

# Monthly Market Update

May 2025

## Highlights:

- The S&P 500 saw a volatile April, swinging nearly 15% before ending the month with a modest -0.7% loss, mainly due to tariff uncertainties.
- Despite strong consumer spending, concerns emerged about sustainability, with early signs of weakness in manufacturing and travel, alongside negative sentiment levels similar to 2008.
- Companies gave mixed earnings guidance, citing tariff-related uncertainty as a major hurdle to forecasting and capital investment.
- Six of the eleven S&P sectors were up through April, highlighting the importance of long-term asset allocation and stock selection over market timing, even amidst volatility.

After a bumpy April ride which took the S&P 500 Index across an almost 15% range, the market ended nearly flat with a -0.7% loss. Year-to-date, the Index has dropped -4.9%. The main driver of this month's volatility was the on-again, off-again Trump administration tariff impositions and the ensuing confusion over the end result in terms of both policy and impact. The environment was particularly hard on smaller stocks while international markets were strong. The volatility was also visible in the highly valued mega-tech stocks, whose April fortunes varied considerably.

Underneath the turmoil caused by the tariff situation, the economy showed resilience. While manufacturing slipped into contraction, consumer spending was strong. The main question was whether this was front-loading of purchases in anticipation of tariff-driven price increases or a more sustainable effect. Evidence in April pointed towards a softer consumer ahead. Hard data has yet to catch up with the broadly negative sentiment surveys, which in April touched the concerning levels hit during the 2008 financial crisis. Early indicators included dipping travel and airline utilization and reported contraction of fast food sales from lower and middle-income households.

## Portfolio Manager Q&A - Drew Justman

Midway through earnings season, what are you hearing from companies as it relates to revenue and profit guidance for the remainder of the year?

It varies by industry, but so far, companies in the Consumer Discretionary and Consumer Staples sectors have expressed the most concern. We're seeing negative same-store sales in a few key restaurant groups and other discretionary areas. Those companies are generally conservative in their guidance, and some are even pulling guidance until there is more clarity on the economic outlook. In other sectors, results have been better. Financials have generally been solid across the board, and some Industrial companies are raising guidance.

The steepening of the bond curve pointed to near-term economic softening and the rising possibility of longer-term inflation. First quarter GDP growth was slightly negative, driven lower by increased imports as companies built inventory in anticipation of tariff-driven price increases. Projections for the remainder of the year are leaning towards positive if modest expansion, with economists noting increased risks for what could be a mild recession. While the Federal Reserve has hinted at two quarter-point rate cuts before year-end, the market is leaning toward four cuts, totaling 1%. However, Chairman Powell's continued harping on data dependence leaves the possibility that an uptick in inflation could cause additional pauses. On the other hand, recent reports hint that the job market is softening, which, if accelerated, would put pressure on the Fed to lower. The prospect of inflation in a contracting economy—stagflation—continues to be the Fed's worst fear.

As companies reported mixed earnings results for the first quarter, guidance could best be summarized as muddled. The tariff situation came up again and again on conference calls with executives explaining that confident guidance required unavailable clarity on the costs of doing business across borders. A slowdown in corporate spending and investment is one likely result. While tariffs are touted to revive domestic manufacturing, so far, companies are showing hesitance in making large capital investments amid shifting and uncertain policies.

It's human nature to remember sharp down days better than recovery periods, but April has been a good case in demonstrating the complications of market timing. The fact that six of the eleven S&P sectors were positive for the year through April 30 suggests the value of staying the course. We continue to believe that appropriate asset allocation and careful stock selection are the best nostrums for the kind of volatile market we should be prepared to live with for the remainder of 2025.



*Drew Justman, CFA  
Portfolio Manager, Analyst*



**How do you assess the impact of tariffs on the companies you're invested in?**

It's been difficult to assess the full impact because we don't know the final tariff numbers or what government regulations will be. But this is why we think crafting an all-weather portfolio of stocks that can hold up regardless of the market environment is really important. Companies that we like to own have sustainable competitive advantages, solid balance sheets, and strong management teams. We think these companies will hold up the best in a changing economic landscape.

**What are valuations telling you, particularly regarding dividend-paying stocks?**

The broad market began the year at historically expensive levels, around 20-21 times earnings for the S&P 500 Index, which had only been reached a few times in history. Dividend stocks, by contrast, are much less expensive on a relative basis. Those stocks didn't fully participate in the strong rally in 2023 and 2024, and we think that high-quality, above-average dividend stocks are an attractive part of the market today.

**Some companies are paying a dividend yield upwards of 7% or 8%. What potential risks should investors be aware of when investing based on high dividend yield alone?**

If a company pays out most of its earnings in the form of dividends, it may be unable to sustain those payouts if it (or its industry) encounters economic turmoil. We like to own stocks with payout ratios in the 30-50% range, which allows

companies to continue paying dividends into the future and also grow their dividends over time. We think dividend growth is a key attribute for high-quality companies. On average, companies in the Madison Dividend Income strategy raised their dividends 8% last year, far outpacing inflation. So, instead of looking for the companies with the highest dividend yields, we want to own the companies with above-average dividend yields and the ability to increase their dividend yield year after year.

**What areas of the market are you finding opportunities right now?**

One area I would highlight is the Industrial sector, which we believe the market may have overcorrected. We own Honeywell, a high-quality industrial company that trades near 18x earnings, which is lower than some of its industrial peers. The company recently raised its revenue guidance despite the threat of tariffs, which we believe is manageable for the company as it has the ability to raise prices.



### U.S. Equities (%)

	April	YTD	1 Year	3 Year	5 Year	10 Year
DJ Industrial Average	-3.1	-3.9	9.5	9.4	13.0	11.0
S&P 500	-0.7	-4.9	12.1	12.2	15.6	12.3
Russell 1000	-0.6	-5.1	11.9	11.9	15.4	12.0
Russell 1000 Value	-3.0	-1.0	8.6	7.6	13.0	8.4
Russell 1000 Growth	1.8	-8.4	14.5	15.6	17.2	15.3
Russell Midcap	-1.0	-4.4	7.3	7.1	13.0	8.8
Russell 2000	-2.3	-11.6	0.9	3.3	9.9	6.3

### U.S. Equity Characteristics - S&P 500

	April	2024
Price/Earnings Ratio (NTM)	20.3	21.6
Weighted Avg. Market Cap (\$B)	913.5	1,117.1
Dividend Yield (%)	1.4	1.3

### International Equities (%)

	April	YTD	1 Year	3 Year	5 Year	10 Year
ACWI	0.9	-0.4	11.8	10.3	13.1	8.6
ACWI ex USA	3.6	9.0	11.9	8.0	10.1	4.8
MSCI EAFE	4.6	11.8	12.6	10.1	11.4	5.4
Emerging Markets	1.3	4.3	9.0	3.8	6.3	3.1
China	-4.3	10.1	26.1	3.5	-0.6	0.5
Japan	5.2	5.6	8.3	10.4	8.8	5.4
Germany	7.5	24.2	32.8	17.8	13.9	5.6
United Kingdom	2.7	12.6	15.3	10.3	13.3	4.5
India	4.8	1.7	4.2	9.2	18.1	9.1

### Fixed Income (%)

	April	YTD	1 Year	3 Year	5 Year	10 Year
Government Bond	0.6	3.6	7.7	1.3	-1.6	1.1
Municipal	-0.8	-1.0	1.7	2.2	1.2	2.1
U.S. Aggregate Bond	0.4	3.2	8.0	2.0	-0.7	1.5
Investment Grade Corporate	0.1	2.4	7.6	3.0	0.5	2.4
High Yield	0.0	1.0	8.7	6.2	6.3	4.9

### U.S. Equity Sectors - S&P 500 (%)

	April	YTD	Weight
Communication Services	0.8	-5.5	9.3
Consumer Discretionary	-0.3	-14.1	10.4
Consumer Staples	1.2	6.5	6.2
Energy	-13.6	-4.8	3.2
Financials	-2.1	1.4	14.5
Health Care	-3.7	2.6	10.8
Industrials	0.2	0.0	8.5
Information Technology	1.6	-11.2	30.3
Materials	-2.2	0.6	2.0
Real Estate	-1.2	2.3	2.3
Utilities	0.1	5.0	2.6

### Key Asset Prices

	April	2024
EUR/USD	1.14	1.04
USD/CAD	1.39	1.44
USD/JPY	143.75	157.37
GBP/USD	1.33	1.25
Bitcoin (\$)	94,207.3	93,429.2
Gold (\$/oz)	3,279.0	2,608.0
Crude Oil (WTI) (\$/bbl)	63.3	72.4

### U.S. Treasury Yields (%)

	April	2024
3-Month	4.3	4.4
6-Month	4.2	4.2
2-Year	3.6	4.3
5-Year	3.7	4.4
10-Year	4.2	4.6
30-Year	4.7	4.8



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The S&P 500® Index is a large cap market index which measures the performance of a representative sample of 500 leading companies in leading industries in the US.

The Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000® Index, which represents approximately 89% of the total market capitalization of the Russell 3000 Index.

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Russell 2000® Index is a small cap market index which measures the performance of the smallest 2,000 companies in the Russell 3000® Index.

The Russell Midcap® Index is a mid cap market index which measures the performance of the mid-cap segment of the US equity universe.

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The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets countries (excluding the US) and 23 Emerging Markets countries. With 1,843 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

The MSCI EAFE (Europe, Australasia & Far East) Index is a free-float adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. and Canada.

Emerging Markets - MSCI Emerging Market Index captures large and mid cap representation across 24 Emerging Markets (EM) countries. With 1,138 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

China - MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs).

Japan - MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market.

Germany - MSCI Germany Index is designed to measure the performance of the large and mid cap segments of the German market.

United Kingdom - MSCI United Kingdom Index is designed to measure the performance of the large and mid cap segments of the UK market.

India - MSCI India Index is designed to measure the performance of the large and mid cap segments of the Indian market.

Government Bond - Bloomberg US Government Index measures the performance of the US Treasury and US Agency Indices, including Treasuries and US agency debentures. It is a component of the US Government/Credit Index and the US Aggregate Index.

Municipal - Bloomberg US Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

U.S. Aggregate Bond - Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that



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measures the investment grade, USD-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, mortgage backed securities, asset-backed securities and corporate securities, with maturities greater than one year.

Investment Grade Corporate - Bloomberg US Credit Index measures the investment grade, USD-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supnationals and local authorities.

High Yield - Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded.

Weighted Avg. Market Cap: measures the size of the companies in which the portfolio invests. Market capitalization is calculated by multiplying the number of a company's shares outstanding by its price per share.

Price-to-Earnings (P/E) Ratio: measures how expensive a stock is. It is calculated by the weighted average of a stock's current price divided by the company's earnings per share of stock in a portfolio.

Dividend Yield: the portfolio's weighted average of the underlying portfolio holdings and not the yield of the portfolio.

Bond Spread is the difference between yields on differing debt instruments of varying maturities, credit ratings, and risk, calculated by deducting the yield of one instrument from another.

A basis point is one hundredth of a percent.

Yield Curve: a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity. There are three main types of yield curve shapes: normal (upward-sloping curve), inverted (downward-sloping curve), and flat.

The Magnificent Seven stocks are a group of high-performing and influential companies in the U.S. stock market: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla.

The federal funds rate is the target interest rate range set by the Federal Open Market Committee (FOMC) for banks to lend or borrow excess reserves overnight. It influences monetary and financial conditions, short-term interest rates, and the stock market.

Duration is a measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates. Duration measures how long it takes, in years, for an investor to be repaid the bond's price by the bond's total cash flows.

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