



San Juan, Puerto Rico

WEEK OF MAY 27, 2025

# Market Update

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U.S. stocks fell as long-term bond yields rose on questions over long-term inflation expectations. Markets, digesting the threat of new tariffs on the EU and smartphones, took a risk-off stance. This week, investors will look to the minutes from the latest Federal Reserve (Fed) meeting to get a sense of central bank policy.

## Quick Hits

1. **Beyond the headlines:** What could the “big, beautiful bill” mean for markets?
2. **Report releases:** New home sales increased meaningfully in April.
3. **Financial market data:** U.S. equities moved lower as investors digested concerns over U.S. government deficit spending.
4. **Looking ahead:** The focus this week will be on durable goods orders, Fed policy, consumer confidence, and personal spending.

## Topic of the Week | Beyond the Headlines: What Could the “Big, Beautiful Bill” Mean for Markets?

Last week, the House of Representatives narrowly passed President Trump’s “big, beautiful bill,” a sweeping tax and spending proposal that is the centerpiece of his second-term economic agenda. Although it still faces debate in the Senate, the bill outlines major shifts in tax policy, federal spending, and regulation that could shape financial markets in the months and years ahead.

Here’s what investors should know:

### Key Features of the Bill

#### Tax Cuts Extended and Expanded

- Makes the Tax Cuts and Jobs Act permanent, including lower individual and corporate tax rates
- Raises the standard deduction \$1,000 for individuals and \$2,000 for joint filers through 2028
- Temporarily increases the child tax credit to \$2,500 per child
- Increases the SALT deduction cap to \$40,000 for households earning less than \$500,000
- Introduces tax exemptions for tips, overtime, and interest on auto loans for U.S.-made vehicles

#### Spending Reductions and Work Requirements

- Adds work requirements for Medicaid and SNAP recipients, which may reduce enrollment
- Restricts Medicaid coverage for certain services

#### Border Security and Immigration

- Allocates \$70 billion for border enforcement, including more than \$46 billion for wall construction
- Implements a 3.5 percent remittance tax on money sent abroad by noncitizens

Although the “big, beautiful bill” presents opportunities for select industries, it raises important questions about long-term fiscal risks.

### Education and Energy Provisions

- Expands Pell Grants for vocational training
- Ends subsidized federal student loans
- Accelerates the phaseout of clean energy tax credits, ending them by 2025

### Potential Market and Sector Impacts

Certain sectors may benefit if the bill becomes law:

- U.S. automakers may gain from income tax breaks and auto loan incentives.
- Defense and construction firms could benefit from increased border spending.
- Traditional energy firms may gain an edge as clean energy subsidies are rolled back.
- For-profit and trade schools could expand under new grant access, potentially easing service inflation and labor shortages.

### Fiscal Concerns and Investor Implications

Initial estimates show that the bill, in its current form, could increase the deficit. Given the recent Moody’s Ratings downgrade of U.S. sovereign credit and a weak 35-year Japanese government bond auction, markets are showing signs of stress around long-term debt sustainability. Yields crept higher in May, possibly reflecting concern about the bill’s impact. If the bill is enacted without offsets, it could prompt further scrutiny from credit agencies. In addition, a rising deficit may limit fiscal flexibility during downturns or emergencies.

As the Senate weighs the legislation, investors should watch for revisions that could affect sectors, taxes, and interest rates.

If you’d like to discuss how these developments may affect your financial plan or portfolio strategy, we’re here to help.

## Report Releases: May 19–23, 2025

### Existing Home Sales April (Tuesday)

Existing home sales continued to cool and mortgage rates continued to rise, along with the 10-year U.S. Treasury yield and credit spreads.

- Expected/prior month existing home sales monthly change: +2.0%/–5.9%
- Actual existing home sales monthly change: –0.5%



### Preliminary S&P Global US Composite PMI May (Thursday)

The S&P Composite PMI rose from 50.6 to 52.1. Services and manufacturing saw improvements, with the latter moving out of contractionary territory.

- Expected/prior month S&P services PMI: 50.6/50.8
- Actual S&P services PMI: 52.3
- Expected/prior month S&P manufacturing PMI: 50.2/49.8
- Actual S&P manufacturing PMI: 52.3



### FOMC Member Commentary (All-Week)

Last week, Fed officials emphasized caution amid economic uncertainty. Chair Jerome Powell defended Fed independence, and board member Philip Jefferson noted fiscal concerns post-downgrade. Other members highlighted financial stability, trade risks, and credit access. Overall, the tone was measured, with no indication of imminent rate changes.



### New Home Sales April (Friday)

Consumer new home sales rose at the highest level since February 2022 as builders increased incentives.

- Expected/prior month new home sales: –4.0%/+2.6%
- Actual new home sales: +10.9%



## >> The Takeaway

- Home sales were mixed; new home sales rose sharply but existing home sales continued to slow.
- Purchasing manager confidence rose in the services and manufacturing segments of the economy.

## Financial Market Data

### Equity

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	-2.58%	4.32%	-0.82%	11.62%
Nasdaq Composite	-2.45%	7.48%	-2.70%	12.77%
DJIA	-2.43%	2.45%	-1.56%	8.39%
MSCI EAFE	1.33%	4.87%	16.28%	12.69%
MSCI Emerging Markets	-0.06%	5.40%	10.08%	10.47%
Russell 2000	-3.45%	3.96%	-8.07%	0.93%

Source: Bloomberg, as of May 23, 2025

U.S. equities declined as investors digested the credit downgrade by Moody's Ratings, a weak 20-year Treasury auction, and renewed deficit concerns tied to the "big, beautiful bill." Trade tensions resurfaced after President Trump threatened a 50 percent tariff on EU imports, pressuring multinational stocks. Technology, consumer discretionary, and financials underperformed, whereas utilities, health care, and industrials led on defensive rotation. Gold rallied 5.6 percent due to its perception of being a safe-haven asset, long-dated Treasury yields rose, and the dollar weakened. Retail earnings were mixed, with strength from software firms offset by earnings misses and a cautious outlook.

### Fixed Income

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	-1.09%	1.56%	4.58%
U.S. Treasury	-1.18%	1.73%	4.27%
U.S. Mortgages	-1.31%	1.48%	4.93%
Municipal Bond	0.66%	-1.24%	1.29%

Source: Bloomberg, as of May 23, 2025

Although Treasury yields were relatively stable through the short-to-intermediate part of the curve, long-term yields rose as questions about the U.S. deficit led to concern over the long-term inflation outlook after the "big, beautiful bill" narrowly passed the House of Representatives. The 10-year and 30-year Treasury yields rose 7 basis points (bps) and 13 bps, respectively, closing at 4.51 percent and 5.03 percent, respectively.

### >> The Takeaway

- U.S. equities declined as investors digested the Moody's Ratings downgrade and the proposed "big, beautiful bill."
- The long end of the Treasury yield curve rose amid questions over long-term inflation.

## Looking Ahead

Economic data will be light in this holiday-shortened week. The focus will be on durable goods orders, Fed minutes, consumer confidence, and personal spending.

- The week kicks off Tuesday with **durable goods orders** for April and the **Conference Board Consumer Confidence Index** for May. Durable goods orders are expected to fall notably after surging in March, when buyers attempted to front-run tariffs. Consumer confidence is expected to show a modest gain after multiple periods of significant deterioration.
- On Wednesday, minutes from the May **Federal Open Market Committee (FOMC) meeting** will be released. Investors will try to interpret the language to understand the trajectory of the Fed's path.
- Finally, on Friday, we will see the report on **personal income and personal spending** for April. Both are expected to grow at a slower pace while remaining in positive territory.



Crash Boat Beach; Aguadilla, Puerto Rico



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average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than \$50 million. One basis point is equal to 1/100th of 1 percent, or 0.01 percent. One basis point (bp) is equal to 1/100th of 1 percent, or 0.01 percent.

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