

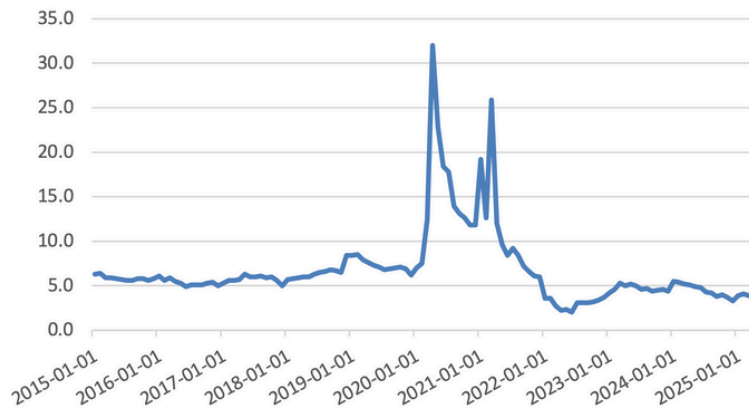
Trade Deals Spark Optimism in Policy and Markets Rally Consumers not Convinced Things are Improving

Commentary by Aidan Cruz, Senior Equity Research Analyst

Savings Rates

The personal savings rate is calculated as personal saving as a percentage of disposable personal income. The personal savings rate could be used as an indicator of economic health, with lower percentages of savings potentially suggesting a greater number of consumers preparing for economic hardships where holding onto liquid assets, and vice versa. However, economists and market watchers have different perspectives on its implications.

US Savings Rate



Data from London Stock Exchange Group/Refinitiv /FRED

a/o 5/16/2025

The Macro team believes that saving in recent history has been difficult. Data suggests that saving has only gotten harder over the years in terms of the percentage of your income. Considering inflation has been cooling, the percentage stays low, which could hint at other big issues in living costs and spending habits. A change in savings rates could be caused by many different variables, varying in impact, whether it be something more obvious like inflation or CPI. Other more notable changes can greatly impact the savings rate. As we see in the graph, the pandemic led to a huge spike in savings, caused by strong fiscal policy (stimulus checks) and simple withholding of spending due to uncertainty. It has since dipped and stalled, but we may see more savings with much of the uncertainty in the markets today and a possible economic slowdown.

Now, what can be said about savings and how it can affect economic and market outcomes? For starters, a higher saving rate may mean inflation is cooling off, due to less discretionary spending. Additionally, higher savings generally mean a stronger, more robust economy which can survive economic tribulation better than an economy with a lower savings rate. Lastly, a solid savings rate may signal to the markets an increased potential for more participation in investment. Most recent observation of the PSR was March of this year at 3.9%, last year it was 5.2%.

Oil Volatility

The OVX projects the 30-day volatility of U.S oil prices, with a higher value reflecting higher volatility. This may sound familiar to the VIX, and it is! Its main use is to serve as a barometer for U.S oil prices and overall confidence in the crude oil market.

OVX Oil Index



Data from Chicago Board Options Exchange/Federal Reserve Bank of St. Louis

a/o 5/16/2025

The OVX correlates to higher implied volatility of crude oil as well as lower confidence in its supply. Like all the other indices we've talked about in the past, the OVX has some pretty important implications for some sectors in the stock market. For example, a higher cost of oil (a higher OVX) could mean a lower than expected future growth for almost all U.S companies. A higher cost of electricity, transportation, and anything else related to energy translates to a higher cost of operations and a higher bar of asset efficiency. This also translates to individuals' consumption of energy. Additionally, oil prices have huge implications when we talk about recessions and economic health. Typically, recessions are accompanied by oil price and demand shocks, such as a sudden undersupply of oil due to the global supply chain stoppages, observable in 2020. This translates to extreme volatility and uncertainty. It is important to understand that this index is forecasted, meaning oil producers can also use it to account for future pricing of their oil.

S&P YTD Performance

Key Indices	5/16 Close	5/1 Close	% Change
S&P 500	5,958.38	5,604.14	6.32%
Nasdaq	19,211.10	17,710.74	8.47%
Dow Jones	42,654.74	40,752.96	4.67%

Data from Yahoo Finance

a/o 5/16/2025

Consumer Sentiment Levels Drop Significantly due to Tariffs

The University of Michigan Consumer Sentiment Index is a consumer confidence index that measures how consumers feel about the current state of the economy and their finances, whereas the confidence index measures the people's outlook. In May, the Consumer Sentiment Index fell 1.4 points month-over-month to 50.8, the second lowest reading ever since the index was established in 1966.

As students and young adults in San Diego, we are no strangers to high costs of living, but it seems that people everywhere in the United States are losing confidence in the current state of our economy. Taking into account the cooling inflation, the future of prices is still the main concern of many of the population. An important note to consider is that this survey was taken before the US-China 90-day pause was announced, and since tariff-related stress was the main reason for the low levels of sentiment, we will see if the trade deal has made any significant progress to the recovery of this index.

US-Qatar Historic Deals

On May 14th, the US and Qatar agreed on deals worth more than \$243.5 billion and outlined plans to increase the investment to \$1.2 trillion. These deals provide more confidence to individuals worried about foreign trade relationships. Here is a list of deals that happened:

- Doha, the capital of Qatar, will invest \$10 billion in a US military facility and purchase US weapons for \$42 billion.
- Qatar Airways acquired 210 American-made Boeing 787 Dreamliner and 777X aircraft for \$96 billion.
- Quantinuum finalized a Joint Venture Agreement with Al Rabban Capital to invest \$1 billion in quantum technology and workforce development in the US.
- Defense-related agreements - Raytheon secured a \$1 billion agreement for Qatar's acquisition of counter-drone capabilities. General Atomics secured a nearly \$2 billion agreement for Qatar's acquisition of the MQ-9B remotely piloted aircraft system.

US-China Trade Progress

As we mentioned in last week's report, we have summarized some important points that came from the US and China trade talks that went down.

- The US will reduce its 145% levies on most Chinese imports to 30% for the next 90 days
- China will lower its 125% duties on American products to 10% for the same period

This deal caused markets to rally. On May 12, the day the trade pause was announced, futures for the S&P 500 increased by 2.6%, the Dow Jones Industrial Average jumped by 2%, and the dollar surged over the Euro and the Japanese Yen. Many major Chinese companies saw their stock prices rise on May 12, with notable companies like Alibaba stock rising by about 6%, Tencent up by around 5%, and Xpeng gaining roughly 8%. As much of a big step in the right direction for trade policy, it is important to understand that this is still only a pause, and we still have tons of progress to make before we can rest.

Economic Health	Month	Actual	Prior Month	% Change
CPI (%)	May	2.3%	2.4%	(0.1)
PPI (%)	May	3.9%	3.4%	0.5
Unemployment (%)	May	4.2%	4.2%	0.0
Jobless Claims (in 1,000's)	May	229	220	4.1
GDP (%)	March	-0.3%	2.3%	(2.0)
Housing Starts (in 1,000's)	May	1,361	1,324	(2.8)
Euro/Dollar (in \$'s)	May	1.12	1.14	(1.8)

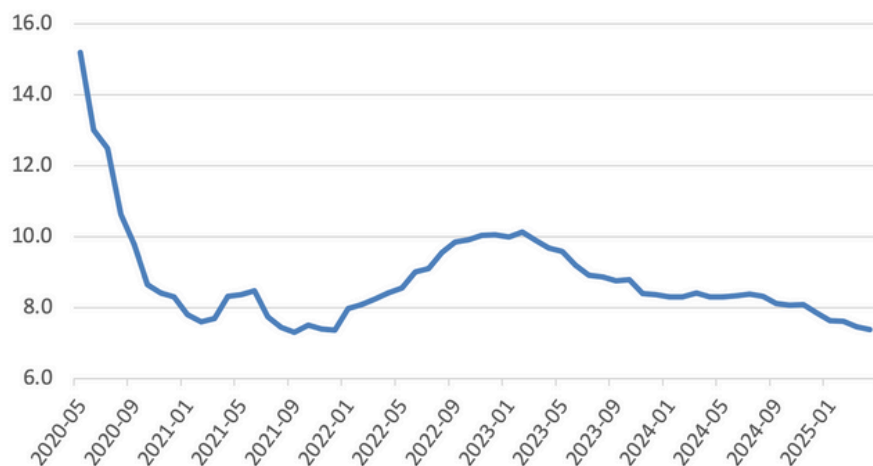
Data from London Stock Exchange Group/Refinitiv/Yahoo Finance/FRED/Bureau of Economic Analysis

a/o 5/16/2025

As emphasized by the FED, the economy has been in good condition and we won't see the full effect of tariffs on data yet since the majority of these economic indicators are backwards looking.

Backwards looking data reflects data from the prior month to when it was released. This only means it will take longer for entities like the FED to get clarity on what impact issues like tariffs may have.

Misery Index



Data from London Stock Exchange Group/Refinitiv/FRED

a/o 5/9/2025

The Misery Index is an indicator of overall economic sentiment. This index can be created for any economy, but this one reflects the past 5 years of the US economy. It is a sum of the country's employment and inflation. The higher the index, the more hardship we can assume the US population is experiencing. Of course higher levels mean higher inflation and unemployment, so the correlation to "Misery" is apparent. This index was created in the 1960's, and as subjective it is, it is the easiest way to gauge economic health since CPI and unemployment are incredibly important indicators.

Consumer Indices	Month/Period	Actual	Prior	% Change
Consumer Confidence	April	86.0	92.9	(7.4)
Consumer Sentiment	May	50.8	52.2	(2.7)
Commodity Prices	May	296.1	292.7	1.2
CORE PCE (%)	May	3.5%	2.6%	0.9
Disposable Personal Income (%)	April	1.7%	1.3%	0.4

Data from London Stock Exchange Group/Refinitiv/Yahoo Finance/FRED/Bureau of Economic Analysis

a/o 5/16/2025

Due to economic uncertainty, we have noticed consistent downwards trends in major consumer feeling indices. These indices are telling us that the general US population is saving in an effort to prepare for the possible rise in prices and a rise in unemployment that comes with less spending and job cuts. In all, everyone is worried and everyone wants some clarity.