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CAPITAL ADVISORS

Key **Takeaways:**

- Trump's America First agenda has some concerned about investors pulling out of U.S.
- Instead, foreigners and U.S. companies are spending massively on U.S. investments.
- The concern that Treasuries would be used as a bargaining chip have not materialized.
- All major auctions have been relatively strong.
- TIC data shows record demand.

Have Trade Wars Deterred Foreigners from Buying U.S. Assets?

Since President Trump took office there has been speculation that his America First and trade policy would impact investments into the U.S. from international companies, governments and investors. Fortunately, we have not seen this materialize, at least as of now. In fact, as of May 6th, there has been over $2 trillion in U.S. based investments from U.S. and foreign companies. This is separate from the over $3 trillion that has been committed for investments from foreign countries (e.g. UAE, Saudi Arabia).[1] In addition, we have been monitoring Treasury auctions because ~25% of our Treasury debt outstanding is financed from investors outside of the U.S. There was concern that some of our key trading partners would use Treasury debt as a bargaining chip by either selling Treasuries or pulling away from the auctions. In this weekly insights we offer details about the Treasury auctions we have been monitoring in recent months to see if there is less foreign demand. In addition, we detail what we saw from last week's monthly Treasury International Capital report.

- **Why Treasury auctions matter:** To fund the burgeoning budget deficit the Treasury relies on investors buying Treasuries at their auctions. According to the Peterson Foundation, ~$9 trillion in U.S. debt is maturing within a year.[1] If demand for Treasuries slows at auction, the U.S. government would be at a greater risk of not being able to refinance its debt or be subject to paying a higher interest rate to fulfill auctions.

- **What recent auctions are telling us:** On May 6th, 2025, the U.S. Treasury auctioned 10-year notes worth ~$42 billion and demand was strong from both domestic and international purchasers. Direct bidders (i.e., institutional investors, state/local governments) claimed ~20% of the auction, while indirect bidders (i.e., foreign entities) claimed ~71% of the auction. Both direct bidders and indirect bidders claimed more than the historical averages of 17% and 67.6%, respectively.[2] Foreign demand, specifically, has been strong in most other auctions. The 4-week, 6- month, 5-year and 10-year auctions have seen demand above the past five-year average.

- **Treasury International Capital report (TIC):** We received the TIC data for March last week which details foreign investment in the U.S. This report is offered on a lag and the data is prior to "Liberation Day." In the report, it showed that foreign investors of U.S. Treasuries reached a record high ~$9 trillion. Japan is the largest foreign holder of U.S. Treasures ($1.1 trillion). The UK surpassed China as the second largest foreign holder as China's holdings declined.

The Bottom Line:

Since writing this weekly, Moody's downgraded the rating of U.S. debt due to the fiscal outlook. While we have seen little, if any, impact from tariffs on the demand for U.S. investments, Treasury auctions, specifically will take on more importance in the direction of interest rates. We will monitor closely all auctions with a focus on the bellwethers (e.g., 10YR and 30YR) to see if the rating impact along with trade disputes deters foreign investment. This could have long-term impacts on interest rates, inflation and the Fed.

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Key Takeaways:

- Government budget deficit tops $1 trillion; 13% higher YoY.
- Headline inflation increases at slowest pace since Feb. ‘21.
- Consumers slow their pace of spending.
- Global equities rally on U.S./China trade developments.
- Treasury yields broadly higher on flurry of economic data.
- Commodities mixed; Natural gas plummets

Weekly Economic Recap –

Inflation Showing Signs of Easing

Inflation as measured by the Consumer Price Index increased at a 2.3% annualized pace in April, the lowest since February 2021. Shelter prices continued to be the leading culprit of sticky inflation as the category, which represents about a third of the overall index weighting, accounted for more than half of the advance in the headline reading. Core CPI, which excludes volatile food and energy prices, increased 2.8% on an annualized basis, virtually unchanged from last month.

Prices paid to U.S. producers unexpectedly decreased in April at the fastest monthly pace since April 2020 (-0.5%). Excluding food, energy, and trade, prices fell 0.1% in April, the first decline in five years.

Optimism among small business owners deteriorated for a fourth straight month in April as the NFIB Small Business Index recorded its weakest reading since October (95.8). The weakness was led by confidence in capex spending, those expecting a better economy, sales, and earnings.

Consumers slowed their pace of spending in April as retail sales, which are not adjusted for inflation, increased only 0.1% for the month. Seven of the reported 13 categories posted declines in spending, led by heavily imported goods, including sporting goods, apparel, and motor vehicles.

The preliminary reading of the University of Michigan Consumer Confidence Index showed that confidence fell to the second worst on record in May. Confidence in future expectations fell to the lowest level since May 1980. In addition, one year ahead inflation expectations jumped to the highest level since May 1981.

Weekly Market Recap –

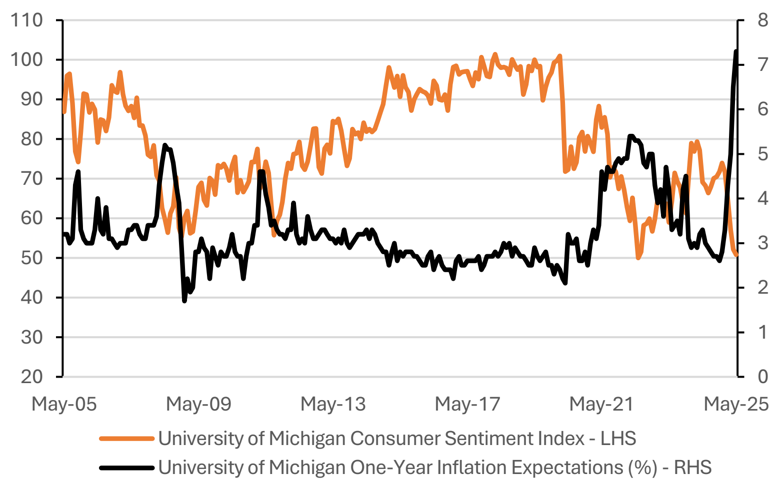
Global Equities Rally on U.S. and China Trade Optimism

Equities: The MSCI AC World Index was higher for the fifth time in the last six weeks and posted its best weekly gain since November 2023. The rally was driven by the U.S. and China announcing plans to lift trade restrictions for 90 days. All major U.S. averages were higher driven by a tech/growth rally as investors had a risk-on appetite. International markets rallied as well, with China equities getting a boost on the trade developments.

Fixed Income: The Bloomberg Aggregate Index was lower for the third straight week amid a flurry of economic data and global trade developments. High yield and emerging market bonds led the gains as investors took a risk-on appetite.

Commodities/FX: The Bloomberg Commodity Index was lower for the third time in four weeks. While oil prices rose on optimism that calming in the trade wars can fuel growth, natural gas prices fell sharply, pulling the energy index lower.

Inflation Expectations Surge; Confidence Plummets



Footnotes: Data is as of April 2025.
Data Source: FactSet Research Systems, Verdence Capital Advisors.

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Past performance is not indicative of future returns.

Equities Mixed Awaiting Trade News

U.S. Equities	Current	1WK	1MO	3MO	1YR	YTD
Dow Jones Industrial Average	42,655	3.5%	7.7%	-3.8%	8.9%	0.9%
S&P 500	5,958	5.3%	13.1%	-2.2%	14.0%	1.8%
Russell 1000 Growth	4,040	7.1%	17.6%	-3.4%	17.9%	0.2%
Russell 1000 Value	1,878	3.3%	8.7%	-1.3%	9.2%	3.8%
Russell 2500	3,776	4.9%	14.4%	-4.8%	4.4%	-1.7%
Russell 2000	2,113	4.5%	13.5%	-7.0%	2.2%	-4.8%
Nasdaq	19,211	7.2%	17.9%	-3.9%	15.9%	-0.2%

International Equities	Current	1WK	1MO	3MO	1YR	YTD
MSCI AC World (USD)	881	4.0%	11.6%	0.1%	12.6%	5.4%
MSCI EAFE (USD)	2,550	0.9%	7.4%	5.6%	9.9%	14.4%
MSCI Europe ex UK (USD)	2,899	1.2%	7.4%	6.9%	9.9%	19.5%
MSCI Japan (USD)	4,133	-0.5%	7.7%	3.8%	7.5%	6.2%
MSCI UK (USD)	1,368	1.4%	5.3%	6.3%	11.4%	14.4%
MSCI EM (USD)	1,172	3.1%	11.0%	5.0%	9.4%	10.0%
MSCI Asia ex Japan (USD)	763	3.5%	12.2%	5.2%	11.3%	9.1%

Fixed Income	Current Yield	1WK	1MO	3MO	1YR	YTD
U.S. Aggregate	4.8%	-0.2%	-0.2%	0.9%	4.5%	2.0%
U.S. Govt/Credit	4.6%	-0.2%	-0.2%	0.8%	4.3%	1.9%
U.S. 10 Year Treasury	4.4%	-0.4%	-0.9%	1.4%	3.7%	2.7%
U.S. TIPS (1-10YR)	4.3%	-0.2%	0.6%	2.1%	6.5%	3.7%
U.S. High Yield	7.5%	0.9%	2.9%	0.8%	8.7%	2.4%
EM Bonds (USD)	6.6%	0.5%	1.8%	0.9%	7.1%	2.6%
Municipal Bonds	4.0%	0.0%	1.0%	-1.5%	0.8%	-0.8%

Commodities	Current	1WK	1MO	3MO	1YR	YTD
Bloomberg Commodity Index	248	-1.7%	-1.1%	-3.6%	1.6%	3.9%
Crude Oil (USD/bbl)	$62.2	0.5%	-2.4%	-10.0%	-17.8%	-9.5%
Gold ($/oz)	$3,203.7	0.1%	-6.4%	10.4%	34.1%	23.4%
Copper	$455.6	0.3%	-3.1%	0.7%	-9.2%	14.1%
Wheat	$525.0	3.0%	-5.6%	-14.4%	-26.1%	-6.8%
U.S. Dollar	101	-1.5%	0.8%	-6.5%	-4.0%	-7.6%
VIX Index	17.2	-21.3%	-47.2%	16.7%	38.8%	-0.6%

Footnotes: Data is as of May 16, 2025.
Source: Bloomberg Finance LP, Verdence Capital Advisors.

[1]: https://www.whitehouse.gov/articles/2025/05/trump-effect-a-running-list-of-new-u-s-investment-in-president-trumps-second-term/
[2]: https://www.barrons.com/articles/us-treasury-bond-allotment-report-76a4e9d4

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