Market Commentary – A Busy Week in Economic Data

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Last week was a very busy as far as economic reports and corporate earnings. The first quarter GDP report was released as well as the monthly PCE report. We received various updates on the labor market through the JOLTS report, ADP Private Payrolls report and the Non-Farm Payroll report as well as weekly jobless claims. We also had the biggest week of corporate earnings with 36% of S&P 500 companies reporting. On top of all these reports, investors continued to look for clues on the progress of tariff and trade negotiations from the White House. Let's review what we heard.

1st Quarter GDP

When the word recession is on top of investors' minds, a negative GDP report can sometimes cause increased concerns, but that was not the case this week. While the GDP report showed a 0.3% annualized drop in economic activity, there were some distortions within the report. GDP is calculated by adding up spending by businesses, consumers and government, plus spending by foreigners on American exports. Imports are then subtracted from this total, to arrive at spending on American-sourced products.

Imports surged 41.3% in the 1st quarter as consumers and businesses front-loaded these purchases before possible higher tariffs are implemented. The volatile components of GDP, including imports, exports and inventories, were big swing factors in Q1 and will be this quarter. Historically it takes two to three months between when a good is imported and when it shows up in inventories. However, inventories added 2.25% to Q1 GDP and it's "the change in the change" in inventories that matter, implying that risks are that inventories are not as big of a support in Q2, or are even a drag on growth.

There was some good news as real final sales to private domestic purchasers, the engine of the economy, posted a decent gain. increasing 3.0% in the first quarter, compared with an increase of 2.9% in the fourth quarter. This will be tested as the economy is being hit now by several shocks, including tariffs, supply-chain stress, tighter financial market conditions and uncertainty, but the daily data implies that the engine of the economy didn't stall early this quarter.

Consumer spending slowed during the period but was still positive. Personal consumption expenditures increased 1.8% for the period, the slowest quarterly gain since Q2 of 2023 and down from a 4% gain in the prior quarter. However, a separate report showed that spending was up 0.7% in March, higher than the 0.5% estimate. Spending had slowed down in January and February, but the colder weather and the flu season contributed to that slowdown.

Labor Markets

We had several reports showing further evidence of a low fire / low hire labor market. Overall, the labor market is healthy, but it is slowly moderating.

- JOLTS report – The Bureau of Labor Statistics reported that job openings fell 3.9% to 7.12mn in March, below the consensus forecast of 7.5mn. Job openings for February were revised down by 88,000 to 7.48mn.
- ADP Private Payroll report – Private sector payrolls rose by just 62,000 for the month, the smallest gain since July 2024, down from 147,000 in March and missing the Dow Jones consensus estimate for an increase of 120,000.

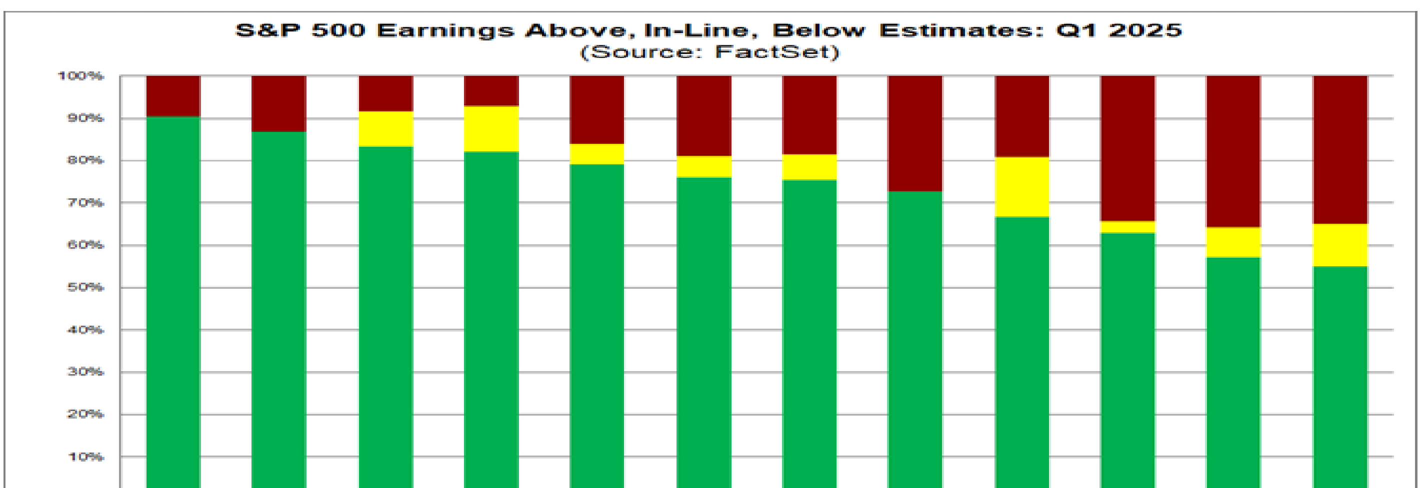
- Weekly Jobless Claims - First-time filings for unemployment insurance totaled a seasonally adjusted 241,000 for the week ended April 26, up 18,000 from the prior period and higher than the estimate for 225,000. Continuing claims, which run a week behind and provide a broader view of layoff trends, rose to 1.92 million, up 83,000 to the highest level since Nov. 13, 2021. Much of the gain seemed to come from one state — New York, where claims more than doubled to 30,043, according to unadjusted data. The increase may have been due to spring recess in New York public schools. In New York, some school workers are allowed to claim jobless benefits during school breaks and this jump may reverse itself next week.
- Non-Farm Payroll Labor report – The nonfarm payroll report had both good and bad news but overall, it showed that the labor market is holding up. Payrolls increased 177,000 in April, beating expectations of 135,000, and the unemployment rate remained at 4.2%. The prime-age labor force participation rate and employment-to-population ratios ticked higher, which was also encouraging news. On the other hand, increases in the number of permanent job losers and the duration of unemployment are both consistent with a labor market with a slow rate of hiring, making it difficult for the unemployed to find new jobs.

Inflation

Headline and core consumer prices were flat in March, as gas prices and airfares fell sharply and the hit to equity markets translated into a sharp slowdown in portfolio management charges. That helped push headline inflation down to 2.3%, while core inflation declined to 2.6%.

Corporate Earnings

We saw a heavy week of corporate earnings announcements, which included 4 of the Mag 7 (Meta, Microsoft, Apple, Amazon). Overall, 72% of the companies in the S&P 500 have reported actual results for Q1 2025 to date. According to FactSet, of these companies, 76% have reported actual EPS above estimates, which is below the 5-year average of 77% but above the 10-year average of 75%. In aggregate, companies are reporting earnings that are 8.6% above estimates, which is below the 5-year average of 8.8% but above the 10-year average of 6.9%. The blended (combines actual results for companies that have reported and estimated results for companies that have yet to report) earnings growth rate for the first quarter is 12.8% as of end of last week. If 12.8% is the actual growth rate for the quarter, it will mark the second consecutive quarter of double-digit earnings growth for the index. It will also mark the seventh consecutive quarter of year-over-year earnings growth.



	Health Care	Info. Technology	Comm. Services	Real Estate	Industrials	S&P 500	Financials	Consumer Staples	Materials	Consumer Disc.	Energy	Utilities
Below	10%	13%	8%	7%	16%	19%	18%	27%	19%	34%	36%	35%
In-Line	0%	0%	8%	11%	5%	5%	6%	0%	14%	3%	7%	10%
Above	90%	87%	83%	82%	79%	76%	75%	73%	67%	63%	57%	55%

Wrapping It All Up

While it was a busy week of economic reports and corporate earnings, in my opinion we did not learn anything new. The labor market and consumer spending have been moderating over the past few months but remain healthy. Corporate earnings also remain strong. We heard bits and pieces of tariff negotiation updates from the White House, which kept investors optimistic and the US equity markets pushing higher.

This week we will hear from the Fed after it concludes its meeting on Wednesday. The market is highly anticipating no interest rate cuts this week, but, as of now, there's a 40% chance of a rate cut at its June meeting. The markets are pricing in a total of 3 – 4 moves by the end of the year, which is a potential indication that the Fed will prioritize economic growth over inflation. Investors will focus on the Fed's statement and Powell's press conference to determine if that market pricing needs to be adjusted.

Investors' disciplines during periods of market volatility is always tested. Maintaining that discipline is essential for investors to achieve their investment goals. As the great Warren Buffet once said, **"The stock market is a device to transfer money from the 'impatient' to the 'patient'."** While the trade policy uncertainty has caused consumer sentiment and confidence to drop recently, investors should remain patient and disciplined. I recall flying back home from a conference in Montana the morning of Wednesday, April 9, 2025, a week after Trump's "Liberation Day" and following a 19% decline from the S&P 500 Index peak. No one was predicting that day would produce the 3rd best return day for the S&P 500 in the past 30 years, but sure enough, it did. Stay invested and stay diversified!