

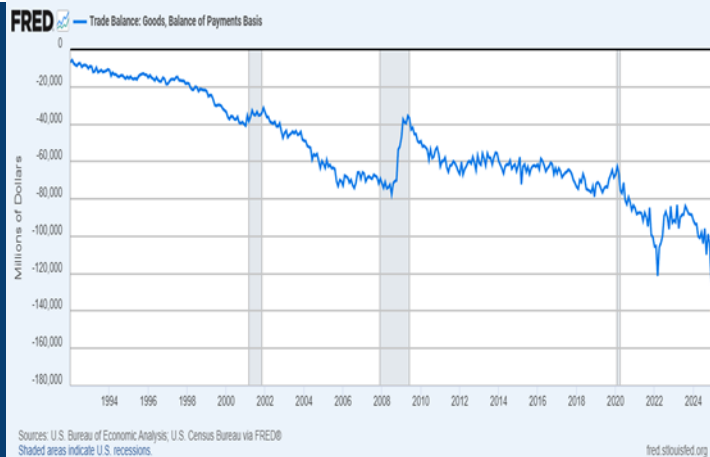


Market Musings

A newsletter brought to you by Victoria Capital Management, Inc.

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Data indicate that US imports exceed US exports by a wide margin. President Trump views this divergence as an indication that American industry is being exploited. The latest data suggest that the President could be reversing that relationship as the deficit narrowed by 46% to \$87.6 billion in April.



Is the Financial Storm Over?

The first half of 2025 is almost over, and it was a memorable five months in financial markets. Economic and stock market volatility was dominated by politics that ushered in a winter financial wind that continued into early April, driving stock prices lower, primarily due to the imposition of massive tariffs on virtually all US imports. When the new Administration relented by temporarily postponing some of those duties, financial markets rallied during May. By the end of the month, domestic equity markets were almost back to breakeven for the year. Economic data have been relatively stable, although the calculation of some statistics, particularly GDP, is causing some stir. For the first quarter, the economy, as measured by the gross domestic product (GDP), declined by 0.3%, but that decline masked the impact of a surge in imports on the number. When the trade deficit expands, this change hurts reported GDP. Since the early-year surge in imports has passed, calculations for GDP for the second quarter indicate a strong rebound in activity, mainly due to the record decline in imports (see chart). While the tariffs are beginning to have an adverse effect on the economy, the impact has not yet been reflected in the data. For example, inflation data continue to suggest that price increases are slowing, with the recent consumer price index (CPI) rising by 2.4% in April, near the Fed's target of 2%. Some economists are warning that tariffs will cause inflation, yet that fear is not reflected in the current numbers. Interest rates have generally stabilized with the 10-year government bond around 4.5%, and the 30-year mortgage near 7%. Employment statistics remain favorable, with the unemployment rate in April at 4.2%, a reasonable number given the uncertainties surrounding the tariffs. Oil prices have been falling for most of the year and are near \$63 per barrel. The value of the dollar has been weak this year due to the potential impact of the tariffs, but this weakness only offsets part of the gains expected in 2024. Ongoing negotiations for a federal budget could affect markets in the coming weeks, as will progress on global trade agreements. While this recent financial storm has calmed, investors should continue to be on the lookout for the next potential disruption.

“No technology has ever had the opportunity to address a larger part of the world's GDP than AI.”

- Jensen Huang

Market Commentary

Global equity markets rallied during May as tariff-related tensions eased and investors breathed a sigh of relief. Domestically, the S&P 500 rose 6%, marking its best May since 1990, driven by strong tech earnings reports and a shift away from defensive stocks. Both small- and mid-cap stocks rose but remain in the red for the year. Across the pond, European stocks also rallied, with Germany, Italy, and Spain leading the way. Asian equities finished higher, driven primarily by gains in Hong Kong and South Korea, while Latin American stocks continued their upward trend. Bond markets worldwide also experienced gains. The US dollar weakened further during the month, primarily against the Taiwan dollar and the Korean won.

According to Bloomberg, 62% of all outstanding mortgages have yields of less than 4%. In all 50 states, at least half of outstanding mortgages have rates of less than 4%.