

Special Update

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US Stock Market Performance and Outlook

Last week, the US stock market exhibited resilience amid ongoing trade uncertainties and anticipation of key economic data. The S&P 500 experienced a modest decline of approximately 0.7%, snapping a four-week streak of gains, while the Nasdaq 100 and Dow Jones Industrial Average saw smaller declines of 0.3% and 0.2%, respectively (GlobalMktObserv, 2025, GlobalMktObserv, 2025; mbostic0, 2025, bostic0, 2025). Despite these losses, market sentiment remained cautiously optimistic, driven by strong corporate earnings and robust employment data.

Notably, April's nonfarm payrolls rose by 177,000, surpassing expectations of 138,000, with the unemployment rate steady at 4.2% (Manulife, 2025, Manulife, 2025). This labor market strength bolstered investor confidence, contributing to gains in cyclical and technology stocks, though defensive sectors lagged (AlvaApp, 2025a, AlvaApp, 2025a). However, concerns over high valuations, with the S&P 500's price-to-earnings ratio climbing to 21, and uncertainty surrounding US-China trade talks tempered gains (Schwab, 2025a, Schwab, 2025a).

Looking ahead to this week, investors are focused on several critical economic releases and ongoing trade developments. US-China trade talks remain a focal point, with optimism for progress driving potential market upside, though any breakdown could trigger volatility (Schwab, 2025b, Schwab, 2025b). Sunday evening, the US and China announced a breakthrough in trade negotiations during their weekend meetings in Switzerland.

The agreement includes a 90-day tariff reduction period starting May 14, 2025, with the US lowering tariffs on Chinese goods from 145% to 30% (comprising a 10% base tariff and a 20% fentanyl-related duty) and China reducing tariffs on US goods from 125% to 10% (GlobalMktObserv, 2025, GlobalMktObserv, 2025; PatrickMoorhead, 2025, PatrickMoorhead, 2025). This ceasefire aims to facilitate further negotiations, though sector-specific tariffs on steel, aluminum, autos, rare earths, and advanced semiconductors remain in place (PatrickMoorhead, 2025, PatrickMoorhead, 2025).

While the deal does not fully resolve tensions, it has boosted market optimism, with S&P 500 E-minis rising 1.3% and Nasdaq futures gaining 1.6% on May 11 (Reuters, 2025, Reuters, 2025).

The Consumer Price Index (CPI) report, due on May 13, is expected to show inflation slowing to 2.6% year-over-year for March, down from 2.8% in February, potentially influencing Federal Reserve policy expectations (Investopedia, 2025a, Investopedia, 2025a). Other key data include the Producer Price Index (PPI), retail sales, and preliminary consumer sentiment from the University of Michigan, all of which could provide insights into economic health (mbostic0, 2025, bostic0, 2025). The Federal Reserve's recent decision to maintain the federal funds rate at 4.25%–4.5% suggests a cautious approach, with markets pricing in three rate cuts for 2025, likely starting in July (Edward Jones, 2025a, Edward Jones, 2025a). Technical analysis indicates the Nasdaq 100 faces resistance at its 200-day Simple Moving Average, suggesting a cautious near-term outlook unless a breakout occurs (Schwab, 2025b, Schwab, 2025b).

Overall, while economic indicators and trade developments will shape market direction, the combination of solid fundamentals and policy uncertainties suggests continued volatility.

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