

May 2025

April was a rollercoaster for the Markets, and it all came down to tariffs.

The month started out with “Liberation Day” on April 2nd when the President announced tariffs in the range of 10-49% on practically all goods coming into the United States (CNN). Nine days later, Trump imposed a 90-day pause on many of the tariffs he had put in place. Despite the pause on many tariffs, he continued to double down on his trade war with China. He raised tariffs on imports from the country to 145% and China retaliated by raising duties on US goods to 125% (Reuters). He has recently softened his tone on China but there are many issues to address and it could take some time to work out a deal. Overall, we are no closer to knowing where the ultimate tariff rates will land, however what we do know is that tariffs are currently much higher than the 2.3% they were in 2024 (Invesco).

Uncertainty around trade policy is at a record high and is having a dampening effect on economic sentiment in the US. Last week the International Monetary Fund slashed its 2025 growth forecast for the United States by 0.9 percentage point to 1.8% - a full percentage point lower from the 2.8% in 2024. They also lowered the 2026 forecast by 0.4 percentage point to 1.7%, citing policy uncertainty and trade tensions (Reuters). We just saw this start to play out when the Commerce Department reported that Gross Domestic Product, the sum of all goods and services produced in the first quarter, fell at a 0.3% annualized pace, the first quarter of negative growth since Q1 of 2022 (CNBC). The Philadelphia Fed Manufacturing index fell sharply in April as activity dropped to -26.4 in April, down from 12.5 in March. Economists surveyed by Dow Jones were expecting a reading of 3.5. "Nearly 39 percent of the firms reported decreases in general activity this month, while 13 percent reported increases, and 41 percent reported no change. The index for new orders also fell sharply, from 8.7 in March to -34.2 this month, its lowest reading since April 2020," the release said. Even as the activity index declined, the prices paid index ticked up (CNBC)

However so far, we have seen hard data hold up. The US Census Bureau announced that US retail and food services sales for March 2025 were up 1.4% from February and up 4.6% from March 2024. The Census Bureau also announced that orders for durable goods, items meant to last 3 years or more, jumped 9.2% last month. There is speculation that this jump was due to business trying to get ahead of the tariff implementation.

Earnings results for the first quarter have held up, with 73% of companies reporting beating analysts' estimates, slightly below the 5-year average of 77%, according to FactSet data. Still, Wall Street is lowering expectations for the second quarter and the full year as companies are uncertain and suspending guidance because of the uncertainty of the tariffs (CNBC).

It's the Koehler Group's opinion that the markets will continue to be choppy until we have more clarity on tariffs. One concern would be if the current situation is prolonged, that both individuals and corporations delay purchase or expansions which causes a further slowdown in the economy.

Mother's Day is right around the corner and the weather is starting to improve. Enjoy!

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