Clarus Wealth Advisors

Market Watch

May 5, 2025

Primary Market Drivers

Earnings & Economic Data

Last week's Nonfarm Payrolls gave stocks a boost to end the week, showing the labor market added +177k jobs vs expectations for +136.5k. This week's economic calendar is exceptionally light, with only Consumer Credit (5/7) and Productivity & Unit Labor Costs (5/8) on deck. Expect earnings to remain in focus this week (93 S&P 500 companies or 18.6% of the index) following strong results from big tech last week. We will see announcements from Ford (F 5/5), Palantir (PLTR 5/5), Archer-Daniels-Midland (ADM 5/6), Marathon Petroleum (MPC 5/6), Marriot (MAR 5/6), Advanced Micro Devices (AMD 5/6), Super Micro Computer (SMCI 5/6), Uber Technologies (UBER 5/7), Disney (DIS 5/7), Arm Holdings (ARM 5/7), ConocoPhillips (COP 5/8), and McKesson (MCK 5/8), among many others. So far, earnings have been solid despite market volatility and tariff outlook. With 72% of S&P 500 companies reporting, the blended earnings growth rate is 12.8% for Q1 2025, well above the 7.2% expectation. 62% have surpassed revenue expectations, etter than the 61% 1-yr average but below the 69% 5-yr average. Overall, companies are reporting earnings that are 8.6% above expectations, ahead of the 6.1% 1-yr average and slightly below the 8.8% 5-yr average.

Fed Policy

With recent inflation data coming in above expectations (Core PCE 0.3% vs 0.1%) and the labor market continuing to demonstrate significant strength (JOLTS +7192k vs 7480k, NFP +177k vs +136.5k), expectations for a rate cut this week have slipped to near zero (98.2% odds for "no change"). June's odds have taken a meaningful hit as well, now sitting at just a 34.1% chance of a rate cut. As we've seen many times over the past few years, the market continues to kick the can down the road as the Fed remains inactive and unwilling to adjust policy. It will be interesting to hear what Jerome Powell has to say on May 7th at his press conference in light of his negative comments recently at the Economic Club of Chicago, as much has changed since then.

Tariffs

While it is difficult to pin down specifically where trade negotiations stand, what we do know is that there are a large number of negotiations taking place, and that a handful of countries are getting close to finalizing a deal. Rumors are circulating that we will see some "trade deal frameworks" released this week. In the meantime, China appears to finally be ready to come to the negotiation table. At the end of last week, China said it is "evaluating" US proposals to initiate talks with the White House and that it has "proactively reached out" through multiple channels to discuss tariffs. This represents the first major de-escalation in between China and the US regarding trade, and equities soared on Friday. As we've stated, the situation surrounding tariffs remains fluid and impactful, and we will continue to update this section each week with the latest information.

All referenced market information, statistics, and economic data were gathered from StreetAccount, a paid subscription data service provided by FactSet Research Systems Inc.

Market Returns		5/2/2025
Category	*Ticker*	*YTD%*
Domestic Equity		
S&P 500	SPY	-3.01%
Dow Jones	DIA	-2.51%
Large-Cap Growth	QQQ	-4.24%
Large-Cap Value	IVE	-2.26%
Mid Caps	MDY	-5.67%
Small Caps	IWM	-9.06%
International Equity		
Developed Intl	EFA	13.87%
Emerging Markets	EEM	7.60%
Fixed Income		
Core Bonds	AGG	2.40%
Corporate Bonds	LQD	1.60%
High Yield Bonds	HYG	1.79%
ST Treasuries	IEI	3.32%
LT Treasuries	TLT	1.86%
International Bonds	BNDX	1.21%

Performance data and stock chart were gathered from eSignal, a paid market screening application provided by Intercontinental Exchange, Inc.

Current Environment Summary

What's Working	What's Not	What's Next
Inflation Falling	Tariff Policy	**Earnings: F, PLTR, AMD, UBER, DIS, COP**
Fed Easing Cycle	Global Economic Uncertainty	**18.6% of S&P 500 Reporting Earnings**
Strong Earnings Growth	Fed Inaction	**Fed Policy Decision (5/7)**
Interest Rates Falling	Equity & Bond Market Volatility	**Tariff Headlines**
Strong Labor Market	Status of Trade Negotiations Uncertain	Anticipating Trade Deals / Frameworks
Consumers Still Spending	Consumer Confidence Falling	S&P 500 Nearing 200-DMA

Portfolio Manager Commentary

Ken Hartley, CFA

The Catholic Church will elect a new leader this week, so all eyes are on the chimney of the Sistine Chapel. Will the smoke be black (no new Pope) or white (we have a new Pope)? I saw a clever meme over the weekend that showed the chimney spewing forth orange smoke….. This shortly after an AI created image of President Trump dressed as the Pope. I am quite sure that is an outcome not within the realm of possibility. Anyways, it was good for some laughs.

The US equity markets have staged a strong recovery from the panicked, tariff induced lows. The question now becomes: "Bear Market Bounce or recovery after a mild correction?" As we come to the end of earnings season, the markets are breathing a sigh of relief. The bond market seems to have settled down too. However, the test for the US government bond market will come this summer. Stay tuned.

There have been several calls lately about the relative underperformance of the S&P 500 vs International Equities. Let's take a look at some longer-term statistics:

As of May 2, 2025

	YTD	1YR	3YR	5YR	10YR	15YR
SPY	-3.01%	13.65%	12.63%	16.61%	12.33%	13.03%
EFA	13.87%	13.66%	11.16%	12.46%	5.53%	6.21%

Keep in mind, these are annual returns for the period indicated (courtesy of Morningstar). SPY is the S&P 500 ETF and EFA is the Europe and Far East ETF. The United States equity market is underperforming this year (4+ months) vs the "world". But as you can see, betting against the S&P 500 for 15 years would have been a cause of severe underperformance on a relative basis.

Stay focused on the long term. Short term trends are sometimes made emotionally and rarely are the wise choice.

Don Moenning

The S&P 500 has quietly finished higher for nine consecutive sessions, marking the index's longest winning streak since November 2004. De-escalation in trade rhetoric between the US and China, anticipation of trade deals with other countries, solid labor market data, and strong earnings have all played a part in the market's big rebound over the past two weeks. We've retraced over half of the decline from the February 19th closing high to the April 7th opening low. The S&P 500 is now very close to retaking its 200-day moving average, though we need some additional thrust this week. What would it take to keep the comeback going and turn what many are labelling a "bear market rally" into a legitimate "v-bottom?"

First, while the tariff situation is still fluid and subject to change at any point, the general consensus is that the worst is behind us. I find myself firmly in this camp, though I'm anticipating that a deal with China will take a long time and could be a very bumpy road. Still, the rhetoric has de-escalated and both sides appear to be willing to begin exploratory talks. I'm hoping for a bit of transparency moving forward, as we've seen conflicting reports of whether or not the nations have talked and who called who. A confirmation that the US and China are actually talking (by both sides) would be a confidence-builder at this stage and a bullish catalyst, and could come at any time.

Second, I'm hearing rumors that we will see "frameworks" of trade deals with other major countries as early as this week. The signed deals themselves appear to be a bit more complicated and contentious than many had hoped early on (see: Japan), but it appears the White House is determined to get a win and start showing some real progress. Sources suggest these framework reveals are imminent, which the market would love.

Third, the Fed will announce its policy decision on May 7th. It is a foregone conclusion that rates will remain unchanged, but Powell could walk back some of his recent negativity and right the ship with some dovish rhetoric. With his role at the Fed no longer in question, I wouldn't be surprised if there was a change in tone as investors look for hints at when the "pause" will end. We've seen some great labor market data and decent inflation data since his Economic Club of Chicago rant, so any calmness or clarity on policy path could be bullish for equities.

Finally, with the economic calendar barren this week, all eyes are on earnings. We have a slew of important tech announcements (PLTR, AMD, SMCI, UBER, ARM) and a diverse set of large cap announcements (F, DIS, COP, ADM, MPC) to give the market plenty to digest. Some smash earnings from AI-facing companies or solid guidance from consumer-facing companies could give equities another boost. So far, earnings have been pretty good, with some real standout announcements from Microsoft and Meta. Adding a few more big names to the winners circle could increase conviction that tariffs just aren't making the impact on corporate America that many have feared. It's another big earnings week and the results could be a catalyst if the trend of strong announcements continues.

I think it's still much too early to see real effects of tariffs on data, earnings, or guidance. That is a battle for a later date. This week feels all about seeing if the market can build on its bull case, centered around full employment, strong consumer spending, tariff de-escalation, and a healthy AI theme. I'm cautiously optimistic as we enter yet another pivotal week.

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