ambwealth

Wealth Advisory Market Update

June 3, 2025

Equities

May was marked by a steady flow of tariff-related developments, encouraging inflation data, and robust U.S. Treasury auctions. The S&P 500 rebounded strongly, gaining 6.3% for the month and turning positive for the year, now up just over 1%. This move was driven once again by high beta names that remain extremely overvalued. Volatility remains elevated—only a month ago, markets briefly entered bear territory, only to fully recover those losses within weeks.

There were several significant updates on the tariff front. Our last report highlighted the pause in trade measures with China; however, some of that optimism has since faded as the U.S. administration accused China of breaching parts of the agreement. The two nations' leaders are expected to discuss the matter directly. Additionally, a federal court ruled certain tariffs unlawful at the end of May, though the decision is under appeal and tariffs remain in effect. Meanwhile, the EU and U.S. have yet to reach an agreement, however the proposed 50% tariff has now been delayed until July 9. The markets will remain volatile until the tariff policies are better understood.

Despite the market's rally, valuations remain stretched. The S&P 500's price-to-earnings ratio stands at 28x, price-to-book at over 5x, and price-to-sales near 3x—above historical averages. As mentioned previously, the average PB hovers around 2.9x while its all-time high was 5.5x during the dot com bubble. While elevated valuations warrant caution, we continue to focus on companies trading below intrinsic value. The recent market pullback provided opportunities to add high-quality businesses with strong balance sheets and solid growth prospect and the subsequent rally allowed us to exit some names that we believe reached their intrinsic value.

Economic Indicators and Fed Policy

Markets closely watched the release of the FOMC minutes to gauge policymakers' outlook on inflation and tariffs. The committee acknowledged increased uncertainty and indicated a cautious stance until fiscal policy becomes clearer. Views on inflation remain mixed: some members see tariffs as a source of sustained inflation, while others cite factors like tariff reductions, a slowing economy, and softening housing inflation—partly due to reduced immigration—as reasons for tempered inflation risk.

Some FOMC members also expressed concern about the long-term implications of the U.S. dollar's safe-haven status, though recent Treasury auctions suggest continued global demand—highlighted by record foreign participation in the 5-year auction. Chair Jerome Powell remarked that longer-term interest rates are likely to rise as structural economic changes unfold, potentially leading to more frequent and persistent supply shocks and greater inflation volatility than experienced in the 2010s.

Recent inflation data has come in cooler than expected. The Fed's preferred metric, Core PCE, fell to its lowest annual rate since April 2021. Rising incomes, paired with slower consumer spending, pushed the personal savings rate to a high not seen since April 2024. However, not all indicators are reassuring: the U.S. leading economic index reached its lowest level since 2016, although this includes soft data such as consumer sentiment. Moreover, credit card delinquencies are now at their highest level since 2011, signaling continued consumer stress. Until the Fed acts, the consumer will remain under the stress of higher interest rates and tighter monetary policy.

Strategy

Market volatility remains high, with headlines continuing to influence investor behavior. Our strategy remains defensive, favoring businesses with steady demand and consistent cash flow. These companies are typically more resilient in uncertain environments. The recent selloff allowed us to initiate or add to positions in attractively valued equities with strong fundamentals. We remain committed to identifying undervalued opportunities. We also let some positions go that had reached our price targets. We are currently holding more cash than normal as market valuations have once again stretched into bubble territory.

In fixed income, volatility mirrors that of the equity markets, with yields fluctuating in response to tariff developments and news from Capitol Hill. Mortgage-Backed Securities and Municipal Bonds continue to offer compelling value, supported by strong credit quality and attractive yields. We maintain a preference for higher-quality instruments in the current environment.

Outlook

We remain committed to active and risk-aware portfolio management in the face of a rapidly evolving macroeconomic environment. While the current landscape is undeniably complex, we continue to seek opportunities that align with our long-term investment philosophy. We appreciate your trust and partnership during these challenging times.

Matthew J. Roach, CFA®
Chief Investment Strategist

Mike Servetas
Assistant Portfolio Manager

The information contained herein is for informational purposes only and is developed from sources believed to provide accurate information. The opinions expressed are those of the author, are for general information, and should not be considered a solicitation for the purchase or sale of any security. The decision to review or consider the purchase or sell of any security should not be undertaken without consideration of your personal financial information, investment objectives, and risk tolerance with your financial professional.

Forecasts or forward-looking statements are based on assumptions, may not materialize, and are subject to revision without notice. Any market indexes discussed are unmanaged and are generally considered to be representative of their respective markets. Index performance is not indicative of the past performance of a particular investment. Indices do not incur management fees, costs, and expenses. Individuals cannot directly invest in unmanaged indices. The S&P 500 Composite Index is an unmanaged group of securities that are generally considered to be representative of the stock market in general. Past performance does not guarantee future results.

Securities Offered through Allen, Mooney & Barnes Brokerage Services, LLC. Investment advice offered through Allen, Mooney & Barnes Investment Advisors LLC DBA AMB Wealth, a registered investment adviser.