Independence | Asset Advisors

MONTHLY MARKET REVIEW – May 2025

	May 2025	YTD	1-Year	3-Years	5-Years	10-Years
U.S. Large Cap Equities S&P 500	6.29%	1.06%	13.52%	14.41%	15.94%	12.86%
U.S. Small Cap Equities Russell 2000	5.34%	-6.85%	1.19%	5.03%	9.64%	6.64%
Energy Infrastructure Equities Alerian U.S. Midstream	2.57%	1.19%	29.91%	22.12%	29.68%	8.29%
U.S. Real Estate Equities Dow Jones U.S. Select REIT	2.07%	0.41%	12.15%	2.32%	9.15%	5.08%
Global Equities MSCI All Country World Index	5.75%	5.32%	13.65%	12.30%	13.37%	9.25%
Int'l Developed Equities MSCI EAFE	4.58%	16.87%	13.33%	11.45%	11.42%	5.97%
Emerging Market Equities MSCI Emerging Markets	4.27%	8.73%	13.04%	5.15%	7.07%	3.93%
U.S. Taxable Fixed Income Bloomberg U.S. Aggregate	-0.72%	2.45%	5.46%	1.49%	-0.90%	1.49%
U.S. Tax-Exempt Fixed Income Bloomberg Municipal Aggregate	0.06%	-0.96%	2.03%	1.73%	0.55%	2.13%
High Yield Fixed Income Bloomberg U.S. Corp High Yield	1.68%	2.68%	9.32%	6.75%	5.79%	5.03%
Floating Rate Loans Morningstar LSTA U.S. Loan	1.55%	1.99%	6.81%	8.60%	7.52%	5.02%
Collateralized Loan Obligations JP Morgan Collateralized Loan Index	0.98%	2.30%	6.61%	7.86%	5.75%	4.16%

- Global equity gains were broad-based in May, supported by some progress in U.S. trade negotiations with the European Union and a pause in planned U.S. imposed tariff increases.
- Consumer confidence improved as fears of a global recession subsided, with the MSCI All Country World Index gaining nearly 6%.
- U.S. large and small cap stocks both gained, with "growth" outperforming "value" by 6.6%.
  - "Mag 7" stocks have declined 3.0% YTD, while representing 53% of the S&P 500 Index return.
- International markets stocks increased their outperformance relative to U.S. stocks.
  - Non-U.S. equities have been supported by lower multiples and a weakened U.S. dollar.
  - Year-to-date the U.S. dollar trade weighted index declined 8.4%.
- Fixed income returns were mixed, but mostly positive; high yield bonds and loans performed best.
  - The yield curve spread between 2-year and 10-year Treasuries narrowed to 0.50%. Nominal 10-year treasury yields were 4.4%, with inflation at 2.8% (PCE), producing positive real yields.
- High yield bonds yielded 7.5%; 309 basis points spread is still below the average of 510 basis points.
- Floating rate loans may continue to perform well amid a Fed-proposed projection of higher-for-longer U.S. interest rates; defaults remained below average and yields exceeded 8.9%.

Sources: eVestment, JP Morgan, xe.com, Trading Economics, MacroTrends, StatisticsCanada, Bloomberg, bea.gov, U.S. Dept of Labor/Bureau of Labor Statistics, Bank of Canada, Reuters, Bureau of Economic Analysis, Barrons

Category	Comments
Growth	The U.S. economy slowed in Q1 with real GDP declining 0.2% annualized: • Consumer spending increased 1.2%, while private investment surged 24.4% due to inventory spikes ahead of tariffs. • Government spending decreased 0.7% and net exports declined 4.9%.
Profits	The 1Q25 earnings season has closed: • Pro forma Earnings Per Share (EPS) of $63.45; representing an increase of 12.4% y/y and negative 3.5% q/q. • Driven by Sales growth (5.1%), Margins (8.4%) and Shares count (-1.1%) • 77% of companies exceeded estimate; earnings came in 10% over consensus.
Jobs	The April jobs report exceeded consensus: • The unemployment rate remained at 4.2% and wages rose 0.2% m/m.
Inflation	April Personal Consumption Expenditures Index (PCE): • Headline and Core PCE price indices moved moderately lower in April. • Headline and Core increased 2.1% and 2.5%, y/y.
Interest Rates	The FOMC policy rate was unchanged in May; range of 4.25%-4.50%: • The FOMC 2025 median year-end estimated policy rate is 3.90%. • Fed Funds futures are pricing in 3.91%.

CANADA:

- The U.S. dollar index (DXY) ***decreased*** 0.1% in May and ***decreased*** 5.3% over the past year (see chart below), while the U.S. dollar ***weakened*** 4.6% (YTD) against the Canadian dollar to end the month with an exchange rate of **1.37**.
- The Bank of Canada policy interest rate was unchanged at 2.75% when the committee met in April and June.
- Inflation has decreased, with ***total*** CPI falling 0.6% m/m to 1.7%.
- ***Core CPI***, referred to as “CPI-trim,” was 3.1% at month-end, a 0.2% m/m increase.
- According to the Bank of Canada, the economy has softened but not deteriorated, but Bank of Canada officials have offered guidance to suggest second quarter economic growth will be “much weaker” after a surprisingly large annualized increase of 2.2% in the first quarter.

Sources: eVestment, JP Morgan, xe.com, Trading Economics, MacroTrends, StatisticsCanada, Bloomberg, Financial Post, bea.gov, U.S. Dept of Labor/Bureau of Labor Statistics, Bank of Canada, Reuters, Morningstar, RBC, Wall Street Journal

OIL:

- **The price of crude oil was $60.79 per barrel (WTI).**
- Oil prices **increased** $2.58 per barrel, or 4.4%, in May.
- Oil prices rose in May despite an announcement that OPEC+ would increase production by 411K barrels per day in July. The price increase was predominately attributable to the Canadian wildfires, which disrupted 7% of the country's oil output.
- **Oil is forecasted to trade between $50 and $70 per barrel over the next 12 months.**

Year	Ave. Price	High	Low	% Change
2025	$67.61	$80.04	$57.17	-15%
2024	$75.83	$87.01	$66.37	1%
2023	$77.64	$93.84	$66.74	-11%
2022	$94.53	$123.70	$71.59	7%
2021	$68.17	$84.65	$47.62	55%
2020	$39.68	$63.27	$11.26	-21%
2019	$56.99	$66.24	$46.31	35%
2018	$65.23	$77.41	$44.48	-25%
2017	$50.80	$60.46	$42.48	12%
2016	$43.29	$54.01	$26.19	45%
2015	$48.66	$61.36	$34.55	-31%
2014	$93.17	$107.95	$53.45	-46%

COPPER:

- **The price of copper was $4.70 USD per pound.**
- Copper prices **increased** $0.15 per pound, or 3.3%, in May.
- The monthly price appreciation was attributable to the signed executive order that doubled tariffs on steel and aluminum. Concerns about potential tariffs on copper, combined with an outlook for weaker demand, lifted prices in May.
- **Copper is forecasted to trade between $4.50 and $5.30 per pound over the next 12 months.**

Year	Ave. Price	High	Low	% Change
2025	$4.62	$5.23	$4.02	17%
2024	$4.23	$5.10	$3.68	3%
2023	$3.86	$4.28	$3.57	2%
2022	$4.00	$4.94	$3.23	-14%
2021	$4.24	$4.76	$3.52	27%
2020	$2.80	$3.63	$2.10	26%
2019	$2.72	$2.97	$2.53	6%
2018	$2.93	$3.30	$2.56	-20%
2017	$2.81	$3.30	$2.49	32%
2016	$2.20	$2.69	$1.94	17%
2015	$2.49	$2.94	$2.02	-25%
2014	$3.11	$3.38	$2.83	-17%

ALUMINUM:

- **The price of aluminum was $2,446 USD per tonne.**
- Aluminum prices **increased** $48.90 per tonne, or 2.0%, in May.
- The price increase resulted from meaningful increases on U.S.-imposed tariffs, which doubled to 50%. Prices were also affected by an unexpected contraction of Chinese manufacturing activity.
- **Aluminum is forecasted to trade between $2,250 USD/tonne and $2,500 over the next 12 months.**

Year	Ave. Price	High	Low	% Change
2025	$2,551	$2,729	$2,340	-4%
2024	$2,458	$2,768	$2,159	7%
2023	$2,288	$2,662	$2,122	0%
2022	$2,711	$3,966	$2,103	-15%
2021	$2,486	$3,198	$1,954	42%
2020	$1,732	$2,068	$1,427	9%
2019	$1,811	$1,936	$1,706	-2%
2018	$2,115	$2,556	$1,817	-19%
2017	$1,979	$2,272	$1,686	34%
2016	$1,610	$1,784	$1,450	12%
2015	$1,679	$1,978	$1,436	-18%
2014	$1,984	$2,107	$1,840	0%

Sources: eVestment, JP Morgan, xe.com, Trading Economics, MacroTrends, StatisticsCanada, Bloomberg, Financial Post, bea.gov, U.S. Dept of Labor/Bureau of Labor Statistics, Bank of Canada, Reuters, Morningstar, RBC, Wall Street Journal

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MARKET UPDATE

May 31, 2025

By Thomas Grugan, Director & Senior Investment Strategist

High Level Summary

Equity markets recovered in May after tariff woes pushed indexes lower in April. Consumer sentiment improved and volatility moderated as trade tensions eased, resulting in strong developed market equity returns. U.S. large cap stocks outperformed, and small cap stocks gaining 5.3%, supported by optimism that proposed tax and regulatory amendments in the budget reconciliation bill might support smaller businesses.

U.S. growth performed especially well, gaining 9.4%, exceeding U.S. value by 6.4%. The S&P 500 Index remained highly concentrated, with nearly 40% of the Index composed of only 10 stock positions. These 10 stocks traded expensively at month-end, with a forward P/E of 27.0x (30% above average). The remaining stocks in the Index offered a better average valuation at 18.7x. The "Mag-7" stocks have detracted from the S&P 500 Index return this year, falling 4.7%, compared to the remaining stock positions that have gained 2.3%.

Concentration and valuation concerns have persisted, with many institutional managers shifting to actively managed equity strategies that focus more on quality and downside protection.

Switching to fixed income, nearly all primary categories reported positive returns in May, with the exception of the U.S. taxable fixed income. Nominal yields on 10-year Treasuries ended the month at 4.4%, and with inflation at 2.8%, real yields remained positive at 1.6% (historical average of 1.9%). Bond yields have generally fallen in 2025, with the exception of 30-year Treasuries, Municipals and Leverage Loans. Investment grade and high yield bond credit spreads remained narrow, compared to 25-year averages, at 88 and 315 basis points, respectively.

In speaking with our institutional fixed income partners, tariff policy, U.S. government debt and economic uncertainty may result in additional bouts of volatility. With futures markets pricing in a 0% probability of a policy interest rate cut in June and only a 16.5% probability for a 0.25% cut in July, the near-term outlook for higher total returns appears low across core fixed income categories. When asked which fixed income categories may offer a more appealing risk/return profile for investors, the general consensus was to consider Collateralized Loan Obligations (CLOs).

In this memo we revisit this misunderstood asset class, and examine how CLOs may protect portfolios during a time when the global economy has shifted from a period of resilient growth and declining inflation to a more uncertain path.

Collateralized Loan Obligations (CLOs)

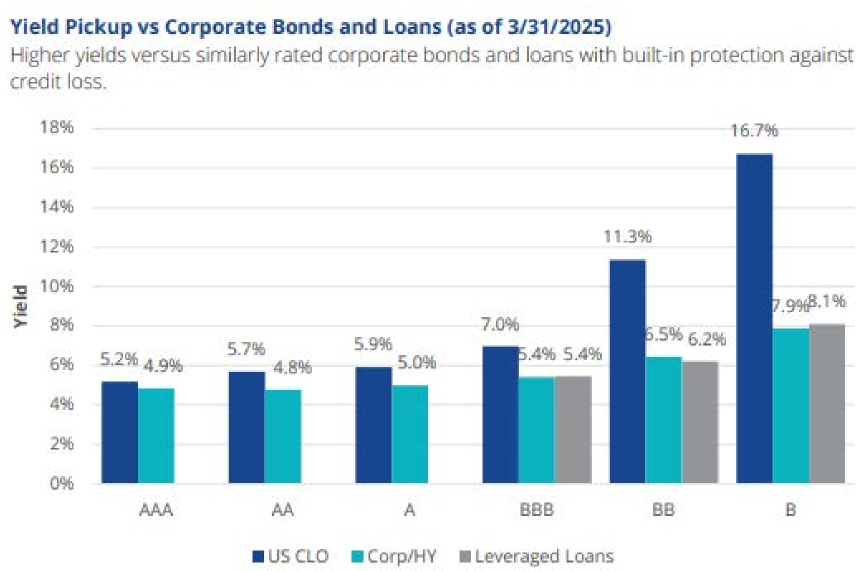
Lower quality bonds and loans continue to trade at a discount to par, with default rates well below historical averages. While these investments offer attractive yields, at 7.5% and 8.9%, respectively, they are more correlated to the stock market and could exacerbate downside risk should the market sharply decline.

CLOs can offer a more appealing risk/return profile as securitized, actively managed portfolios of syndicated loans. They have historically offered attractive yields and lower interest rate risk. Additionally, CLOs are floating rate instruments meaning their coupons reset on a quarterly basis along with prevailing interest rates. These specialized investments have low price sensitivity to changes in interest rates. As interest rates rise or fall, CLO yields will move accordingly and their prices have historically moved less than those of fixed-rate bonds.

Each CLO issues a series of floating rate bonds, along with a first-loss equity tranche. The tranches vary in terms of subordination and priority (i.e. ordered lowest to higher in order of riskiness). The asset class has built-in risk protections that make it particularly appealing compared to below investment grade bonds and loans. This begins with the CLO's underlying collateral: leveraged loans, that are senior and secured, meaning they have the senior-most claim on the issuer's assets in the event of a bankruptcy. Historically, the senior secured status of leveraged loans has led to lower default rates and higher recoveries compared to unsecured high yield bonds. CLO portfolios typically contain 150-250 loans, creating a diverse portfolio of borrowers that can further reduce risk. CLOs are also subjected to coverage tests, which identify and correct any collateral deterioration.

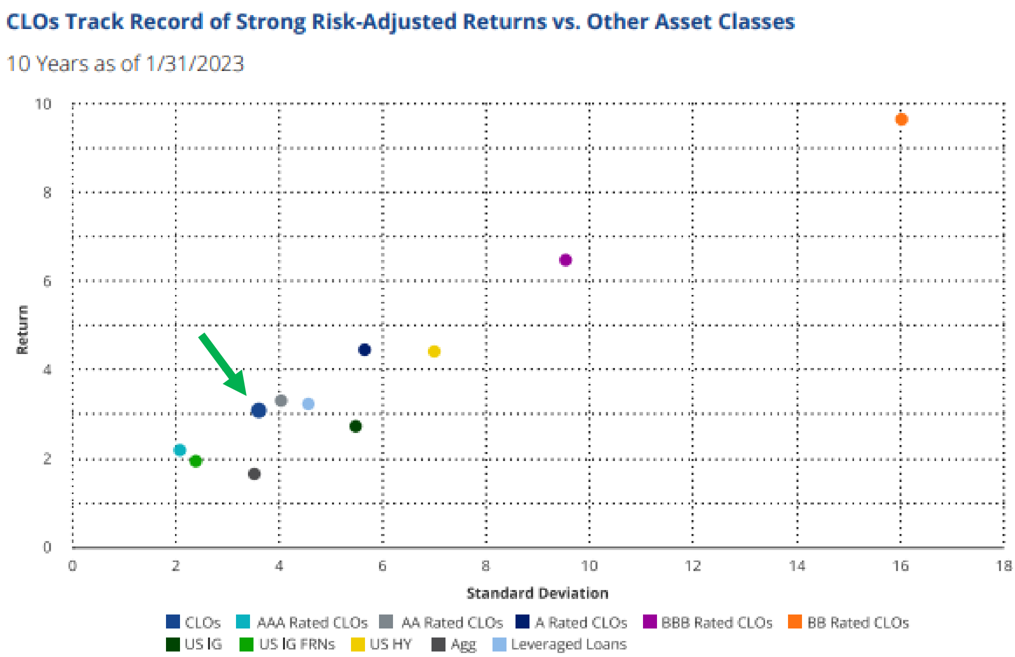
Critically, all CLOs have covenants, which require managers to test for the ability to cover monthly interest payments. If a test determines insufficiencies, cash flows are diverted from more junior tranches to pay off senior tranches.

In the visual aid (right), we demonstrate the yield advantage over corporate/high yield bonds and loans.



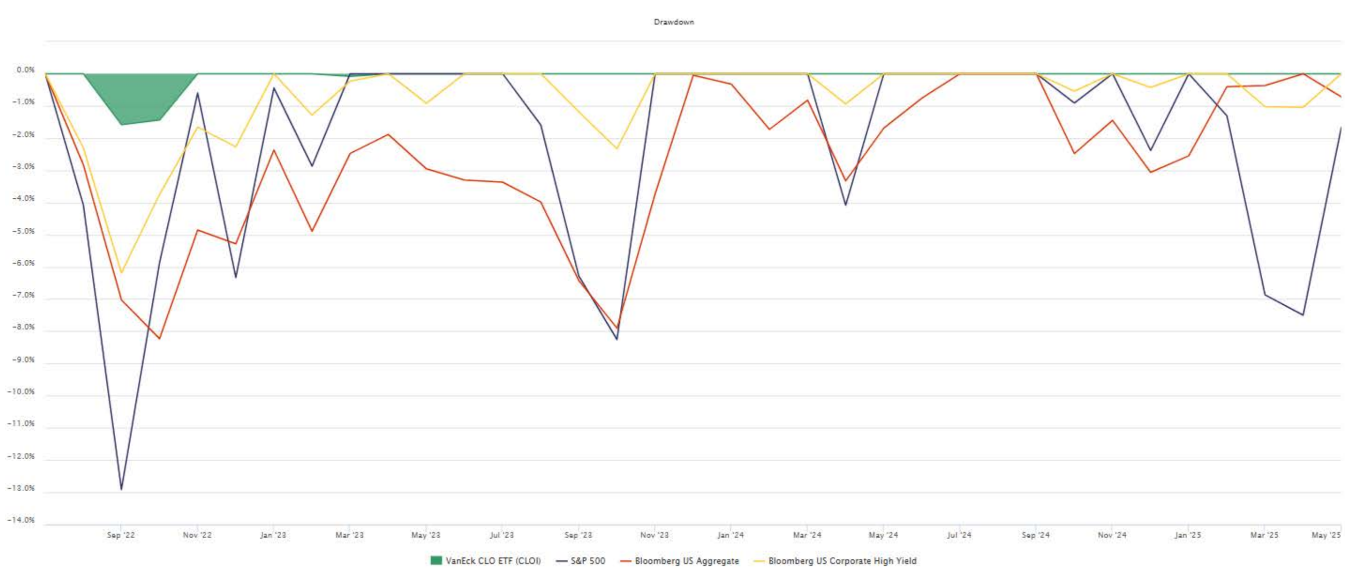
Source: VanEck/PineBridge

In the visual aid below, we show the strong risk-adjusted returns versus other primary fixed income asset classes.



Source: VanEck/PineBridge

See below, the historical drawdown profile of the VanEck Investment Grade CLO ETF (CLOI), managed by PineBridge Investments (shown in green). This graph demonstrates the favorable protective qualities of the asset class, which has provided consistent protection to investors during "risk-off" market conditions where other investment categories have exhibited price risk.



Source: eVestment

Tactical Positioning

According to the OECD, the Organization for Economic Co-operation and Development: "Global economic prospects are weakening, with substantial barriers to trade, tighter financial conditions, diminishing confidence and heightened policy uncertainty projected to have adverse impacts on growth and corporate profits." This sentiment aligns with that of the institutional investment managers and economists we have recently surveyed, and it reinforces our guidance to consider de-risking portfolios by utilizing actively managed strategies, moving up in quality and selecting investments that may offer more protection in uncertain market conditions.

Current tactical allocation views.

Asset Class	Opportunity	UW	N	OW	Comments
Main Asset Classes	Equities				Concentration risk favors diversification; valuation favors value; corporate tax cuts and higher revenue growth; tariff uncertainty risk; lower business Capex
	Duration				Lower duration; increased inflation risk
	Credit				Up-in-quality bias; bonds trading at discount to par; prioritize securitized credit
	Cash				~4% yield; good source of short-term dry powder
Equities	U.S. Large Cap				Broadening earnings growth in non-tech sectors
	U.S. Small Cap				Support from possible corporate tax cuts; vulnerable to "headline risk"
	U.S. Mid Cap				Favorable to U.S. small cap
	"Value"				Valuations below historical average (discount)
	"Growth"				Valuations above historical average (premium)
	Non-U.S.				Tariff uncertainty tail risk; USD weakness; lower valuations; rising GDP (developed)
	Emerging Mkts				Cheap valuations, but heightened China concentration risk; risk of tariffs and retaliation
Fixed Income	Treasuries				Attractive short-to-intermediate term yield; reinvestment risk in short-term
	Corporate IG				Higher quality attractive
	Corporate HY				Healthy balance sheets, but rising default risk
	Bank Loans				Floating rates remain attractive; debt coverage remains adequate, but higher default risk; favor investment grade/BB CLOs
Private	Credit				Structural/Strategic allocation
	Infrastructure				Structural/Strategic allocation
	Equity				M&A activity; IPO market reopening
	Real Assets				Increased transaction volumes; attractive entry valuations