April 2025

MONTHLY MARKET INSIGHTS

Key takeaways:

- Markets sold off in March as uncertainty around tariff policy weighed on investor sentiment. Trump's April 2 tariff announcement proved worse-than-feared sending stocks tumbling and the Nasdaq into bear market territory.
- The odds of a 2025 recession grew meaningfully as slowing consumer spending, trade disruptions, and restrictive monetary policy impede economic activity.
- The Federal Reserve ("Fed") held rates steady at its March meeting. Above-target inflation and tariff uncertainty will likely keep the Fed on hold until the summer.

March proved challenging for equity markets as looming tariffs and uncertainty around the future geopolitical landscape weighed heavily on investor sentiment. The S&P 500 index was down -5.8%[1] on the month, while the tech-laden Nasdaq was down -8.2%.[2] US small-cap stocks underperformed their large-cap peers returning -7.0%[3] in March, while US growth stocks remain out of favor, underperforming US value stocks by -5.5%[4] over the month. Amid the chaos in equity markets, investors rotated into safe-haven assets like Gold, as observed through a notable pick up in ETF flows and a 9.12%[5] increase in the precious metal's spot price. Notably, Wall Street's preferred fear gauge, the VIX Index, closed March at 22.28[6] although it has now risen to levels only seen during climactic sell-offs.

The investment community has realized quickly that Trump's tariff policies are likely to prove more detrimental to the economy than what was observed during his first term. In Trump's first term, the President mainly used tariffs as a negotiation tool to help promote his agenda on the global stage, and the economic impact proved to be minimal. Today, President Trump appears more motivated to implement tariffs to reorder global trade regardless of their potentially detrimental short-term effects on the US economy. Prior to his April 2 announcement, President Trump had already enacted tariffs projected to generate $147 billion, or 0.5% of US GDP, over a 12-month period by targeting China, Mexico, and Canada with additional tariffs focused on the automotive and steel industries.[7] While markets have retreated as a result, we believe the uncertainty leading up to the April 2 announcement was the more significant source of investor concern.

On April 2, the administration announced a 10 percent universal tariff with additional "reciprocal" tariffs against US trade partners that they determined have unfair trade practices due to large tariff differentials or trade deficits. European Union imports will be subject to a 20 percent tariff rate while China will be hit with an additional 34 percent tariff rate, raising the total tariff rate on Chinese imports to 54 percent. The tariff rates came in significantly higher than expectations, with many US allies such as Japan, South Korea, Vietnam, and Taiwan facing

1. Bloomberg.
2. Id.
3. Id.
4. Id.
5. Id.
6. Id.
7. Clifton, Daniel. "TRUMP ADMINISTRATION PUTS A TARIFF INCREASE ON THE TABLE AT 2% OF GDP." Strategas, 31 Mar. 2025, www.strategasrp.com/Document/ViewPDF?filename=UE8yNTAzMzEuVW5pdmVyc2FsLnBkZg%3D%3D.

exorbitant duties. Vietnam was particularly impacted with tariff rates nearing 10 percent of GDP. US companies whose supply chains run through Vietnam are likely to be materially affected and their stocks have sold off sharply post-announcement. Mexico and Canada are relative winners as they will not be subject to the 10 percent tariff; however, the existing 25 percent tariff on non-USMCA compliant goods will remain in place. The tariff plan proved to be more severe than market expectations leading equities to sell off drastically. The S&P 500 entered deep correction territory while the Nasdaq fell into a bear market by the end of the week. There will likely be foreign policy implications from the tariffs, and we expect some countries to boycott American products or place retaliatory tariffs in response. Already, China has applied a 34% levy to all imported goods from the US on Friday, and we expect other sovereigns will follow suit. On the other hand, news of Vietnam negotiating a tariff deal with Trump has offered a glimmer of hope that some of these trade restrictions will be lifted over the coming weeks. We hope further negotiations take place as the current state of trade policy will weigh heavily on economic growth and likely cause a recession.

Consensus expectations are pointing towards a material slowdown in economic activity as result of the newly enacted tariffs. Notably, Goldman Sachs increased their recession probability to 35% while lowering their year-end S&P 500 target to 5700 from 6200 at month end, citing that higher tariffs will slow economic activity, increase inflation, and weaken corporate profit growth.[8] Most of Wall Street followed suit with J.P. Morgan boosting their odds of a global recession to 60% on Thursday.[9] The President has threatened further tariffs of 25% on all imports from any country that buys oil or gas from Venezuela, and it is possible that additional tariffs will target imports related to the pharmaceutical and semiconductor industries. Any additional tariffs are likely to exacerbate the selloff in risk assets and further disrupt foreign policy. However, President Trump has historically shown sensitivity to market movements and has already delayed tariffs on Canada and Mexico earlier this year while exempting them from the universal tariff rate. We would not be surprised if President Trump begins to renege on his hardline stance after this week's market volatility. Meanwhile, sentiment has fallen sharply due to this period of prolonged uncertainty.

The University of Michigan Consumer Sentiment survey posted a March reading of 57, the lowest level since 2022 and a meaningful drop from 79.4 reading a year ago.[10] Survey respondents expressed anxiety over the state of the economy due to tariffs and federal layoffs while anticipating inflation to creep up to 5% over the next year.[11] Meanwhile, US small business confidence dropped for a third straight month in February, reversing the gains experienced after the Trump election victory. The National Federation of Independent Business ("NFIB") stated their Small Business Optimism Index fell 2.1 points to 100.7 in February while the NFIB Uncertainty Index rose 4 points to 104, the second-highest reading on record.[12] The administration has blindsided consumers and businesses as early initiatives provide headwinds to economic growth.

Outside of tariffs, stringent border policy should lead to a sharp slowdown in immigration that should prove to be a drag on GDP growth. Federal spending and labor force cuts as part of the DOGE initiative have caused consternation, especially as displaced federal workers have had difficulty reentering the labor force. We remain optimistic that DOGE initiatives could prove constructive in the long term through increased government efficiency and reduced deficits. However, the rapid, draconian actions of the task force will likely continue to weigh on sentiment in the near-term. Sentiment can strongly influence consumer and business behavior creating a virtuous cycle whereby prolonged negative sentiment data spills over into real-time economic data. So far, we have seen small cracks in the consumer through slowing spend-

8. Kostin, David, et al. "Higher Tariffs and Weaker Growth Reduce Our Earnings Estimates and S&P 500 Return Forecasts." Goldman Sachs, 30 Mar. 2025, publishing.gs.com/content/research/en/reports/2025/03/30/d04081ae-880c-4138-bbfa-a0b1a7cdf482.html.

9. Siddarth, S. "Global Brokerages Raise Recession Odds; J.P.Morgan Sees 60% Chance | Reuters." Reuters, 5 Apr. 2025, www.reuters.com/markets/jpmorgan-lifts-global-recession-odds-60-us-tariffs-stoke-fears-2025-04-04/.

10. University of Michigan Consumer Sentiment Index

11. Id.

12. National Federation of Independent Business

ing and increased savings; however, we expect data to worsen as continual pessimism and unfavorable trade policy affect consumer and corporate behavior.

Markets rallied strongly off Trump's election victory last year, as investors anticipated that the new administration would bring enhanced tax cuts and deregulation that would create a tailwind for corporate profits, reinvigorate M&A activity, and sustain above-trend economic growth. However, many of these stimulative policies have been slow to be enacted, which we believe has led investors to reassess how favorable Trump's policies will be for risk assets in the near-term. Corporate M&A activity over the first two months of the year has gotten off to the slowest start in over two decades, with only 1,172 deals worth $226.8 billion, which is about one third the activity from the same time last year by both volume and size.[13] Market volatility and policy uncertainty have led dealmakers to sit on the sidelines for the time being, although an aggressive deregulation agenda could support an acceleration in activity later in the year. An extension of the 2017 Tax Cut and Jobs Act ("TCJA") was a major promise from the Trump campaign; however, a Congress focused on controlling deficits presents challenges for passing additional tax cuts. The Congressional Budget Office estimates an extension of the TCJA will cost $4.6 trillion over a decade, while the Joint Committee on Taxation estimates it could add $1.5 trillion to the federal deficit over 10 years.[14] The White House believes that incremental tariff revenue will be able to offset any deficit expansion from tax cuts, but we believe Congress will be wary of voting for deficits as tariff policy can be quickly changed. Nonetheless, it remains our base case that the administration will be able to pass an extension of the TJCA later this year, and we anticipate this will now become a top priority. Taken together, fiscal policy could become more constructive and help backstop risk assets later this year.

Monetary policy remains in restrictive territory, and with elevated inflation, a healthy labor market, and heightened geopolitical uncertainty, we anticipate the Fed will maintain a "wait-and-see" approach toward rate adjustments. The Fed held its benchmark interest rate between 4.25% and 4.50% at its March meeting, signaling that above-target inflation and a healthy labor market warrant monetary policy to remain at current levels. Economic projections from the central bank forecast an increase in inflation in 2025, offset by a quick reversal in 2026, reintroducing the idea of "transitory" inflation. Chairman Powell articulated that the FOMC believes tariff inflation should rapidly work its way through the system, creating minimal disruption in the long term without Fed intervention. Powell noted that market expectations for long-run inflation expectations remain well-anchored despite sentiment data indicating heightened short-term expectations. Our base case is that tariff inflation creates a one-time increase in inflation, but the lasting effects will prove minimal. We see a scenario where the administration reverses tariff policy if inflation reaccelerates drastically or if Trump loses support from his base amid economic hardship. Our thesis may be challenged if Trump proves steadfast in his agenda or if additional tariffs are implemented.

Regardless of tariff inflation, we still believe we will remain in an above-target inflationary environment with the trend in inflation biased upwards. The February core Personal Consumption Expenditure ("PCE") index rose 2.8% year-over-year, exceeding consensus expectations of 2.7%.[15] Core services PCE remains sticky, while core goods PCE has begun trending upwards, a trend that should accelerate with the implementation of further tariffs. Weekly jobless claims data remains muted while the unemployment rate is near target levels, indicating a healthy labor market despite looming concerns. We anticipate the Fed will stay on pause until tariff uncertainty subsides, and we expect the next 25-bps-cut to come in the summer. Given fears of inflation reacceleration, we anticipate the Fed will only deliver two 25-bps-cuts this year, barring a recession. As such, restrictive monetary policy will likely continue to create headwinds towards returns of risk assets.

13. Summerville, Abigail, et al. "Dealmakers in Wait and See Mode, Expect M&A Pace to Pick up Later in 2025 | Reuters." Reuters, 6 Mar. 2025, www.reuters.com/markets/deals/dealmakers-wait-see-mode-expect-ma-pace-pick-up-later-2025-2025-03-06/.

14. ."What Is the Future of the TCJA?" Bloomberg Tax, 28 Mar. 2025, pro.bloombergtax.com/insights/federal-tax/what-is-the-future-of-the-tcja/#tax-policy-changes-impacting-businesses.

15. U.S. Bureau of Economic Analysis

Despite the darkening outlook, there are a few areas of the US economy that appear to remain relatively healthy. March employment data defied expectations with 228,000 jobs created over the month, beating consensus estimates of 140,000. Although, many economists predict this is the "calm before the storm" as Trump's tariff regime is likely to dampen hiring and possibly lead to layoffs. US consumers have healthy balance sheets as the majority of consumers were able to lock in low interest rates on significant liabilities during the COVID era. Consumer balance sheet strength should mitigate the effects of any future weakness in spending or the labor market. Corporate credit spreads have widened but remain below levels typically seen before a recession. The corporate credit environment looks healthy for investment-grade borrowers, but distress is increasing among smaller and less credit worthy companies. Corporate profits are still expected to grow year-over-year, although sell-side estimates have been revised down materially. As we enter earnings season, corporate forecasts will be closely scrutinized by investors to see how new policies will affect profits. The odds of a recession have picked up materially causing us to revise our GDP forecast significantly lower for 2025 as slowing consumer spending, trade disruptions, and restrictive monetary policy impede economic activity. However, recession is not a certainty and there remains a scenario where the US economy can continue to grow throughout the year.

Ultimately, trade policy uncertainty has been the primary catalyst for this year's equity market sell-off. With that said, the market may be positioned for a relief rally after the climactic selloff following the Trump tariff announcement. Investor sentiment has dropped precipitously as seen through the recent spike in the VIX and put-call ratios. Meanwhile, investors have obtained some clarity around trade policy and equity prices are approaching levels that should begin to attract incremental buyers. Still, a concentrated US equity market remains vulnerable to dissipating enthusiasm over the artificial intelligence trend, and increasing recession odds may continue to create downward pressure on equities. The market is likely to remain volatile through the year, and we believe US equity returns are likely to be disappointing in 2025.

Over the past few years, investors with concentrated exposures to US equities have been rewarded as AI trends, elevated fiscal stimulus, and US dollar strength have led to significant outperformance compared to international markets. Today's challenging environment behooves investors to increasingly diversify into quality assets to navigate through market volatility. Regional equity diversification has already benefited investors this year as European markets have significantly outperformed the US. The extreme moves in currency markets reinforces the idea of regional diversification, especially as the dollar is poised to weaken further. Within US markets, leadership has shifted away from the technology sector to defensive sectors such as healthcare, consumer staples, and utilities. It may prove prudent for US equity investors to mitigate concentration risk as the technology sector and Magnificent 7 continue to experience headwinds. The democratization of private markets presents additional opportunities for investors to diversify away from public markets. Asset classes like Infrastructure can offer inflation protection while generating return streams with low correlations to public markets. As we navigate through this challenging environment, it is imperative that investors maintain a disciplined investment strategy in order to meet their long-term goals. In the meantime, we will closely observe developments in the macroeconomic environment and make the appropriate tactical adjustments in attempts to enhance downside protection and risk-adjusted returns.

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