

# Monthly Download

## May 2025

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### Summary

**Markets staged a strong rebound** in May, fueled by a temporary de-escalation in US-China tariff tensions, strong corporate earnings, and continued AI optimism following Nvidia's strong earnings results. Key developments also included the passage of the "One Big Beautiful Bill" tax package, legal decisions over the President's tariff authority, and Warren Buffett's official retirement announcement from active leadership at Berkshire Hathaway. Although optimism returned to equity markets, rising Treasury yields due to concerns over US deficit funding and a lack of tangible trade deals kept market participants on edge.

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### Market Overview

- ◆ **Equity markets** rallied in May as tariff tensions temporarily eased and economic data stabilized. The S&P 500 jumped 6.3%, while the Nasdaq gained 9.0%, fueled by tech and AI names. The Russell 2000 also advanced 5.3%, recovering some ground after underperformance earlier in the year. US markets outperformed both non-US developed and emerging markets for the month, driven by strength in large-cap tech and AI-related sectors. The MSCI All Country World Index delivered a gain of 5.8% in May, reversing negative returns for 2025 with the index now up 5.3%.
  - US Large Cap stocks (S&P 500) rose 6.3% in May, with notable strength in Technology, Communication Services, and Discretionary sectors. Nvidia and Tesla led gains among mega caps, up 24.1% and 22.8% respectively. Year-to-date losses reversed, with the S&P 500 now up 1.1% for 2025.
  - US Small Cap stocks (Russell 2000) gained 5.3% on improved risk appetite, though the index remains challenged by domestic interest rate sensitivity and mixed earnings results. Losses for the year now stand at 6.9%.
  - Non-US stocks (MSCI EAFE Net) rose 4.6% in May as European stocks benefited from defense spending commitments while US Dollar weakness took a breather for the month. Year to date gains are now 16.9%.
  - Emerging Markets (MSCI Emerging Markets Net) advanced 4.3%, underpinned by strength in India and Brazil. Chinese equities lagged despite the tariff reprieve. Emerging Markets are now up 8.7% year to date.
- ◆ **Interest rates** climbed significantly across the curve. The 10-Year US Treasury yield jumped above 4.50% for the first time since February, and the 30-Year yield topped 5.15%. These moves reflected rising fiscal concerns, hawkish Fed expectations, and global bond yield pressure. Interest rates pulled back at the end of May, but the 10-Year Treasury Yield increased for the month from 4.18% to 4.42%.
  - High Grade Taxable bonds (Bloomberg US Aggregate) fell 0.7%, reducing YTD gains to 2.5%. The decline reflected broad upward pressure on Treasury yields and reduced investor demand amid heavy issuance expectations and fiscal uncertainty.
  - Municipal bonds (Bloomberg 1-10 Year Muni Bond) rebounded with a 0.8% return as April's tax-season selling pressures subsided. Easing supply dynamics and demand from reinvestment flows helped offset broader interest rate concerns. Municipals are now up 0.9% in 2025.

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- Investment Grade and High Yield bonds diverged in performance during May. Investment Grade bonds (Bloomberg US Corporate Investment Grade) were flat for the month, holding YTD gains at 2.3%. In contrast, High Yield bonds (Bloomberg US Corporate High Yield) rose 1.7%, bringing gains for 2025 to 2.7%, as risk-on sentiment and improved earnings outlooks drove demand for lower-rated credit. The relative outperformance of high yield reflected investor appetite for yield and short-term technical drivers, while investment grade bonds remained more sensitive to rate volatility.
- ◆ **Commodities** (Bloomberg Commodity Index) delivered mixed results, ending the month down 0.6%. WTI crude oil rose 4.4% amid geopolitical uncertainty and tighter supply expectations. Gold posted a marginal 0.1% decline. Bitcoin futures surged 11% on further administration and regulatory support for digital assets. Agricultural commodities continued to struggle amid trade policy uncertainty. Commodities are now up 3.1% in 2025.

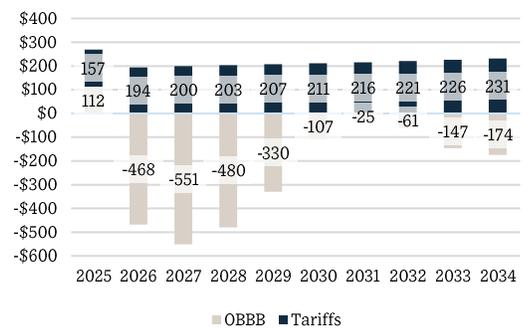
## Economic Commentary

The passage of the “One Big Beautiful Bill” (OBBB) tax package in May triggered renewed market focus on the long-term sustainability of U.S. fiscal policy and deficit spending. The legislation includes extensions of expiring individual tax cuts and reductions in corporate tax rates, expansion of the child tax credit, adjustments to the SALT deduction cap, and the introduction of higher excise taxes on large university endowments. While the bill was marketed as a pro-growth catalyst, many have voiced concerns about its cost which was originally estimated to be \$4 trillion over ten years. Initial projections from the

Congressional Budget Office (CBO) may overstate the net deficit impact by failing to include offsetting revenue streams, particularly surging tariff collections. Treasury data shows that tariffs are now being collected at an annualized pace of \$190 billion, with expectations for over \$2.1 trillion in cumulative revenue over the next decade. More optimistic projections of OBBB net deficit impact place the adjusted fiscal cost of the bill at approximately \$2.3 trillion after accounting for both new revenue and spending reductions (but not tariff revenue).

That figure is almost entirely covered by expected tariff income, leading some analysts to describe the OBBB

policy mix as net austerity when viewed in aggregate. While politically polarizing, the resulting tariff revenue has helped contain short-term deficit concerns. Despite this near-term fiscal cushion, significant headwinds still exist. The Treasury will soon be forced to issue a large volume of debt following the resolution of the debt ceiling. With net interest costs now consuming 18% of all tax receipts, long-term debt sustainability remains in question. Treasury Secretary Scott Bessent has proposed easing the Supplementary Leverage Ratio to support bank demand for Treasuries, which could modestly reduce upward pressure on yields. Still, liquidity constraints are expected later this summer and persistent Treasury issuance needs given over 30% of outstanding Treasury debt matures in the next year pose challenges for policymakers and markets. Bond markets remain particularly sensitive to the government’s fiscal trajectory. The sharp backup in yields during the month of May was primarily attributed to market concerns about the absence of any fiscal plan to address US deficits. Although the near-term impact on consumer spending and GDP growth is expected to be limited, the long-term outlook will depend heavily on whether tariffs are sustained and if corporate earnings momentum can remain intact. Markets appear to be increasingly pricing in a higher risk premium for U.S. debt, which could impact the Treasury yield curve in light of potential future rate cuts by the Federal Reserve.



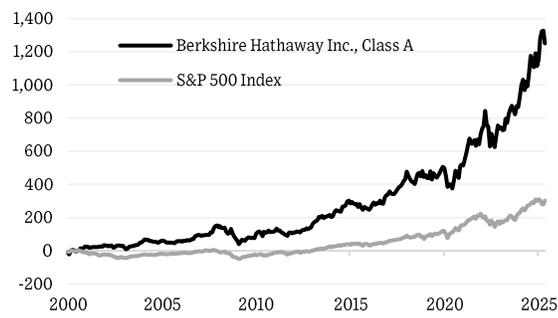
Annual Change in Fiscal Position From OBBB & Tariffs  
Source: CBO, JCT, Tax Foundation, Strategas

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**The U.S. Court of International Trade** ruled in late May that the Trump administration’s use of the International Emergency Economic Powers Act (IEEPA) to enact broad reciprocal tariffs exceeded statutory authority. The court’s decision invalidated multiple tariffs imposed under the IEEPA framework, asserting that the economic environment no longer constitutes the “extraordinary threat” required by the law. The following day, the U.S. Court of Appeals for the Federal Circuit granted a temporary stay, effectively reinstating the contested tariffs while the appeal is reviewed. Briefs are due in early June, and observers expect the case could reach the Supreme Court before the July 9 reinstatement deadline for reciprocal tariffs. While the Supreme Court currently has a 6-3 majority that favors the Trump administration, US attorneys may struggle to defend how tariff policy via the Executive Branch addresses a national emergency standard in IEEPA. In parallel, the White House is exploring other legal pathways, including the Trade Expansion Act and Section 301 of the Trade Act of 1974, to preserve leverage in ongoing trade negotiations. Commerce Secretary Howard Lutnick reaffirmed the administration’s commitment to reshaping global trade norms, suggesting that the court ruling will not deter its broader agenda. Meanwhile, Treasury Secretary Scott Bessent acknowledged the legal uncertainty but emphasized that alternative tools such as temporary tariffs with sunset clauses could be deployed as fallback mechanisms. Markets responded favorably to the initial ruling, with equities rising and the dollar gaining ground. However, those price moves moderated following the stay from the Court of Appeals. Multinational companies remain cautious as legal risks, retaliatory dynamics, and trade volatility continue to cloud capital allocation decisions and forward earnings guidance.

**Warren Buffett's announcement to retire** as CEO of Berkshire Hathaway marks the culmination of a 60-year tenure that transformed a failing textile company into one of the largest and most admired conglomerates in financial history. Since taking the helm in 1965, Buffett delivered an extraordinary 5,500,000% return to shareholders, outperforming the S&P 500 by a wide margin and embedding Berkshire into the fabric of American capitalism. Buffett’s investing approach, centered around buying quality companies with wide economic moats at fair prices, redefined how

generations of investors think about value, patience, and discipline. He popularized the idea of holding businesses forever and famously likened his preferred holding period to “forever” for the right business. From Coca-Cola to American Express and FlightSafety, Buffett’s investments were guided by common sense, sound judgment, and an unwavering belief in the power of compound growth. A key competitive advantage in Berkshire’s model was its use of insurance float: capital received through premiums that could be reinvested long before claims were paid. With acquisitions like GEICO and National Indemnity, Buffett turned float into a



**Price Return Since Year 2000**  
 Source: Factset, Data from 12/31/99 to 5/31/25

powerful, low-cost funding source, allowing Berkshire to deploy massive capital without taking on debt. Buffett, now 94, cited declining energy and the superior operating capability of Vice Chairman Greg Abel as reasons for the transition. Abel, 62, has led Berkshire’s non-insurance operations since 2018 and has been viewed as Buffett’s natural successor for several years. Investors expect strategic continuity given Abel’s close alignment with Buffett’s principles. Although Berkshire shares dipped on the news, the firm remains fundamentally strong with one of the few remaining AAA ratings. Buffett will retain a chairman emeritus role and stay on as an advisor. His letters to shareholders, measured optimism like “never bet against the US”, and his discipline during market booms and busts should remain an intellectual compass for global investors.

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