuries of comparable maturities (Figure 3). Low or narrowing spreads signal optimism; high or widening spreads signal fear. Spreads widened this month, reflecting the "risk off" tone of US markets.

- Investment grade corporate bond spreads widened to +1.1% but have been relatively stable over the past year.
- High yield (non-investment grade) spreads widened to +3.9% last month and are up from the +3.2% spreads a year ago. Spreads of the riskiest bonds (rated CCC & below) widened to +10.0% and are well above the +9.2% spreads one year ago.
- Emerging market spreads widened to +1.7% but have relatively stable over the past year; investors see low risk in EM debt.

**Figure 3: Credit Spreads vs. U.S. Treasury Yields**



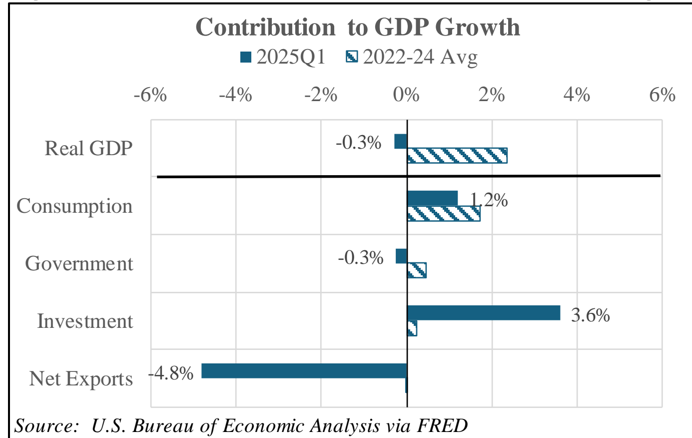

| Issue OAS | Apr 2024 | Dec 2024 | Mar 2025 | Apr 2025 |
|---|---|---|---|---|
| Corp Bonds | 0.9% | 0.8% | 1.0% | 1.1% |
| EM Bonds | 1.6% | 1.4% | 1.5% | 1.7% |
| High Yield | 3.2% | 2.9% | 3.6% | 3.9% |
| BB Rated | 1.9% | 1.9% | 2.2% | 2.5% |
| B Rated | 3.0% | 3.0% | 3.7% | 4.1% |
| CCC Rated | 9.2% | 7.5% | 9.3% | 10.0% |

*Source: Ice Data Indices, LLC via St. Louis Fed (FRED)*

## Growth, Inflation, Employment & The Fed

The Bureau of Economic Analysis (BEA) reported yesterday that US real GDP contracted at an annualized rate of -0.3% in the first quarter (Q1) of 2025. (Real GDP stands for Gross Domestic Product, the value of all final goods and services produced in the US, adjusted for inflation.) After several years of consistently positive growth, the economy slowed due to uncertainty and consumer pessimism amid aggressive tariff and trade war rhetoric. An analysis of the four primary sub-components of real GDP growth in the quarter (Q1) is instructive (Figure 4), but it is worth noting that this GDP data pre-dates the "Liberation Day" announcements on April 2 and the subsequent back and forth on tariffs.

**Figure 4: US Real GDP Growth 2025Q1 vs. 3-YR Average**



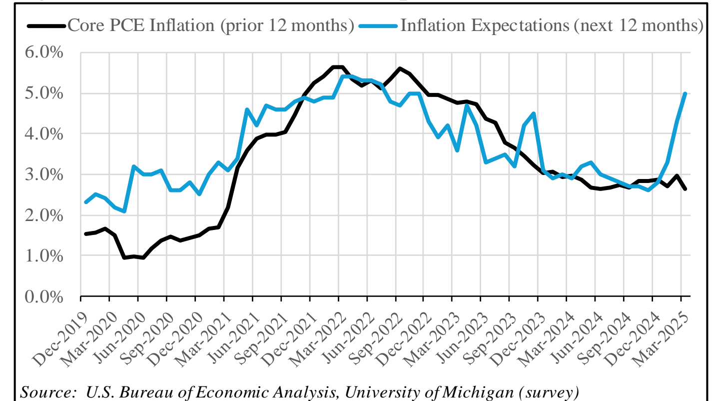
*Source: U.S. Bureau of Economic Analysis via FRED*

The Q1 contraction was due to a huge increase in the trade deficit as US buyers rushed to import foreign goods before US and reciprocal tariffs were implemented. The growth drag was partially offset by higher business spending, including a sizable inventory build (stocking up on imported goods). Comparing Q1 versus the 2022-2024 trend highlights the shifts in recent economic activity:

- **Personal Consumption:** 68% of the US economy is powered by consumer spending, which continues to contribute positively to growth, albeit at a lower rate relative to recent years (likely reflecting declining consumer confidence).
- **Government Expenditures:** 17% of GDP is driven by direct consumption of goods and services by federal, state and local governments; the impact on overall growth was positive over the past three years but negative in Q1, largely due to a decline in federal government spending on national defense.
- **Private Investment:** 18% of the economic output comes from business spending and investment activity, including construction, equipment, manufacturing and inventories; businesses accelerated equipment and IT investment and built inventories, likely front-running anticipated tariff-related price increases.
- **Net Exports:** The US has run a trade deficit (the net value of US exports minus imports) since the 1980s, and an unusually large trade deficit contributed negatively to Q1 growth; imports surged 41% (annual rate) as US buyers accelerated foreign purchases in anticipation of tariff-related price increases.

The confusing GDP report and uncertainty around the potential impact of tariffs and trade wars make the job of the Federal Reserve (the Fed) more difficult. Their legislated "dual mandate" is to maintain price stability (low inflation) *and* full employment. Significant progress has been made toward bringing inflation down to the 2% target, but tariffs are likely to cause price increases, reversing that progress. In fact, inflation expectations are rising rapidly; Figure 5 plots the Fed's favored inflation metric (core Personal Consumption Expenditures, which excludes volatile food and energy prices) versus year-ahead inflation expectations from the University of Michigan's monthly survey.

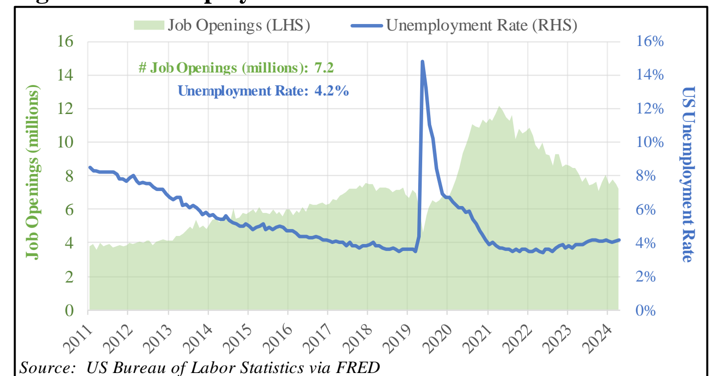
**Figure 5: Inflation – Actual vs. Expectations**



*Source: U.S. Bureau of Economic Analysis, University of Michigan (survey)*

The Fed is in wait-and-see mode regarding inflation, but as Chairman Powell stated on April 16, "We may find ourselves in the challenging scenario in which our dual mandate goals are in tension." This suggests potential "stagflation" (weak growth, rising unemployment, higher inflation). The job market is healthy (Figure 6), but job openings have declined to pre-pandemic levels and unemployment has inched higher (still historically low). Further rate cuts are not expected until later this year, but labor market weakness could lead the Fed to cut sooner and more aggressively.

**Figure 6: US Employment Metrics**



*Source: US Bureau of Labor Statistics via FRED*

## Bottom Line

US markets continue to be volatile amid on-going uncertainty around tariffs and trade, and investors are further unnerved by aggressive attacks leveled against the Federal Reserve. Their job is difficult and imprecise under the best of circumstances, but Fed independence is seen as critical to maintaining the integrity of US markets and the dollar's status as the world's reserve currency.

Economists and strategists are worried about potential stagflation (sluggish growth and high inflation) and rising recession risks. Investors remain focused on incoming inflation and employment data to assess when the Fed might cut interest rates further. Given the long list of the new administration's policy priorities pending in a highly partisan Congress, market volatility is likely to persist in the near term. Diversification remains critical (as always).

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