

## Little Trade Progress Signals Softer Growth

With equities rallying for the third straight day, it *feels* like trade tensions are easing and deal-making has begun in earnest. However, the degree of actual progress is debatable, and in the meantime, the U.S. economy is fading.

The administration announced on Monday that Commerce Department officials had initiated probes into pharmaceutical and semiconductor imports, evaluating their national security impact as a precursor to imposing tariffs. Imports of drugs and microchips are currently excluded from reciprocal tariffs. *This could soon change.* There's little doubt that heavy reliance on foreign countries to provide pharmaceuticals and semiconductors is a problem in need of a fix, but onshoring efforts would take years, and in the meantime, diplomacy is the smarter move.

On Tuesday, Treasury Secretary Bessent said the ongoing trade war with China was "unsustainable" and as a result, he expects a de-escalation. The equity markets, starved for good news, rallied in response. That same day, Bessent admitted talks with China had yet to begin, but that information was ignored. Trump then took a cue from his Treasury Secretary acknowledging the 145% tax on Chinese imports was indeed very high and would likely be reduced significantly. White House press secretary Karoline Leavitt later told reporters "the president and the administration are setting the stage for a deal with China," and that "we're doing very well in respect to a potential trade deal." *Welcome news, if true.*

On Wednesday, the Wall Street Journal reported the White House was considering more than a 50% reduction to defuse tensions, although Bessent would later admit there was no unilateral offer as of yet to reduce Chinese tariffs. He went on to tell reporters there was no actual timeframe for trade talks with China and a full rebalancing of trade could take as long as two to three years. This morning, Chinese trade ministers validated Bessent's claim by denying any progress had been made, stating that "any reports on development in talks are groundless."

Equities are rallying for the third straight day, although the primary reason isn't trade optimism so much as economic pessimism. Weakening GDP growth suggests the Fed could ease sooner, and rate cuts are generally positive for stocks. This morning, following weak data on existing home sales, the Atlanta Fed's GDPNow model for Q1 was lowered from -2.2% to -2.5% while their gold-adjusted alternative model was cut from -0.1% to -0.4%.

In response to Powell signaling last Friday that tariff-related economic weakness would not persuade the FOMC to cut rates, the president posted: "Powell's termination cannot come fast enough!" That same afternoon Trump doubled down, posting "if I want him out, he'll be out of there real fast, believe me." Yesterday, in hopes of further stabilizing the markets, Trump backed off, saying he actually had no intention of firing Powell and added that he would not strike a hard line in trade talks with China.

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The FOMC will not cut at the May meeting in two weeks, although June is potentially in play. Two Fed officials weighed-in this morning, with Fed Governor Chris Waller saying he'd support cuts if unemployment rose significantly, while Cleveland Fed President Beth Hammack said the committee could move as early as June with evidence of a clear direction.

*There is no clear direction.*

Bonds have rallied across the curve today, sending yields lower.

## Market Indications as of 12:56 P.M. Central Time

DOW	Up 392 to 39,999 (HIGH: 45,014)
NASDAQ	Up 393 to 17,101 (HIGH: 20,174)
S&P 500	Up 89 to 5,465 (HIGH: 6,144)
1-Yr T-bill	current yield 3.97%; opening yield 4.00%
2-Yr T-note	current yield 3.80%; opening yield 3.85%
3-Yr T-note	current yield 3.80%; opening yield 3.86%
5-Yr T-note	current yield 3.93%; opening yield 4.00%
10-Yr T-note	current yield 4.31%; opening yield 4.37%
30-Yr T-bond	current yield 4.76%; opening yield 4.81%

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