

Breaking News:

The April Jobs report was released on Friday with 177,000 jobs added, besting expectations and dampening fears of an imminent recession.

Back to our regularly scheduled programming...

KEY TAKEAWAYS

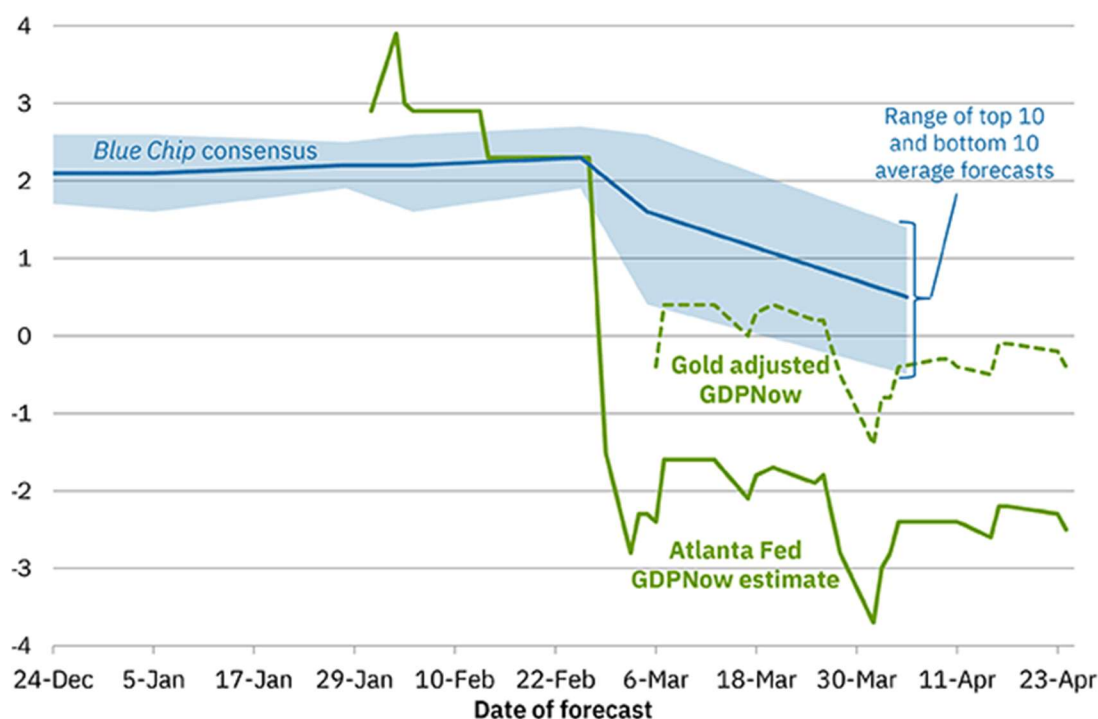
- The equity markets gyrated throughout the month with a mini crash to start and a volatile rally to finish near flat for the month.
- The U.S. 10-year Treasury Yields swung wildly around 4.20% but ended without much change.
- Crude oil crashed below the lower end of the range of \$65, ending the month below \$60.

The U.S. Economy

The initial read for 1st quarter GDP came in at -0.3% slightly below expectations of -0.2%. Core PCE, the imbedded inflation measure, came in at 3.6% up from 2.4% last quarter. The last estimates for 1st quarter GDP, GDPNow, were expecting around -0.3% growth, adjusted for the large gold imports, the Blue-Chip consensus forecast had moved down to around +0.5%, as shown in the chart on the next page. Economic reports and expectations dropped the last couple of months, the PCE deflator jumped and is again well above the Fed's sweet spot of "2%" inflation. The addition of the tariffs has really caused a lot of distortions in the data that will likely reverberate for a few quarters as the tariffs were front run skewing down the 1st quarter GDP numbers, but those likely reverse and provide a boost to next quarter's GDP.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2025: Q1

Quarterly percent change (SAAR)



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

Source : <https://www.frbatlanta.org/cqer/research/gdpnow>

Stocks and Bonds

The U.S. 10-year Treasury yield started the month at 4.25% and traded below 3.90% and near 4.60% before settling lower on the month at 4.18%. At first there was fear that the tariffs were going to spark a meaningful economic slowdown which led to a major safety bid in Treasury's. Then there was fear of a big inflationary spike along with rumored forced selling to cover the basis trade and/or foreign countries selling Treasury's to punish Trump. The market seemed to settle in the middle, tariffs may reduce economic activity and spur inflation, but not so severely to cause major longer-term problems. Maybe tomorrow they will think something else, but for now that seems to be the conclusion. The Fed remains steadfast that rate cuts are not in the immediate future, though the markets are now pricing in 4 rate cuts this year. The GDP report showed a strong inflationary impulse, though front running the tariffs may be causing some false signals. The Fed meets next week, and market participants will be eagerly listening to whether the Fed softens their hawkish rhetoric. The lack of movement in yields was neutral for High Quality fixed income, which as measured by the iShares US Aggregate Bond ETF rose +0.39% for the month. The U.S. 10-year Treasury bond yield ended the month at 4.18%, down slightly from March's close of 4.25%.

The Dow Jones Industrial Average dropped -3.17%, the S&P 500 slipped -0.76%, and the small cap iShares Russell 2000 ETF fell -2.30%. The international markets again traded much better than the U.S. markets. The MSCI EAFE iShares Core International Developed Markets ETF Index jumped +4.22%, and the MSCI Emerging Markets iShares Core ETF Index increased +0.83%.

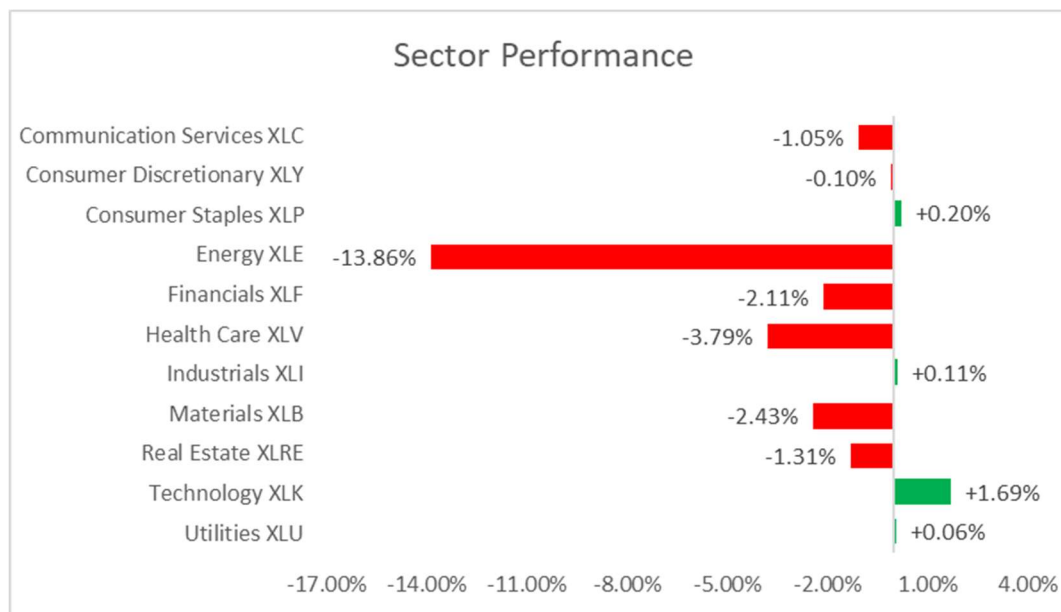
April's sector performance was +/- a couple of percent except Energy which got destroyed.

The best performers were...

- Technology: +1.69%
- Consumer Staples: +0.20%
- Industrials: +0.11%

The worst performers were...

- Energy: -13.86%
- Healthcare: -3.79%
- Materials: -2.43%



Source: <https://www.morningstar.com>

Oil Report

Crude Oil crashed through the lower end of the range, briefly finding support at the \$60 level before additional selling hit late in the month, pushing below \$60. The main drivers were the tariffs, halting cargo shipments and continued increased supplies from OPEC+. The nail in the coffin at month end was Saudia Arabia stating they were no longer going to hold back on supplies to support higher oil prices and that blew the door open for dropping \$60. Previously we discussed inflation picking up, but Crude Oil is a huge factor in the direction of inflation. If we agree that tariffs will increase inflation, the big drop in Crude and gas prices can go a long way to mitigating the inflationary pressures that may be exerted by the tariffs. The current NYMEX WTI Crude Oil futures settled at \$58.38, plummeting over 18% from the prior month's close of \$71.48 a barrel. RBOB gasoline was relatively stronger than Crude for the month, "only" losing almost 12% vs. March's close. The tariffs and their impact on the economy will likely be the center of attention next month.

The Rest of the Data

The March ISM Manufacturing Index fell to 49 from February's reading of 50.3, falling below 50 after a couple of months above. The ISM Services Index slid to 50.8 in March, from February's print of 53.5. Any reading below 50 generally indicates deteriorating conditions. Any reading above 50 generally indicates improving conditions. The prices paid component for Manufacturing jumped high into the elevated range and Services' prices eased at elevated levels. Consumer confidence slumped to 86.0 in April, a 13-year low, which compared to an upwardly revised 93.9 in March. The unemployment rate increased to 4.2%, while the number of jobs added came in at 228,000 in March, easily beating expectations of 140,000 jobs. The Consumer Price Index for All Urban Consumers (CPI-U) decreased -0.1% in March, on a seasonally adjusted basis, the first negative monthly print since Covid in 2020. Over the last 12 months, the All-Items Index rate decreased further to +2.4% on a non-seasonally adjusted basis. The CPI ex Food and Energy decreased further to 2.8% over the last year. Again, the noise of the economic data is deafening. On these pages, half the data says the economy is plummeting and inflation is soaring. The other half shows the economy is fine and inflation has normalized. The only consistent is that employment seems to have stabilized. Baffling, with all that said, this saying continues to resonate, "Nothing ever happens.". This seems even more on point than last month, "the likely outcome is neither of the extremes I just painted". Inflation, the economy and employment will all probably remain relatively stable with a large increase in noise. We will continue to monitor economic activity, policy announcements, and inflation reports for potential shifts.

Summary

The market faced the uncertainty of the new administration and Trump's "Liberation" Day Tariff announcements April 2nd with nothing short of panic. The next week was pretty much a one-way train with the S&P 500 dropping nearly 1,000 points. 10-year Treasury yields first plummeted, fearing recession and then spiked, fearing mass inflation. Surveys reported that people felt worse about economic conditions than at the end of the Great Financial Crisis and in the heart of the Global Shutdown because of Covid, which seemed a bit extreme. That may have marked the peak of Tariff/Trade Policy uncertainty, which then led to a massive rally reversing most of those losses. So, the big question, now what? The market has taken solace in the pause of the tariff implementation and the apparent progress on new/updated trade deals. Doesn't mean we have seen the bottom, that there won't be more bumps and potentially economic pain in the future. However, the market seems to be healing from Trump's rip the band aid off approach.

More than ever, the markets can be emotional, so we retain our focus on what we can control, which is the amount of equity risk that is taken in a clients' portfolio in concert with the clients' risk tolerance and long-term goals. The markets will always face different "worries", today it is inflation/tariffs vs. growth and interest rates, tomorrow it will be something else. We have built our asset allocation models with dynamic features and quarterly rebalancing, both in fixed income and equities. Some of the defense mechanisms have kicked in with U.S. Large cap moving to 100% T-Bills, U.S. Mid cap remaining at 100% T-Bills, International moved to 100% T-Bills and the High Yield has moved to 100% Intermediate Term T-Notes.

If you have specific questions about your portfolio or financial situation, we are here to help. Long-term financial planning is designed to deal with uncertainty like those we discussed above. Our portfolio management process is to design a prudent allocation across many asset classes. Equities are for long-term growth and several vehicles that we utilize offer defensive mechanisms to mitigate equity market declines.



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