RAYMOND JAMES®

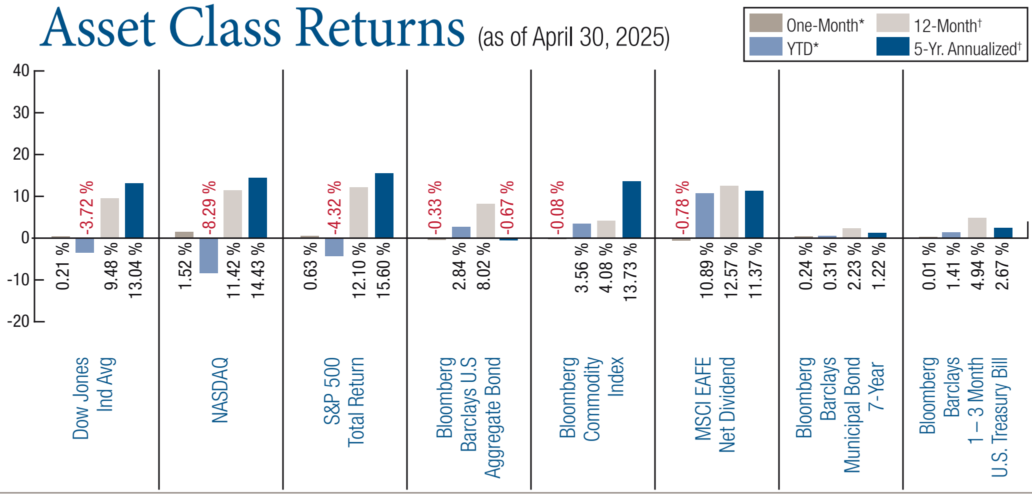
market update

From the Office of Jeff Sgroi, CFP®

"The true investor welcomes volatility... a wildly fluctuating market means that irrationally low prices will periodically be attached to solid businesses."

– Warren Buffett

Asset Class Returns (as of April 30, 2025)



Market & Economic Synopsis

- The S&P 500 surged over 19% from its April lows, driven by easing U.S. - China trade tensions and a temporary 90-day tariff rollback.
- While tariffs on Chinese goods were reduced from 145% to 30%, the short-term nature of the pause (90 days) leaves businesses hesitant, impacting inventory and investment decisions.
- April CPI slowed to 2.3% YoY (lowest since Feb 2021), with core CPI steady at 2.8%. However, inflation expectations have risen sharply, with 1-year expectations at 7.3%.
- The S&P 500's trailing P/E is near 24x (91st percentile), and the PEG ratio is at a 20-year high, suggesting limited room for further multiple expansion.
- The University of Michigan's sentiment index dropped to 50.8, down ~30% YTD, reflecting persistent economic uncertainty and inflation concerns.
- Treasury yields climb, with the 10-year at 4.60% and the 30-year over 5%, driven by deficit worries and expectations of fewer Fed rate cuts.
- Tech and discretionary sectors lead recent gains, but analysts expect sector differentiation to become more critical as macro risks and valuation pressures mount.

Market Update – Three Hot Topics

United States Loses Its 'AAA' Credit Rating With Moody's

Although some claim Moody's is late to the game, the drop in their rating of U.S. credit from 'Aaa' to 'Aa1' did not go unnoticed this week. Previously, the other two major credit rating agencies (S&P and Fitch) lowered the United States credit from their highest ratings to below pristine in 2011 and 2023, respectively.

Market reaction was muted, though the reasons for the credit downgrade are noteworthy. The top-tier 'Aaa' rating had been held since 1917. Losing that rating only emphasizes and reinforces broad concerns that the U.S. fiscal policy is unsustainable. Specifically, Raymond James' team of Larry Adam (Chief Investment Officer), Tracey Manzi (Senior Investment Strategist) and Matt Barry (Senior Investment Strategist) share Moody's three primary reasons for the downgrade:

1. Rising National Debt—Moody's cited that "successive U.S. administrations failed to agree on measures to reverse large annual fiscal deficits," leading to a rising debt burden. Federal debt has more than tripled since 2008—rising from $10 trillion to over $36 trillion today.
2. Persistent Deficits—The U.S government has long operated with budget deficits, consistently spending more than it collects in tax revenue. Since 1962, the deficit has averaged around 3% of GDP. Moody's expressed concern that rising entitlement spending, escalating interest costs, and a fiscally expansionary budget proposal could push the deficit to as high as 9% of GDP over the next decade.
3. Growing Interest Burden—Net interest costs for servicing the national debt have surged over the last few years as interest rates climbed to a 15-year high. This has driven annual interest payments from $375 billion in 2019 to $881 billion at the end of 2024, with rolling 12-month outlays now ~$1 trillion. Notably, interest costs consume ~18% of total tax revenue—the highest level since the early 90s.

	Moody's	S&P	Fitch	*Investment Grade Rating*
Germany	Aaa	AAA	AAA	AAA/Aaa
Switzerland	Aaa	AAA	AAA	Minimal Risk
Canada	Aaa	AAA	AA+	
US	Aa1	AA+	AA+	AA/Aa
France	Aa2	AA	AA-	Very Low Risk
UK	Aa3	AA	AA-	
Japan	A1	A+	A	A
China	A1	A+	A	Low Risk
Mexico	Baa2	BBB	BBB	BBB
Italy	Baa3	BBB	BBB	Moderate Risk

Source: FactSet

The United States still enjoys a high credit rating on a global basis. Although lower credit ratings typically require borrowers to pay a premium on loans, the Moody's downgrade is largely symbolic. Given the significance and breadth of U.S. sovereign debt, the downgrade should not be taken lightly.

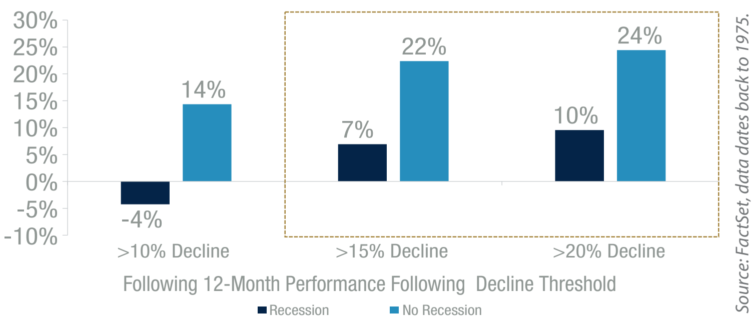
Why Does a Recession Matter to the Markets?

One of the more frequent questions posed to our office during periods of economic uncertainty is "are we going into a recession?" Although it is a fair question, we believe investors must first acknowledge that a recession, defined as a period of temporary economic decline during which trade and industrial activity are reduced and generally identified by a fall in GDP in two successive quarters, is not necessarily closely aligned with market movement.

Financial markets, and equity markets in particular, tend to be forward looking mechanisms, whereby most economic metrics and measurements are backward looing. Certainly, a recession is a fair economic indicator, but markets (and stocks) do not correlate directly to current economic activity. With that being said, the following chart demonstrates that avoiding a recession, particularly after a market decline similar to the one the S&P 500 experienced in April, is statistically meaningful in determining market bounce-back.

No Recession Is Critical For Forward Returns

Returns Have Bounced Back More Strongly After A Market Decline When A Recession Is Avoided.



Update on Commodities and Currencies

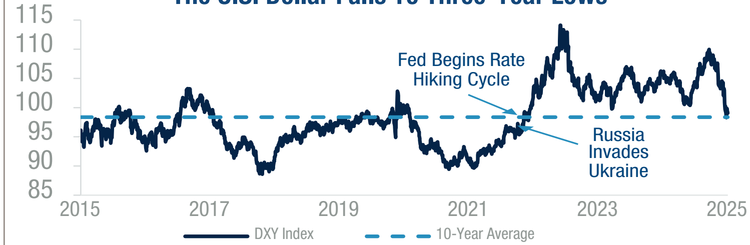
Two meaningful trends have garnered our attention recently. Oil prices have dropped significantly over the past year and were recently priced at $58/barrel. These are levels not seen since 2021, when Russia invaded Ukraine. Recent price drops are primarily a function of lower demand due to a slowing economic cycle, additional domestic drilling expected due to President Trump's energy-friendly policies, and additional OPEC supply.

Oil Prices Reach Lowest Level In Four Years

Source: FactSet. Commodities are represented by the Bloomberg Commodity Index. U.S. dollar returns are represented by the DXY Index.

Secondly, recent U.S. dollar weakness has not gone unnoticed. In fact, it has fallen to three-year lows and is off to its worst start since 1986. The tariffs announced on Liberation Day in early April triggered a sell-off and general malaise towards U.S.-based assets and investment. Correspondingly, other currencies, such as the yen and euro gained meaningfully, as has gold. A lower dollar does make U.S. exports more affordable to overseas buyers. Much of that benefit, though, will be offset by reciprocal tariffs slapped on U.S. goods.

The U.S. Dollar Falls To Three-Year Lows



Source: FactSet. Commodities are represented by the Bloomberg Commodity Index. U.S. dollar returns are represented by the DXY Index.

In the meantime, most economists strong believe that the U.S. dollar is firmly positioned to remain the reserve currency of the world. Additional economic growth, resolution to the tariff dispute, and stabilized interest rates further support a strengthening dollar in the short to intermediate term.

From the Homefront

Going into Memorial Day weekend, it is such an important time to take a moment and give thanks to the men and women who have fought for the freedoms we enjoy in the United States. I, for one, am immensely grateful.

Having had the great fortune to help clients and their families for over 25 years, it is incredibly rewarding to celebrate graduations. This spring we have a number of friends and clients whose grown children are moving on from high school and college. Best wishes to the class of 2025!

At home, our younger children are celebrating other smaller victories, but victories nonetheless. Stella just finished her first season of competitive tennis, playing for the Basalt High School Girls Tennis Team. She primarily competed in doubles matches, which culminated in the Regionals in Grand Junction. Although Stella and her partner did not move ahead to states, I can personally attest to huge improvements in Stella's game from earlier in the season. She is already looking forward to her season during her sophomore year next spring.

Many of you who have been reading this missive for years understand the competitive spirit in my twin girls – Lily & Hannah. Even at their relatively young age, they have competed at a high level in a number of sports, and on various teams. This past weekend, though, was likely their most exciting and rewarding sports accomplishment to date. Their soccer team (coached by yours truly), playing in the GMIT Border Battle Soccer Tournament in Grand Junction, showed as much grit and determination as I have ever seen from a group of young athletes, coming back from an early 1-0 loss in the tournament to win the 12U Girls division. It was one of the most epic team successes I have witnessed. Congratulations to the 2025 Hawks! The picture is them with their gold medals, awarded after the final match.

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