
Jackson, Mississippi

WEEK OF MAY 19, 2025

Market Update

U.S. stocks and bond yields increased as future growth expectations rose after the pause in reciprocal tariffs between the U.S. and China. Technology and consumer discretionary firms rebounded sharply. The week ended on a sour note when Moody's downgraded the U.S. credit rating.

Quick Hits

1. **Beyond the headlines:** What does the Moody's downgrade of the U.S. credit rating mean for you?
2. **Report releases:** April inflation data showed continued progress in the fight against rising prices.
3. **Financial market data**: U.S. equities rallied heavily after the announcement of a pause on reciprocal tariffs with China.
4. **Looking ahead:** Economic data will be light this week, but we expect plenty of commentary from the Federal Reserve (Fed).

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Beyond the Headlines: What Does the Moody's U.S. Credit Downgrade Mean for You?

On Friday evening, Moody's downgraded the U.S. government's credit rating from AAA to Aa[1], citing rising debt levels and ongoing political gridlock. Although the U.S. still has a high-quality rating, it marked the first time all three major agencies—Moody's, S&P, and Fitch—rated U.S. debt below the top tier.

Credit ratings help investors assess how likely a country is to repay its debt. A lower rating doesn't mean default is likely, but it does reflect growing concern about the long-term direction of U.S. finances.

This isn't new territory. S&P downgraded the U.S. in 2011 during a major debt-ceiling fight, and Fitch issued a downgrade in 2023, citing fiscal and governance concerns.

Despite these downgrades, U.S. Treasury bonds remain central to global markets; they are widely used as a benchmark for interest rates and are considered a safe asset by institutions and governments worldwide.

How Do Markets React to Downgrades?
The response varies. After S&P's downgrade in 2011, 10-year Treasury yields fell as investors sought safety during broader market volatility. After Fitch's downgrade in 2023, the 10-year rose about 0.2 percent over the next month, reflecting concerns about fiscal policy and inflation.

Other countries have seen similar outcomes:

• France, downgraded in late 2024, saw a roughly 25 basis point (bps) increase in 10-year yields over a few weeks.

• The U.K., downgraded in 2013, experienced an increase of 55 bps over one month.

• Canada, downgraded in 1994, saw yields rise 30 bps soon afterward.

The U.S. is not alone. According to the International Monetary Fund (IMF), average debt-to-GDP in advanced economies has risen from 76.2 percent in 2005 to 110.1 percent in 2025, driven by the global financial crisis, the pandemic, and rising structural deficits.

Can a Country Regain a AAA Rating?
Yes, but it takes time and reform. Canada regained its AAA rating in 2002 after reducing debt and strengthening its budget. The U.S. has not reclaimed its top rating from S&P since 2011, and now, with the Moody's downgrade, any reversal would likely require long-term policy change.

What Does This Mean for You?
Higher borrowing costs for the government can push up interest rates across the economy—affecting mortgages, loans, and credit cards. It could also strain the federal budget, making it harder to fund programs such as social security and Medicare.

Although this downgrade doesn't change everything overnight, it highlights the importance of staying diversified, planning ahead, and understanding how national finances can shape your personal economy.

The downgrade may also shift the political focus. Rather than pursuing tax cuts, lawmakers could face pressure to tighten fiscal policy—through spending restraint or tax increases—to restore confidence and control deficits.

On the upside, rising bond yields may benefit savers and retirees seeking income. But they also reflect deeper concerns about the country's financial direction.

Although this downgrade doesn't change everything overnight, it highlights the importance of staying diversified, planning ahead, and understanding how national finances can shape your personal economy.

If you have questions about how this might affect your plan, we're here to help.

Report Releases: May 12–16, 2025

Consumer Price Index (CPI)
April (Tuesday)

Inflation data largely fell in line with expectations, with year-over-year headline inflation coming in slightly cooler than anticipated. That reading of 2.3 percent is the lowest since February 2021.

- Prior monthly CPI/core CPI growth: –0.1%/+0.1%
- Expected monthly CPI/core CPI growth: +0.3%/+0.3%
- Actual monthly CPI/core CPI growth: +0.2%/+0.2%
- Prior year-over-year CPI/core CPI growth: +2.4%/+2.8%
- Expected year-over-year CPI/core CPI growth: +2.4%/+2.8%
- Actual year-over-year CPI/core CPI growth: +2.3%/+2.8%

Retail Sales
April (Wednesday)

Retail sales pulled back notably following earlier surges to get ahead of potential tariff impacts.

- Expected/prior month retail sales monthly change: +0.0%/+1.4%
- Actual retail sales monthly change: +0.1%

Producer Price Index (PPI)
April (Wednesday)

Producer prices cooled more than expected, led by the steepest drop in services prices since 2009.

- Prior monthly PPI/core PPI growth: +0.0%/+0.4%
- Expected monthly PPI/core PPI growth: +0.2%/+0.3%
- Actual monthly PPI/core PPI growth: -0.5%/–0.4%
- Prior year-over-year PPI/core PPI growth: +3.4%/+4.0%
- Expected year-over-year PPI/core PPI growth: +2.5%/+3.1%
- Actual year-over-year PPI/core PPI growth: +2.4%/+3.1%

University of Michigan Consumer Sentiment Survey
May (Friday)

Consumer sentiment continued to struggle amid tariffs and economic uncertainty.

- Expected/prior month sentiment: 53.4/52.2
- Actual sentiment: 50.8

>> The Takeaway

- Consumer and producer prices cooled more than expected in April.
- Although retail sales were slightly better than expected, growth was notably slower than the previous month.

Financial Market Data

Equity

U.S. equities rallied after an announcement Sunday that most reciprocal tariffs between the U.S. and China would be paused. The U.S. cut its tariff rate on Chinese goods from 145 percent to 30 percent, and China reduced its rate on U.S. goods from 125 percent to 10 percent. Tariff-exposed stocks surged; technology, consumer discretionary, and communication services were top-performing sectors. In contrast, health care lagged amid renewed efforts by the U.S. government to implement “most-favored nation” drug pricing, which would tie prices to the lowest rates paid by developed countries, pressuring pharmaceutical and biotech companies.

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	5.33%	7.08%	1.81%	13.97%
Nasdaq Composite	7.21%	10.18%	−0.25%	15.89%
DJIA	3.50%	5.00%	0.89%	8.88%
MSCI EAFE	0.98%	2.41%	14.76%	10.55%
MSCI Emerging Markets	3.09%	5.54%	10.15%	9.91%
Russell 2000	4.51%	7.68%	−4.79%	2.19%

Source: Bloomberg, as of May 16, 2025

Fixed Income

Treasury yields rose across the curve as the bar for growth appeared to have been raised after the pause in U.S. and China reciprocal tariffs. The 2-year, which rose most notably as the near-term outlook improved, increased 10 bps to 3.98 percent. The 10-year and 30-year rose 6 bps and 7 bps, respectively, closing at 4.44 percent and 4.9 percent, respectively.

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	−0.19%	2.01%	4.50%
U.S. Treasury	−0.59%	2.06%	4.15%
U.S. Mortgages	−0.24%	2.17%	4.85%
Municipal Bond	1.04%	−0.75%	0.81%

Source: Bloomberg, as of May 16, 2025

>> The Takeaway

- U.S. equities rallied heavily after a pause and reduction of U.S. and China reciprocal tariffs.
- The Treasury yield curve moved slightly higher as future growth expectations rose.

Looking Ahead

Economic data will be light this week, but members of the Federal Open Market Committee (FOMC) are expected to have a lot to say.

- The week kicks off Tuesday with **existing home sales** data for April. Sales are expected to pick up modestly after contracting in March.
- On Thursday, the **Preliminary S&P Global US Composite PMI** will be released. We'll see whether composite PMI will remain in expansionary territory; services PMIs have fallen sharply from December's levels.
- We anticipate more than 10 speeches from **FOMC** members throughout the week.
- Finally, on Friday, we expect the release of **new home sales** data for April. Sales are expected to contract after increasing in March.

Biloxi, Mississippi

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Authored by the Investment Research team at Commonwealth Financial Network®.

Michael Graziano, CMT®, CRPC®, CFP®, Chief Investment Officer

Graziano Budny Wealth Management Group, LLC
6143 S Willow Drive,Suite 310 | Greenwood Village, CO 80111
720.583.6363 | 720.458.0773 fax | www.grazianobudny.com | mgraziano@grazianobudny.com

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