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Doll's Deliberations®

Weekly Investment Commentary

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Summary

U.S. stocks were higher for the week, with the S&P 500 (2.94%) recording its first back-to-back weekly gain since January, and is now back to above "Trump's Liberation Day" tariff announcements. Gains were recorded on the back of better-than-feared economic data, de-escalating trade/tariff tensions, and continued reasonably good 1Q earnings. Best sectors were industrials (4.34%) and communication services (4.19%); underperformers included energy (-0.60%) and healthcare (0.32%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	3.00	-2.39
S&P 500	2.94	-2.91
NASDAQ	3.43	-6.72
Russell 1000	1.43	-4.48
Russell 1000 Growth	3.35	-5.87
Russell 1000 Value	2.54	0.47
Russell 2000	0.95	-11.04

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	4.19	-1.83
Consumer discretionary	1.57	-12.18
Consumer staples	1.17	6.35
Energy	-0.60	-3.16
Financials	3.63	3.47
Heathcare	0.32	1.14
Industrials	4.34	2.54
Information technology	4.02	-8.21
Materials	2.77	1.74
Real estate	3.46	3.80
Utilities	2.01	6.14

Key takeaways

1. Although 1Q real GDP decreased at an annual rate of 0.3% (a sharp reversal from 4Q24's gain of 2.4%), consumer and business spending rose 3.0%. Trade was a huge drag, as goods imports soared 51% in anticipation of the tariff hikes.
2. The April payroll gain of 177,000 was ahead of consensus despite continuing to decline. Notably, negative revisions for the prior two months exceeded the amount by which this month's number beat consensus. The risks to unemployment are skewed to the upside.
3. March PCE inflation came in lower than consensus. But this isn't particularly relevant in light of inflation that is coming as tariffs drive inflation over 3%.
4. The collapse in soft data points to rising recession risks, but markets are still only priced for a mild slowdown, reinforcing our defensive positioning.
5. Trump tariffs are meant to shake up the global system and protect U.S. industry. However, the negative side effects are sapping Trump's popular support.
6. The budget reconciliation process is underway. It is likely Republicans will sign a major fiscal package into law before the August recess. This bill will boost defense spending, increase border security, and extend the 2017 tax cuts.
7. April tax collections are trending 20% above last year's, with capital gains tax collections strong.
8. On Friday, the S&P 500 posted its ninth straight gain (the longest streak in 20 years) and has recovered all of its losses since Trump's reciprocal tariff announcement.
9. The P/E of the S&P 500 fell from 22.4 at year-end to 19.2 at the April 8 low. The forward P/E of the Magnificent 7 fell from 30.0 to 21.7, while the forward P/E of the other 493 declined from 18.6 to 17.8.
10. Since World War II, January to April negative S&P 500 returns have been followed by rest of the year returns of 0.7% on average. (By contrast, positive January to April returns have been followed up by 7.9% rest of the year returns.)

Does market recovery indicate problems are solved?

The global economic and market outlook remains highly uncertain, although investors have breathed a sigh of relief that U.S. trade tariffs will be less severe than initially feared. Stocks and credit abruptly went from overbought to oversold as the tariff threat intensified. With the U.S. tariffs now dependent on intensive U.S. industry lobbying and perhaps bilateral country negotiations, it will likely be several months before the economic consequences can be estimated. That uncertainty argues for investor caution. Lingering policy and economic uncertainty will likely sustain equity and bond market volatility at elevated levels.

Given the positive growth tailwinds the global and U.S. economies had coming into the year, we do not believe the U.S. policy hit to confidence is yet sufficient to trigger a recession, but the odds are material and rising. Compounding the challenge, incoming soft and hard data are unlikely to shed much light on economic conditions for some time. Sentiment surveys reflect increasing anxiety among businesses and consumers about the outlook, although as noted, it is unclear to what extent and when that anxiety will flow through into hard data. Hard data will lag and likely show less volatility than soft data. It may also be misleading, as was the case with the U.S. 1Q GDP report.

Equity, credit, and risk asset valuations overall remain elevated by historical standards, although this is primarily the case in the U.S. Equity investors appear optimistic that central bank rate cuts will provide support, and there have already been some earnings downgrades, but risks are still skewed to the downside in the near term.

The U.S. tariffs are threatening global trade, which is a useful barometer of global growth momentum and has correlated with the global earnings cycle. U.S. imports have recently surged (e.g., Q1 GDP report) as companies have front-run the tariffs, but are poised to weaken decisively in the months ahead, even if the tariffs are rolled back significantly.

International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	1.29	-0.21
MSCI ACWI EX U.S.	1.03	8.45
MSCI EAFE	0.91	10.89
MSCI EM	1.41	4.20

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	0.16	2.84
Bloomberg U.S. Corp High Yield	0.08	1.19
Bloomberg U.S. Gov/Credit	0.14	2.78
Bloomberg U.S. T-Bill 1-3 Month	0.04	1.41

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	2.11	0.86
Commodities (DJ)	-1.06	4.21
Global listed private equity (Red Rocks)	-0.22	-4.54
Currencies (DB Currency Future Harvest)	1.00	-2.32

Conclusion

Given our forecast of slower but still positive U.S. and global growth, we expect absolute returns on both equities and bonds to be low and possibly negative over the next six to 12 months. Earnings forecast downgrades will weigh on equities in the coming months, even if a recession is avoided.

Source: Bloomberg as of May 2, 2025

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