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Doll's Deliberations®

Weekly Investment Commentary

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Summary

U.S. equities were lower last week (S&P 500 -0.45%). However, breadth was positive with the S&P Equal Weight Index outperforming by 87 basis points (bps). Best performers were industrials (1.07%) and consumer discretionary (0.81%); worst performers were healthcare (-4.21%) and communication services (-2.42%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	-0.14	-2.52
S&P 500	-0.45	-3.34
NASDAQ	-0.26	-6.96
Russell 1000	-0.27	-3.27
Russell 1000 Growth	-0.61	-6.45
Russell 1000 Value	0.01	0.48
Russell 2000	0.30	-8.75

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	-2.42	-4.20
Consumer discretionary	0.81	-11.47
Consumer staples	-1.01	5.27
Energy	0.49	-2.69
Financials	0.14	3.62
Heathcare	-4.21	-3.12
Industrials	1.07	3.64
Information technology	0.27	-7.96
Materials	-0.38	1.36
Real estate	-0.76	3.01
Utilities	0.61	6.79

Key takeaways

1. The risks of higher unemployment and higher inflation have risen. The most important comment from Fed Chair Powell following the Fed meeting was, "We don't think we need to be in a hurry. We think we can be patient. We are going to be watching the data."
2. The FOMC will have to walk a very fine line in the coming months as their "wait-and-see" approach to the impact of tariff policy on the U.S. economy could cause them to fall behind the curve.
3. Our base case is growth slows down materially over the summer, and by the fall the Fed is able to cut rates twice in 2025. But that hinges on the unemployment rate rising above 4.5%.
4. April's ISM Services upside surprise showed mixed momentum and rising price pressures, a stagflationary signal.
5. Low hiring and low firing continue to define the labor market. Leading indicators are weakening. With inventories high and new orders contracting, employment remains vulnerable. Tariff-related uncertainty has so far created a freeze in decision-making more than outright retrenchment, but growth is softening.
6. The sharp rise in U.S. policy uncertainty (this includes trade, monetary, taxation, and other policy areas) has coincided with a sharp decline in positive corporate earnings guidance over the past four months.
7. GDP is slipping. Job openings are shrinking. Manufacturing is slowing, political pressure is building around the Fed, and the dollar is struggling. Hard to justify a > 20 P/E ratio.
8. Gold is up approximately 30% YTD. "Liquid gold," as oil is often called, has had a much tougher 2025. The price of crude has fallen approximately 15% YTD. Recent declines are due to OPEC+'s plans to unwind production cuts more quickly than expected.
9. A landmark tax bill, which extends the 2017 TCJA, adds approximately $1.5 trillion in new tax provisions, cuts $1.5–2 trillion, and approves $300 billion in defense and immigration spending is on track for this summer.
10. Active managers in the large-cap core space continue to hold on to their outperformance, with 58% currently beating the S&P 500. This marks the second-highest reading since the COVID-19 pandemic and ranks third overall going back to 2007.

Can reduced trade tensions avert a recession?

Some calm has returned to global financial markets after a wild past few months. There are rising hopes that the U.S. will not push the global economy over the cliff by pursuing its global trade war at all costs. There will likely be more twists and turns ahead, as President Trump has been unpredictable. The recent shift to less harsh trade rhetoric, along with last week's UK trade deal, was at least partially triggered by prior weakness in the Treasury market and the negative knock-on effects this had on equities. It is unknowable whether a Trump "put" now exists. It may be that the calming in the risk asset markets might embolden Trump to become more aggressive again.

The starting point entering this year was an overvalued and overheated U.S. equity market, and historically tight global credit spreads. The correction in equities and credit has been modest following the recent rebound. Thus, we are wary of playing bounces in stocks and credit against such an uncertain economic and corporate profit backdrop. It is challenging to get a handle on how much economic damage may occur due to the tariff war and general uncertainty. To this end, U.S. job cut announcements dropped markedly last month after surging, while new unemployment insurance claims (actual layoffs) are still holding at a low level.

The U.S. economy had considerable momentum at the end of 2024, and should be able to weather somewhat higher tariffs if they are modest in nature/breadth and elevated economic uncertainty soon recedes. In other words, it is not too late to avert a recession, although a close monitoring of high-frequency investment and spending gauges is warranted.

We remain defensively positioned. The backdrop is unpredictable compared with recent years and most asset market valuations are not historically appealing. We remain open-minded as to whether the next move will be to position for a recession, or a return to a decent environment for equity markets.

International equity markets (Index total return %)	**Last week**	**Year-to-date**
MSCI ACWI	-0.36	1.12
MSCI ACWI EX U.S.	-0.43	10.25
MSCI EAFE	-0.68	12.60
MSCI EM	0.06	6.29

Fixed income markets (Index total return %)	**Last week**	**Year-to-date**
Bloomberg U.S. Aggregate Bond	-0.24	2.12
Bloomberg U.S. Corp High Yield	0.13	1.51
Bloomberg U.S. Gov/Credit	-0.27	2.05
Bloomberg U.S. T-Bill 1-3 Month	0.05	1.49

Alternatives (Index total return %)	**Last week**	**Year-to-date**
Real estate (FTSE NAREIT)	-1.30	0.72
Commodities (DJ)	1.37	5.64
Global listed private equity (Red Rocks)	0.12	-2.38
Currencies (DB Currency Future Harvest)	0.87	-2.07

Investors are now doing something that they were not willing to do for over a decade, which is to rotate out of expensive U.S. asset markets and the dollar into relatively better-valued alternatives elsewhere.

While tariffs have dominated Trump's first few months in office, we expect the headlines to gradually shift toward tax cuts and the overall federal budget. Most analysts anticipate that hoped-for spending cuts will come up well short of the lofty targets bandied about by the administration. Meanwhile, there is intense pressure within the Republican party to extend the prior Trump 1.0 tax cuts and to further lower personal and corporate taxes. The fiscal debate is not likely to be well received by the Treasury market.

Conclusion

Easing trade tensions have reduced downside economic risks, but economic uncertainty will remain elevated, and U.S. and global growth will slow. Higher tariffs will generate an inflationary impulse, especially in the U.S., and corporate earnings downgrades will weigh on equities. We remain defensively positioned, but emphasize the need to be flexible given the uncertain backdrop.

Source: Bloomberg as of May 9, 2025