

June 2025

Between tariffs, trade deals, and work on a new government spending bill, May has been an interesting month for the market, only to end with a twist.

The US Court of International trade ruled on Wednesday, May 28th, that Trump overstepped his powers by invoking an economic emergency to impose his tariffs. As a result, this invalidated them including the special 20% levies imposed on Canada, Mexico and China for their alleged role in the US fentanyl crisis (WSJ). As of now, this increases the uncertainty around the trade war and what will happen for tariffs in the coming months as it is unclear if the tariffs will remain in place while Trump appeals the decision.

Earlier in May, the US struck a temporary trade deal with China with both country's reducing their tariff rate. The US reduced the headline tariff rate on China from 145% to 30% and China reduced American import tariffs from 125% to 10% (CNN). As a result, Morgan Stanley believes this significantly lowers the risk of recession. However, on May 28th news came out that not only was Trump effectively stopping some American companies from selling software used to design semiconductors to China but his administration was going to "aggressively revoke visas for Chinese students" (CNN). Again, this further raises the uncertainty of what trade will look like long term between the 2 countries and for now we will have to wait and see.

On May 16th, Moody's downgraded US government debt to Aa1, it's second highest rating, and while the market did fall initially, Moody's was essentially just bringing their ratings in-line with what the S&P did back in 2011 and Fitch did in 2023 (First Trust). We did see a temporary raise in interest rates, which have since slowly receded.

Outside of tariffs, Trumps "Big Beautiful Bill" has been a hot topic across the market recently as it raised fiscal fears over the increasing US government deficit. The bill, as it currently stands, would extend the Trump Tax cuts and raises the debt ceiling by about 4 trillion dollars. As a result, Moody's estimates that the deficit will rise from 6.4% to about 9% of gross domestic product by 2035 (Moody's). The bill was passed by the House of Representatives and is now in the Senate. We will have to monitor the situation to see what the final results are.

In more promising news, US Consumer Price Index (CPI) inflation came in lower than expected for April, it fell to 2.3%, the lowest level since 2021 and down from a high of 9.1% in 2022 (Invesco). It is still unclear what the impact from tariffs will be on inflation going forward, some economists say it won't start to show up until the May data and others say you won't see much but a one-time increase. The Conference Board also reported that after 5 straight months of decline, US consumer confidence rose for the month of May and beat expectations.

On the monetary policy front, our economists don't see the Fed. cutting rates this year (Morgan Stanley). The Wall Street Journal reported that the notes from the recent Fed. meeting are on pause until they can get a handle on tariffs and the impact on both inflation and the jobs market.

For now, we will have to wait and see how everything plays out. Hopefully, the weather will start to cooperate, and we can enjoy summer!

This just in: The Wall Street Journal reported the tariffs are back on for now while the courts go through the review process and inflation for last month came in at 2.1%. Stay tuned!

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