MONTH IN REVIEW

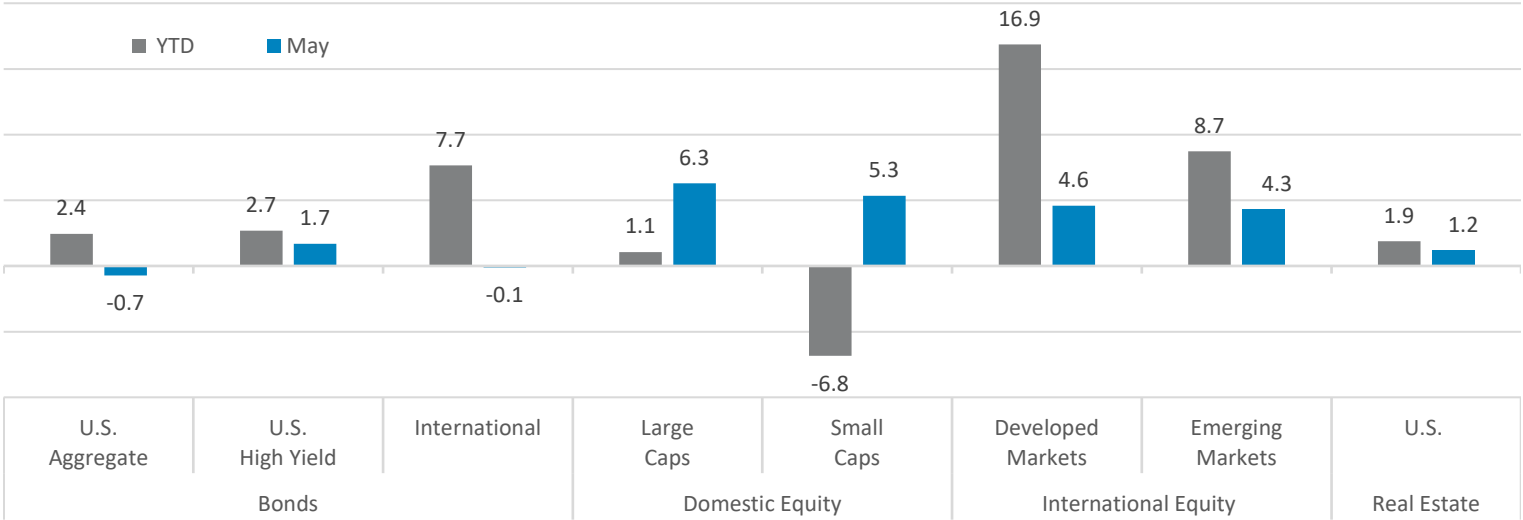
Prime Capital FINANCIAL

Quick Takes

- **Stocks Higher.** U.S. equity indices were higher in May as temporary breaks on tariffs and relatively strong earnings boosted sentiment. The S&P 500 jumped 6.1% and the Nasdaq 100 rose 9.0%. The Magnificent 7 rose about 13.3% in May as big technology companies reported quarterly results.
- **Inflation and Interest Rates.** The 10Y treasury yield rose in May to 4.4% as the U.S. House passed a budget bill that is expected to increase the deficit. Core PCE inflation for April was 2.5% while headline PCE inflation was below expectations at 2.1% mostly on lower food and energy inflation.
- **Trade Negotiations.** The U.S. and U.K. agreed to reduce some tariffs on cars and steel after a meeting between U.K. Prime Minister Kier Starmer and President Trump. The U.S. also reached a temporary agreement with China to pause tariffs put in place since April for 90 days and to reduce rates thereafter from the triple-digit levels touted before.
- **U.S. Fiscal Policy.** The House of Representatives passed a bill to extend the 2017 tax cuts, increase spending on the military and immigration enforcement, and reduce spending on Medicaid, SNAP benefits, and EV and green energy subsidies.

Asset Class Performance

Large caps outperformed small caps in May. U.S. stocks outperformed international stocks for the first time in four months as tariff reprieves and temporary trade agreements, better consumer sentiment, and strong technology earnings boosted U.S. stocks. Stocks and real estate were generally higher in May while U.S. bonds fell.



Source: Bloomberg, as of February 4, 2025. Asset-class performance is presented by using total returns for an index proxy that best represents the respective broad asset class. U.S. Bonds (Barclays U.S. Aggregate Bond TR), U.S. High Yield (Barclays U.S. HY 2% Issuer-Capped TR), International Bonds (Barclays Global Aggregate ex USD TR), Large Caps (S&P 500 TR), Small Caps (Russell 2000 TR), Developed Markets (MSCI EAFE NR USD), Emerging Markets (MSCI EM NR USD), Real Estate (FTSE NAREIT All Equity REITS TR).

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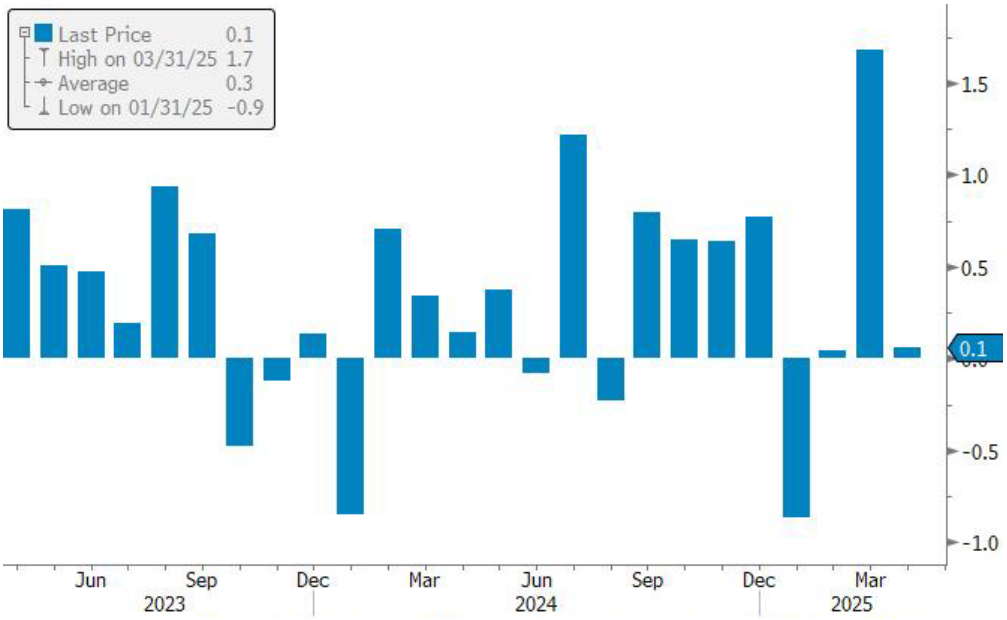
May 2025

Markets & Macroeconomics

Spending slows, sentiment rises amid temporary trade breakthroughs

Retail Sales Advance MoM

Retail sales grew at a muted pace in April after sentiment fell on tariffs



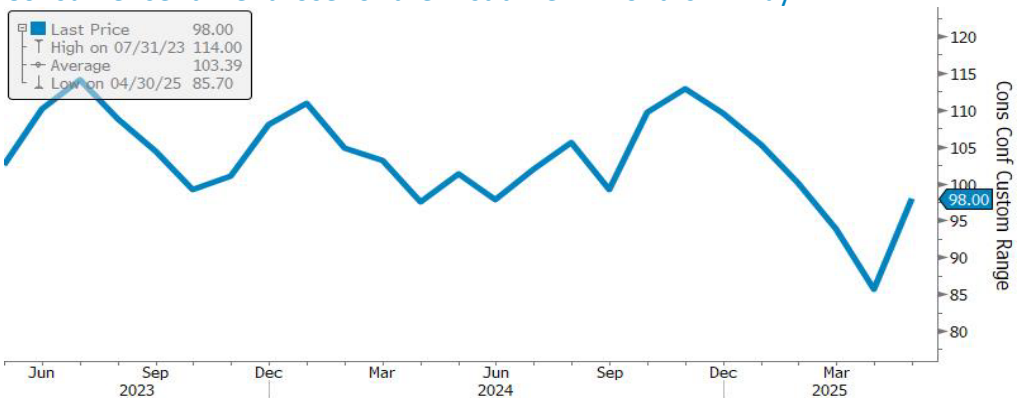
Source: Bloomberg, U.S. Census Bureau

On May 7, the Fed announced that it was maintaining its policy rate at 4.25%-4.50%. Later in the month, the Trump administration reached some temporary agreements on tariffs with major U.S. trade partners including China and the U.K. The agreement with the U.K. involved the U.S. reducing its metals tariffs on aluminum and steel to 0% from 25% and reducing tariffs on imported cars from the U.K. The U.K. in return reduced some tariffs on imports from the U.S. including agricultural products and aerospace components. With China, U.S. officials agreed to a 90-day pause on tariffs that the two countries have put in place since April and a reduction in tariff rates. China agreed to reduce its tariff rate on imports from the U.S. from 125% to 10% and the Trump administration agreed to reduce U.S. tariff rates on imports from China from 145% to 30%. JP Morgan and Goldman Sachs raised GDP growth forecasts for the U.S. and China as a result of the tariff truce. Restrictions on exports of advanced semiconductors still remain in place and were even expanded in May by the Trump administration. The agreements with the U.K. and China helped consumer sentiment improve in May as Conference Board Consumer Confidence rose to 98.0 in May from 85.7 in April. Retail sales growth slowed considerably in April as consumers cut back on spending after increasing it sharply in March in anticipation of tariffs. In the labor market, the U.S. added 177K jobs in April and the unemployment rate remained steady at 4.2%. The March jobs growth number was revised down from an addition of 228K jobs to just 185K new jobs. The labor force participation rate also increased slightly from 62.5% to 62.6% in April. In the housing market, pending home sales fell by 6.3% month-over-month in April, the largest monthly decline since September of 2022 largely on tariff announcements and persistently high mortgage rates. Headline inflation, as measured by both PCE and CPI fell in April as lower oil and food prices helped ease price pressures. Headline CPI fell to 2.3% from 2.4% in March and headline PCE fell from 2.3% to 2.1%. Core CPI inflation remained steady at 2.8% in April while core PCE inflation fell from 2.6% to 2.5%.

<u>Bottom Line</u>: Job growth remained strong in April while consumer sentiment improved on temporary trade policy easing, but uncertainty remains in the economy around how trade policy and negotiations with trade partners will impact the economy moving forward.

Conference Board Consumer Confidence

Consumer sentiment rose for the first time in months in May



Source: Bloomberg, Conference Board

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May 2025

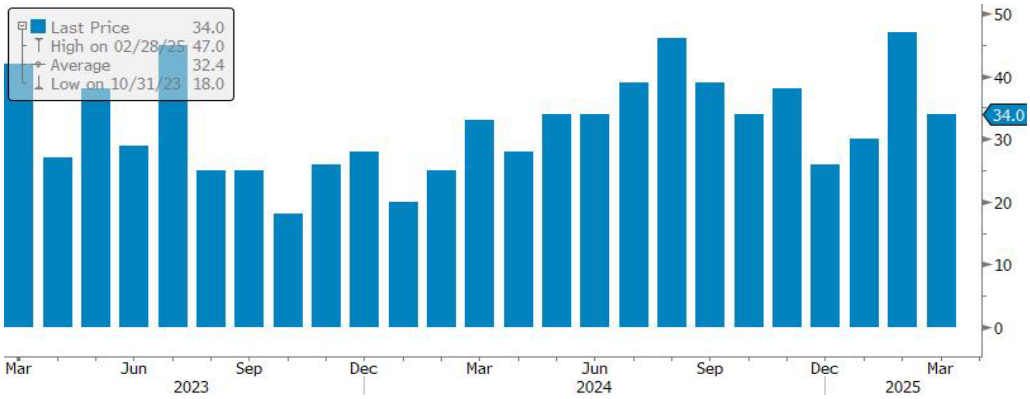
What's Ahead

Technology earnings and the transition to agentic AI

As investors try to adapt to an ever-changing trade policy environment and focus on the U.S.'s fiscal health, technology companies at the forefront of AI adoption and deployment are continuing to grow their earnings despite the challenges. The last week of April kicked off technology earnings season and companies continued to report results in May. Despite concerns around tariffs, consumer sentiment, taxes, and public spending, Microsoft, Meta, Amazon, Apple, Advanced Micro Devices, Salesforce, and Nvidia all reported results for the first quarter of 2025 that exceeded expectations. Much of their strong performance has been driven by growth in the adoption of not only generative AI technology by companies, but increasingly by agentic AI products. AI agents are essentially AI chatbots or software programs that can operate without human intervention with the ability to reason, make decisions, and learn over time. Microsoft released its Foundry platform for the design and creation of AI apps and agents in November of 2024. At the beginning of May, Microsoft CEO Satya Nadella announced during the company's earnings call for the first quarter of calendar year 2025 that developers at over 70,000 enterprises are using the platform for deploying AI apps and agents in their organizations. Microsoft's Power Platform, a low-code platform for app development, now has 56 million monthly active users, a 27% increase over last year. The company also announced that it is laying off another 6,000 employees. Software giant Salesforce also reported results at the end of May and announced that they now had 800 customers using Agentforce, the company's own agentic AI offering for enterprises looking to automate their customer support services and more are signing up for the service. CEO Mark Benioff indicated on the company's earnings call that because of the company's internal use of Agentforce, they are reducing their hiring needs. Amazon reported strong results for the quarter driven largely by Amazon Web Services growth and indicated that they have just released their own solutions for implementation of agentic AI with Amazon Q and Amazon Nova Sonic, an AI assistant and a new AI model for agentic coding and development for enterprises. Amazon is also expanding its generative AI offerings through AWS and is also building its own chips like their most recent Tranium2 chip. Despite the improvements, Amazon and Salesforce seem to not be raising alarms about the employment impact of AI agents. Salesforce's Benioff and Amazon CEO Andy Jassy both indicated that agents still need significant human supervision and that accuracy remains challenging with AI agents. In an interview with CNN, Anthropic CEO Dario Amodei expressed a different view saying that AI models are reaching capabilities that could allow them to automate many white collar jobs, especially at the entry level in the nearer future.

JOLTS Information Sector Layoffs

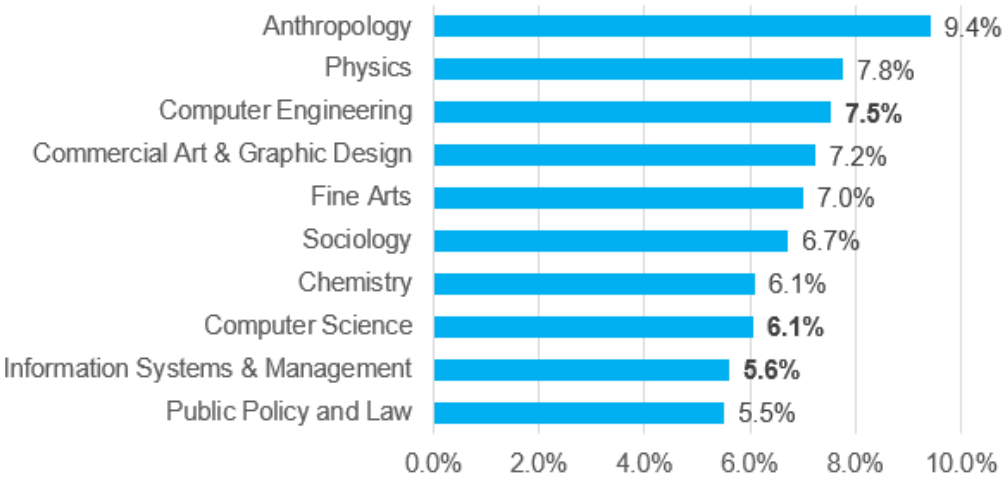
Layoffs in technology seem to have risen slightly in the last 12-18 months



Source: Bloomberg

College Majors with the Highest Unemployment Rates (2/2025)

Computer engineering is now in the top five majors by unemployment



Source: Federal Reserve Bank of New York

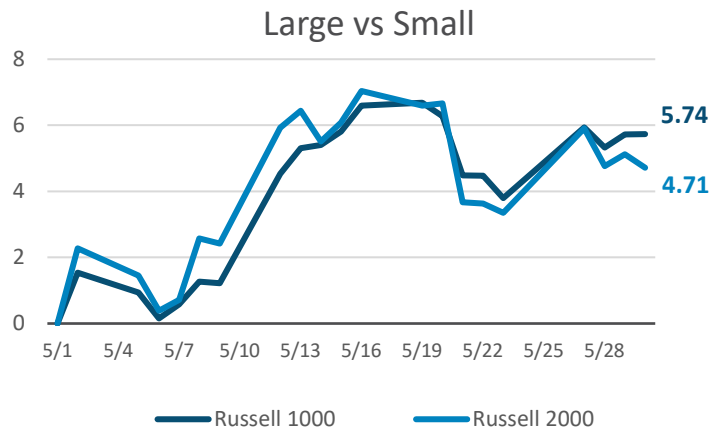
Bottom Line: Companies are continuing to deploy AI tools across their operations to save costs and some in the technology industry have warned that these AI models could begin to reduce hiring in some areas as jobs are automated, especially at the entry level while others are not as concerned about impacts on jobs.

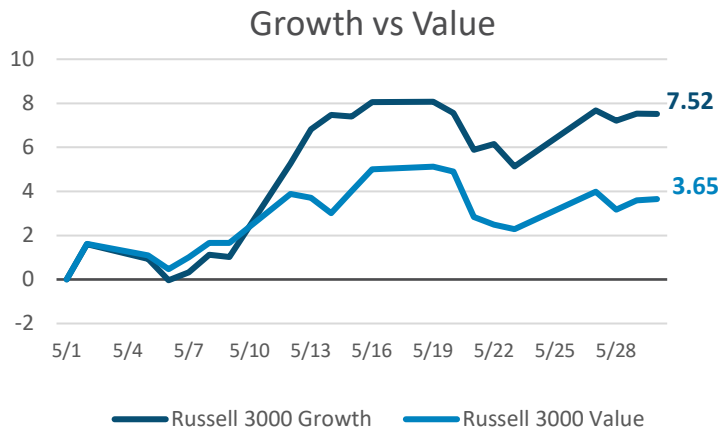
May 2025

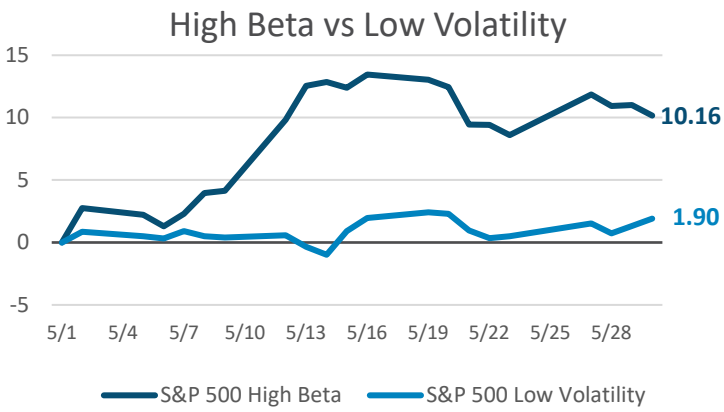
Equity Themes

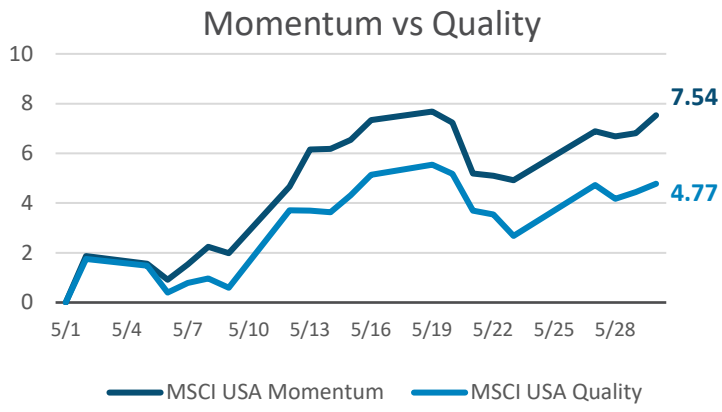
What Worked, What Didn't

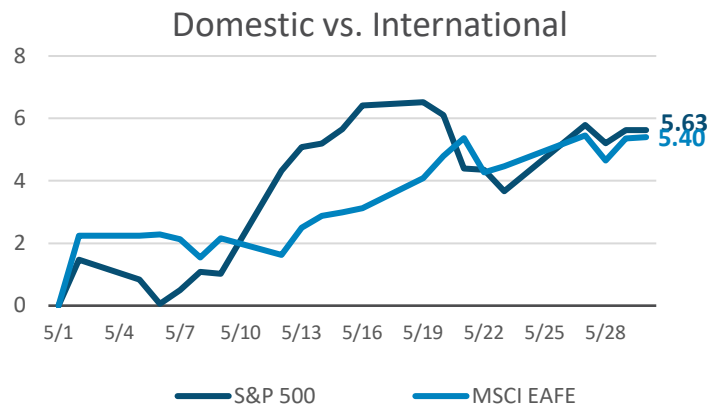
- **Large Outperformed Small while Growth Outperformed Value.** Market participants moved more into growth stocks in May than value as investors continued to look to add risk on earnings, improving sentiment and tariff delays and temporary trade agreements.
- **High Beta and Momentum Outperformed.** High beta outperformed low volatility and momentum outperformed quality in May.
- **Domestic Over International, Developed Over Emerging.** Domestic equities outperformed international stocks in May. Developed markets outperformed emerging markets during the month.

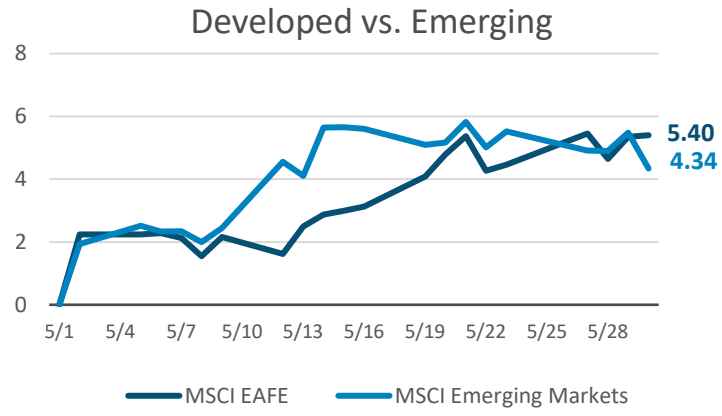












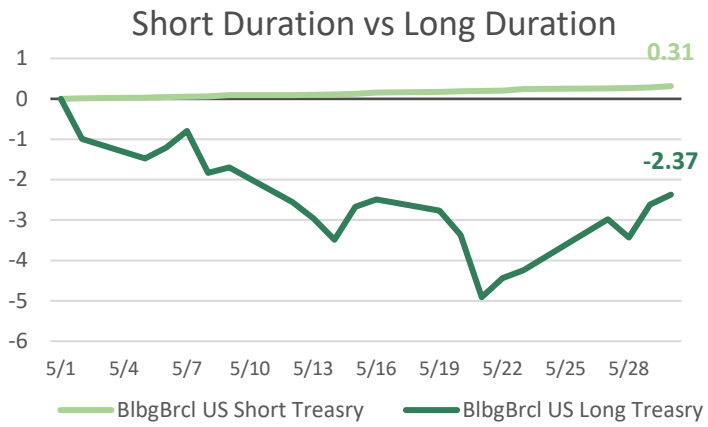
Source: Bloomberg.

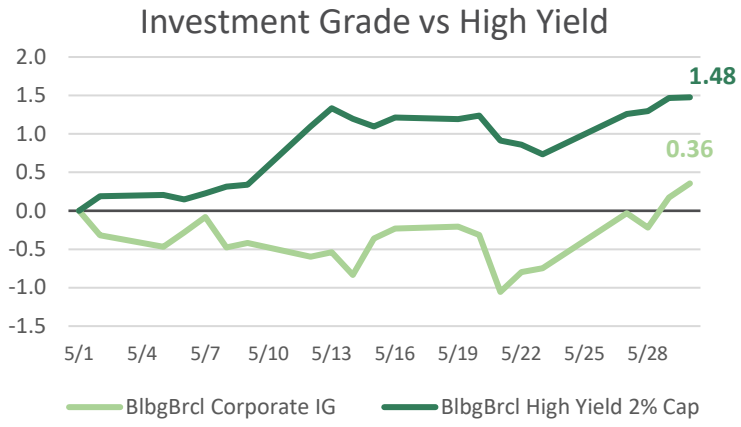
May 2025

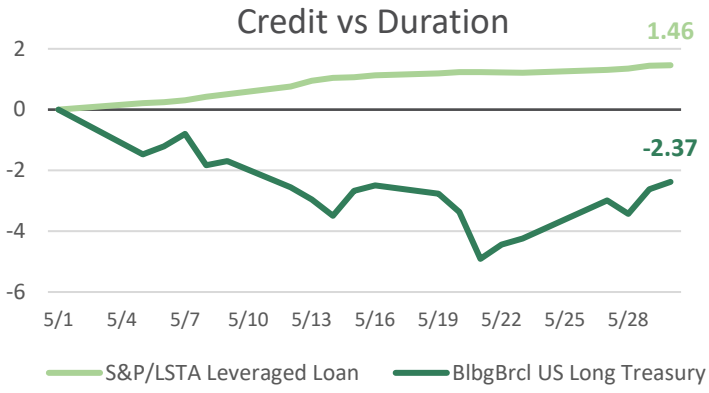
Bond Themes

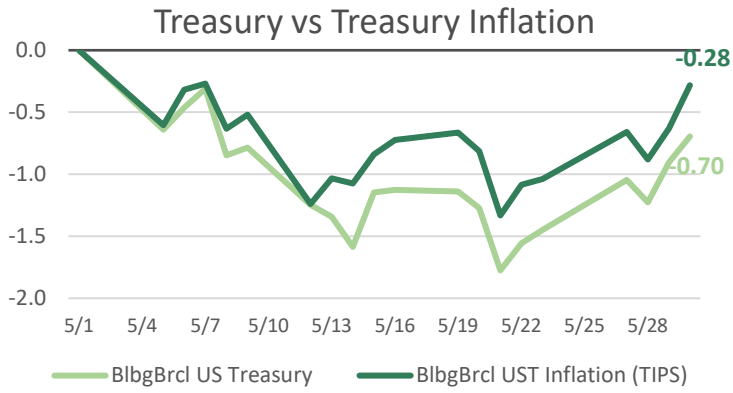
What Worked, What Didn't

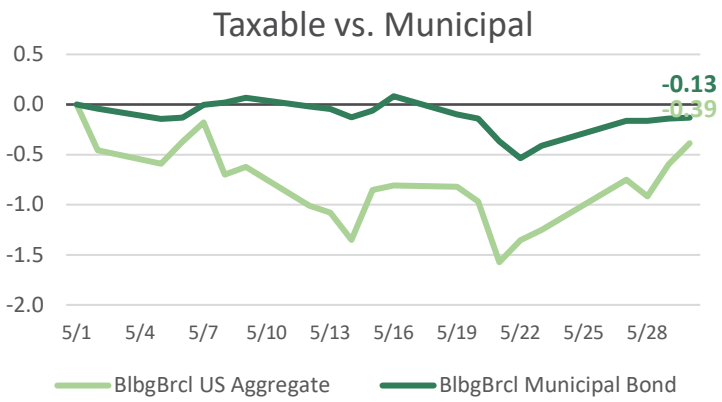
- **Short Duration Outperformed while High Yield Beat Investment Grade.** Short duration treasuries performed better in May outperforming long duration. High yield outperformed investment grade during the month.
- **Credit Tops Duration while Treasuries Beat TIPS.** In May, credit outperformed duration while treasuries outperformed TIPS despite elevated inflation expectations.
- **Munis Beat Taxable and International Outperforms Domestic.** Municipal bonds outperformed taxable bonds, while U.S. bonds significantly underperformed their international peers in May.

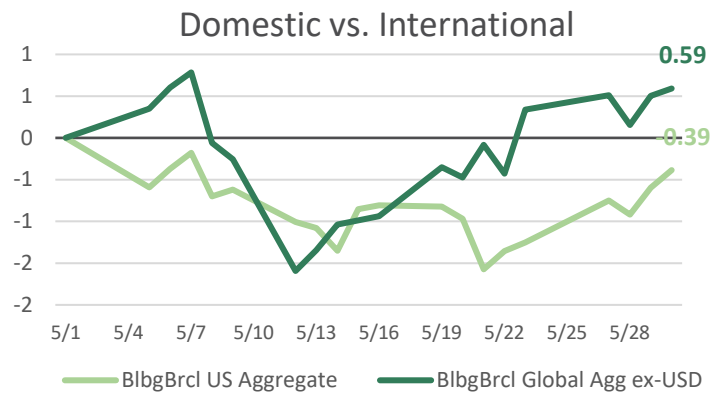












Source: Bloomberg.

May 2025

Asset Class Performance

The Importance of Diversification. From period to period there is no certainty what investment will be the best, or worst, performer. Diversification mitigates the risk of relying on any single investment and offers a host of long-term benefits, such as less portfolio volatility, improved risk-adjusted returns, and more effective compounding.

	May-01	May-02	May-05	May-06	May-07	May-08	May-09	May-12	May-13	May-14	May-15	May-16	May-19	May-20	May-21	May-22	May-23	May-27	May-28	May-29	May-30	May	YTD
High	LCG 1.32	EM 2.86	EM 0.76	IBD 0.48	MCG 1.05	SCG 2.05	EM 0.67	LCG 4.27	MCG 1.89	EM 0.76	RE 1.76	RE 1.26	IEQ 0.95	IBD 0.62	IBD -0.13	USB 0.29	IBD 0.97	SCV 2.55	HYB -0.06	RE 0.88	MCG 0.93	MCG 8.31	IEQ 17.29
	SCG 0.70	MCG 2.78	IBD 0.19	USB 0.25	LCV 0.53	MCG 1.94	RE 0.67	SCG 3.79	LCG 1.52	LCG 0.74	IEQ 1.09	SCG 1.17	IBD 0.85	IEQ 0.48	EM -0.26	LCG 0.24	EM 0.41	LCG 2.43	RE -0.12	SCV 0.56	IBD 0.38	LCG 7.19	IBD 11.14
	SCV 0.55	SCG 2.45	IEQ 0.17	HYB -0.08	MCV 0.48	SCV 1.68	IBD 0.52	MCG 3.74	IBD 0.95	MCG 0.40	LCV 1.01	MCV 1.04	EM 0.22	SCG 0.27	IEQ -0.59	HYB 0.20	USB 0.14	SCG 2.37	USB -0.18	IEQ 0.44	USB 0.25	SCG 5.98	EM 10.19
	MCG 0.35	SCV 2.10	MCG 0.02	IEQ -0.13	SCG 0.36	MCV 1.19	IEQ 0.49	SCV 3.17	SCG 0.50	60/40 -0.22	SCV 0.77	MCG 0.98	60/40 0.21	HYB -0.05	USB -0.66	MCG 0.20	IEQ 0.14	MCV 1.86	IBD -0.32	IBD 0.39	IEQ 0.15	EM 4.94	60/40 5.35
	RE 0.28	IEQ 1.92	HYB -0.04	60/40 -0.27	LCG 0.34	LCG 0.80	60/40 0.18	MCV 2.46	60/40 0.26	USB -0.29	MCV 0.75	LCV 0.97	RE 0.12	60/40 -0.07	HYB -0.67	SCG 0.06	RE 0.08	MCG 1.86	LCG -0.44	LCV 0.37	RE 0.11	IEQ 4.51	MCG 4.01
	HYB 0.13	MCV 1.83	60/40 -0.10	EM -0.40	SCV 0.24	LCV 0.65	USB 0.10	EM 2.16	MCV 0.26	IBD -0.29	60/40 0.57	SCV 0.60	LCV 0.11	SCV -0.08	60/40 -1.10	60/40 0.04	60/40 -0.02	RE 1.65	EM -0.46	EM 0.37	HYB 0.09	MCV 4.15	HYB 3.04
	MCV 0.01	LCV 1.53	RE -0.11	MCV -0.58	USB 0.15	60/40 0.06	SCV 0.09	LCV 2.11	SCV 0.23	HYB -0.36	USB 0.57	LCG 0.53	LCG 0.08	EM -0.11	LCG -1.48	IEQ -0.06	HYB -0.03	LCV 1.64	MCG -0.53	USB 0.37	LCV 0.06	SCV 3.65	USB 2.30
	60/40 0.01	LCG 1.43	USB -0.17	LCV -0.65	HYB 0.09	HYB -0.03	HYB 0.06	60/40 1.14	HYB 0.18	IEQ -0.49	SCG 0.32	60/40 0.35	USB -0.03	LCV -0.17	LCV -1.98	MCV -0.16	SCG -0.19	IEQ 1.45	60/40 -0.55	60/40 0.37	60/40 0.05	LCV 3.12	LCV 2.26
	EM -0.02	RE 1.08	MCV -0.30	RE -0.74	60/40 0.05	EM -0.07	MCV 0.06	HYB 0.99	EM 0.17	LCV -0.67	IBD 0.26	IEQ 0.23	HYB -0.05	USB -0.17	MCV -2.35	SCV -0.17	LCV -0.21	60/40 1.12	LCV -0.80	LCG 0.36	LCG -0.09	60/40 2.69	RE 1.86
	LCV -0.09	60/40 1.03	LCV -0.42	SCV -0.77	RE -0.01	IEQ -0.35	LCV -0.02	IEQ 0.51	IEQ 0.13	SCG -0.67	HYB 0.19	HYB 0.11	MCV -0.08	MCV -0.24	MCG -2.52	IBD -0.23	SCV -0.31	HYB 0.61	SCG -0.90	MCV 0.35	MCV -0.13	HYB 1.38	LCG -0.34
	USB -0.27	HYB 0.31	LCG -0.59	LCG -0.93	IBD -0.32	RE -0.44	LCG -0.19	RE 0.31	USB -0.10	MCV -0.70	EM -0.04	USB 0.06	MCG -0.23	RE -0.53	RE -2.70	LCV -0.28	MCV -0.31	USB 0.45	MCV -1.03	HYB 0.15	SCG -0.44	IBD 0.68	MCV -0.45
	IEQ -0.32	IBD 0.16	SCG -0.60	SCG -1.43	IEQ -0.34	USB -0.52	MCG -0.26	USB -0.34	LCV -0.17	RE -0.89	LCG -0.10	EM -0.06	SCG -0.43	LCG -0.55	SCG -2.78	EM -0.32	MCG -0.56	IBD 0.03	IEQ -1.15	SCG 0.08	SCV -0.61	RE -0.35	SCG -5.78
Low	IBD -0.62	USB -0.49	SCV -0.82	MCG -1.64	EM -1.15	IBD -1.00	SCG -0.30	IBD -1.78	RE -1.23	SCV -0.95	MCG -0.26	IBD -0.26	SCV -0.45	MCG -0.66	SCV -2.93	RE -0.41	LCG -0.99	EM -0.24	SCV -1.18	MCG -0.08	EM -1.22	USB -0.94	SCV -7.26

Low

Legend

Large Growth (LCG)	Mid Growth (MCG)	Small Growth (SCG)	Intl Equity (IEQ)	U.S. Bonds (USB)	Intl Bonds (IBD)
Large Value (LCV)	Mid Value (MCV)	Small Value (SCV)	Emg Markets (EM)	High Yield Bond (HYB)	Real Estate (RE)
60/40 Allocation (60/40)					

Source: Sources for this market commentary derived from Bloomberg. Asset-class performance is presented by using market returns from an exchange-traded fund (ETF) proxy that best represents its respective broad asset class. Returns shown are net of fund fees for and do not necessarily represent performance of specific mutual funds and/or exchange-traded funds recommended by the Prime Capital Financial. The performance of those funds in May may be substantially different than the performance of the broad asset classes and to proxy ETFs represented here. U.S. Bonds (iShares Core U.S. Aggregate Bond ETF); High-Yield Bond (iShares iBoxx $ High Yield Corporate Bond ETF); Intl Bonds (SPDR® Bloomberg Barclays International Corporate Bond ETF); Large Growth (iShares Russell 1000 Growth ETF); Large Value (iShares Russell 1000 Value ETF); Mid Growth (iShares Russell Mid-Cap Growth ETF); Mid Value (iShares Russell Mid-Cap Value ETF); Small Growth (iShares Russell 2000 Growth ETF); Small Value (iShares Russell 2000 Value ETF); Intl Equity (iShares MSCI EAFE ETF); Emg Markets (iShares MSCI Emerging Markets ETF); and Real Estate (iShares U.S. Real Estate ETF). The return displayed as "Allocation" is a weighted average of the ETF proxies shown as represented by: 30% U.S. Bonds, 5% International Bonds, 5% High Yield Bonds, 10% Large Growth, 10% Large Value, 4% Mid Growth, 4% Mid Value, 2% Small Growth, 2% Small Value, 18% International Stock, 7% Emerging Markets, 3% Real Estate. 080223006 - MAH

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