



## The Weekly Market Update – 5/5/25: GDP Lower But Core Elements & Jobs Grow

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,686.67	2.92%	1.33%	-3.31%	12.93%	6,144.15	8.0%
Dow Jones Industrial Average	41,317.43	3.00%	-1.63%	-2.88%	9.26%	45,014.04	8.9%
NASDAQ Composite	17,977.73	3.42%	3.92%	-6.90%	14.82%	20,173.89	12.2%
Russell 2000	2,020.74	3.22%	0.44%	-9.39%	2.37%	2,442.74	20.9%
MSCI EAFE (USD)	2,536.37	3.09%	5.65%	12.14%	11.22%	2,536.37	0.0%
MSCI Emerging Markets (USD)	1,133.27	3.30%	2.89%	5.37%	8.35%	1,444.93	27.5%
Bloomberg Commodity Index	101.45	-1.14%	-4.65%	2.73%	-0.22%	237.95	134.5%
Barclays U.S. Aggregate Bond	91.62	-0.41%	-0.74%	1.32%	4.13%	112.07	22.3%

Source: FactSet

**U.S. gross domestic product (GDP) decreased -0.3% (at an annual rate) in the first quarter (1Q25), but trade adjustments caused the decline while core elements showed growth.** The drivers of the U.S. economy include consumer spending (69% of inflation-adjusted GDP in 1Q25), government expenditures (17%), business investment (15% before adjustments), and housing investment (3%). But the reported GDP number also includes adjustments for net trade, exports and imports (imports subtract from GDP, and exports add to the number), and inventories (growth in inventories adds to GDP). Consumer spending grew +1.8% in 1Q25, which slowed from a +4.0% pace in 4Q24. But after a weak January, spending rebounded in February and March. The data was better than expected, although caution remains as many consumer-facing companies representing travel services, restaurants, and retailers have reported mixed results. Business investment and housing increased +9.8% and +1.3% in 1Q25, respectively, with business investment growth the best in nearly two years. This was attributed to expanding technology equipment and software, likely tied to data centers and ongoing generative artificial intelligence investment. The combination of consumer, business, and housing investment contributed +2.6% to 1Q25 GDP, a tick higher from +2.5% in the prior quarter (4Q24). Government spending dropped -1.4% in 1Q25 and appeared to be due to a decline in defense spending, after a surge in the prior quarter. The 1Q25 trade and inventory adjustments were large – a record 41% annualized surge in imports caused a -4.8% subtraction from GDP – as businesses secured goods and inputs ahead of expected tariffs. Some of those imports were used to build inventories, which surged, adding +2.3% to GDP. The net of the inventory and imports adjustments was a -2.6% hit to reported GDP. Excluding the impact, GDP increased +2.3%. In our view, while business behavior shifted rapidly with tariffs looming, the potential subsequent impact of price increases and weaker demand remains a risk, especially if partner trade deals are unsuccessful.

**April nonfarm payrolls (jobs) increased more than expected, but the March report was revised lower.** The April jobs gain was +177 thousand (K), and comfortably above the +125K FactSet consensus estimate (from the prior week). Given prevailing economic uncertainty and changes in corporate behavior due to pending tariffs, we view the data favorably, reflecting ongoing resilience in the U.S. economy. Other April labor market data matched expectations, including the unemployment rate unchanged at 4.2% and wage growth (average hourly earnings) unchanged at +3.8% (wage growth for all of 2024 averaged +4.0%). In addition, March jobs gains, first reported at +228K, were revised lower to +185K. While the current jobs trend is better than many feared, it does not suggest an accelerating economy but rather moderating growth. This allows the Federal Reserve Bank (Fed) to wait for additional data before resuming an expected path of lower interest rates.

**The Fed will conclude its third policy meeting of the year on 5/7/25, and we expect no change to the overnight fed funds interest rate target.** The fed funds target range has been at 4.25% to 4.50% since December 2024. In March, Fed median estimates reflected a year-end 2025 fed funds rate of 3.90%, suggesting two 0.50% cuts this year. But Fed Chair Jerome Powell will consider potential inflation pressure from tariffs before lowering interest rates. With another Fed meeting again in June, we believe that Fed will want more time to debate its next reduction in the fed funds target.

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**Market Indices:** The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, exchange-traded companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. Today the NASDAQ Composite includes over 3,000 companies. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance.

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities. Sectors that are called "defensive," are thought to be less exposed to economic cycles compared to "cyclical" sectors, and often attract investor interest during periods of economic weakness.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analysts' estimates from firms that submit estimates to FactSet for a given financial metric.

The Conference Board conducts a monthly Consumer Confidence Survey design to reflect prevailing business conditions and potential outcomes in the months ahead. It surveys consumer attitudes, buying intent, and expectations stratified by age and income in nine U.S. regions. A second widely followed survey of consumer confidence is conducted monthly by the University of Michigan. Its Survey of Consumers, surveys personal finances, business condition, unemployment and inflation.

The Trump Administration on 2/12/25 announced a framework for its Reciprocal Tariffs, with a link to the memorandum, "[Fair and Reciprocal Plan](#)." On 3/26/25 the White House announced tariffs on imported automobiles and certain automobile parts. Here is a link to a [Fact Sheet](#) from the President that outlines the action. The President's [April 2, 2024 Tariff Announcement](#) is also linked.

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys. The household survey measures labor force status by demographics, while the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component of the establishment survey is drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data on a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at [www.bea.gov](http://www.bea.gov).

The U.S. Personal Consumption Expenditures (PCE) Price Index is an indicator of the growth in consumer spending and measures the value of goods and services purchased by persons who reside in the U.S. It is reported monthly by the Bureau of Economic Analysis. PCE inflation is the percentage rates of change in the price index for personal consumption expenditures (PCE). Private investment is measured by the category, gross private fixed investment and we use a subset of that category, nonresidential fixed investment, to track U.S. business investment.

The U.S. Census reports annualized monthly data on housing starts, permits, and completions. It is a widely followed measure to track construction activity in the residential housing market. New home sales measures sales of new single-family homes and is a measure of the demand for housing. Home price data is monitored by the S&P CoreLogic Case-Shiller Home Price Index.

We track a measure of wages, average hourly earnings of all private employees, which is calculated and reported on a monthly basis by the U.S. Bureau of Labor Statistics. The data measures average hourly earnings of all private employees on a “gross” basis (includes overtime and late shift work, but excludes benefits).

**Generative Artificial Intelligence (GenAI):** We think of artificial intelligence as using advanced computers to process large amounts of data to ultimately approach human problem solving and decision making. Early versions were often called “machine learning” and could sift through large data sets and accurately predict single outcomes. Now, generative AI goes further to utilize all forms of inputs. While still predictive models, generative AI can give detailed responses, much better than a search engine, which does a good job of telling the user where to go to find additional information. As generative AI systems access more data, they become larger and learn to make better decisions. At each iteration, the system gains knowledge, enhancing its predictive (reliable) capabilities and ability to produce original content. Generative AI systems become more robust as they are used as all new data can be trained into the system, creating new challenges and opportunities.

The Federal Reserve Bank’s Open Market Committee (FOMC) consists of twelve members – the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and four of the remaining eleven Federal Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth.

The term “monetary policy” refers to the actions undertaken by a central bank, such as the Federal Reserve, to influence the availability and cost of money and credit to help promote national economic goals. The Board of Governors of the Federal Reserve System is responsible for the discount rate and reserve requirements, and the Federal Open Market Committee is responsible for open market operations. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and, in this way, alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time (“term”) to maturity. The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment. Treasury security data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

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