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Doll's Deliberations®

Weekly Investment Commentary

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Summary

U.S. equities rose last week as the S&P 500 Index (4.61%) and NASDAQ (6.74%) posted their second-best weeks year-to-date. Tariff-exposed names were among the best performers as trade remained the biggest focus for markets. Best sectors included technology (7.93%) and consumer discretionary (7.45%); worst performers included consumer staples (-1.27%) and real estate (0.21%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	2.52	-5.23
S&P 500	4.61	-5.68
NASDAQ	6.74	-9.81
Russell 1000	3.92	-6.47
Russell 1000 Growth	6.78	-8.93
Russell 1000 Value	2.31	-2.02
Russell 2000	4.10	-11.88

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	6.36	-5.78
Consumer discretionary	7.45	-13.54
Consumer staples	-1.27	5.12
Energy	1.12	-2.58
Financials	2.98	-0.15
Heathcare	1.94	0.82
Industrials	2.99	-1.73
Information technology	7.93	-11.75
Materials	2.00	-1.00
Real estate	0.21	0.33
Utilities	0.52	4.06

Key takeaways

1. April PMIs confirmed global growth is stalling. Services witnessed the worst deterioration, but manufacturing is still contracting even if broadly stable.
2. U.S. stagflation is the main message from the April Fed Beige Book. Risk assets are still too expensive for this challenging macro environment.
3. The latest NY Fed Survey of Consumer Expectations shows growth concerns deepening even as long-term inflation expectations remain anchored.
4. The "hard" economic data remained firm through March, but it is still too early to see the effects of the trade war. We anticipate that the poor "soft" sentiment data will lead to a slowdown in the "hard" economic data starting in Q2.
5. The yield spread between the high-yield corporate bond composite and the 10-year U.S. Treasury bond has widened, raising concerns about economic weakness and/or possible credit problems.
6. As the equity and bond selloff intensified, the tone from Washington softened, suggesting political limits to how far the trade war can go. However, the economic damage is already done, and any tactical upside is unlikely to reverse the broader slowdown underway.
7. The bottom-up consensus 2025 EPS forecast for the S&P 500 (which has been above $270) is now down to $265. Our guess is that with some economic weakness, the number could fall to $250. (A full-fledged recession would take it lower.)
8. When fewer than 20% of stocks are above their 200-day moving average at a significant low (as occurred on April 8), a secondary low has occurred 85% of the time. (Strategas)
9. The conditions for a market primary low (sentiment extremes, indiscriminate selling, and capitulative price action) were evident as the market bottomed, but the signs of "all clear" (requiring a breadth surge, big internal momentum, and new leadership) are not yet evident.
10. In the short term, the equity pain trade likely remains to the upside as the market leans into tariff de-escalation. However, as the summer approaches, we could start to see some softness in activity due to aggressive tariff-related front-loading and lower business investment activity.

A pause that refreshes?

After nonstop negative policy actions or threats to the economy, Trump eased back on two major initiatives last week, providing relief to beleaguered bond and stock markets. An olive branch to China on tariffs and suspending threats to fire Fed Chair Powell suggest that a Trump "put" might exist after all. While welcome, policy and economic uncertainty will remain elevated as investors wait in trepidation for the next tweet. Some damage to global trust and economic decision-making has already occurred, although the magnitude is difficult to guesstimate and still depends on any upcoming actions. Perhaps the next shift by Trump will be to emphasize some pro-growth initiatives, which was the assumption most investors had entering 2025.

We remain skeptical about the market having seen the lows. The near-run environment will be stagflationary, especially for the U.S. economy. The inflation risks are larger for the U.S., courtesy of both the weaker U.S. dollar and because the tariffs will have a bigger impact on the U.S. than elsewhere. Still, the overall global growth outlook has been dented and prospects will remain uncertain until there is clarity on the endpoint of the trade war, which still seems a long way off.

The policy choice to embark on a trade war is the reason the economy will slow; a slide toward a recession may yet develop, unless the tariff escalation sustainably reverses. The attack on the Fed's independence has further increased economic uncertainty and added to the exodus out of U.S. assets. The corollary is that the downside risks to growth could be meaningfully reduced if the proposed tariffs are rolled back in a sustained way and a durable truce could be found. The 90-day pause in tariffs on all countries excluding China was encouraging, as was last week's shift by Trump. However, it remains unknowable when the trade war will end, and at what tariff levels.

International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	3.38	-2.07
MSCI ACWI EX U.S.	2.44	6.97
MSCI EAFE	2.49	9.50
MSCI EM	2.32	2.36

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	0.35	2.33
Bloomberg U.S. Corp High Yield	1.00	0.82
Bloomberg U.S. Gov/Credit	0.35	2.29
Bloomberg U.S. T-Bill 1-3 Month	0.05	1.33

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	0.14	-1.16
Commodities (DJ)	-0.19	5.33
Global listed private equity (Red Rocks)	4.35	-4.68
Currencies (DB Currency Future Harvest)	1.39	-3.28

Oversold conditions warrant a near-run bounce in equity markets. The durability of any bounce hinges on whether the source of the downward pressure abates, i.e., the trade war. For now, we remain wary of such bounces. The widening in global credit spreads has not been historically large nor relative to the steep equity losses. This resilience reflects underlying hopes for a retreat in the trade war as well as the generally positive backdrop for corporate profits heading into 2025.

Last week's climbdown by the administration in the face of market weakness (in both long-term Treasurys and equities) raised the hope that further market rioting will trigger additional steps to reduce trade (and Fed) frictions. The implication is that the rioting might prove temporary, provided that a full-blown "crisis of confidence" does not develop first.

Even as the growth outlook has weakened, the inflation backdrop is set to worsen for a time, especially in the U.S. Tariffs increase prices for end users, unless companies absorb all the increased costs. There is a race between higher consumer prices from tariffs and, in the case of the U.S., a dearth of economic slack, versus a deflationary outcome driven by demand destruction.

Conclusion

Treasury and equity market weakness might finally be impacting U.S. trade policy. However, it is premature to upgrade our current defensive investment stance. Any shift awaits a clear easing in the trade war before lasting economic damage occurs. We are entering a stagflationary period with economic activity cooling even as input and output price gauges are holding at elevated levels. The U.S. dollar is oversold and could briefly bounce, but the downtrend will likely persist.

Source: Bloomberg as of April 25, 2025

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