



## Market Update: May 2025

It might just be us, but it feels like it's been a lot longer than a few weeks since the initial rollout of the tariffs. In fact, the very same afternoon we sent our last update, the "reciprocal" tariffs were rolled back—except for those on China. Since then, there have been quite a few changes, which we won't dive into here, but we do want to share our perspective on where things stand now.

Two major developments have been announced: one involving the United Kingdom and the other involving China. The deal with the UK rolled back some of the automotive tariffs the U.S. had planned to impose, but it still left a 10% tariff on most imported goods. That's a key point, and it might offer some clues about where U.S. trade policy is headed. Even though the U.S. has a trade surplus with the UK, we still kept that 10% tariff. To us, that looks like it may be the new baseline—or the best-case scenario—for any of our trading partners.

The second big update was a 90-day pause in tariffs on China, bringing the rate down to 30%. We expect more announcements to follow in the coming days and weeks. So far, the lowest tariff scenario we can realistically see is a 10% rate across the board.

Uncertainty remains high. That said, equity markets have bounced back, recouping most of the year's earlier losses. Because of the rollback in tariffs, we've taken our most bearish equity outlook off the table.

The hard economic data is still looking positive, and as long as that continues and we avoid a recession, we'd view future market pullbacks as opportunities to add risk to portfolios. However, given the lingering uncertainty, we're not in a rush to make any major moves just yet. From our perspective, upside potential is somewhat limited at current valuations, especially with earnings still in question.



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The Federal Reserve has kept interest rates steady. While inflation has come down from the highs of a few years ago, it's still hovering just under 3%—above the Fed's 2% target. Unless inflation drops further or the job market starts to weaken, we don't expect rate cuts anytime soon.

One important difference from the 2008–2022 period: back then, cash and bonds offered little return with the Fed funds rate near zero. Today, things are different. With the Fed funds target rate currently at 4.25%–4.50%, investors actually have viable alternatives.

At the start of the year, we expected a market correction and more modest equity returns—somewhere in the mid to high single digits. A lot has changed since then. While that outcome is still possible in our more optimistic scenario, our confidence in it has definitely dipped.



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