

Hello everyone and I hope this email finds you well.

Last week: Meta Platforms (META) and Microsoft (MSFT) ride to the rescue. Warren Buffet to step down from Berkshire Hathaway (BRKA, BRKB) at year end.

The coming week: FOMC, Earnings, tariff news.

Major stock indices all higher. S&P500 posted its 9th straight daily gain, longest streak since November 2004 and up 10% over those 9 days and now above Trump's reciprocal tariff announcement. Trade de-escalation along with beats by Meta (META) and Microsoft (MSFT) including increases and affirmation of AI-related cap ex spend spread to the broader market averages. Index averages also overcame resistance at the key 50 day moving averages on both the S&P500 and the Nasdaq. AI adjacent names were especially strong.

Weekly Market Recap: April 14–17, 2025

Index	Closing Level (May 2)	Weekly Change
S&P 500	5,687	+2.9%
Nasdaq Composite	17,978	+3.4%
Dow Jones Industrial Avg.	41,317	+3.0%

Source: Factset

Beijing is considering trade talks with the US which ignited further rallies in stocks last week. Secretary of Commerce Lutnick also announced that the White House had secured a trade agreement and would announce the country after securing parliamentary approval. China has started to exempt some US goods (estimated as 24% of 2024 imports or \$40B and includes pharmaceuticals, industrial chemicals). Followed US exemption of \$102B of imports from China from reciprocal tariffs (smartphones and other electronics).

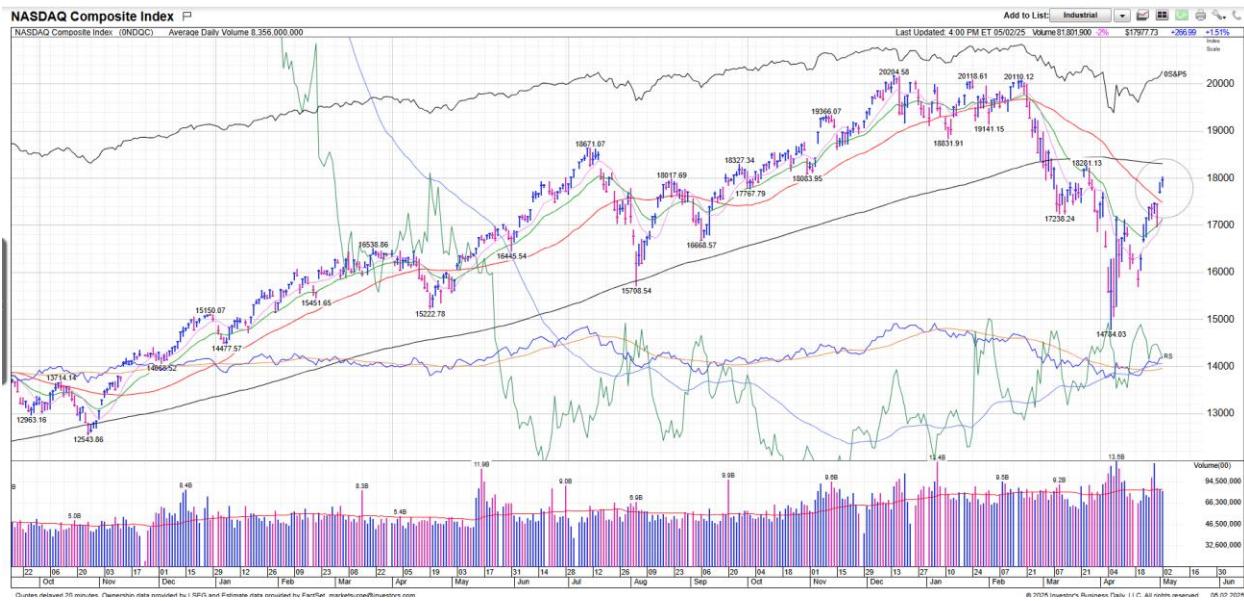
Other significant catalyst on the week was META raising its cap ex spend from \$60-\$65B to \$64-\$72B and MSFT saying cap ex would rise Q/Q and affirmed \$80+B cap ex guide for FY2025 (June) and that FY2026 cap ex would rise albeit at a slower pace than 2025. MSFT's

Azure business growth accelerated by 400bps to 35% y/y. Earnings growth for Q1 to date has risen to +13% from +7.2% at the end of the quarter. Earnings surprises now averaging 9%. Tariff mitigation the major bullish talking point in earnings commentary. Amazon guide missed but it said its AWS business eventually would generate hundreds of billions in annual revenue. Oil futures fell more than 3% as OPEC announced a 2nd consecutive production increase Saturday.

Nonfarm payrolls grew 177k m/m vs consensus 130k with unemployment unchanged at 4.2%. Average hourly earnings rose 0.2% m/m below consensus and March 0.3% rise. Labor market stronger than feared in view of tariff concerns. Offset is that June rate cut by Fed could be pushed out to July.

Looking ahead: Headline-driven environment likely continues to drive markets but earnings re-emerging in their role as important drivers as the AI narrative was stronger than ever this past week. META and MSFT earnings reports last week confirmed the AI trade is back on. FOMC, busy earnings week ahead with key reports from Palantir (PLTR), Arista Networks (ANET), Fortinet (FTNT), merchant power generators Vistra (VST), Constellation Energy (CEG), Utilities such as Duke Energy (DUK), Pipelines such as Energy Transfer (ET) and Enbridge (ENB).

Technical indicators turning more positive: Regarding market technical indicators, came the averages not only remained above the key 21day exponential moving average but pushed above the 50dma meaning the continuation of the rally is more likely. Still, tariff rhetoric could suddenly sour and torpedo the current rally.



other US retailers were reported to have asked Chinese suppliers to resume shipments which would relieve concerns regarding the coming of empty shelves mid-year. Still, President Trump said he will not drop tariffs to get China to the bargaining table [May 4 – President Donald Trump](#). On the economic front, non-farm payrolls increased to 177k (above expectations) despite decline in Fed government employment (DOGE) and participation improved.

The bears point to plunging US port activity (-35% y/y at port of Los Angeles starting week of May 4th) that will reverberate the effects of trade upheaval through the economy over coming weeks where consumers could discover no fireworks for the 4th of July (as most is manufactured in China). The bears also point to the Q1 GDP annualized contraction of -0.3% (though most of this was caused by surging imports to front run tariffs). Core PCE price index for Mar came inline rising +2.6% vs 2.6% expected. Conference Board consumer confidence fell to lowest level since spring 2020 and expectations lowest since October of 2011. Amazon AWS decelerated and op income for Q2 was below consensus (though management said they expect AWS to be a multi hundred billion \$ business longer term).

While the markets are in a confirmed rally, downside risks remain, and markets could fall once again. Over the last decade the forward multiple on the S&P500 has averaged just below 20x. Assuming the current 2025E EPS of \$264 and 2026E EPS of \$300 are correct, then the market is trading on the rich side (21.5x 2025E EPS and 19x 2026E EPS). However, with an effective tariff rate still over 20%, even with the pause, EPS estimates could wind up in the \$250 range implying 5000 on the S&P500. If the multiple comes down at all to discount for policy uncertainty would imply further downside risk. Numbers get sloppier if there is retaliation instead of resolution on the horizon. The Trump put that we saw last month suggests a 4800 downside threshold to the S&P500 except it wasn't the S&P500 that triggered the Trump put but instead it was interest rates on US Treasury Securities that were blowing out this week with an increase in the US 10 year of 51bps.

The US 10-year rate rose slightly from 4.26% to 4.31% or 5bps. Fed Futures now pricing in a rate cut with just ~37% odds by June (vs over 60% odds a week ago) and three cuts by year end with ~75% probability (down ~10ppts w/w) [CME FedWatch - CME Group](#).

The coming week: FOMC meeting Wed.

May 5: ISM Services PMI for Apr: 50.2 expected vs 50.8 in Mar.

May 6: N/A

May 7: FOMC meeting: no change in fed funds rate target (4.25-4.50%) expected.

May 8: Initial Jobless claims for W/E 5/3: 227k vs 241k prior week. Unit labor costs SAAR Q/Q: 4.2% vs 2.2% prior.

May 9: Fed speeches: NY Fed President, John Williams.

Company Events Calendar: Palantir (PLTR), Arista Networks (ANET), Merchant Power generators (VST, TLN, NRG, CEG), Utilities, Renewable Energy,

May 5: PLTR STRL ACM WMB

May 6: X ALB MPLX ET DTM CEG ARIS DUK CHKP ANET

May 7: JCI PLL ENB KNTK WES UGI CSX NRG TLN VST USLM DGII INFA FTNT KD

May 8: MP GEL DTE NET

May 9: ROAD

What to do now: Slowly raising exposure.

Appendix:

What kind of positive catalysts would help to continue the reversal of the current damage:

- 1) Following the tariff delay which did prove to be a positive catalyst, trade deal announcements in the coming days and weeks would be positive.
- 2) Fed speeches reinforcing their commitment to being prepared to act to counter chaotic market conditions, address liquidity issues.
- 3) Pressure on Congress to act because of complaints coming in from constituents especially if coming in from red states. Trump would veto but if pressure swells congress could override a veto to limit ability to unilaterally apply tariffs.
- 4) Lawsuits to limit and/or overturn tariffs.

- 5) Favorable inflation reports, e.g. this past week PPI falling -0.4% m/m headline and falling -0.1% m/m core PPI (ex food and energy) vs consensus +0.3% m/m.

Negative catalysts:

- 1) Additional retaliatory tariffs and counter retaliation measures.
- 2) Breakdown of tariff negotiations.
- 3) Rising inflation figures and/or inflation expectations.
- 4) Fed delays on expected rate cuts.
- 5) Selling US Treasuries by foreigners, rising US Treasury yields
- 6) Negative surprises such as Trump suggesting tariffs on foreigners US Treasury holdings, tariffs on China ships in US ports, Trump calling for Powells departure, etc (three of the dumbest ideas we have seen yet) that would yield no upside and all downside.

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Make it a good week,

John D. Edwards, CFA