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**Market Commentary**

# Wait and See

April 2025

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***Despite notable intramonth swings, U.S. large cap stocks ended April down only 0.7%***

***The first-quarter GDP slowdown was largely attributed to the sharp rise in imports***

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## Summary

- Despite notable intramonth swings in both directions, U.S. large-cap stocks ended April down 0.7% while U.S. small-cap stocks declined by 2.3%. U.S. intermediate-term bonds gained 0.4%.
  - Investor sentiment weakened. Nearly half of Bank of America survey respondents now expect a recession this year, and bearish sentiment in the AAI survey stayed above 50% for a record-breaking 10 straight weeks.
  - Despite weakening consumer sentiment, spending held up—likely due to consumers front-loading purchases ahead of anticipated tariff-driven price hikes, highlighting the gap between soft and hard data.
  - Earnings call transcripts indicate that many companies and their customers are taking a “wait-and-see” approach to tariffs, delaying further investment and business decisions until trade policy becomes clearer.
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## Overview

Markets fluctuated throughout April in response to tariff announcements. Despite notable intramonth swings in both directions, U.S. large-cap stocks, as represented by the S&P 500, ended the month down just 0.7%. The Russell 2000 Index, which tracks U.S. small-cap stocks, declined 2.3%. U.S. intermediate-term bonds, as measured by the Bloomberg U.S. Aggregate Bond Index, gained 0.4% in April.

Headline inflation eased to 2.4% year-over-year in March while core inflation dropped below 3.0% (to 2.8%) for the first time since April 2021.<sup>1</sup> Lower energy costs were a key contributor to easing price pressures while shelter inflation rose by 0.2% month-over-month, rising by the slowest pace since August 2021. Despite easing prices, consumers' inflation expectations skyrocketed in April, rising to 6.5%.<sup>2</sup>

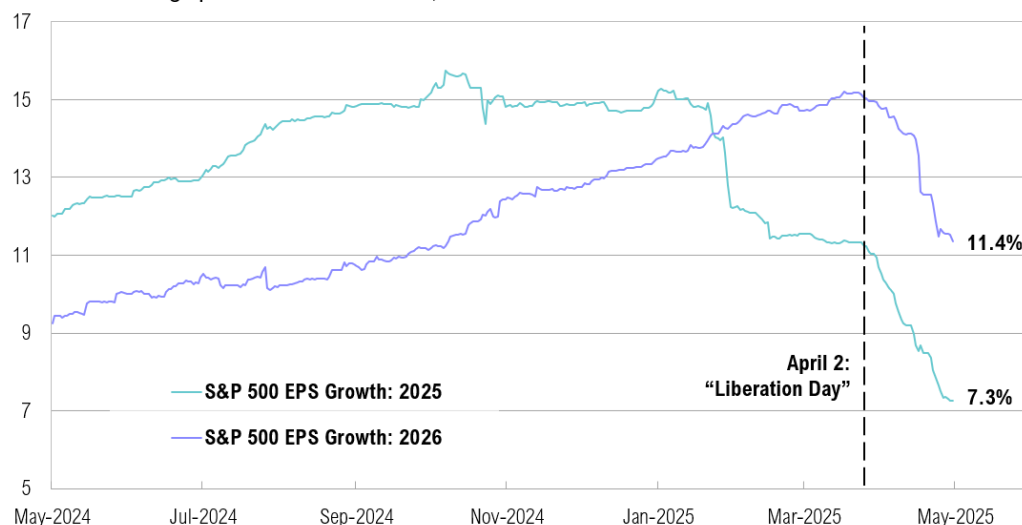
Preliminary estimates for first-quarter GDP showed the U.S. economy contracting at an annualized rate of 0.3% quarter-over-quarter.<sup>3</sup> This slowdown was largely attributed to a sharp rise in imports ahead of anticipated tariffs, with imports soaring 41.3% in the first quarter. Consumer spending rose 1.8%, while government spending declined by 1.4%.

First-quarter earnings season kicked off in April, with over 70% of S&P 500 companies having reported results. As of the end of the month, the blended year-over-year earnings growth rate for the S&P 500 stood at 12.8%, a notable improvement from the 7.2% estimate at the end of March.<sup>4</sup> However, full-year 2025 earnings growth estimates declined over the month, from 11.2% to 7.3%.

**Full-year 2025 earnings growth estimates for U.S. large cap stocks declined**

## S&P 500 Earnings Growth Rates Have Declined

S&P 500 Earnings per Share Growth Rate, Y/Y %



Source: Bloomberg

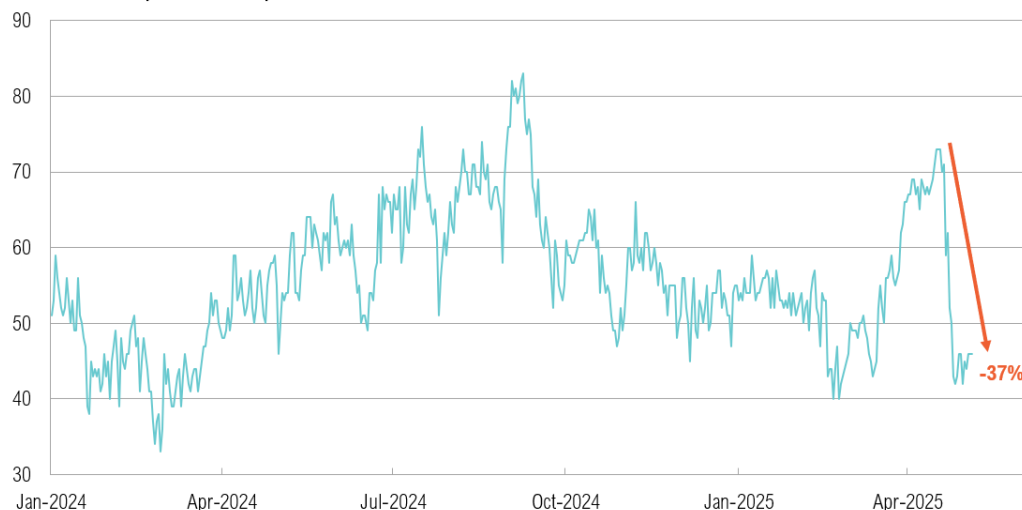
## Wait and See

**Markets reacted swiftly and sharply to Trump's tariff announcements**

On April 2, President Trump announced sweeping tariffs: a 10% baseline on nearly all imports and higher rates targeting 60 specific countries.<sup>5</sup> He dubbed it “Liberation Day,” framing the move as a response to trade imbalances and a push to bolster domestic manufacturing. This brought the average U.S. tariff rate to 22.5%—the highest level in over a century. Markets reacted swiftly and sharply—longer-term Treasury yields spiked while U.S. and international equity markets tumbled. Just over a week later, on April 9, Trump announced a 90-day pause on reciprocal tariffs with China as the sole exception.<sup>6</sup> By the end of April, amid escalating tit-for-tat measures, the average trade-weighted U.S. tariff rate on Chinese exports had climbed to 124% while China’s average trade-weighted tariff rate on U.S. exports rose to 147%.<sup>7</sup> The result was a sharp disruption in trade: the number of container ships departing from China to the U.S. dropped by 37% between April 18 and April 30.<sup>8</sup>

## Trade Between the U.S. and China Has Been Disrupted Amid Tariffs

Container Ship Count: Departures from China to the U.S.



Source: Bloomberg. Displays the estimated number of container vessels departing China for the U.S. focusing on dry cargo ships. Aggregated data using a 15-day rolling average.

**The number of container ships departing China for the U.S. dropped by 37%**

Throughout April, markets moved sharply in response to tariff developments. U.S. large-cap stocks fell 12% between April 2 and April 8. Then, on April 9, following the announcement of a 90-day tariff pause, they rebounded 10%, marking the third-largest one-day gain since World War II. Treasury markets experienced similarly dramatic shifts. Between April 4 and April 11, the 10-year Treasury yield rose 0.5% to 4.5%, its largest weekly increase since 2001. Over the same period, the 30-year yield climbed 0.5% to 4.9%, the biggest five-day gain since April 1987.

**Bond market volatility appears to have played a key role in the decision to pause tariff escalation**

Bond market volatility appears to have played a key role in the decision to pause tariff escalation. On April 10, Kevin Hassett, director of the U.S. National Economic Council, noted that:

*“There’s no doubt that the Treasury market made it so that the decision about the time to move [on the tariff pause] was made with, I think perhaps, a little more urgency.”<sup>9</sup>*



Source: SpringTide, Noah Kroese

**Positioning suggested investors were taking a wait-and-see approach**

Investor sentiment remained bearish throughout the month. For a record tenth consecutive week, more than 50% of respondents to the American Association of Individual Investors (AAII) survey reported bearish views. Yet, actual positioning suggested investors were also taking more of a wait-and-see approach as actual equity exposures did not drop nearly as much as the “soft” survey data would suggest. The National Association of Active Investment Managers (NAAIM) Exposure Index ended April at 60%, well above its four-week average of 48%, and the AAII Asset Allocation Survey showed average investor portfolios holding 65% in U.S. stocks.<sup>10,11</sup>

Meanwhile, concerns about a global recession intensified. According to the April Bank of America Fund Manager Survey, 80% of respondents cited a trade-war-triggered global recession as the top “tail risk” (a rare but potentially severe event).<sup>12</sup> 42% of survey respondents now expect a recession—the most since June 2023 and the fourth-highest reading over the past 20 years.<sup>12</sup> Meanwhile, betting markets show the probability of a recession this year hovering just above 50%.<sup>13,14</sup>

**Consumers front-loaded purchases ahead of expected tariff-related price increases**

The disconnect between soft data (surveys) and hard data (actual indicators) intensified over the month. While consumer sentiment deteriorated in April, retail sales and personal spending remained strong. The University of Michigan's consumer sentiment index fell to 52.2, the lowest reading since June 2022 while the Conference Board's consumer confidence index dropped to 86, the weakest since August 2020.<sup>15</sup> Its expectations index fell to 54.4, a 13-year low. In contrast, hard economic data reflected a resilient consumer. March retail sales rose 1.4% month-over-month—the largest increase in more than two years—and personal spending rose 0.7%. However, some of this spending likely reflected consumers front-loading purchases ahead of expected tariff-related price increases. Should tariff uncertainty continue to impact supply chains and pricing—or should tariffs be expeditiously rolled back—a convergence between soft and hard data is likely.

Tariff-related uncertainty dominated corporate earnings calls throughout April. According to Barron's, mentions of "tariffs" rose 132% over the past 90 days compared to the previous quarter, surpassing levels seen during the 2018 trade tensions.<sup>16</sup> Additionally, recent corporate earnings reports expose the challenge in navigating this landscape. Many companies adopted a "wait-and-see" approach to tariffs, delaying further investment and/or significant business decisions until trade policy becomes clearer. Some examples are below.

According to Citigroup CEO Jane Fraser:

*"While our corporate and consumer clients are resilient and in good financial health, the world is in a wait-and-see mode and is facing a more negative macroeconomic outlook than anyone had anticipated at the beginning of the year."*<sup>17</sup>

**Tariff-related uncertainty dominated corporate earnings calls**

Goldman Sachs also noted growing uncertainty and concern about the impact of the trade wars:

*"Our clients, including corporate CEOs and institutional investors, are concerned by the significant near-term and longer-term uncertainty that has constrained their ability to make important decisions."*<sup>18</sup>

M&T Bank CFO, Daryl Bible, noted that customers are "on hold" until further clarity emerges regarding tariffs:

*"Business-wise, our customers really wanted to make a lot of investments. They want to do acquisitions. They are just really on pause right now. I think it's just a lack of confidence. They don't know what the rules of the road are right now."*<sup>19</sup>

Similarly, Regions Financial CFO David Jackson Turner said in the company's earnings call that:

*"Customers are delaying investment decisions pending further clarity."*<sup>20</sup>

**Many companies have suspended earnings guidance**

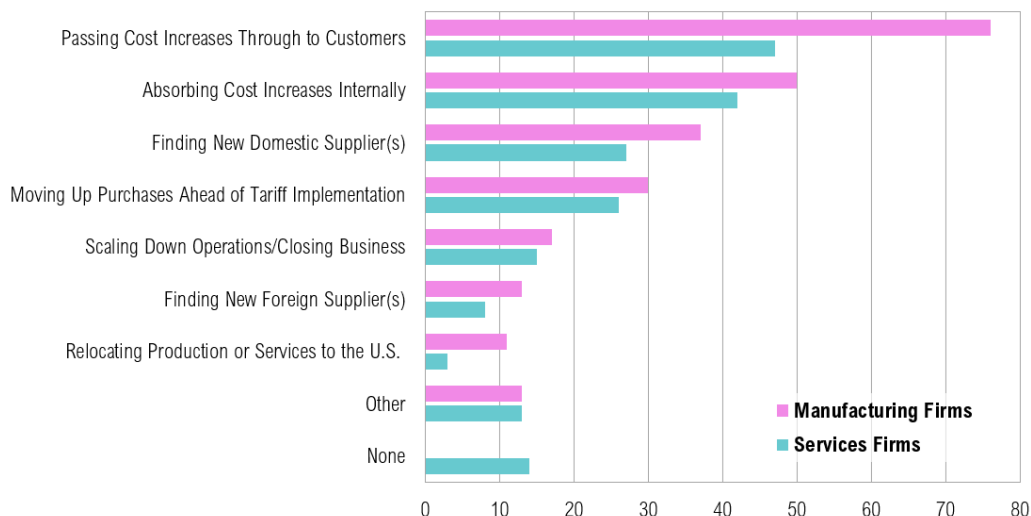
Going a step further, Delta Air Lines, American Airlines, Ford, General Motors, P&G, Pepsico, UPS, and Thermo Fisher were among the list of companies that suspended earnings guidance altogether given the uncertain macro backdrop.<sup>21</sup>

Regardless of how things play out, businesses will face a period of intense disruption. On April 28, the Federal Reserve Bank of Dallas released a survey detailing how companies are responding to higher tariffs. The most common response was passing cost increases on to customers, with nearly 80% of manufacturing firms and 50% of services firms opting to do so.<sup>22</sup>

**Businesses will face a period of disruption in the coming months**

## Firms Are Planning to Pass Tariff-Related Costs to Consumers

Actions Firms are Taking in Response to Higher Tariffs, % of Survey Respondents



Source: Federal Reserve Bank of Dallas. Note: Firms could select all that applied.

## Markets

Despite wild fluctuations throughout the month, U.S. large-cap stocks ended April down only 0.7% while U.S. small-cap stocks declined by 2.3%. International markets fared better than their U.S. counterparts for the fourth consecutive month. International developed (ex-U.S.) small cap stocks gained 5.9% while international developed market large cap stocks ended April up 4.7%. A similar pattern occurred in fixed income markets: international developed market bonds gained 6.2% over the month, notably outperforming U.S. intermediate-term bonds, which gained only 0.4%. High-yield credit spreads spiked to 4.3% in mid-April on tariff uncertainty, before easing to end the month back at 3.5%. Despite the volatility, credit spreads remained tight relative to history.

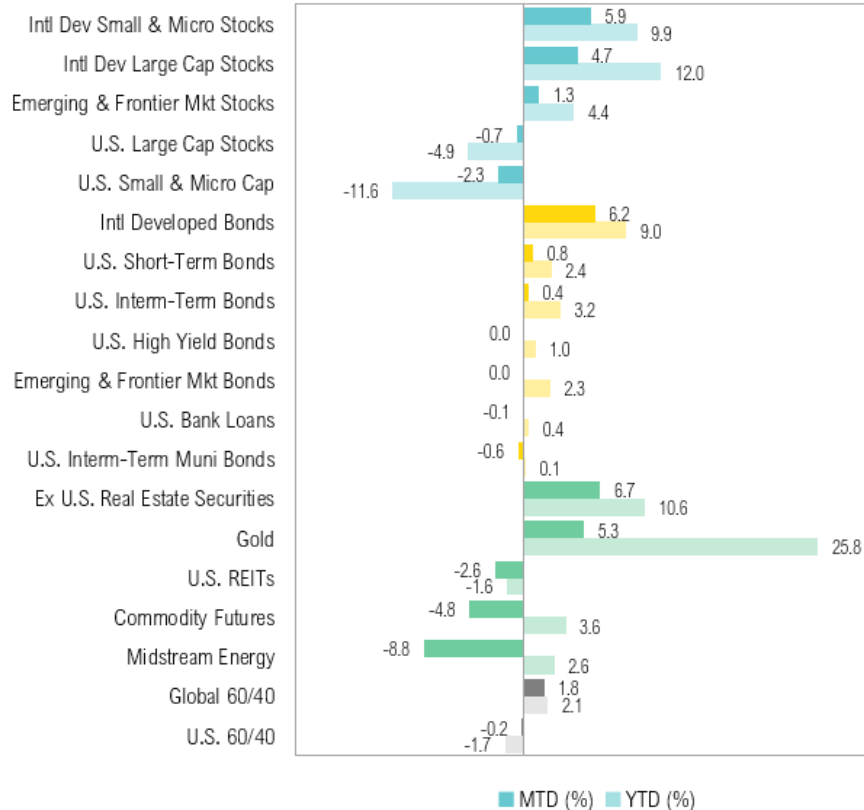
**Despite volatility, credit spreads remained tight relative to history**

Gold, which gained 5.3% in April and is up nearly 26% year-to-date, reached a new record high of \$3,434 on April 21 as tariff uncertainty spurred demand for safe-haven assets. West Texas Intermediate (WTI) crude oil ended April below \$60 per barrel, dropping to \$58, the lowest level since January 2021.

## April 2025 Key Market Total Returns

**International equity markets outperformed U.S. peers for a fourth consecutive month**

**Gold reached a new record high in April**



Source: Bloomberg

## Looking Forward

The administration is encouraging consumers, businesses, and markets to look beyond the near-term pain posed by tariff consequences, focusing instead on the potential boost in small business spending, domestic manufacturing, and capital investment that may result. As long as markets see sufficient evidence that this approach is working, broader disruptions may remain contained. However, if these efforts falter, the U.S. economic adjustment will likely be more painful, and markets may need more time to adjust, creating additional volatility. Chair Powell spoke for everyone in the May 7 FOMC press conference when he said: "Everyone is just waiting to see how developments play out... and I can't really give you a timeframe on that."<sup>23</sup>

**"Everyone is just waiting to see how developments play out..."**



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## Asset Class Definitions

Asset class performance was measured using the following benchmarks: U.S. Large Cap Stocks: S&P 500 TR Index; U.S. Small & Micro Cap: Russell 2000 TR Index; Intl Dev Large Cap Stocks: MSCI EAFE GR Index; Emerging & Frontier Market Stocks: MSCI Emerging Markets GR Index; U.S. Interm-Term Muni Bonds: Bloomberg 1-10 (1-12 Yr) Muni Bond TR Index; U.S. Interm-Term Bonds: Bloomberg U.S. Aggregate Bond TR Index; U.S. High Yield Bonds: Bloomberg U.S. Corporate High Yield TR Index; U.S. Bank Loans: S&P/LSTA U.S. Leveraged Loan Index; Intl Developed Bonds: Bloomberg Global Aggregate ex-U.S. Index; Emerging & Frontier Market Bonds: JPMorgan EMBI Global Diversified TR Index; U.S. REITs: MSCI U.S. REIT GR Index, Ex U.S. Real Estate Securities: S&P Global Ex-U.S. Property TR Index; Commodity Futures: Bloomberg Commodity TR Index; Midstream Energy: Alerian MLP TR Index; Gold: LBMA Gold Price, U.S. 60/40: 60% S&P 500 TR Index; 40% Bloomberg U.S. Aggregate Bond TR Index; Global 60/40: 60% MSCI ACWI GR Index; 40% Bloomberg Global Aggregate Bond TR Index.

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