## Summary

Equity markets surged last week on news of easing trade tensions between the United States and China, with the NASDAQ up 7.2%, the S&P 500 gaining 5.3%, and the DJIA rising 3.4%. Rising Treasury yields signal that markets have pulled back expectations for near-term Fed rate cuts amid firmer economic data. The Treasury budget in April showed a surplus of $258.4 billion, exceeding the surplus in the same period a year ago. This surplus is largely a result of increased individual income tax receipts as April is an important month for tax payments. The CPI and core CPI increased 0.2% in April, both below consensus expectations, suggesting inflation is cooling despite trade tensions. The PPI for final demand fell 0.5%, with core PPI falling 0.4% in April. Retail sales slightly underperformed expectations, increasing 0.1% month-over-month in April; retail sales excluding autos also increased 0.1%. Business inventories rose 0.1% in March. Industrial production was flat in April, underperforming expectations of a 0.3% increase, while capacity utilization remained below its long-term average and fell slightly to 77.7%. Total housing starts increased 1.6% month-over-month to a SAAR of 1.361 million units; total building permits were down 4.7% in April and fell to a SAAR of 1.412 million units. This decline in building permits reflects ongoing affordability issues, with high mortgage rates, home prices, and construction costs reducing demand. Import prices increased 0.1% in April and 0.4% when excluding oil. Export prices rose by 0.1%, as did export prices excluding agriculture. University of Michigan's preliminary consumer sentiment index fell sharply to 50.8 from 55.0; during the same period a year ago, the index stood at 69.1. Year-ahead inflation expectations increased from 6.5% to 7.3%, with long-term inflation expectations increasing from 4.4% to 4.6%,

### ECONOMIC RELEASES

| Last Week: Indicator | Number Reported | Consensus Expectation* | Comment |
|---|---|---|---|
| **Treasury Budget (Apr – Sun 14:00)** | $258.4B | NA | |
| **CPI (Apr – Mon 08:30)** | +0.2% | +0.3% | Core CPI (Apr): +0.2% |
| **MBA Mortgage Applications Index (05/10 – Tue 07:00)** | +1.1% | NA | |
| **Retail Sales (Apr – Wed 08:30)** | +0.1% | +0.2% | Retail Sales ex-auto: +0.1% |
| **PPI (Apr – Wed 08:30)** | -0.5% | +0.3% | Core PPI (Apr): -0.4% |
| **Initial Claims (05/10 – Wed 08:30)** | 229K | 226K | |
| **Continuing Claims (05/10 – Wed 08:30)** | 1,881K | NA | |
| **Industrial Production (Apr – Wed 09:15)** | +0.0% | +0.3% | |
| **Capacity Utilization (Apr – Wed 09:15)** | 77.7% | 77.9% | |
| **Business Inventories (Mar – Wed 10:00)** | +0.1% | +0.2% | |
| **Housing Starts (Apr – Thu 08:30)** | 1,361K | 1,383K | |
| **Building Permits (Apr – Thu 08:30)** | 1,412K | 1,450K | |
| **Import Prices (Apr – Thu 08:30)** | +0.1% | NA | Import Prices ex-oil: +0.4% |
| **Export Prices (Apr – Thu 08:30)** | +0.1% | NA | Export Prices ex-ag: +0.1% |
| **U. of Michigan Consumer Sentiment - Prelim (May – Thu 10:00)** | 50.8 | 55.0 | |

| Next Week: Indicator | Consensus Expectation* | Prior | Comment |
|---|---|---|---|
| **Leading Indicators (Apr – Sun 10:00)** | -0.7% | -0.7% | |
| **MBA Mortgage Applications Index (05/17 – Tue 07:00)** | NA | +1.1% | |
| **EIA Crude Oil Inventories (05/17 – Tue 10:30)** | NA | +3.45M | |
| **Initial Claims (05/17 – Wed 08:30)** | 232K | 229K | |
| **Continuing Claims (05/17 – Wed 08:30)** | NA | 1,881K | |
| **S&P Global US Manufacturing PMI - Prelim (May – Wed 09:45)** | NA | 50.2 | |
| **S&P Global US Services PMI - Prelim (May – Wed 09:45)** | NA | 50.8 | |
| **Existing Home Sales (Apr – Wed 10:00)** | 4.15M | 4.02M | |
| **EIA Natural Gas Inventories (05/17 – Wed 10:30)** | NA | +110 bcf | |
| **New Home Sales (Apr – Thu 10:00)** | 679K | 724K | |

**Sources:  www.briefing.com and www.federalreserve.gov*

# Economic Review

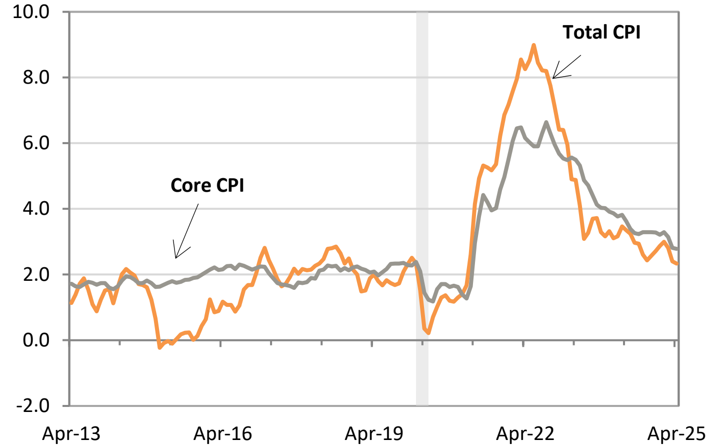
The CONSUMER PRICE INDEX increased slower than consensus expectations in April despite concerns about trade disruptions. The CPI was up 0.2% in April, below consensus expectations, following a 0.1% month-over-month decrease in March. Year-over-year, total CPI increased 2.3% in April, the smallest year-over-year increase in the CPI since February 2021. The core CPI, excluding food and energy, was up 0.2% month-over-month, also below expectations; the core CPI was up 2.8% year-over-year, flat from March. The shelter index remained elevated, increasing 0.3% month-over-month in April and 4.0% year-over-year.

The PRODUCER PRICE INDEX fell 0.5% in April, far below consensus expectations of a 0.3% increase. This decline in the PPI was primarily due to a 0.7% decline in final demand services, the most significant decline since December 2009. It was driven by shrinking margins for machinery and vehicle wholesaling, suggesting that wholesalers are likely absorbing impacts from tariffs, without passing price increases on to the consumer.

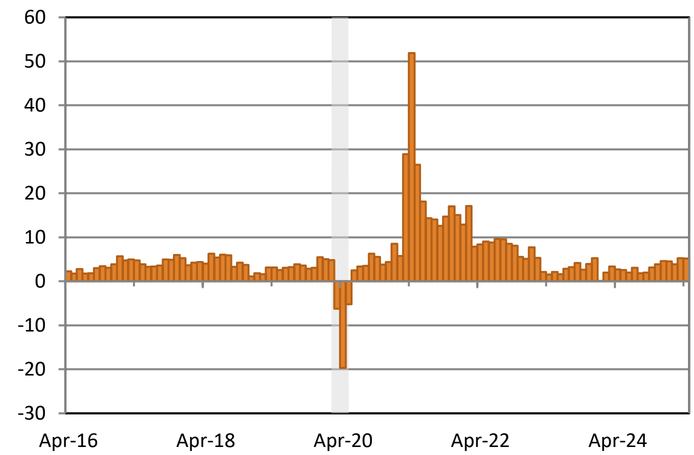
RETAIL SALES increased 0.1% month-over-month in April, a significant deceleration from the 1.7% increase in March. Retail sales, excluding automobiles, were also up 0.1% in April, following an upwardly-revised increase of 0.8% in March. The month-over-month deceleration in spending is a result of inflated levels of consumer spending in advance of the April "Liberation Day" tariffs; as the tariffs began to be enacted and negotiated, consumers returned to more "normal" behavior. While categories like autos, gasoline, and apparel softened, service-related consumption remained relatively resilient in April—spending at restaurants and bars rose a robust 1.2%. Services spending is more resilient to fluctuations in consumer income and the economy, so April's data may reflect cautious behavior among consumers as elevated economic uncertainty tempers discretionary spending.

INDUSTRIAL PRODUCTION was flat in April, underperforming expectations of a 0.3% increase. Total industrial production increased 1.5% year-over-year. Manufacturing output declined 0.4%, reversing March's gains, with both durable and nondurable output falling. CAPACITY UTILIZATION fell to 77.7% from 77.8% in March and remained 1.9 p.p. lower than its long-term average in April.

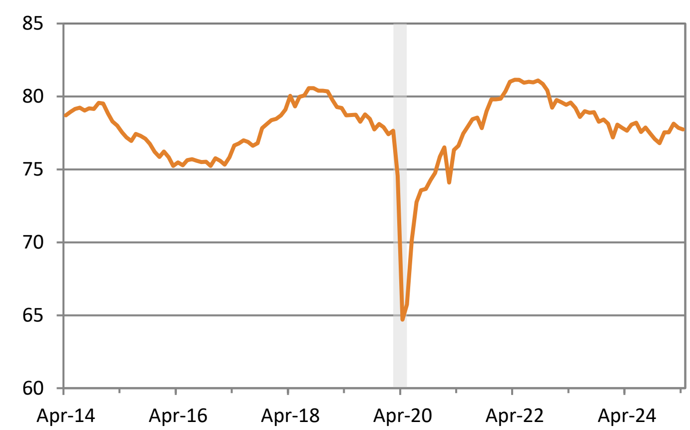
**Consumer Price Index**
**Percent Change, Year-Over-Year**




**Retail Sales**
**Percent Change, Year-Over-Year**




**Capacity Utilization Rate for Manufacturing**





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# Fed Speeches

In his opening remarks at the Second Thomas Laubach Research Conference, Chair Jerome Powell reaffirms the Federal Reserve's dedication to refining its strategic framework, emphasizing that the 2025 review is a critical opportunity to align policy with the modern economic landscape.

Powell acknowledges that the 2020 update to the consensus statement, and particularly the shift toward focusing on maximum employment and allowing inflation to moderately overshoot, was immediately overshadowed by the rapid and unanticipated inflation surge.

Looking ahead, Powell warns of structural changes in the macroeconomic environment, including rising real interest rates and more frequent turbulence within global supply chains. He warns that such developments could challenge both monetary policy execution and effectiveness:

> *"We may be entering a period of more frequent, and potentially persistent, supply shocks—a difficult challenge for the economy and central banks."*

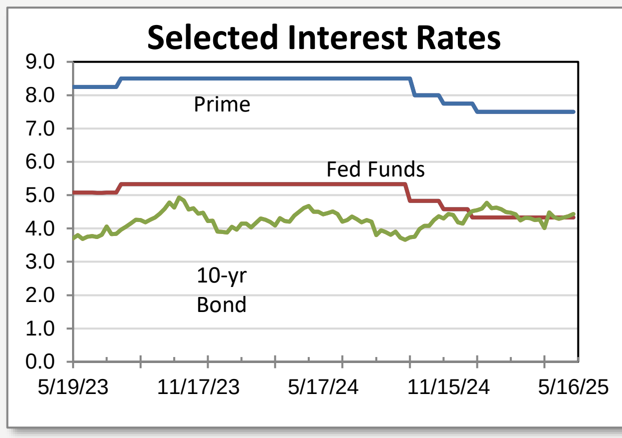
Powell concludes his speech by emphasizing the importance of maintaining anchored inflation expectations. He says,

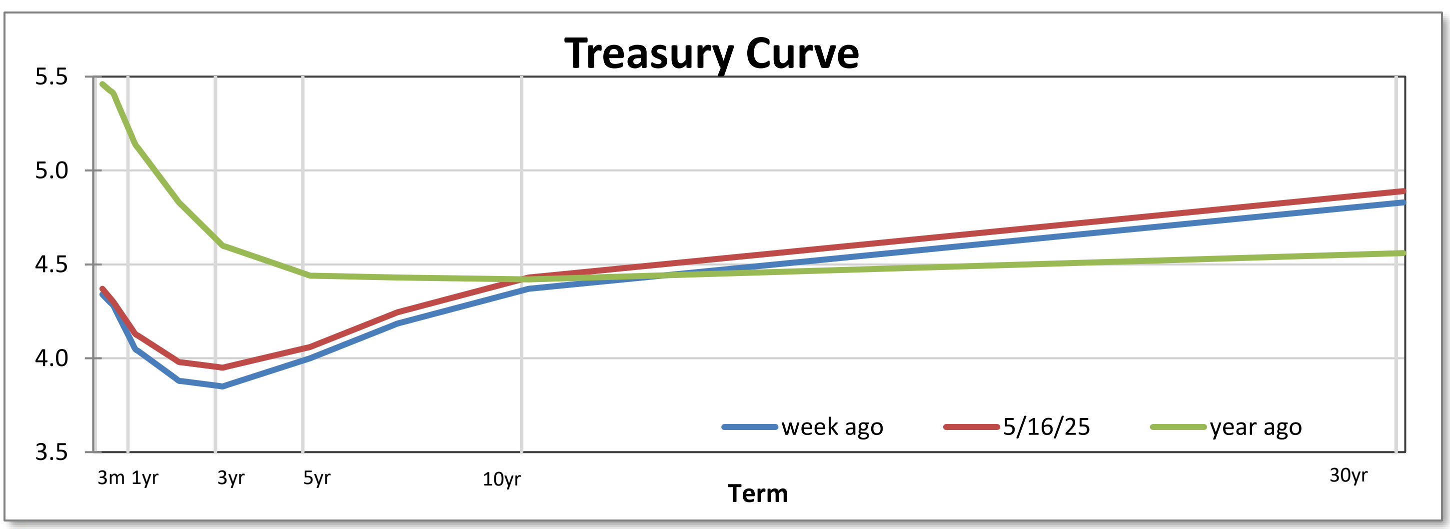
> *"Anchored expectations are critical to everything we do, and we remain fully committed to the 2% target today."*

These reflections suggest that the Fed is open to revising its framework and remains firmly committed to its core objectives and dual mandate. As the economy adapts to new structural realities, so too must monetary policy and central banks.

# Financial Markets

Equity markets surged last week, with the NASDAQ up 7.2%, the S&P 500 rising 5.3%, and the DJIA climbing 3.4%. All three indices are elevated from their values 4 weeks ago but remain lower than their values 13-weeks ago, indicating the markets have not yet fully recovered from earlier volatility. Yields rose across the Treasury curve this week. The 2-year and 5-year yields rebounded, increasing week-over-week and continuing to rise from their yields 4-weeks ago, indicating that markets have lowered expectations of an imminent Fed rate cut. The 30-year yield remaining 20 b.p. higher than its value 13-weeks ago suggests investors expect long-term, persistent inflation issues. The 30-year conventional mortgage rate rose 5 basis points to 6.81%, reflecting changes in long-term Treasury yields. Oil prices rose for a second week, while gold fell 3.6% amid improving market sentiment.





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# Interest Rate Forecast*

During the Fed's May policy meeting, the Federal Open Market Committee (FOMC) left the federal funds target rate unchanged at 4.25% to 4.50%. In the statement released following the meeting, the FOMC stated, "The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Uncertainty around the economic outlook has increased further. The Committee is attentive to the risks to both sides of its dual mandate and judges that the risks of higher unemployment and higher inflation have risen." This statement emphasized the persistent economic uncertainty that has continued since the last meeting.

| Avg. for: | Prime | Fed Funds | SOFR | 6-Mo. T-Bill | 2-Yr. Note | 10-Yr. Treasury | 30-Yr Bond | 30-Yr Mortgage |
|---|---|---|---|---|---|---|---|---|
| 2nd Qtr '25 | 7.50 | 4.33 | 4.33 | 4.31 | 4.05 | 4.31 | 4.59 | 6.67 |
| 3rd Qtr | 7.39 | 4.26 | 4.26 | 4.31 | 4.10 | 4.32 | 4.57 | 6.64 |
| 4th Qtr | 7.25 | 4.13 | 4.12 | 4.18 | 4.09 | 4.32 | 4.55 | 6.44 |
| 1st Qtr '26 | 7.00 | 3.88 | 3.87 | 3.96 | 4.07 | 4.22 | 4.44 | 6.21 |
| 2nd Qtr | 6.83 | 3.71 | 3.70 | 3.80 | 3.93 | 4.09 | 4.39 | 6.07 |

*April 2025*

## FINANCIAL MARKET SUMMARY

| | As of 5/16/2025 | As of 5/9//2025 | Weekly Change | 4-Week Change | 13-Week Change |
|---|---|---|---|---|---|
| **MONEY MARKETS (Changes in BPs)** | | | | | |
| **Prime** | 7.50 | 7.50 | 0 | 0 | 0 |
| **Secured Overnight Financing Rate (SOFR)** | 4.31 | 4.29 | 2 | 0 | (2) |
| **Fed Funds (Wed close)** | 4.33 | 4.33 | 0 | 0 | 0 |
| **TREASURIES (BE) (Changes in BPs)** | | | | | |
| **3 Months** | 4.37 | 4.34 | 3 | 3 | 3 |
| **6 Months** | 4.30 | 4.28 | 2 | 8 | (2) |
| **1 Year** | 4.13 | 4.05 | 8 | 14 | (10) |
| **2 Years** | 3.98 | 3.88 | 10 | 17 | (28) |
| **5 Years** | 4.06 | 4.00 | 6 | 11 | (27) |
| **10 Years** | 4.43 | 4.37 | 6 | 9 | (4) |
| **30 Years** | 4.89 | 4.83 | 6 | 9 | 20 |
| **MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)** | | | | | |
| **2-Year Muni** | 2.88 | 2.90 | (2) | (6) | 21 |
| **5-Year Muni** | 2.99 | 3.02 | (3) | (11) | 21 |
| **10-Year Muni** | 3.31 | 3.32 | (1) | 21 | 30 |
| **30-Year Muni** | 4.45 | 4.43 | 2 | (6) | 46 |
| **30-Year Conventional Mortgage** | 6.81 | 6.76 | 5 | (2) | (6) |
| **MARKET INDICATORS (Changes in %)** | | | | | |
| **DJIA** | 42,654.74 | 41,249.38 | 3.4 | 9.0 | (4.2) |
| **S&P 500** | 5,958.38 | 5,659.91 | 5.3 | 12.8 | (2.6) |
| **NASDAQ** | 19,211.10 | 17,928.92 | 7.2 | 18.0 | (4.1) |
| **CRB Futures** | 361.77 | 360.31 | 0.4 | 0.2 | (4.1) |
| **Oil (WTI Crude)** | 62.49 | 61.02 | 2.4 | 1.6 | (12.0) |
| **Gold** | 3,203.65 | 3,324.98 | (3.6) | (3.7) | 11.1 |
| **Yen / Dollar** | 145.70 | 145.37 | 0.2 | 1.5 | (3.8) |
| **Dollar / Euro** | 1.12 | 1.13 | (0.8) | (1.8) | 6.4 |

The information in this newsletter is obtained from sources we believe to be reliable. We cannot, however, guarantee its accuracy and completeness. Furthermore, the opinions in this report constitute our present judgment, which is subject to change without notice.