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Doll's Deliberations®

Weekly Investment Commentary

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Summary

Stocks were up (a lot) for the week (S&P 500 5.73%). Markets were extremely volatile (the VIX exceeded 50 on Tuesday), as trade developments whipsawed the market. Best sectors were technology (9.69%), industrials (6.54%), and communication services (6.48%); declining sectors were energy (-0.39%) and real estate (-0.07%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	4.97	-5.04
S&P 500	5.73	-8.47
NASDAQ	7.30	-13.23
Russell 1000	3.73	-10.41
Russell 1000 Growth	7.57	-12.55
Russell 1000 Value	3.40	-4.33
Russell 2000	0.25	-17.58

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	6.48	-8.72
Consumer discretionary	4.64	-16.85
Consumer staples	3.10	4.39
Energy	-0.39	-6.70
Financials	5.65	-3.01
Heathcare	1.21	-0.02
Industrials	6.54	-4.29
Information technology	9.69	-15.13
Materials	3.56	-3.30
Real estate	-0.07	-3.65
Utilities	2.41	1.61

Key takeaways

1. On Wednesday, the S&P 500 finished up 9.5% (still >11% below its Feb. 19 high) and the Nasdaq Composite added 12%, the biggest one-day index gains since 2008 and 2001, respectively.
2. Moving from 3.80% to a Friday peak of 4.57%, the 77-basis-point (bp) move up in 10-year Treasurys in one week is among the largest moves ever.
3. Headline March CPI fell 0.1%, a pleasant surprise with energy prices falling 2.4%. The Fed is waiting for bad news on the economy before cutting rates.
4. According to Piper Sandler, real consumer spending growth is set to slow from 3.1% y/y in 4Q 2024 to roughly 1% in 2025: "Blame slowing net worth and compensation growth, high prices, and tariff worries. Sky-high uncertainty creates downside risk."
5. Consensus 2025 and 2026 S&P 500 earnings estimates remain $268 and $307. These estimates are probably optimistic, and a significant economic slowdown or recession could cause a year's delay in achieving those numbers.
6. So far, it looks like growth expectations are being reduced by +1% and inflation up by +1% as a result of tariffs.
7. While MMF cash is at an all-time high, as a percentage of equity values, it is not far from a generational low.
8. Wednesday marked the strongest internal showing for the market in several years. It probably means an interim low has been seen. BUT, traditional technical analysts would say that we experienced the "BANG" low (Thursday/Friday/Monday) but the "WHIMPER" low is still in front of us (usually days or weeks later).
9. Hedge fund manager Bill Ackman summed it up well, "By placing massive and disproportionate tariffs on friends and enemies alike, and thereby launching a global economic war against the whole world at once, we are in the process of destroying the confidence in our country as a trading partner, as a place to do business, and as a market to invest capital."
10. Our biggest concerns are the continued escalation/uncertainty related to the trade war, the rise in credit spreads, and the likely significant decline in earnings estimates in front of us.

Despite tariff postponement, uncertainty remains very high

International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	1.99	-6.98
MSCI ACWI EX U.S.	-1.18	-0.07
MSCI EAFE	0.60	2.18
MSCI EM	-5.34	-3.74

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	-2.33	1.28
Bloomberg U.S. Corp High Yield	-0.82	-1.54
Bloomberg U.S. Gov/Credit	-2.27	1.21
Bloomberg U.S. T-Bill 1-3 Month	0.04	1.16

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	-2.16	-6.31
Commodities (DJ)	1.89	3.98
Global listed private equity (Red Rocks)	1.66	-12.02
Currencies (DB Currency Future Harvest)	-2.33	-4.82

Stocks enjoyed a brief reprieve after the U.S. announced a 90-day pause on some tariffs last week. This raised hopes that President Trump may have concluded that he no longer will tolerate further equity market downside (and bond yield upside). So far, that respite lasted just one day. There will undoubtedly be more installments in the global trade war, underscoring that economic uncertainty will remain historically very high. The endpoint is unknowable, and investors will continue to have great difficulty calculating the ultimate economic and corporate earnings impact, especially as the rules, rumors, and actions seem to change almost daily.

While the reciprocal tariffs have been postponed by 90 days, the huge increase in tariffs on China and the prior tariffs still represent a blow to the economic expansion. Sadly, U.S. and global growth will slow, and inflation will get a boost from higher import and consumer goods prices. However, the magnitudes of both the growth downside and inflation upside remain highly uncertain.

While equity markets have swung wildly, government bond markets have recently witnessed higher yields despite the slide in equities and mounting economic worries. Bond market action is consistent with an inflation problem, and possibly growing concerns that government debt issuance will increase even faster than was expected. Fiscal policy levers are being primed to cushion the economic fallout from the trade war, from an already poor starting point after aggressive government bailouts earlier this decade. This, in turn, could add upward pressure to bond yields.

A sustained recovery in equity markets beyond occasional bounces hinges on a resolution of trade policy before irreparable damage occurs to consumer, business, and investor sentiment. We remain cautious, with a 4,850 fair value target for the S&P 500, along with a bear case of 4,000 and a bull case of 5,800. The U.S. is the epicenter of the trade war, and its assets had the greatest price downside heading into 2025, since our stock market and currency were the most overvalued. At this juncture, we would label the equity market decline as a de-rating phase. The risk is that a downgrading in corporate earnings will soon take hold, causing a longer-lasting bear phase in stocks. The Trump administration's increasingly isolationist bent and desire to overhaul the global trade system have weakened investor confidence in Treasurys and the dollar as safe-haven assets. President Trump mentioned that rising bond yields had influenced his tariff pause. There is even some concern about whether the U.S. dollar's reserve currency status will endure. Notably, corporate and especially high yield bond spreads have moved up. Most recent economic data still predate the intensification of the trade war. Thus, any good news is of limited comfort. We expect economic reports to weaken along with cautionary comments by corporations as they release 1Q earnings.

Conclusion

Some amelioration of U.S. tariffs is increasingly likely. However, the trade war poses a major threat to U.S. and global economic growth and corporate profits. The impact will show up more clearly in the next few weeks and months. We are wary of near-term bounces in risk asset markets, as the U.S. and global economic damage from the trade war is still highly uncertain.

Source: Bloomberg as of April 11, 2025