

Calm Amid Chaos

May, 2025

Summary

- U.S. large-cap stocks, as measured by the S&P 500, gained 6.3%—the strongest May return since 1990. North American small-cap stocks ended the month up 5.3%.
- The May jobs report showed steady unemployment and consistent job growth supporting the Federal Reserve's decision to keep interest rates unchanged while market expectations for rate cuts this year dropped from four to two by year end.
- Despite the many headlines surrounding tariffs and Trump's tax and spending bill, equity markets remained relatively calm. The S&P 500 ended May back in slightly positive territory for the year.
- Markets appear to be looking past near-term tariff-related disruptions, focusing instead on potential gains that could come from small business spending, domestic manufacturing, and capital investment.

Overview

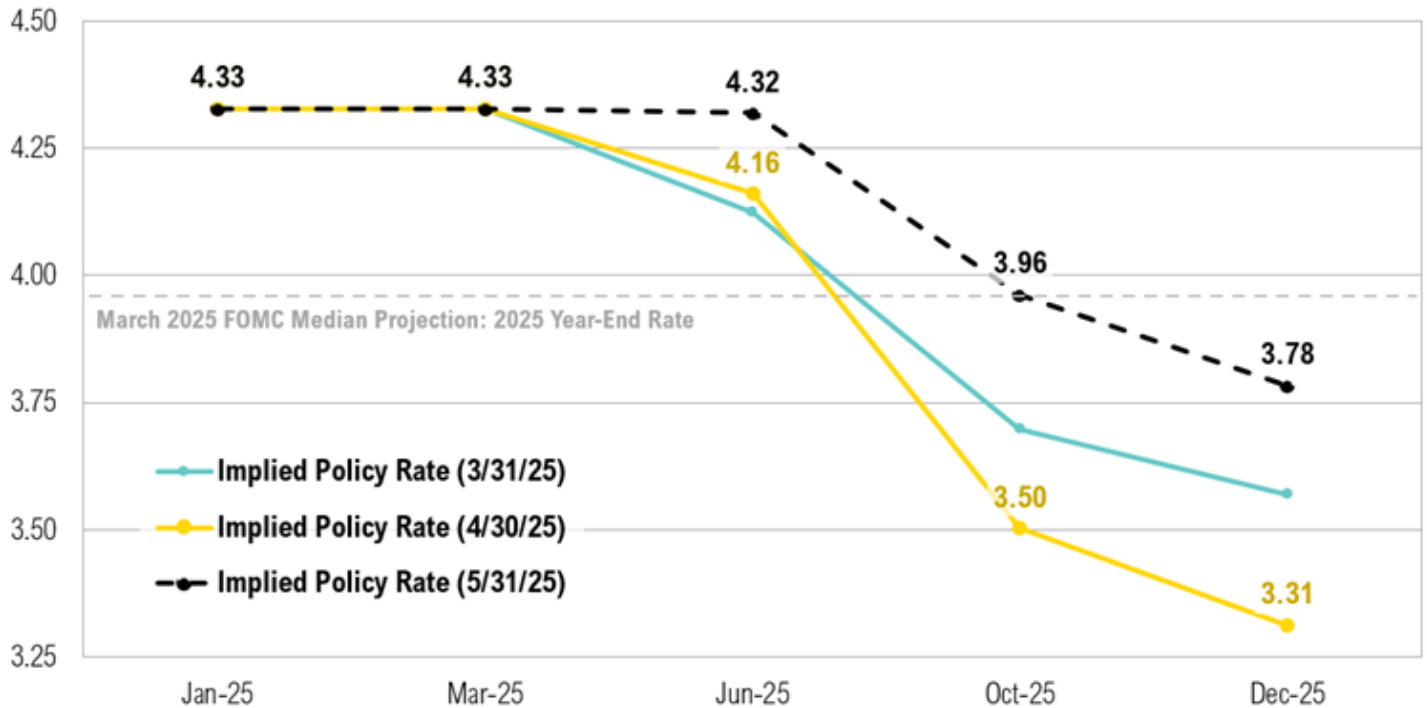
U.S. large-cap stocks, as measured by the S&P 500, gained 6.3%, the strongest May return since 1990 when the index rose 9.3%. Similarly, the U.S. small-cap Russell 2000 Index ended the month up 5.3%. In contrast, U.S. intermediate-term bonds, represented by the Bloomberg U.S. Aggregate Bond Index, declined -0.7% in May.

Updated first-quarter GDP estimates showed the U.S. economy contracting at an annualized 0.2% quarter over quarter—a marginal improvement from the initial estimate of a 0.3% decline. The upward revision was driven by stronger business investment and inventory accumulation. However, consumer spending was revised down from 1.8% to 1.2%. Adding to signs of a slowdown in economic growth, the ISM Services PMI fell slightly into contractionary territory in May for the first time in 11 months, posting a reading of 49.9.

The May jobs report showed a labor market that is resilient, but gradually moderating. The economy added 139,000 new jobs—slightly above the expected 126,000—while the unemployment rate held steady at 4.2%. However, downward revisions totaling 95,000 jobs across the previous two months tempered some of the optimism. Still, the slightly better-than-expected jobs report likely gave the Federal Reserve justification to keep interest rates unchanged at the next Federal Open Market Committee (FOMC) meeting. While the May 7 FOMC meeting minutes signaled the Fed's inclination to hold rates steady, market expectations have shifted: investors now anticipate the equivalent of two 0.25% rate cuts by year end, down from four projected cuts just a month ago.

Markets Expect the Equivalent of Two 0.25% Rate Cuts in 2025

Implied Fed Funds Rate, %



Source: Bloomberg

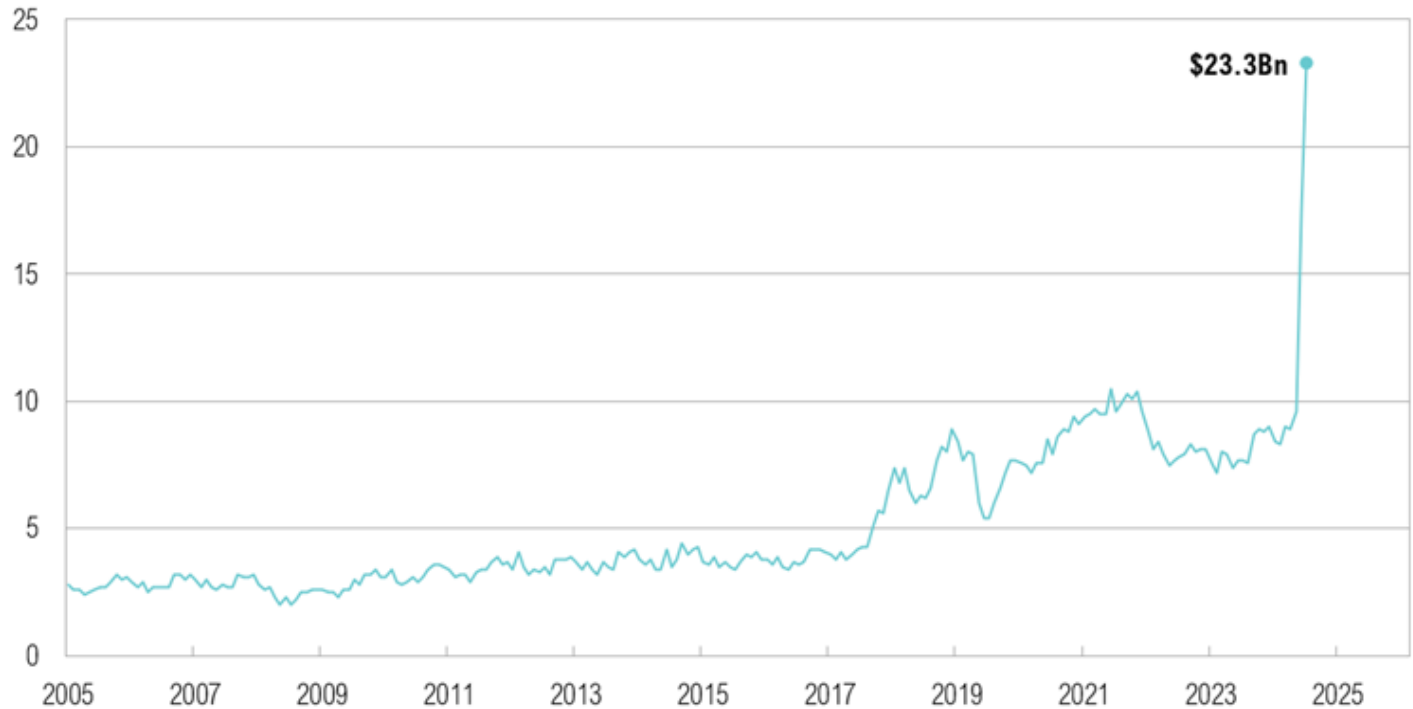
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On April 2, President Trump invoked the International Emergency Economic Powers Act (IEEPA), declaring a national emergency to impose broad tariffs, including a 10% tariff on imports from all countries and higher rates for nations with large trade deficits. On May 28, the U.S. Court of International Trade ruled that the tariffs exceeded the president's authority under IEEPA and blocked most of those imposed on April 2. However, the U.S. Court of Appeals for the Federal Circuit issued a temporary stay on May 29, allowing the tariffs to remain in effect while the government appeals the ruling.

On May 22, the House of Representatives passed Trump's spending and tax bill, the One Big Beautiful Bill Act (OBBBA). As of the end of May, the bill was under consideration in the Senate. OBBBA seeks to extend major provisions of the 2017 Tax Cuts and Jobs Act (TCJA)—currently set to expire at the end of 2025—while introducing spending cuts and new revenue measures. The Congressional Budget Office (CBO) estimates the bill would add roughly \$2.4 trillion to the federal deficit over the next decade. However, the true fiscal impact is difficult to assess: the CBO does not account for second-order growth effects, potential recession scenarios, or the possibility that the TCJA will be extended beyond its scheduled expiration. Notably, tariff revenues were much higher this May: a record \$23.3 billion in customs and excise taxes were collected despite declining import volumes. The CBO estimates that if Trump's tariffs stay in place for a full decade, they could reduce the federal debt by \$2.8 trillion—which the White House claims could potentially offset the debt that the OBBBA would add. The CBO also flagged potential trade-offs in higher inflation and slower economic growth.

May 2025 Saw a Record \$23.3Bn in Customs and Excise Taxes Collected

U.S. Treasury Deposits: Customs & Certain Excise Taxes, \$Bn



Source: Bloomberg. As of 5/31/2025.

By the end of May, nearly all S&P 500 companies had reported first-quarter earnings. Earnings growth for the index has nearly doubled since March 31, rising from 7% year-over-year to 13%. The strongest gains came from healthcare (43%), communication services (29%), and technology (16%). However, as earnings season progressed, full-year earnings growth projections declined—from 11% to 9%. On May 28, Nvidia reported first-quarter results, beating both revenue and earnings expectations. Revenue rose nearly 70% year-over-year to \$44.1 billion, despite a \$2.5 billion hit from unsold H20 chips to China due to U.S. export restrictions. Nvidia's share price has climbed 50% since the April 4 market low. The strength in mega-cap tech endures, with capital expenditure guidance from Amazon, Alphabet, Microsoft, and Meta pointing to a combined \$330 billion in AI investment in 2025—a 35% year-over-year increase—and a projected \$1 trillion over the next three years. Notably, computer equipment spending added a record 1% to first-quarter U.S. GDP, reinforcing the view that the AI boom continues to quietly drive economic momentum.

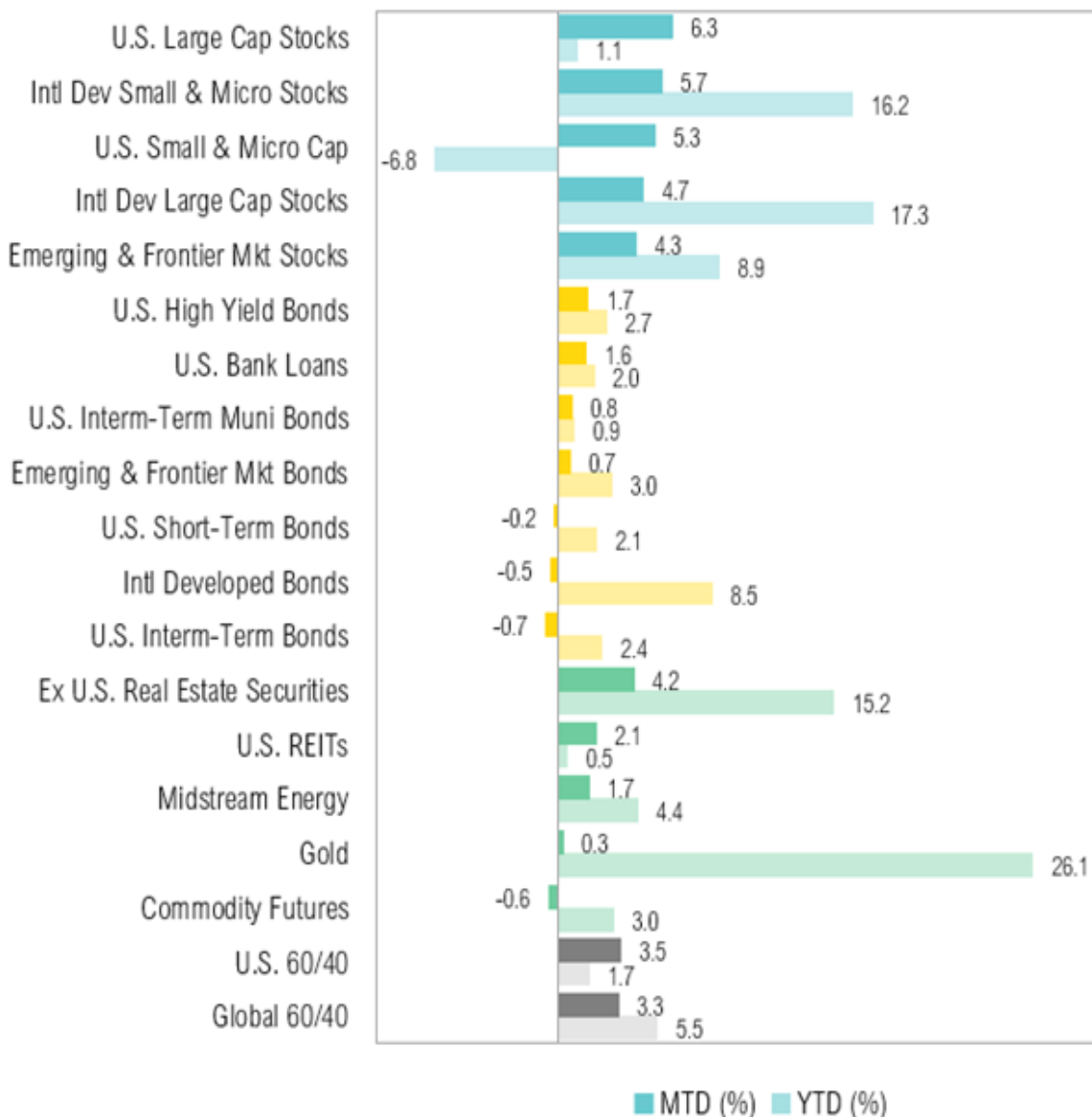
U.S. large-cap stocks posted their best May since 1990, despite headline chaos from tariffs, the OBBBA, and other market and geopolitical events. After a nearly 20% decline between February 19 and April 8, May's strong year-to-date returns brought the S&P 500 to a very calm +1%, just 4% below all-time highs. Credit spreads, which spiked to 4.3% in mid-April amid tariff concerns, fell to 3.1% by month end, continuing to signal economic resilience despite softening macro data. Betting market odds of a recession also dropped sharply—from 66% on May 2 to 34% at month-end. Fixed income markets were volatile throughout the month with the 10-year Treasury yield peaking at 4.6% following news of the OBBBA's passage in the House, before retreating to end May at 4.4%.

Markets

U.S. large-cap stocks ended May up 6.3%, and international developed large-cap stocks gained a respectable 4.7%. U.S. small-cap stocks marginally underperformed their international counterparts. With the former gaining 5.3% and the latter ending the month up 5.7%. Emerging and frontier market stocks gained 4.3%. U.S. intermediate-term bonds ended May down -0.7%.

Gold, which remains a strong performer year to date (gaining 26% since January), ended the month up 0.3%, at \$3,290 per ounce. Despite sharing many of the same qualities as gold, platinum had thus far been noticeably absent from the precious metals rally. Through the end of May, platinum prices increased by nearly 10% over the month (up 16% year to date) on tightening supply-demand dynamics and renewed investor interest.

May 2025 Key Market Total Returns



Source: Bloomberg

Looking Forward

Despite chaotic headlines, investors seem unfazed and appear more focused on potential long-term positives, including a resilient U.S. economy, a broadening global equity rally, and the pro-growth aspects of this administration's policy agenda. Earnings growth estimates for the S&P 500 in 2025, while off their highs, are over 9%, credit spreads remain contained, and the AI infrastructure boom appears durable. Although notable risks remain and volatility could increase during the second half of the year, areas like small business spending, domestic manufacturing, and capital investment could deliver welcome surprises. If the positive economic factors outweigh the negative ones, the current market calm may continue. However, this calm could be disrupted if the U.S. administration renews its focus on spending cuts, inflation increases significantly, or Treasury yields rise meaningfully—just some of the key risks we are monitoring.

As always, if you have any questions or would like to schedule a meeting with one of our investment professionals, please don't hesitate to call us at 508-693-8850.

Sincerely,



Luke Murphy
Managing Director,
Martha's Vineyard Investment Advisors

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Martha's Vineyard Investment Advisors

496 State Road
West Tisbury, MA 02575
(508) 693-8850

www.mvinvestmentadvisors.com

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Performance Disclosures

All market pricing and performance data from Bloomberg, unless otherwise cited. Asset class and sector performance are gross of fees unless otherwise indicated.

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