HIGHLAND

Multi-Asset Solutions Weekly Commentary

June 2, 2025

Key Observations:

- Domestic equities, specifically U.S. large caps, found favor last week as the combination of strong earnings results from market leader Nvidia paired with a boost in consumer confidence pushed stocks higher, even as tariff uncertainty crept back into the fold by the weekend.
- Stocks in emerging markets lost ground on the week as trade tensions flared driven by U.S. restrictions on semiconductor shipments to China, causing stocks such as Taiwan Semiconductor to falter, while exposure to China weighed on corporate profit margins.
- US Treasuries caught a bid last week as the 10-year yield moved back below 4.50%, closing out the week at 4.40% as initial and continuing jobless claims rose more than expected, while upcoming T-bill issuance was reduced and core PCE inflation for April came in at 2.5%, modestly below the 2.6% reading from March.

What We're Watching This Week:

- The Job Openings and Labor Turnover (JOLTS) Survey results are set for release on Tuesday, with Job Openings expected to fall to 7063K from 7192K last month with U.S. Layoffs and Quits rates in focus as the latter has trended higher in recent months, suggesting workers are increasingly confident they can find a new job.
- ISM Services Index data for May is anticipated on Wednesday, with forecasters projecting continued expansion at 52.1, modestly above the 51.6 reading in April, but any weakening here could be evidence that sour sentiment is impacting consumer behavior.
- The change in Nonfarm Payrolls Report for May is set to be published Friday with the consensus estimate calling for 125K jobs added during the month, a decrease from the prior month result of 177K jobs, with the unemployment rate expected to hold at 4.2%.

	Price/Yield	Total Return (%)					
	5/30/2025	1 Week Ago	1 Month Ago	Year to Date	1 Year	3 Years	5 Years
S&P 500	5911.69	1.90	6.29	1.06	14.44	14.41	15.94
NASDAQ	19113.77	2.02	9.65	-0.74	15.01	17.45	15.91
S&P Mid Cap 400	3001.38	0.82	5.40	-3.26	3.34	7.81	12.93
S&P Small Cap 600	1284.30	1.39	5.23	-8.18	-0.67	3.12	11.61
MSCI World ex US	366.41	0.33	4.58	14.03	14.10	9.40	10.37
MSCI EM	1157.34	-1.12	4.27	8.73	12.09	5.15	7.07
Bloomberg U.S. Aggregate	4.71	0.88	-0.72	2.45	5.84	1.49	-0.90
Bloomberg Corporate	5.21	1.11	-0.01	2.26	6.06	2.72	0.16
Bloomberg U.S.High Yield	7.46	0.74	1.68	2.68	9.54	6.75	5.79
Bloomberg EM USD Aggregate	6.54	0.62	0.67	2.97	8.22	5.32	1.81
Bloomberg Global Aggregate	3.57	0.52	-0.36	5.28	7.27	1.00	-1.35
Bloomberg Municipal Bond	4.04	0.28	0.06	-0.96	2.06	1.73	0.55
	Price/Yield						
	5/30/2025	1 Week Ago	1 Month Ago	12/31/2024	1 Year Ago	3 Years Ago	5 Years Ago
SOFR (yield)	4.33	4.26	4.41	4.49	5.33	0.78	0.06
30 Year Mortgage (average rate)	6.95	6.91	6.85	7.28	7.35	5.27	3.52
2 Year Treasury (yield)	3.90	3.99	3.60	4.24	4.92	2.48	0.16
10 Year Treasury (yield)	4.40	4.51	4.16	4.57	4.55	2.74	0.65
30 Year Treasury (yield)	4.93	5.04	4.68	4.78	4.68	2.96	1.41
WTI Crude (closing price)	60.79	61.53	58.21	71.72	77.91	115.07	35.49
Gold (NYM $/oz)	3288.90	3365.80	3319.10	2641.00	2342.90	1851.30	1736.90

Source: Bloomberg (3- and 5-Year Annualized)

Stocks: Improved Consumer Confidence, Tech Earnings Pull Large Cap Stocks Higher While Small Cap Buyers Fade Into The Weekend; Trade Tensions And Individual Country Complications Lead To Losses For Emerging Market Stocks.

- **Revival In Consumer Confidence And Tariff Ruling Put A Bid Under Domestic Equities.** U.S. equity markets opened higher as the Trump administration struck a positive tone on EU trade developments over the long weekend and Conference Board Consumer Confidence rebounded after consecutive monthly declines. The S&P 500 pushed higher by 2.1% on Tuesday alone, stemming from the tariff 'pause,' but the path forward for tariffs turned murkier later in the week after a U.S. trade court ruled President Trump's broader tariffs didn't fit with the legal provision they were filed under. The change was taken as a short-lived positive for risk assets as investors realized that other avenues exist for tariffs to remain in place and for tensions between the U.S. and China to remain strained. Trade sentiment was, on balance, positive for the tech-laden NASDAQ 100 which was higher by 2% on the week and Nvidia's earnings report after the bell on Wednesday added to the excitement as the company capped off domestic earnings season on a high note. Shares of the tech giant were higher by as much as 6% after surprising to the upside on sales and earnings with upbeat guidance despite headwinds from trade. Now that 97% of S&P 500 companies have reported first quarter earnings, fundamentals could take a backseat in the near-term as macro (trade) developments and technicals drive price action. Technically speaking, the next major resistance level for the S&P 500 stands at the all-time high from February of 6,144, while recently retested support levels at the 200-day moving average of 5,785 could serve to minimize downside.

- **Small Caps Start Hot On Consumer Confidence But Fail To Sustain Leadership.** Risk-appetite surged after the upside surprise in consumer confidence early last week signaled consumers may not be as sour as previously thought, leading to a 2.5% gain for the S&P 600 Small Cap index in Tuesday trading. Companies down the market-cap spectrum gave back a chunk of those gains by the weekend, with the S&P 600 returning 1.3%, trailing the S&P 500's 1.9% gain. The technical backdrop for small-caps has room for improvement as the Small Cap 600 has been stuck in a range between its 50- and 100-day moving average since early May, but after three weeks consolidating in a tight trading range, the index could be poised to breakout in the coming weeks, assuming trade rhetoric subsides and some deals get across the finish line.

- **Trade Policy, Domestic Headwinds Holding Back Earnings For Chinese Companies.** The broader MSCI Emerging Market Equity index was one of the few market segments to notch negative returns last week, falling by 1.1% with top country exposures China and Taiwan falling by 2.7% and 1.2%, respectively, over that stretch. On the ground in China, corporations are navigating renewed margin pressure, evident last week as e-commerce giant Pinduoduo's earnings miss weighed on the broader MSCI China index. Pinduoduo, the parent company of discount online retailer Temu, cited small parcel duties as hampering overseas revenues and compressing profit margins. Typically, domestic demand would serve to offset a portion of the lost revenue as the monetary stimulus permeates China's economy, but the deflationary forces at play lead consumers to expect cheaper prices going forward. Increased competition is contributing to deflationary forces in China, evident by food delivery company Meituan stating their profits could suffer and electric and hybrid vehicle maker BYD cutting prices by as much as 34%, with both announcements putting pressuring their respective equity prices lower.

Bonds: U.S. Treasury Yields Move Lower After Rising For Four Straight Weeks, Benefiting High Grade Corporates As Valuations Compress; Japanese Bonds See Buyers' Strike As The FOMC Reiterates Plan To Stand Pat.

- **Treasury Bonds Rally As The 10-Year Yield Recedes Back Below 4.5% On Lower Inflation, Softer Labor Data.** After four consecutive weekly declines, fixed income markets found their footing with the Bloomberg Aggregate Bond Index generating a 0.8% return while longer duration segments like high grade corporates fared even better. On the labor market front, initial and continuing jobless claims rose above estimates by 10K and 26K, respectively, pulling Treasury yields down in the process. Another notable driver on the short end of the Treasury curve was Thursday's April Core PCE Price Index which showed continued slow progress on the inflation front as the FOMC's preferred inflation gauge Core PCE rose 2.5% year-on-year, below the 2.6% reading from the prior month. The move lower in core inflation was enough to bring market expectations for a rate cut in September back above 50% to suggest there is greater than a coinflip's chance the committee moves in September.

- **Demand Slump Drags On For Japanese Government Bonds.** On Wednesday, the Japanese government auction of 40-year notes was met with the weakest demand since July 2024. The lack of demand resulted in Japanese government bond yields ratcheting higher, temporarily forcing euro-area yields and U.S. Treasury yields to tick higher. The buyers' drought is rooted in concerns of the nation's fiscal health and rising inflation. To combat the drop in demand, Japan's Ministry of Finance is considering issuing shorter term debt going forward. Japanese investors such as pension funds and insurers are significant holders of foreign sovereign debt, including U.S. Treasuries. When yields on Japanese government bonds (JGBs) rise, Japanese investors are incentivized to keep their capital at home causing yields on U.S. Treasuries and euro area sovereigns to move higher to remain competitive.

- **Investment-Grade Bond Issuers Have Busiest Month Since May 2020.** May was a busy month for investment grade bond issuance as over $150 billion in paper came to market. Issuers were primed to take advantage of the low spread levels in advance of the uncertainty around landing points for trade policy following the 90-day tariff pause. Investment grade spreads moved back below Pre-Liberation Day levels at 89-bps, and issuance is expected to remain elevated into June. While spreads are tight, absolute yields are still north of 5% and fund flows into fixed income have been very strong since the start of the year, offsetting the increased supply coming to market. Even with macro uncertainty persisting, the technical backdrop for investment grade credit should be supportive of spreads into June.

- **FOMC Minutes Reinforce Theme Of "Wait-And-See".** On Wednesday, the Federal Reserve released minutes from its May 6-7 Federal Open Market Committee (FOMC) meeting. During the post-FOMC press conference on the 7th, Chair Jerome Powell referenced the word "waiting" over 20 times and that approach was reinforced in the minutes. Overall, the minutes release was taken as 'old news' by markets as members emphasized the need for more clarity on the economic impacts of trade policies before making any further policy adjustments. Within the minutes, the tone for potential inflation due to tariffs shifted as members appeared to have a higher degree of confidence that inflation would likely pick up as companies begin to pass on tariff related cost increases at least partially or even fully to consumers. Members also highlighted the risk that the labor market could weaken in coming months, although the timing is still uncertain leading to the "wait-and-see" approach.

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