Market Commentary 05/21/2025

An Oxford Harriman & Company Market Commentary

Market Commentary: Equity Rebound and the Importance of Staying Invested

Trade Truce Sparks an Equity Rebound

Global equity markets have staged an impressive rebound since bottoming on April 8. At that time, the Nasdaq 100 had fallen into a bear market, declining more than 20% from its high in mid-February. By mid-May the Nasdaq 100 had erased its year-to-date decline and even turned positive. The S&P 500 likewise rallied from the April lows, led by easing fears of a worst-case trade war outcome. In fact, U.S. stocks rallied over 3% on some days when news broke that the U.S. and China were dialing back their tariff war.

The primary catalyst for this resurgence has been a thaw in U.S.-China trade tensions. After a tense period of escalating tariffs that rattled markets, negotiators from Washington and Beijing reached an unexpected 90-day trade truce last week. In a joint statement, the U.S. agreed to slash tariffs on Chinese imports to 30% from a prior effective rate of 145%, while China cut its duties on U.S. goods to 10% (down from about 125%).

These reductions were far larger than investors had anticipated, amounting to a significant de-escalation of the trade war, even if temporary. Tariffs that were at economically prohibitive levels are now lowered to something more manageable for the next three months. Markets greeted the announcement as a "better than expected" outcome that removes some of the recent uncertainty.

The S&P 500 immediately moved above its 200-day moving average on the news, the Dow Jones Industrial Average jumped over 1,000 points, and mega-cap tech stocks surged nearly 6% in a single day. Investors were relieved to see the tariff war's de-escalation, as it suggested the global economy may avoid a deeper downturn.

Along with the tariff rollbacks, officials provided insight into the agreement's terms and implications. The tariff pause lasts for 90 days, during which the two sides will negotiate a more comprehensive deal. While 30% U.S. tariffs and 10% Chinese tariffs are still historically high, this truce marks a meaningful step back from an "all-out tariff war" and is being treated like a partial lifting of a trade embargo.

Analysts note that trade between the world's two largest economies should open up more in the short term, relieving supply bottlenecks and boosting shipping volumes that had slumped after the April tariff hikes.

However, companies are not likely to dramatically change their supply chains or investment plans yet, as this truce is temporary and tariffs remain elevated, keeping some pressure on costs and prices. However, the easing of trade tensions has clearly lowered uncertainty and lifted market sentiment. Investors are now hoping this initial truce can be extended or made permanent, but even if not, it provides time for businesses to adapt and plan for contingencies should negotiations stagnate.

Staying Invested vs. Panic Selling

In one of our April commentaries, we reinforced that we believe the importance of staying invested during times of stress, and the importance of capturing the returns of the market's top performing up days. The past three months have been a textbook case of why staying invested through volatility is so important. In the heat of the market selloff earlier in 2025, when trade war headlines were at their worst, many investors felt compelled to retreat to cash or "panic sell" to avoid further losses.

Indeed, by early April the S&P 500 was down nearly 15% year-to-date and the tech-heavy Nasdaq had shed almost a quarter of its value. However, the swift rebound since April 8th illustrates the risks of trying to time the market. Those who fled during the height of their emotions would have locked in losses and missed the subsequent relief rally, which has recouped trillions of dollars in market value. Those who kept calm and even rebalanced into the weakness likely have been rewarded by the recent recovery. Furthermore, Nasdaq stocks rebounded so quickly that the index entered a new bull market just weeks after being in a bear market.

We believe the lesson is clear: had one sold in panic during April's chaos, they would have missed a dramatic upswing. Market timing is extraordinarily difficult. Instead, a disciplined long-term approach and staying invested according to one's plan and risk tolerance historically yields better results. This year highlights that selling out at the bottom can turn paper losses into real ones, whereas remaining invested gives your portfolio the opportunity to recover when conditions improve.

Shifting Market Leadership and Bond Volatility

Beneath the surface of the recent rebound, 2025's market action has seen a notable shift in leadership. The "Magnificent 7" mega-cap growth stocks, last year's market darlings, have ceded ground to more defensive sectors this year. During the first quarter, high-flying tech names and other cyclical growth stocks led the decline. In fact, the "Magnificent 7" collectively lost over $800 billion in market capitalization during the early 2025 sell-off.*

By early March, technology and consumer discretionary were down roughly 7% year-to-date, while traditionally defensive sectors were actually positive. Investors rotated toward stable, recession-resistant groups such as healthcare, consumer staples, and utilities, seeking shelter from the tariff-driven uncertainty. For example, through the first quarter, the S&P 500 was down about 1.6%, yet healthcare stocks were up nearly 8% and consumer staples up 4%. Utilities, known for their steady dividends, also posted gains. This dynamic reflected a "risk-off" posture, as market participants favored companies with steadier earnings and essential products amid uncertainty.

Even as the overall market rebounds, this broadening of leadership is a theme to watch, and we discussed this in our first quarter market commentary. Defensive sectors have proven their worth this year by holding value during the downturn, and they may continue to play a larger role if volatility persists. Previously dominant tech giants may no longer be the primary driver of index performance. Some of the" Magnificent 7" stocks are still nursing sizable year-to-date losses.

Going forward, investors may benefit from a more balanced market where different sectors contribute to returns. Cyclical growth stocks like tech could certainly regain momentum, and in fact they bounced hard on the trade truce news, but 2025 has shown that leadership can rotate quickly. A well-diversified portfolio that includes defensive areas may help cushion against these rotations.

Meanwhile, the bond markets continue to experience volatility, reflecting the back-and-forth of inflation fears, growth concerns, and shifting Federal Reserve policy expectations.

At the height of the trade conflict in early April, investors uncharacteristically sold off Treasurys, despite their safe-haven status, due to concerns that tariff-driven inflation and heavy U.S. borrowing could hurt bond values. The 10-year Treasury yield spiked to multi-month highs during the worst of the sell-off, only to retreat again as recession worries took hold. Then, as the trade outlook improved in May, yields climbed once more, with the two-year Treasury yield increasing by 12 basis points on the trade-deal news, reflecting reduced odds of aggressive Fed rate cuts.

As trade uncertainty eased, corporate bonds also rebounded and recovered their losses, though not without continued caution. Credit spreads remain slightly elevated compared to pre-trade-war levels, indicating that investors are still demanding more yield to compensate for uncertainty. Volatility in the bond markets has been pronounced, and we expect this to continue as further policy moves and data could impact interest rates.

Mixed Economic Signals in 2025 – Soft vs. Hard Data

The economic backdrop in 2025 is sending mixed signals, with a divergence between soft data (surveys and sentiment indicators) and hard data (actual economic activity metrics). On the one hand, business and consumer confidence measures have deteriorated significantly this year. Surveys of households and executives have been sounding alarms about a potential slowdown, largely due to the trade war and other policy headwinds.

For example, the University of Michigan's consumer sentiment index recently fell to around 50, near the lowest readings on record. In April, the Conference Board's consumer confidence gauge slumped to its weakest level in almost five years amid growing pessimism about the economic outlook. Businesses likewise reported decreasing optimism in various purchasing manager indexes. This soft data reflects fear of higher prices from tariffs, of potential job losses, and of a general economic cooling.

Conversely, the "hard" economic data shows a more resilient economy. Key measures like employment, output, and spending have held up relatively well despite the decline in confidence. U.S. job growth remains solid.

In April, the economy added approximately 177,000 jobs and the unemployment rate held steady at 4.2%, near historically low levels. This steady jobless rate near multi-decade lows indicates the labor market hasn't deteriorated as employers are still hiring, although at a slightly slower pace. Manufacturing output and consumer spending data have been mixed but generally showing stability rather than a sharp contraction. For example, inflation has not surged as feared as the latest consumer price index came in softer than expected, suggesting companies have so far held off passing most tariff costs onto consumers.

Even GDP, while weaker, is not collapsing. The U.S. did see a modest contraction in the first quarter (the advance estimate showed GDP at roughly -0.3% annualized), but much of that dip was attributed to reaction to the trade war, such as a surge in imports (as companies rushed to stockpile goods before tariffs hit). Underlying domestic demand, both consumption and business investment remained relatively steady. In short, hard data indicates the economy is growing slowly, not collapsing, and certainly not yet matching the recessionary gloom evident in surveys and portrayed in the media.

This gap between soft and hard data has important implications for investors. Sentiment-based indicators are flashing warning signs of a slowdown, but until they translate into actual declines in employment, production, or incomes, the recovery may continue. Often, soft data can be an early warning of hard-data weakness to come; other times, sentiment rebounds if feared crises (like the trade war) ease.

At present, the divergence suggests that while confidence is fragile, the economy is still on stable footing. We will be watching to see if the improved trade developments start to lift optimism in the coming months. A sustained rise in sentiment could unleash more spending and investment. Conversely, if pessimism persists or deepens, it could eventually cause businesses to pull back hiring or consumers to retrench, validating the soft data downturn.

There is no certainty the US will experience a recession, although this remains a possibility. Growth may be slower as the Federal Reserve projects only about ~1.7% GDP growth in 2025, down from 2%+ last year. However, a healthy job market and solid hard data give reason to believe the expansion can continue, especially now that the worst trade outcomes seem less likely.

Below is a brief snapshot of key economic indicators as we head toward mid-2025:

•**Unemployment Rate:** 4.2% (near a 50-year low), with job creation averaging ~150-200k per month – evidence of ongoing labor market strength.

•**GDP Growth:** -0.3% annualized in the first quarter of 2025 (first contraction in three years), though driven by temporary trade-related inventory swings. The underlying demand remains positive, and a return to positive growth is expected in the second quarter.

•**Inflation**: ~3.5% year-over-year (core PCE basis) – moderating. April CPI was cooler than forecast, showing price pressures are not spiraling despite tariffs. This gives the Fed room to be patient and support growth if needed.

•**Consumer Sentiment:** At multi-year lows (Michigan index ~51), reflecting tariff and policy fears. This has not collapsed spending, but it bears close watching, especially if political and trade uncertainty accelerates.

•**Manufacturing & Investment:** Manufacturing PMIs have softened below 50 (borderline contraction), yet industrial production is roughly flat year-on-year. Business investment intentions dipped on uncertainty but could revive if clarity on trade and fiscal policies improves.

•**Monetary Policy:** The Federal Reserve has shifted to a dovish bias. Markets had been pricing in multiple rate cuts for 2025 during the height of the turmoil. With the trade truce and firm economic data, forecasts have pulled back to maybe two quarter-point cuts later this year. The Fed has emphasized it is watching the hard data, which so far do not justify drastic easing. Barring a sharp downturn, the Fed will likely take a "wait and see" approach, providing a stable backdrop for markets.

Overall, the economic picture is one of steady, although slowing, growth. The deteriorating sentiment is cautionary, but hard data suggest the expansion is intact. We will monitor whether concrete data eventually follows the surveys downward, or if sentiment improves with the latest positive developments. For now, the U.S. economy in mid-2025 can be described as slowing but still resilient – a "muddle-through" scenario.

Maintaining a Long-Term Perspective Amid Uncertainty

Considering recent events, our advice to clients remains unchanged: stay focused on your long-term investment strategy and avoid emotional reactions to the media and what is pushed to your phones. The start of 2025 has led to much uncertainty, from an escalated trade war and Federal Reserve comments, to rapid market swings in both directions. Such policy and geopolitical uncertainty are likely to continue.

As the year progresses, we may face further trade negotiations (the U.S.-China talks will undoubtedly have twists and turns), potential geopolitical surprises, and the approach of a U.S. election cycle that could introduce new policy variables. Markets will likely remain sensitive to headlines and prone to bouts of volatility. It's important to remember that this environment is exactly when sticking to a disciplined plan is most crucial.

The recent declines and rebound reinforce why having and adhering to strategy are so important. Investors who stayed on the course through the volatility have largely recovered their portfolio values, whereas those who panicked might now be sitting on the sidelines with losses, unsure when to get back in.

Historically, markets have demonstrated an ability to recover from shocks, sometimes suddenly and often unpredictably. As we have reinforced over the years, missing just a few of the largest positive days can significantly impair long-term returns. Thus, we do not attempt to time these shifts. Instead, ensure your asset allocation is aligned with your risk tolerance and financial goals, then maintain that allocation through the market's ups and downs, and remember the importance of annual rebalancing.

Looking ahead, we remain constructive but vigilant. The easing of the trade war is a positive development that reduces a major downside risk for the global economy. However, the agreement is temporary, and negotiations will be complex, so setbacks could occur.

Additionally, other challenges like elevated debt levels, global growth softness, and central bank policy shifts could introduce volatility. We expect markets to continue to remain volatile and subject to headline risk, which reinforces the value of patience.

The U.S. and global economies have proven adaptable, and equity markets, over time, tend to reward those who can endure short-term turbulence. Staying invested for the long run does not mean ignoring risks, it means managing them prudently (through asset allocation, not over-concentrating on any one theme, etc.) while keeping faith in the long-term growth of the market.

The recent rally itself shows that sentiment can turn quickly, and that the "worst-case" fears can rapidly ease, bringing buyers back just as quickly. There are certainly challenges ahead, but also reasons for optimism: interest rates are not restrictive, inflation appears to be contained, and now a major trade impasse is seeing progress. These factors will hopefully support the economy and corporate earnings as we move forward.

We will continue to monitor developments, from the next steps in U.S.-China trade talks, to economic data trends and Fed policy signals, and will keep you informed. However, our decades-long strategy remains unchanged: a well-diversified portfolio aimed at your long-term objectives is the best defense against short-term uncertainty. We encourage you to reach out to us with any questions.

Sources: Bloomberg; The Wall Street Journal; CNBC; Reuters

The NASDAQ 100 Index is an unmanaged group of the 100 biggest companies listed on the NASDAQ Composite Index. The list is updated quarterly and companies on this Index are typically representative of technology-related industries, such as computer hardware and software products, telecommunications, biotechnology and retail/ wholesale trade.

*The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.
PM-11192026-7981904.1.1

This article was written by Dennis P. Barba, Jr. CEO, Managing Partner, Michael P. Finkelstein, CFA, Partner, and Robert Frenkel, CFP® of Oxford Harriman & Company and provided to you by Mark S. Bailey, Managing Partner, Senior Portfolio Manager

Mark S. Bailey
Managing Partner
PIM Portfolio Manager

Ginger Baker
Financial Advisor
Relationship Manager

Wojciech Biernat
Financial Advisor
Senior Investment Strategist

SYRACUSE by appointment 5789 Widewaters Pkwy, Dewitt, NY 13214 BUFFALO 6779 Main Street, Williamsville, NY 14221
MANHATTAN by appointment 11 Broadway 11th floor, Manhattan, NY 10004 | P: 716.565.5460 www.baileyfinancialgroup.net

Bailey Financial Group