

MONTHLY COMMENTARY

MAY 2025

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Commentary

The ongoing implementation of the US administration's trade policy remains a source of uncertainty. While tariffs were scaled back significantly in the weeks following the April 2 Liberation Day announcement, the overall tariff burden still remains the highest in over a century, with a 10% universal tariff in effect across all countries and higher duties on some countries and sectors, notably China. In early May, US and Chinese representatives met in Geneva and agreed to pause steep reciprocal tariffs for 90 days, lowering the US tariff rate on most Chinese imports to 30% from 145% and with Chinese tariff rates on US exports dropping to 10% from 125%. This sudden de-escalation has fueled cautious market optimism about a more durable agreement. Still, the outlook remains highly uncertain.

The economic data has begun to show some early effects of the generational shift in US trade policy. In the first quarter of 2025, gross domestic product (GDP) shrunk at a 0.3% annualized rate, mainly a result of imports surging 41.3% in the first few months of the year as businesses pulled forward goods imports ahead of tariff implementation. Meanwhile, other parts of the economy showed signs of cooling with a fall in government spending and a modest rise in private consumption.

The "soft" data, or survey and expectation-based measures on the state of the economy, deteriorated further in May. The University of Michigan's Survey of Consumers showed consumer sentiment drop to historic lows in the month, reflecting growing unease about the economic outlook. This was accompanied by a spike in 1-year ahead inflation expectations to 7.3%, which is the highest since the early 1980s. The survey showed longer-term inflation expectations increased as well to 4.6%.

The Labor market remains resilient. April saw 177,000 new jobs created and a steady 4.2% unemployment rate. Wage growth moderated to 3.8% year-over-year, which may ease inflation concerns but could also signal softening labor demand.

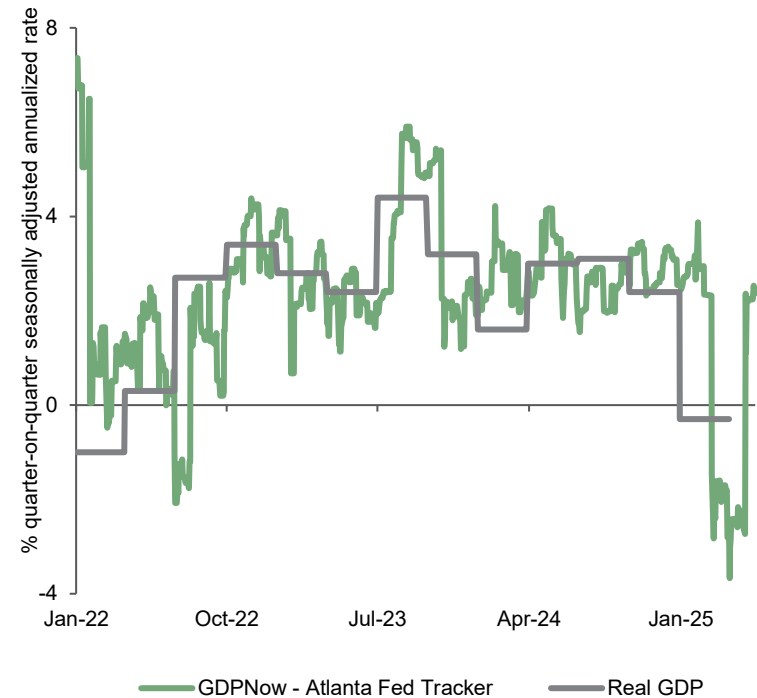
Inflation cooled in April, with headline Consumer Price Index (CPI) coming in at 2.3% year-over-year, below expectations. Core and sticky-price inflation also declined, reinforcing the Federal Reserve's (Fed's) progress. However, the inflationary impact of tariffs has yet to be fully reflected in the data, with risks of higher inflation in coming months.

As expected, the Federal Open Market Committee (FOMC) left its policy rate steady in the 4.25% to 4.5% range at its May meeting. The statement noted that "uncertainty about the outlook has increased further," with risks of higher inflation and higher unemployment. The Fed is leaning toward an ease but is likely to be patient and wait until the inflationary effects of tariffs are clearer. In our view, the Fed leaves rates on hold until delivering another 25-basis point (bps) cut in September, at the earliest, with further easing to be data-dependent. The Fed will be reactive to events, and a sharper slowing in aggregate demand could prompt a rate cut sooner, while a more sustained rise in inflation could put easing off the table this year.

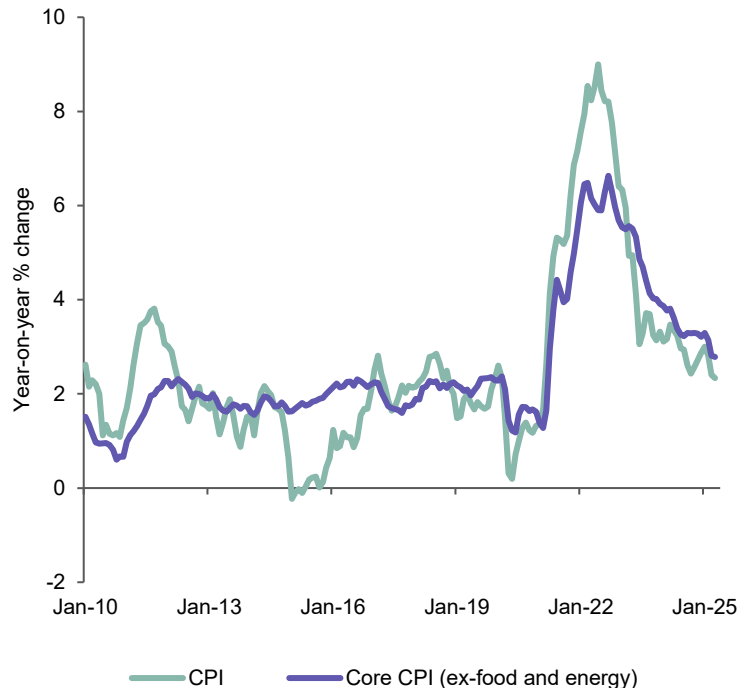
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Economic Overview

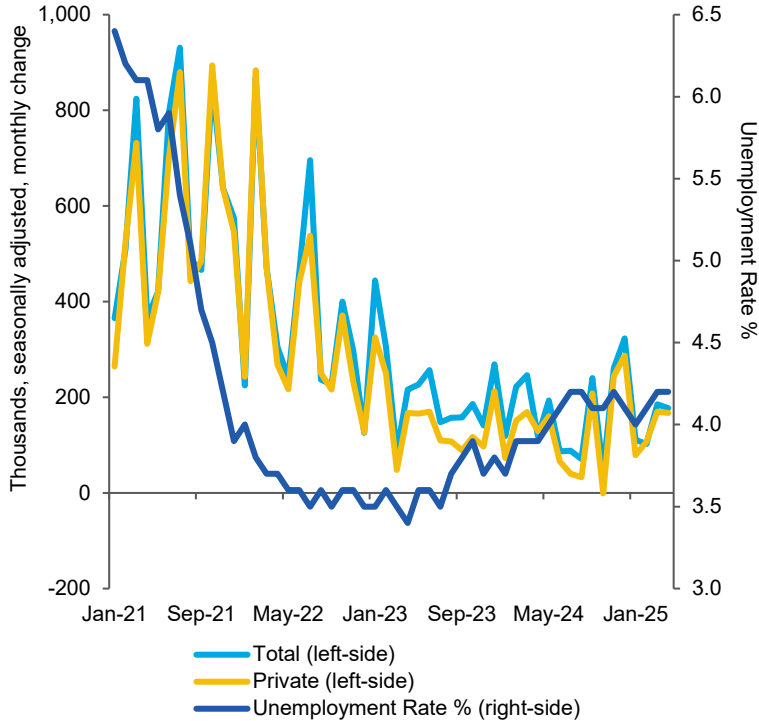
US Gross Domestic Product



US Inflation
CPI (Consumer Price Index)



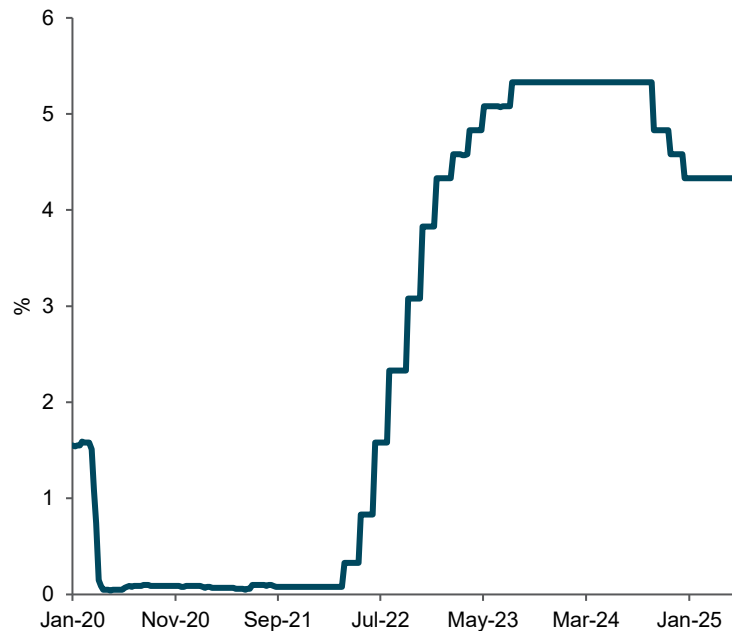
Nonfarm Payroll Employment



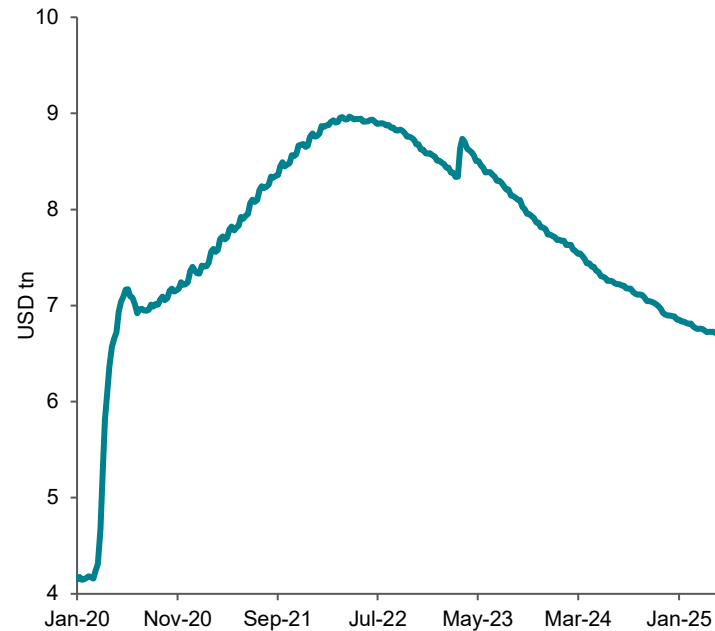
PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. Sources: US GDP chart – Bureau of Economic Analysis (BEA) and Federal Reserve Bank of Atlanta; US Inflation / CPI chart. Nonfarm Payroll Employment chart – Bureau of Labor Statistics (BLS). Data accessed 5/19/25. See Additional Information in Disclosure Statements. [732754]

Federal Reserve Policy

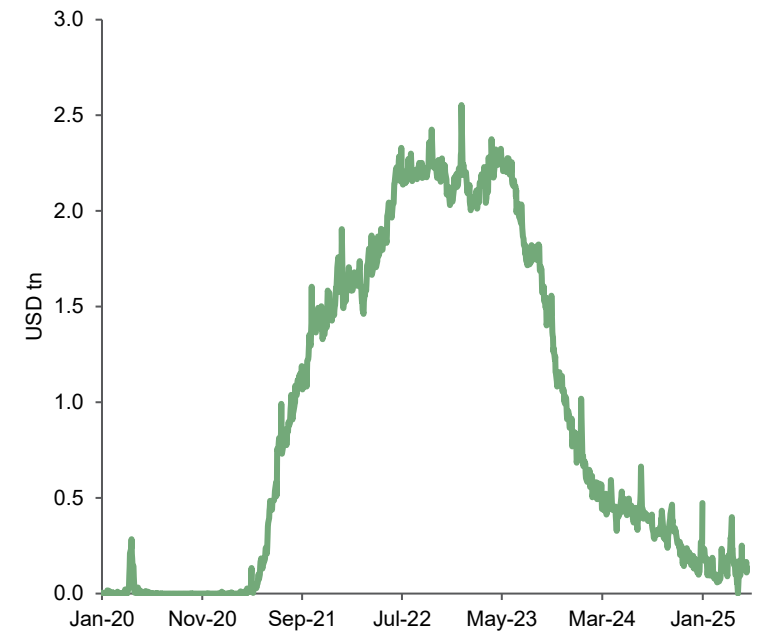
Federal Reserve – Effective Federal Funds Rate



Federal Reserve Balance Sheet – Total Assets



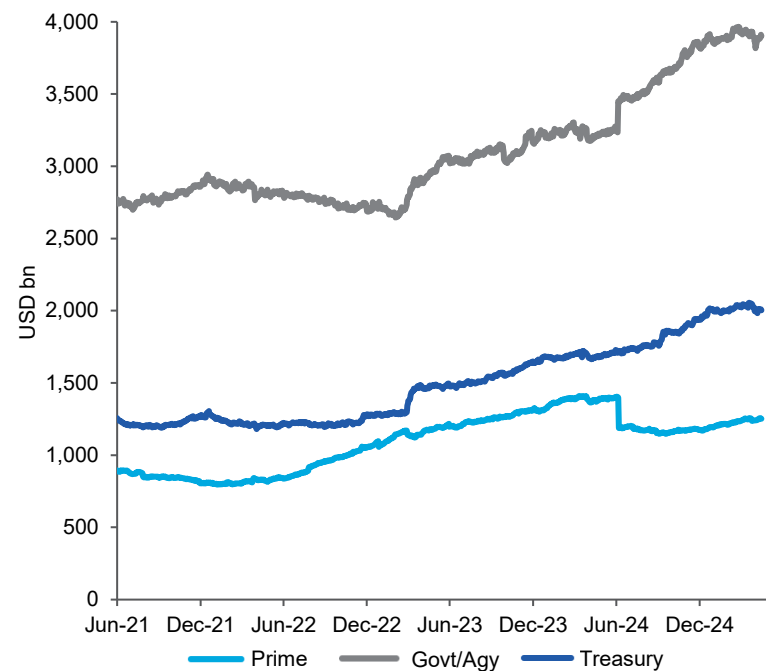
NY Fed Overnight Reverse Repo



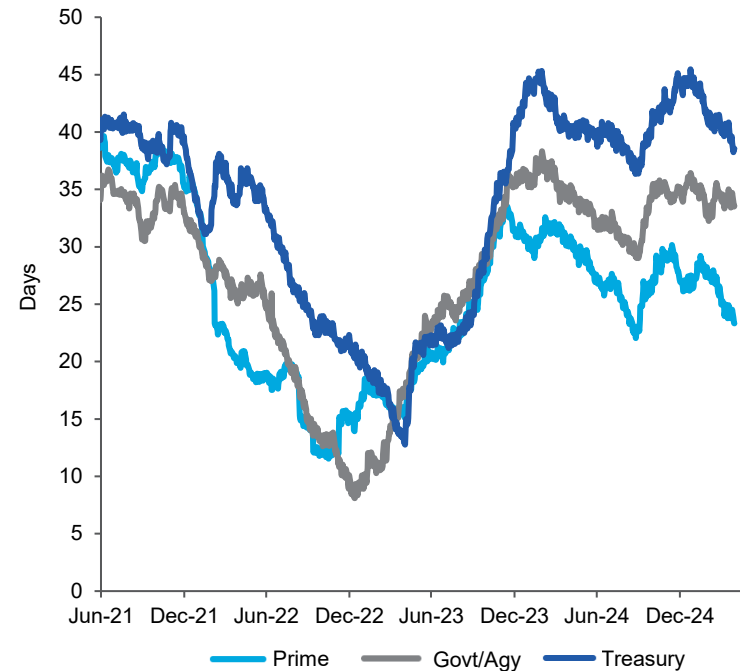
PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. Source: Federal Reserve, accessed 5/19/25. See Additional Information in Disclosure Statements. [732754]

Money Market Fund Highlights

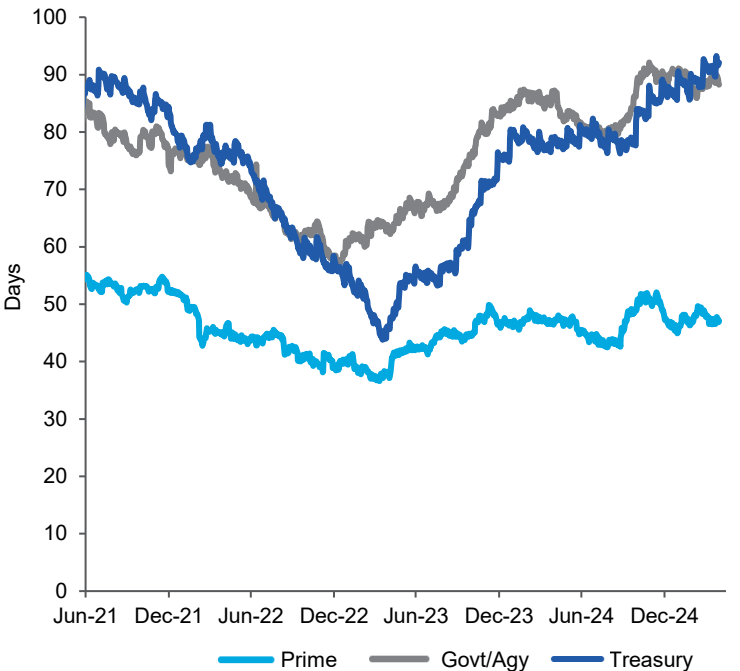
Assets Under Management



Weighted Average Maturity



Weighted Average Life



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Disclosure

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