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# Doll's Deliberations®

## Weekly Investment Commentary

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### Summary

Equities were lower again for the week, with the S&P 500 (-2.23%) falling into correction territory. Despite oversold conditions, the market had another week of risk-off with the focus around macro concerns and volatile tariff headlines. Advancing sectors were energy (2.64%) and utilities (2.01%); worst sectors were consumer staples (-4.19%) and consumer discretionary (-3.60%).

| **Equity markets** (Index total return %) | Last week | Year-to-date |
|---|---|---|
| DJIA | -2.98 | -2.10 |
| S&P 500 | -2.23 | -3.85 |
| NASDAQ | -2.40 | -7.93 |
| Russell 1000 | -4.33 | -6.13 |
| Russell 1000 Growth | -2.53 | -7.95 |
| Russell 1000 Value | -1.87 | 0.61 |
| Russell 2000 | -3.91 | -10.40 |

| **S&P equity sectors** (Index total return %) | Last week | Year-to-date |
|---|---|---|
| Communication services | -3.46 | -3.21 |
| Consumer discretionary | -3.60 | -13.67 |
| Consumer staples | -4.19 | 1.92 |
| Energy | 2.64 | 4.85 |
| Financials | -1.22 | 0.48 |
| Heathcare | -2.89 | 5.44 |
| Industrials | -2.31 | -0.43 |
| Information technology | -2.05 | -9.33 |
| Materials | -2.07 | 2.28 |
| Real estate | -2.36 | 1.97 |
| Utilities | 2.01 | 4.21 |

### Key takeaways

1. February's headline and core CPI and PPI readings came in lower than consensus, but the details are less favorable. Inflation continues to be sticky in part due to the lagged impacts of massive monetary and fiscal stimulus.
2. While not a recessionary jobs report, the February jobs report was slightly weaker than expected. Along with the rising underemployment rate, the declining employment-to-population ratio and rising share of part-time work for economic reasons are worrisome.
3. Coming into 2025, the Trump Administration was adamant about imposing a universal tariff on all goods coming into the country. That sentiment began to shift in late February by moving toward reciprocal tariffs, which are more surgical and have less negative impact than the universal tariff.
4. The President refused to rule out a recession this year and said the economy is in "a period of transition." He also acknowledged that tariffs might fuel inflation. U.S. Treasury Secretary Scott Bessent said that the U.S. economy may slow as it transitions away from public spending toward more private spending.
5. According to betting markets, the probability of a recession in the U.S. in 2025 has risen from 20% to 35%.
6. Due to all the chaos, President Trump's overall approval rating has dropped, with his economic approval rating lower than any other point in both terms.
7. Earnings estimates for 2025 have fallen somewhat [mostly first quarter (-6%) and a bit second (-3%)]. The full-year gain is still expected to be 10%, down from 14% at the start of the year.
8. The S&P 500 has erased all its gains since September when President Trump started climbing in the polls, suggesting the market is shifting toward economic weakness fears. A VICIOUS RALLY (3-5%) IS LIKELY GIVEN THE OVERSOLD CONDITIONS, BUT EQUALLY LIKELY IS A RE-TEST OF THE LOWS.
9. With the S&P 500 in correction territory (down more than 10% at the low), the Magnificent 7 are down nearly 20%, with NVDA down more than 25% and Tesla down more than 40%.
10. The Policy Uncertainty Index is nearing an all-time high, second only to its level during the pandemic. Risk assets despise uncertainty. However, Strategas reports that surges in the policy uncertainty index have been followed by average S&P 500 returns of 5.7% after three months, 10.9% after six months, and 21.5% one year later (presuming no recession).

## Confidence down + uncertainty up = down markets

| International equity markets (Index total return %) | Last week | Year-to-date |
|---|---|---|
| MSCI ACWI | -3.55 | -2.12 |
| MSCI ACWI EX U.S. | -2.05 | 6.01 |
| MSCI EAFE | -2.02 | 8.40 |
| MSCI EM | -1.95 | 3.19 |

| Fixed income markets (Index total return %) | Last week | Year-to-date |
|---|---|---|
| Bloomberg U.S. Aggregate Bond | 0.15 | 2.30 |
| Bloomberg U.S. Corp High Yield | -0.91 | 0.83 |
| Bloomberg U.S. Gov/Credit | 0.16 | 2.21 |
| Bloomberg U.S. T-Bill 1-3 Month | 0.05 | 0.83 |

| Alternatives (Index total return %) | Last week | Year-to-date |
|---|---|---|
| Real estate (FTSE NAREIT) | -4.27 | -0.34 |
| Commodities (DJ) | 0.19 | 7.14 |
| Global listed private equity (Red Rocks) | -3.91 | -4.30 |
| Currencies (DB Currency Future Harvest) | 1.40 | -0.79 |

U.S. growth fears have mounted sharply in recent weeks, driven by the Trump Administration's sizeable enacted and proposed tariffs, its focus on reducing federal government spending, and an overall elevated sense of policy uncertainty/unpredictability. Incoming economic data have compounded these fears to an extent, with somewhat softer consumer spending in January, and the Atlanta Fed's popular tracking model indicating that the real GDP may contract this quarter. These factors have taken a toll on equities, which had been priced for solid growth, only modest and selective meaningful tariffs, meaningful deregulation, and expansionary fiscal policy.

The U.S. economy still has solid momentum, and the changes in the economic/political landscape have been too recent to impact investment, spending, and hiring decisions. We expect some clarity on the magnitude of economic damage within the next month or two. The positive backdrop for U.S. corporate earnings provides some buffer against economic drag from tariffs, but only if solid demand growth holds up. A close monitoring of revenue guidance from corporations in the coming months will be insightful. Meanwhile, the U.S. inflation backdrop remains worrisome. Last week's inflation reports came in a bit softer than expected, but price pressures will persist. Underlying inflation is holding well above the levels recorded last decade and the Fed's 2% target. In addition, U.S. dollar strength has abruptly reversed. The U.S. exceptionalism theme and the dominant performance of the Magnificent 7 stocks have peaked.

Heightened economic uncertainty is eroding consumer and business-sector confidence and spending intentions. That the U.S. and world economy were in good shape is beneficial, as the near-run forecast is for just a slower growth rate. Had the global economy been weak heading into the trade war, then prospects would already be more worrisome. Still, the longer the uncertainty and tariff actions persist, the greater the recession risk. The economic backdrop may initially feel more stagflationary than outright recessionary. This is because the U.S. economy had considerable strength heading into 2025, and the rest of the world was slowly gaining momentum. As mentioned earlier, sticky inflation will be reinforced in the near run, unless upcoming damage trips the world into recession.

We expect President Trump to ultimately pivot before the U.S. economy is dragged into a recession, but the administration's initial comments/actions have not been supportive of this view. A silver lining for the global economy arising from the trade war is that some laggard economies, particularly the euro area, are now planning on meaningful fiscal stimulus. And, for better or worse, defense spending is in a long-term bull market.

## Conclusion

In contrast with Trump 1.0, the President has led with isolationism and escalating trade tariffs, which has heightened economic uncertainty at home and abroad. We came into 2025 with a mild pro-growth stance but warned that successful investment strategy would likely require periodic tactical shifts. It is premature to bet on a recession (outside of Canada), and recent turmoil may create a good buying opportunity in equities. However, for such an outcome to develop, there will have to be a pivot in the U.S. to significantly lower trade uncertainty and a switch to pro-growth policies.

Source: Bloomberg as of March 14, 2025