



Market Commentary

Weekly perspective on current market sentiment

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Last week's S&P 500 Index: +2.9%

Trade deals and rate decisions

Key takeaways

- One can make a reasonable argument that at least some of the recent stock market bounce higher can be attributed to anticipation that some trade deals will be announced in the near term.
- Further near-term upside in the S&P 500 Index is likely limited, and we expect to see more downside volatility before the tariff uncertainties are resolved.

Let's get one thing out of the way right off the bat: We do have three interest-rate cuts penciled in this year if the economy slows in coming quarters and the unemployment rate rises as we expect. Our central bankers keep telling us they are "data dependent." That means Chair Powell and the other voting Federal Open Market Committee (FOMC) members need to see the data that tells the Federal Reserve the labor environment is weak and/or inflation readings are coming down in a consistent fashion. For now, we believe it appears the economy has not slowed enough for policy makers to deliver a rate cut this week.

Now we can move to what we believe, for now, are the most important topics at hand: tariffs and trade negotiations. We know that tariffs have real economic costs. Prices/inflation tend to rise and then the economy tends to slow. We are now hearing some retailers stating that they will have fewer goods on their shelves in coming months and quarters if current tariff levels persist (i.e., think clothing and toys). But the president over the weekend hinted that there could be trade deals announced as early as this week. Last week, Treasury Secretary Scott Bessent told reporters that a trade deal with India was "very close." One can make a reasonable argument that at least some of the recent stock bounce higher off the lows can be attributed to anticipation that some trade deals will be announced in the near term. These deals do not necessarily need to be with our largest trade partners like China or the European Union to help calm some investor nerves on the tariff front. Deals with our largest partners will take time, but unless and until the deals come — especially with Mexico, Canada, Europe, and China — the increase in consumer goods prices and the slower pace of private spending will be tangible.

Investors want to know now if we have seen the bottom in the stock market and if the day-to-day volatility is going to continue. We currently do not know if or how soon these deals may come, nor do we know if the president will add sectoral tariffs on pharmaceuticals and electronics. In our view, further near-term upside in the S&P 500 Index is likely limited and we expect to see more downside volatility before the tariff uncertainties are resolved and other positives (tax cuts, deregulation, and lower interest rates) help the economy gain traction again, potentially in the autumn.

In the meantime, we are looking into 2026 and seeing an economic and earnings recovery. For now, while volatility remains the likely headline, we prefer to focus on quality, like large- and mid-cap U.S. equities, and favor the Energy, Communication Services, Information Technology, and Financials sectors. Be selective in fixed income. We prefer investment-grade corporates and essential-service municipals in the three to seven year maturity range. Quality and selectivity should lead the way as a recovery develops and could provide some stability on days when the news is negative.

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