Weekly Market Perspectives

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"Following the White House temporarily dialing back tariff pressures on key trading partners over recent weeks, investors have quickly gone from a glass-half-empty view on stocks to a glass-half-full view, which has significantly closed opportunity gaps that formed in early April."

Wait, Are Stocks Expensive Again?

Stocks continued to accelerate higher last week after the U.S. and China agreed to temporarily walk back tariff rates that had begun to halt trade between the two economic superpowers. Cooler-than-expected inflation data in April, dampened stock volatility, and renewed tailwinds across Big Tech helped fuel investor sentiment. As a result, both the S&P 500 Index and NASDAQ Composite ended the week on a path to begin flirting with all-time highs.

This week, a handful of key retailers will report results for the previous quarter to help put a bow on the first quarter earnings season. A batch of home data lines the economic calendar.

Last week in review:

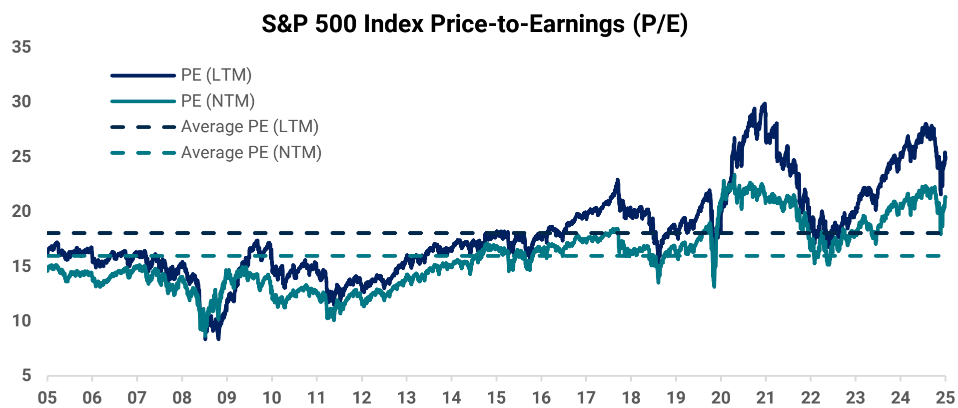
- The S&P 500 rose +5.3%, led by Information Technology (+8.1%) and Consumer Discretionary (+7.7%). The VIX moved back to pre-Liberation Day levels.
- Strong gains in NVIDIA (+16.0%) and Tesla (+17.3%) lifted the NASDAQ +7.2% on the week. Semiconductors advanced by over +10.0%.
- The Dow Jones Industrials Average (+3.5%) was weighed down by UnitedHealth Group (-23.3%) after the company withdrew its profit guidance for the year, announced its CEO is departing, and said the company is subject to a criminal probe into its Medicare Advantage business. Walmart said it would soon raise prices on some goods due to tariffs.
- The Russell 2000 Index advanced +4.5% on the week and is down less than 5.0% on the year as investors' recession anxiety has come down over recent weeks.
- U.S. Treasury yields bumped higher as prices moved lower. After Friday's market close, Moody's cut the United States sovereign credit rating one notch to Aa1 from Aaa. Moody's is the last major credit rating agency to lower its view of the creditworthiness of the U.S. Standard & Poor's downgraded the U.S. in August 2011 to AA+ from AAA, and Fitch Ratings lowered its view of U.S. creditworthiness to AA+ from AAA in August 2023. In all cases, unsustainable debt levels, massive deficit spending, and dysfunction across Washington are why credit agencies have lowered their view of U.S. credit. However, relative to the rest of the world, we believe U.S. government bonds remain one of the safest assets investors can own.
- The U.S. Dollar Index rose on the week, Gold posted its worst week since June 2021, and West Texas Intermediate (WTI) crude fell.
- The headline April Consumer Price Index (CPI) fell to +2.3% on an annualized basis, the lowest level since February 2021. In addition, a large drop in producer price inflation last month, a benign April retail sales report, some mixed progress on a reconciliation bill in Washington, and Big Tech gains on high-tech deal announcements coming out of President Trump's trip to the Middle East helped fuel stock gains last week.
- Finally, a preliminary look at May University of Michigan Consumer Sentiment showed its second-lowest headline reading since 1952. However, the survey was conducted before news broke that the U.S. and China had lowered their tariff rates on each other for 90 days. Notably, inflation expectations for the year ahead jumped to +7.3%, the highest reading since November 1981. Five-year ahead inflation expectations rose to +4.6%, the highest level since January 1991.

Wait, are stocks expensive again?

With the S&P 500 Index higher for the third week in the last four, trading back above all its major moving day averages and roughly 3.0% away from its February all-time high (it was over 20% away intraday on April 7), it's safe to say stocks have not only walked back from the early April abyss but reaccelerated back to levels that may start to bring valuation concerns back to the forefront.

Following the White House temporarily dialing back tariff pressures on key trading partners over recent weeks, investors have quickly gone from a *glass-half-empty* view on stocks to a *glass-half-full view*, which has significantly closed opportunity gaps that formed in early April. In addition, strong first quarter corporate earnings reports and guarded, yet still favorable, second quarter outlooks for non-tariff-related industries have also helped fuel stock gains over recent weeks. Over the last month, every S&P 500 sector outside of Healthcare is higher. Notably, highly cyclical areas of the market, such as Information Technology, Consumer Discretionary, Industrials, Communication Services, and Financials, are all up double digits over the last thirty days. In fact, eight of eleven S&P 500 sectors are now positive year-to-date, as is the broader S&P 500. An astonishingly aggressive turnaround considering where markets stood a little over a month ago, as well as a still rather uncertain macroeconomic environment facing consumers, businesses, and investors.

So, where does that leave the broader stock market after such an aggressive decline and subsequent reacceleration higher? As the *Ameriprise* chart below shows, the S&P 500's price-to-earnings ratio dipped materially through the first few months of the year, offering more attractive entry points into stocks. Still, the Index has since retraced some of that multiple decline and narrowed near-term opportunities. The broad-based U.S. stock benchmark currently trades well above its 20-year averages based on a trailing and next twelve-month earnings basis, meaning stocks in aggregate are not cheap today. Further, the S&P 500 is now more expensive on a price-to-cash-flow as well as a price-to-sales basis than its five and ten-year averages. Although analyst estimates point to high-single-digit S&P 500 earnings growth in 2025, we only have one quarter of profits under the belt, full-year estimates have been coming down all year, and the macro environment remains pretty uncertain. **Bottom line: Broadly speaking, we believe U.S. stocks are now priced fairly to somewhat expensively based on still cloudy earnings expectations and a macroeconomic environment that could challenge those estimates.**



Sources: FactSet, American Enterprise Investment Services Inc. Data as of 5/16/2025

In our view, it's reasonable to expect economic growth to slow from current levels if today's U.S. tariff policies remain in place over the coming months. In addition, corporate profit margins may be squeezed as companies grapple with higher input costs, deal with supply chain issues (due to tariffs), and navigate changing consumer and business demand dynamics. That's not to say profits can't grow in this currently challenging environment, but we do expect headwinds to increase that have yet to show up in hard economic and profit data.

Obviously, investors should take comfort in seeing stocks make substantial progress toward removing the more extreme views of recession and tariff disruptions. And if you weren't quite comfortable with your portfolio and allocation heading into this period of volatility, you've been given a great chance to adjust without much harm done. Moving forward, however, for stocks to make meaningful and lasting progress from here, economic data will likely need to hold steady, the U.S. will need to work toward agreements with our key trading partners that keep aggressive tariffs off the table, and companies will need to deliver on profit expectations. In our view, we are quickly heading back to a *show me first* type of market environment, and where fundamentals need to match the optimism that is now priced back into broader U.S. stock averages.

The week ahead:

Walmart announced it would need to raise prices based on higher tariffs last week. With key retail earnings reports on the calendar this week, investors will be closely watching what others will have to say about tariffs. The general logic on the street suggests that if Walmart, a premier logistics and low-cost retailer, needs to raise prices because of tariffs, others will likely follow.

- Major U.S. retailers, including Target, Home Depot, Lowe's, Ross Stores, TJX, and Advanced Auto Parts, will report profit results for the previous quarter as well as their outlooks.
- New and existing home sales for April and preliminary May looks at manufacturing and services activity will grab some attention on the week, as will numerous speeches from Federal Reserve members.

Stock Market Recap

Benchmark	Total Returns			LTM PE		Yield %	
	Weekly	MTD	YTD	Current	5-Year Median	Current	5-Year Median
S&P 500 Index: 5,958	5.3%	7.1%	1.8%	26.1	24.8	1.2	1.5
Dow Jones Industrial Average: 42,655	3.5%	5.0%	0.9%	22.9	21.5	1.7	1.9
Russell 2000 Index: 5,252	4.5%	7.7%	-4.8%	61.9	39.8	1.4	1.3
NASDAQ Composite: 19,211	7.2%	10.2%	-0.3%	37.5	38.5	0.7	0.7
Best Performing Sector (weekly): Info Tech	8.2%	12.2%	-0.4%	39.2	33.8	0.6	0.8
Worst Performing Sector (weekly): Health Care	0.3%	-5.3%	-2.8%	21.9	23.1	1.9	1.6

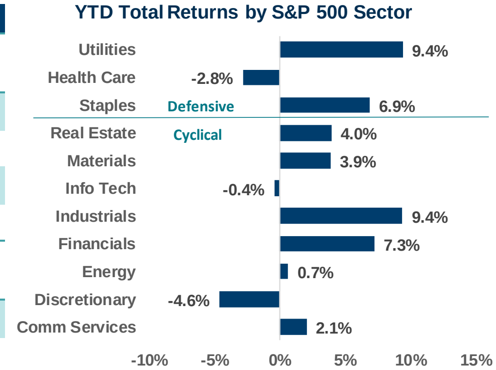
Source: Factset. Data as of 05/16/2025

Bond/Commodity/Currency Recap

Benchmark	Total Returns		
	Weekly	MTD	YTD
Bloomberg U.S. Universal	-0.1%	-0.9%	2.1%
West Texas Intermediate (WTI) Oil: $62.48	0.2%	4.9%	-13.7%
Spot Gold: $3,204.45	-3.6%	-2.5%	22.1%
U.S. Dollar Index: 101.09	0.8%	1.6%	-6.8%
Government Bond Yields	Yield Chg		
	Weekly	MTD	YTD
2-year U.S. Treasury Yield: 4.00%	11 bps chg	40 bps chg	-25 bps chg
10-year U.S. Treasury Yield: 4.45%	8 bps chg	29 bps chg	-14 bps chg

Source: Factset. Data as of 05/16/2025. bps = basis points

YTD Total Returns by S&P 500 Sector



Source: S&P Global, Factset. Data as of 05/16/2025

These figures are shown for illustrative purposes only and are not guaranteed. They do not reflect taxes or investment/product fees or expenses, which would reduce the figures shown here. An index is a statistical composite that is not managed. It is not possible to invest directly in an index. Past performance is not a guarantee of future results.

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Diversification does not assure a profit or protect against loss.

There are risks associated with **fixed-income** investments, including credit (issuer default) risk, interest rate risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer term securities.

Investments may not keep pace with inflation, resulting in loss of purchasing power.

International investing involves certain risks and volatility due to potential political, economic, social, or currency instabilities and different financial and accounting standards. These risks are enhanced for **emerging markets**.

Stock investments involve risk, including loss of principal. High-quality stocks may be appropriate for some investment strategies. Ensure that your investment objectives, time horizon and risk tolerance are aligned with investing in stocks, as they can lose value.

The products of **technology** companies may be subject to severe competition and rapid obsolescence, and their stocks may be subject to greater price fluctuations.

Past performance is not a guarantee of future results.

An index is a statistical composite that is not managed. It is not possible to invest directly in an index.

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The **S&P 500 Index** is a basket of 500 stocks that are considered to be widely held. The S&P 500 index is weighted by market value (shares outstanding times share price), and its performance is thought to be representative of the stock market as a whole. The S&P 500 index was created in 1957 although it has been extrapolated backwards to several decades earlier for performance comparison purposes. This index provides a broad snapshot of the overall US equity market. Over 70% of all US equity value is tracked by the S&P 500. Inclusion in the index is determined by Standard & Poor's and is based upon their market size, liquidity, and sector.

The **NASDAQ Composite** index measures all NASDAQ domestic and international based common type stocks listed on the Nasdaq Stock Market.

The **Dow Jones Industrial Average** (DJIA) is an index containing stocks of 30 Large-Cap corporations in the United States. The index is owned and maintained by Dow Jones & Company.

The **Russell 2000 Index** measures the performance of the small-cap segment of the US equity universe. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set. The Russell 2000 includes the smallest 2000 securities in the Russell 3000.

The **US Dollar Index** (USDX) indicates the general international value of the USD. The USDX does this by averaging the exchange rates between the USD and major world currencies. This is computed by using rates supplied by approximately 500 banks.

West Texas Intermediate (WTI) is a grade of crude oil commonly used as a benchmark for oil prices. WTI is a light grade with low density and sulfur content.

The **Consumer Price Index** (CPI) is an inflation indicator that measures the change in the total cost of a fixed basket of products and services, including housing, electricity, food, and transportation. The CPI is published monthly by the Commerce Department and is also commonly referred to as the cost-of-living index.

University of **Michigan Consumer Sentiment Survey** is a rotating panel survey based on a nationally representative sample of households in the U.S. that measures how consumers feel about the economy, personal finances, business conditions, and buying conditions.

Price/Earnings: An equity valuation multiple calculated by dividing the market share price, as of a certain date, by earnings per share. Trailing P/E uses the share price divided by the past four-quarters' earnings per share. Forward P/E uses the share price as of a certain date divided by the consensus estimate of the future four-quarters' EPS.

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