

WEEKLY INSIGHT

May 16, 2025

Equities surge on the news that the tariff war with China will be de-escalated

Over the weekend the U.S. and China agreed to a 90-day rollback on tariffs. The market rallied in anticipation of positive news, but the final number was better than expected.

Chinese tariffs fall to 30% from 145%. This includes 20% related to fentanyl on top of a 10% baseline tariff. Therefore, these numbers could go even lower if you see comments regarding traction on fentanyl in coming weeks. After 90 days, the tariffs revert to 34%, not 145%. It appears to be a near complete pivot on tariff policy, potentially due to falling equity prices and rising bond yields.

This week also saw action in the Middle East that impacted markets, especially AI related equities. President Trump announced that Saudi Arabia has committed to investing \$600 billion in the U.S. There is also investment commitments related to semiconductors and infrastructure spending. Efforts to strengthen economic ties with other countries in the region was also a notable outcome.

The result is an S&P 500 that rallied 4.6% on the week while the NASDAQ was up nearly 8%.

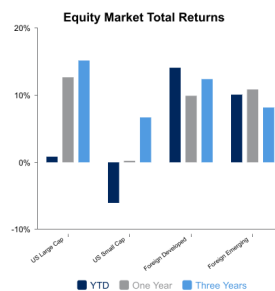
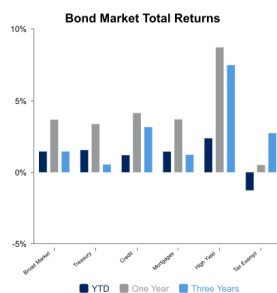
- From the intra-day lows, the S&P 500 is up nearly 22% in 25 trading days.
- It had a nine-day winning streak, which was the longest since 2004.
- The cyclical to defensive ratio had one of its best 10-day moves ever.
- Every possible breadth thrust was triggered.

At face value, the recent rally has nearly all the hallmarks of beginning bull market price action. Of course, some obvious headwinds are that the secular bull market is 17 years old and bond yields remain stubbornly high.

Inflation comes in better than expected

Economic data on the week was a tailwind to equities, as well. Jobless claims remain low with a weekly number of 230,000. CPI was lower than expected. Monthly gains of 0.2% in headline and core CPI were better than consensus at 0.3%. The annual number on core CPI now sits at 2.8%. PPI numbers were also below expectations. Retail sales disappointed slightly but follows upward revisions in the previous month. The lower retail sales and PPI data is giving relief to bond markets today with falling yields.

The bond market is currently pricing in the next full cut in September with a total of two cuts this year. It sees a low in the fed funds at 3.5% at the end of 2026. Despite this, Fed Chair Jerome Powell made it clear at the recent FOMC meeting that they remain in a wait and see mode.



Interest Rates (%)			
	Current	12M Ago	3YR Ago
Fed Funds Rate (Upper)	4.50	5.50	1.00
3-Month T-Bill	4.38	5.40	0.94
10-Year Treasury	4.54	4.34	2.92
30-Year Treasury	4.97	4.50	3.08
10-Year Corporate AA	5.39	5.21	4.24
10-Year High Yield Corp	6.64	6.65	6.59
Commodity Prices (\$)			
	Current	12M Ago	3YR Ago
Gold (\$/oz)	3,177	2,386	1,812
Oil (WTI, \$/barrel)	63.15	78.63	110.49
Currencies			
	Current	12M Ago	3YR Ago
USD (Dollar Index Spot)	101.04	104.35	104.56
USD/EUR	0.89	0.92	0.96
USD/JPY	146.75	154.88	129.22

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