Fort Washington
Investment Advisors, Inc.

A member of Western & Southern Financial Group

MONTHLY MARKET PULSE — MAY 2025

HIGHLIGHTS

- **Historic Move:** The S&P 500 entered bear market territory in April but rebounded after the White House announced a pause of reciprocal tariffs, resulting in one of the largest one-day jumps in history (+9.5%).
- **Tariffs in Focus:** U.S. trade policy has been the center of global focus and will keep markets volatile until more clarity is articulated from the current administration.
- **Selling America:** The U.S. dollar is typically a safe haven during times of volatility but deviated from this status, as global investors recently rotated out of U.S. stocks and bonds. We take a deeper dive in this month's *Spotlight*.

MONTHLY SPOTLIGHT:
What's Going on With the U.S. Dollar?
Author: Daniel Carter, CFA
See page 2

MACRO INSIGHTS

Roller Coaster Ends Nearly Where it Started

After falling as much as 11% in the first two weeks of April, the S&P 500 ended the month down less than 1%. The administration's so-called "Liberation Day" shook markets with the breadth and magnitude of its announced "reciprocal tariffs." In response, equities suffered their worst two-day performance since March 2020. While country reactions varied, China's retaliation triggered a sharp escalation, culminating in a 145% tariff on goods imported from China. The resulting weakness in equity markets—coupled with atypical behavior in Treasury and currency markets—prompted a 90-day "pause" on reciprocal tariffs with all countries except China, triggering a rebound in stocks and narrowing of credit spreads (which had moved notably wider as stocks fell).

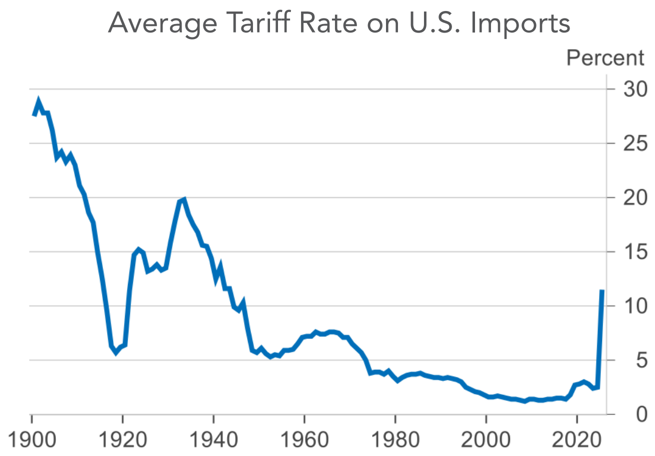
The U.S. benefits from many well-earned advantages: an entrepreneurial culture rooted in its universities and businesses, a strong rule of law, reserve currency status, deep and flexible capital markets, abundant natural resources, and significant military and geopolitical influence. However, as we explore in this month's *Spotlight*, recent developments have led to cracks in the foundation of some of these advantages. The simultaneous selling of both U.S. equities and Treasuries has been highly unusual. Likewise, rising interest rates coinciding with a weaker dollar runs counter to conventional wisdom and past risk-off experiences.

While the U.S. has legitimate grievances regarding global trade, such sweeping—and arguably mathematically dubious—tariffs have threatened confidence in the checks and balances that underpin the stability of the U.S. system. That said, we do not foresee an erosion of the structural advantages outlined above, nor do we view the U.S. dollar as facing a credible medium-term threat. The 90-day pause, reported progress in trade negotiations with key allies, and signals of a desire to de-escalate tensions with China have, for now, taken worst-case scenarios off the table.

The administration's willingness to respond to financial market dislocations is a constructive signal regarding the degree to which near-term pain will be acceptable to achieve long-term reforms. Much remains uncertain, however. As we await further developments from Washington, the consequences of eroding consumer and business confidence will likely begin playing out in economic data. Although equity market valuations and credit spreads suggest a limited risk of a significant recession, markets remain vulnerable to negative surprises. Recession is not yet our base case, and even if a shallow "technical" recession materializes, the implications for corporate profits could prove somewhat modest.

Tariff Rates at 80-year Highs

The below effective tariff rate accounts for changing behavior due to price increases, the applied rate is above 25%.



Source: Fort Washington, Tax Foundation.

Chris Shipley
Senior Vice President, Co-Chief Investment Officer
Fort Washington Investment Advisors, Inc.

WHAT TO WATCH

The outlook for the U.S. continues to soften across consumers and businesses amid tariff uncertainty. Investors will monitor incoming sentiment and indications for potential impacts to economic activity. Markets will also pay close attention to any tariff impacts on inflation as well as the Federal Reserve's (Fed) guidance.

- The next FOMC meeting is May 7th. Markets are pricing in a low probably (<10%) of a rate cut.
- The next CPI report will be available May 13th and PCE, the Fed's preferred inflation gauge, will be available on May 30th. Investors will watch for tariff impacts.
- Following weaker sentiment, investors will closely watch consumer spending for signs of a slowdown in hard data. As a result, retail sales—set to be released on May 15—will be in focus.

MONTHLY SPOTLIGHT

DANIEL CARTER, CFA
Managing Director,
Senior Portfolio Manager

What's Going on With the U.S. Dollar?

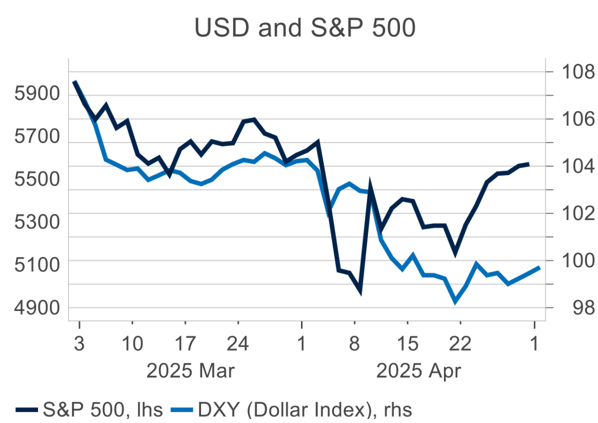
Since March, markets have faced an unusual set of dynamics: U.S. equities have sold off, Treasury yields have been pressured higher, and yet the dollar has weakened. Normally, a risk-off environment would drive demand for Treasuries and strengthen the dollar as global investors seek safe assets. Currently, the opposite has played out. Selling pressure from foreign investors, rising inflation concerns, and growing political uncertainty have combined to weaken the dollar, even as recession fears grow. Understanding these dynamics requires examining both structural factors and risk-driven reactions.

Historically, the U.S. has been a global safe haven during periods of stress. Recently, however, the U.S. itself has become a major source of volatility. Shifting trade policies and tariff threats have led to elevated uncertainty, prompting investors to seek safety elsewhere—notably in gold, the Japanese yen, the Swiss franc, and even the euro.

This shift appears to have led foreign investors not just to avoid new U.S. investments, but to also sell existing ones. The S&P 500 is down roughly 5% year-to-date, while European indices and the Hang Seng Index (China) have posted strong gains, with some up double digits YTD. This suggests a rotation out of U.S. equities and into other regions. However, it's worth noting that after years of American exceptionalism, global investors had become overweight U.S. assets. Some of the recent selling may simply reflect rebalancing back toward more traditional global allocations.

In fixed income, the term premium—the extra yield investors demand for holding longer-dated Treasuries—has risen. Part of this move was fueled by hedge funds using leverage and piling into crowded trades like basis trades and Treasury swap spreads, which have come under pressure as volatility increased. This forced unwinding likely contributed to some of the rise in long-term rates.

Adding to the selling pressure, large foreign holders of Treasuries, notably China and Japan, are rumored to be reducing their holdings. Even without hard confirmation, the perception alone may have encouraged other market participants to preemptively sell. Meanwhile, concerns over inflation, especially from new tariffs, have pushed long-term inflation expectations up by about 20 basis points in recent weeks—a meaningful move, even if not yet alarming.



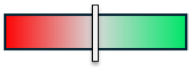
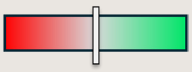
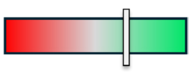
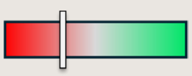
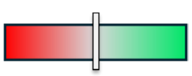
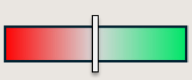
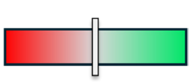
The combination of a weaker dollar, falling equities, and rising yields reflects the collision of these structural and risk-driven forces. For now, a weaker dollar has been the outcome of selling in U.S. stocks and bonds. Whether this episode marks a temporary dislocation, or the beginning of a longer-term rotation out of U.S. assets, remains an open question. As investing is a relative process, a key consideration for a more pronounced rotation is where the marginal dollar would be invested if not in the U.S. If policy uncertainty persists, we believe the odds of a sustained, strategic shift by global investors—and continued pressure on the dollar—will rise.

Source: Fort Washington, US Treasury, Bloomberg.

Daniel Carter, CFA
Managing Director, Senior Portfolio Manager
Fort Washington Investment Advisors, Inc.

Blake Stanislaw
Client Portfolio Manager
Fort Washington Investment Advisors, Inc.

CURRENT OUTLOOK

Topic	View	MoM Change	Commentary
Macroeconomic Views			
Economic Growth		–	▸ **Uncertainty remains elevated** due to shifting trade policy and geopolitical tension. ▸ U.S. economic growth **is expected to slow** as sentiment indicators continue weakening, forecasting slower consumer spending and business investment. ▸ Confidence in the U.S. dollar has deteriorated due to a shift in trade policy. **Tariffs present downside risks to both U.S. and global growth.**
Inflation		–	▸ Market forecasts for inflation have increased due to tariffs. However, the **impacts are expected to be short-term,** as investors do not expect the effects to be persistent. Longer-run inflation estimates remain largely grounded. ▸ While service inflation should remain stable over the coming months, tariffs create elevated uncertainty around goods inflation. ▸ Further upside risks remain from retaliatory tariffs or a breakdown in trade negotiations.
Monetary Policy		–	▸ Following 100-basis points of cuts in 2024, the Fed has kept rates unchanged at the last two meetings. Investors are pricing **a low probability of a cut at the May meeting.** Economic growth and tariff concerns have resulted in volatile expectations for rate cuts in 2025. ▸ FOMC members have articulated patience and a "wait and see" approach as they remain data dependent. ▸ Investors anticipate multiple rate cuts in 2025 with current pricing implying a terminal rate around 3%.
Fiscal Policy		–	▸ The budget reconciliation is officially underway with the package expected to go into law before the August recess. The full details have not yet been released, but the bill increases defense and border spending, extends 2017 tax cuts, and rolls back renewable subsidies, along with other tax increases and spending cuts. ▸ Flexibility within fiscal policy remains low as federal debt levels continue increasing and **higher interest costs** consume a larger portion of government outlays.
Market Valuations			
Rates		–	▸ Yields were largely unchanged over the month despite volatility in rates and inflation expectations. ▸ We anticipate the **magnitude of expected rate cuts will continue shifting** with new economic data and developments around executive branch policies, presenting opportunities for tactical adjustments. ▸ Long rates are within our expected fair value range.
Credit		↑	▸ Credit **spreads extended their widening in April** but ended the month off the widest levels. Due to the late rally, spread levels are still tight of historical medians. ▸ We believe the **risk/reward is more balanced** at current levels, but downside risks remain elevated. ▸ Investment grade spreads (10yr BBB Industrials) ended the quarter at their 39th percentile and high yield (single B corporates) at their 37th percentile, since the 1990s.
Equity		–	▸ The **S&P 500 briefly entered bear market territory in April** but rebounded from the lows. The index ended the month of April down less than 1% and is 9% below the February peak. ▸ Uncertainty over market leadership (Magnificent 7) has increased this year as value stocks have outperformed growth. ▸ Valuations for equities have improved with recent price declines but **remain above long-term averages.** ▸ The market is likely to remain on edge until investors have more clarity around trade policy.

MARKET DATA & PERFORMANCE | AS OF 4/30/2025

U.S. Snapshot	Current	6 Months Prior	1 Year Prior
Core Inflation (YoY%)	2.6	2.8	2.9
Unemployment Rate	4.2	4.1	3.9
Real GDP (YoY%)	2.0	2.7	2.9
Retail Sales (YoY%)	4.9	3.1	2.7
30 Yr Mortgage Rate	6.8	6.7	7.2
10 Yr Treasury	4.2	4.3	4.7
US Corporate IG Yield	5.1	5.2	5.7
US Corporate HY Yield	7.9	7.3	8.1

TOTAL RETURNS

Asset Class	MTD	QTD	YTD	1 Year	3 Years*	5 Years*
Equity						
Russell 3000 Index	-0.7%	-0.7%	-5.4%	11.4%	11.4%	15.1%
S&P 500 Index	-0.7%	-0.7%	-4.9%	12.1%	12.2%	15.6%
S&P Midcap 400 Index	-2.3%	-2.3%	-8.2%	1.2%	6.2%	13.3%
Russell 2000 Index	-2.3%	-2.3%	-11.6%	0.9%	3.3%	9.9%
MSCI World Index	0.9%	0.9%	-0.8%	12.6%	11.6%	14.5%
MSCI World Excluding US	4.7%	4.7%	11.3%	13.7%	10.3%	12.2%
Fixed Income						
Bloomberg US Aggregate	0.4%	0.4%	3.2%	8.0%	2.0%	-0.7%
US Corporate Investment Grade	0.1%	0.1%	2.4%	7.6%	3.0%	0.5%
US Corporate High Yield	0.0%	0.0%	1.0%	8.7%	6.2%	6.3%
Emerging Market Debt	0.2%	0.2%	2.2%	9.7%	5.7%	2.7%
US Treasury (7-10 year)	1.0%	1.0%	4.7%	8.5%	0.6%	-2.3%
Cash	0.4%	0.4%	1.4%	4.9%	4.4%	2.7%

Source: Fort Washington, Bloomberg. *Returns longer than 1 year are annualized. Past performance is not indicative of future results.

CONTACT

contactus@fortwashington.com

Fort Washington Investment Advisors, Inc.

A member of Western & Southern Financial Group

Uncompromised Focus®

303 Broadway, Suite 1200 / Cincinnati, OH 45202 / 513.361.7600 / 888.244.8167 / fortwashington.com