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# Doll's Deliberations®

## Weekly Investment Commentary

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## Summary

U.S. equities fell again last week (S&P 500 -1.52%) for the fifth weekly decline in the last six weeks. Trade continued to dominate the news flow, with all eyes looking to the April 2 tariff announcement. A consumer weakening also featured last week. The February core PCE was hotter than expected. Best sectors were consumer staples (1.72%) and energy (0.77%); worst sectors were technology (-3.65%) and communication services (-3.23%).

| **Equity markets** (Index total return %) | Last week | Year-to-date |
|---|---|---|
| DJIA | -0.96 | -1.85 |
| S&P 500 | -1.52 | -4.81 |
| NASDAQ | -2.59 | -10.15 |
| Russell 1000 | 0.42 | -3.04 |
| Russell 1000 Growth | -2.57 | -10.05 |
| Russell 1000 Value | -0.45 | 1.18 |
| Russell 2000 | 0.43 | -7.11 |

| **S&P equity sectors** (Index total return %) | Last week | Year-to-date |
|---|---|---|
| Communication services | -3.23 | -6.43 |
| Consumer discretionary | 0.05 | -13.65 |
| Consumer staples | 1.72 | 3.52 |
| Energy | 0.77 | 9.04 |
| Financials | -0.16 | 2.23 |
| Heathcare | -0.97 | 5.58 |
| Industrials | -1.26 | -0.85 |
| Information technology | -3.65 | -12.68 |
| Materials | -0.34 | 1.71 |
| Real estate | 0.46 | 2.54 |
| Utilities | -0.21 | 3.83 |

## Key takeaways

1. The Conference Board consumer sentiment measure fell more than expected, with expectations plunging below their COVID lows.
2. The U.S. labor market continues to slowly deteriorate, with conditions worsening at the margin. The Fed sees the unemployment rate climbing by roughly one-tenth of a percentage point per quarter over the year.
3. Businesses appear to have front-loaded shipments ahead of potential tariffs while deferring new orders amid policy uncertainty. With hiring and CapEx plans softening and consumer sentiment collapsing, some defensiveness is in order.
4. A sharp drop in consumer confidence adds to signs that a consumption slowdown is coming, threatening growth. Yet rising short-term inflation expectations will keep central banks cautious.
5. We see an increasing likelihood for weaker payroll reports over the next few months that ultimately leads to a Fed rate cut, perhaps at the June meeting.
6. The U.S. economy is cooling as the impact of pandemic stimulus has faded. Consumer credit sustained the expansion filling the void left by dwindling excess savings and a softening labor market, thus supporting consumption growth and prolonging the expansion.
7. The analysts' consensus growth forecast for S&P 500 companies' Q1 earnings began the quarter at over 11%. It is exiting the quarter much lower, having edged down to 6.5%.
8. Every S&P 500 sector has seen negative EPS revisions YTD, with the average sector down 440 basis points (bps). Worst has been materials, with revisions nearly -1,400 bps, and industrials, -680 bps.
9. We expect a choppy trading environment to continue over the next few months in the face of uncertain policy and macro conditions. As a result, earnings disappointments may result in a larger number of stock downdrafts.
10. Dividend strategies (both dividend yield and dividend growth) are outperforming so far this year. Our hunch is that will continue.

## Caution/defensiveness prevails

Wednesday marks the next date in the ongoing U.S.-led trade war, with reciprocal tariffs due to be announced as a follow-on to last week's 25% tariff on autos. While some tariffs are a certainty, it is unclear what the long-term levels and breadth will be. Months of negotiations may be ahead, with much of it conducted by megaphone. While there have been brief moments of hope that tariffs will be toned down, uncertainty will persist and a cloud will hang over the global economy for some time yet. At a minimum, a choppy global investment backdrop will persist. Periods of risk-off will occur whenever tariff announcements are considered worse than discounted, or whenever weaker economic data arrives. Meanwhile, any signs of tariff-related increases in prices will rekindle inflation concerns.

Bond yields have been relatively calm of late, capped by fears of weaker growth, yet supported by the sticky inflation backdrop. A stagflationary outcome (higher inflation and weaker growth) could be lethal. We have taken a defensive investment stance (see our March 26 white paper) and recommend waiting to see how the tariff war progresses. We doubt there will be much clarity on this issue this week, and it could be a rollercoaster ride depending on the announcements.

We are assuming/hoping that the tariffs will not ultimately prove crippling for the economic expansion. However, we recommend staying defensive for now. We recommend patience before turning either positive or preparing for recession. So far, the U.S. economy seems to be holding up well despite the sharp souring in sentiment this year. The March Conference Board survey of U.S. consumers showed another large drop in expectations to historically depressed levels.

| **International equity markets** (Index total return %) | **Last week** | **Year-to-date** |
|---|---|---|
| MSCI ACWI | 0.17 | 0.53 |
| MSCI ACWI EX U.S. | -0.26 | 7.91 |
| MSCI EAFE | -0.51 | 9.70 |
| MSCI EM | -0.03 | 5.62 |

| **Fixed income markets** (Index total return %) | **Last week** | **Year-to-date** |
|---|---|---|
| Bloomberg U.S. Aggregate Bond | -0.59 | 1.98 |
| Bloomberg U.S. Corp High Yield | -0.19 | 1.33 |
| Bloomberg U.S. Gov/Credit | -0.59 | 1.90 |
| Bloomberg U.S. T-Bill 1-3 Month | 0.04 | 0.99 |

| **Alternatives** (Index total return %) | **Last week** | **Year-to-date** |
|---|---|---|
| Real estate (FTSE NAREIT) | 0.40 | 1.93 |
| Commodities (DJ) | 0.54 | 8.22 |
| Global listed private equity (Red Rocks) | 0.79 | -0.29 |
| Currencies (DB Currency Future Harvest) | 0.30 | -0.01 |

The risk for the U.S. economy is clear: If depressed expectations eventually translate into weaker spending, then corporate profit expectations will sour and companies will retrench, undermining the employment outlook. A significant period of weakness or recession would occur. Such an outcome might develop if consumers face higher inflation as goods' prices rise due to tariffs. Or, the consumer outlook could deteriorate if still-healthy U.S. corporate profits were to weaken because input price increases intensify and selling prices lag, causing companies to stop hiring (or worse). Therefore, a close monitoring of profit news and corporate guidance as well as actual layoffs is warranted.

## Conclusion

Risk asset markets remain threatened by U.S. trade policy, with another deadline on Wednesday. Elevated trade uncertainty will be a headwind for the global economic expansion. The key investment issue is whether the U.S. administration will push the global and U.S. economy over the cliff in pursuit of hoped-for long-run benefits. For now, we recommend remaining defensive. There is evidence that much of the selling in the last few weeks has come from de-risking from hedge funds, implying that the public and other long-only investors have not done much selling (yet).

Source: Bloomberg as of March 28, 2025

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