

Market Commentary



Weekly perspective on current market sentiment

April 9, 2025



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Last week's S&P 500 Index: -9.1%

What to do now

Key takeaways

- Our view is that tariffs are going to result in slower gross domestic product (GDP) growth and slightly higher inflation than previously expected
- But we believe that investors with a longer-term time horizon should be stepping in to buy U.S. large- and mid-cap equities at current levels.

The administration's reciprocal tariffs take effect this week and cover imports from most U.S. trading partners. In addition, President Trump imposed a minimum 10% tariff on all countries. Markets have clearly been extremely volatile during the last few trading sessions as investors try to decipher how these tariffs are going to impact the economy and corporate earnings. While many market participants may have held on to the opinion that tariffs were being used only as a negotiating tactic in recent months, the harsh reality is that tariffs have been implemented and there is likely to be an economic cost, not just to the American economy but the global economy as a whole.

Our view is that tariffs are going to result in slower GDP growth and slightly higher inflation than previously expected. As we have stated, tariffs have economic costs. Not only do tariffs result in higher prices but they also clearly weigh on business and consumer sentiment and confidence. Small-business optimism has fallen, and, not surprisingly, the National Federation of Independent Business (NFIB) gauge measuring small-business uncertainty has jumped higher. When business owners are uncertain about economic conditions looking down the road, they could very well reduce or place a on hold capital expenditure (capex) plans until there is more clarity. Likewise, when consumers are not confident about their job prospects or the economy, they might reduce spending and put off plans for a vacation or buying a car.

So given all the current uncertainty, the question is what to do now? We believe that investors with a longer-term time horizon should consider stepping in to buy U.S. large- and mid-cap equities at current levels. We want to focus on high-quality equities. Favored sectors include Energy, Information Technology, Communication Services, and Financials. Does that mean we are calling a bottom in the stock market? Absolutely not. If the uncertainty persists and consumer and business spending slump, the economy might fall into a recession and equity prices may have further to fall. Note that we believe the probability of a recession is low. But we do believe current levels represent an attractive entry point.

How about fixed income? A couple of weeks ago we suggested that investors move some funds from the bond market into mid-cap equities to take advantage of the pullback in equities and the rally in bond prices. But that doesn't mean we want to abandon fixed income. Our fixed-income guidance emphasizes selectivity. We favor buying investment-grade fixed income and would focus on corporate bonds and essential-service municipal securities. We prefer buying in the intermediate (three to seven year maturities) portion of the curve.

Investors who want to take a more cautious approach might consider parking some funds in a money market account. Rates are noticeably higher now than when the pandemic hit and offer a bit of calm away from the storm. As markets hopefully stabilize in coming months, we would favor incrementally reallocating to financial markets, primarily toward equities.

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