D|A|DAVIDSON WEALTH MANAGEMENT

The Weekly Market Update – 4/7/25: What Could Go Right and What Could Go Wrong

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,074.08	-9.08%	-9.58%	-13.73%	-3.43%	6,144.15	21.1%
Dow Jones Industrial Average	38,314.86	-7.86%	-8.78%	-9.94%	-3.75%	45,014.04	17.5%
NASDAQ Composite	15,587.79	-10.02%	-9.89%	-19.28%	-4.83%	20,173.89	29.4%
Russell 2000	1,827.03	-9.70%	-9.19%	-18.08%	-14.00%	2,442.74	33.7%
MSCI EAFE (USD)	2,281.19	-6.94%	-4.98%	0.86%	-2.80%	2,511.97	10.1%
MSCI Emerging Markets (USD)	1,087.59	-2.96%	-1.25%	1.13%	4.54%	1,444.93	32.9%
Bloomberg Commodity Index	99.68	-5.78%	-6.32%	0.93%	0.19%	237.95	138.7%
Barclays U.S. Aggregate Bond	93.04	1.01%	0.80%	2.88%	2.81%	112.07	20.5%

Source: FactSet

The surprisingly negative 4/2/25 Trump tariff announcement has derailed equities markets as recession potential rises. The tariffs announced on the president's "Liberation Day" were more widespread (a 10% universal tariff on most countries) and larger (almost 60 countries facing larger "reciprocal" tariffs), leading to ultimate tariff levels exceeding most estimate rages. If all tariffs are enacted as proposed, the value could exceed $620 billion (B) annually, nearly 19% of 2024 total U.S. imports of $3.3 trillion (T), and also 2.0% of U.S. economic output as measured by gross domestic product, or GDP (fourth quarter 2024 U.S. nominal GDP was $29.7T annualized). A tariff can be a headwind to consumption and economic growth if companies raise prices or if profits decline if they choose to absorb the cost. Markets fear a combination of both, and the S&P 500 equity index plunged -10.5% on Thursday (4/3) and Friday (4/4), its largest 2-day decline in more than 5 years (in March 2020, at the start of the COVID-19 pandemic, the index dropped -15.3% in 2 days). The S&P 500 has now decreased -17.4% from the recent highs (peak-to-trough decline), which remains a bit below the down -20% level that would be declared a bear market. The -20% level for the S&P 500 is 4,900, compared to Friday's closing price of 5,074. In our view, the recession outlook is the market's top concern (not inflation), and that is also reflected in the bond market as the U.S. 2-year Treasury yield (TY) has dropped to 3.51% from 4.20% on 1/31/25, and the 10-year TY was at 3.91% from 4.55% on 1/31. We believe U.S. equity markets have now priced in an economic slowdown with earnings growth erosion, but not a recession (a decline in U.S. economic activity) when earnings growth would turn to an earnings decline.

What could go right and what could go wrong? With tariff policies and slowing economic data driving the ongoing equity index decline, markets could find a bottom if tariffs are pulled back or delayed. In a best-case scenario, we still believe that President Trump is receptive to trade negotiations on terms favorable to the U.S. (reduce the trade deficit and/or create U.S. jobs), and could delay the larger tariffs for some countries, but will be less inclined to roll back the tariffs without those terms. Courts could also intervene and challenge presidential authority to impose universal tariffs. Other good news could include resilient economic data, and last week's March jobs report was better than expected. Corporate earnings have also been solid, although we expect very cautious commentary when 1Q25 earnings reporting season begins. Finally, the Administration has talked about recycling tariff revenue back into the U.S. economy through tax cuts and debt reduction. This creates a sense of urgency for Congress to pass a budget reconciliation bill that provides some middle-class tax relief. On the downside, as consumer confidence and business optimism erodes, the U.S. economy is likely to slow, creating both lower earnings and lower multiples that investors are willing to pay for stocks, driving indices lower.

During times of extreme market volatility, it is important, in our view, for investors to evaluate their investment plans to help guide potential changes. This reduces understandable emotion caused by fear, collapsing sentiment, negative headlines, and lower prices. We believe that well-diversified portfolios and a long-term view will weather the storm. While it will take time to confirm the low point of the current decline, it will make a bottom and many high-quality companies will emerge, positioned to grow and once again build shareholder value. We encourage diversified portfolios for the tough times. This often helps to mitigate (not eliminate) losses and creates rebalancing opportunities when looking ahead.

James D. Ragan, CFA
Co-CIO, Director of Investment Management & Research
(206) 389-4070
jragan@dadco.com

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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, exchange-traded companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. Today the NASDAQ Composite includes over 3,000 companies. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and CanadaThe MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance.

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities. Sectors that are called "defensive," are thought to be less exposed to economic cycles compared to "cyclical" sectors, and often attract investor interest during periods of economic weakness.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analysts' estimates from firms that submit estimates to FactSet for a given financial metric.

We define a "market correction" as a peak-to-trough decline exceeding 10%, but less than 20% (a decline exceeding 20% would be a bear market). In 2025 the S&P 500 closed at 6,144 on 2/19/25, at the time the closing high price for the year-to-date. On 4/4/25, the index closed at 5,074, a decline of -17.4% from the closing high price. A "bear market" is when the peak-to-trough (closing price) decline exceeds 20.0%.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data as a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at https://www.bea.gov/data/gdp/gross-domestic-product. This report includes the fourth quarter 2024 nominal GDP (not inflation adjusted) we referenced. U.S. Personal Consumption Expenditures (PCE) is an indicator of the growth in consumer spending and measures the value of goods and services purchased by persons who reside in the U.S. It is reported monthly by the Bureau of Economic Analysis (BEA).

The consumer price index (CPI) is a measure of average change over time in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics. An alternative measure of consumer inflation is the Personal Consumption Expenditure (PCE) price index. PCE inflation is the percentage rates of change in the price index for personal consumption expenditures (PCE). The index is published monthly by the U.S. Bureau of Economic Analysis.

The Conference Board conducts a monthly Consumer Confidence Survey design to reflect prevailing business conditions and potential outcomes in the months ahead. It surveys consumer attitudes, buying intent, and expectations stratified by age and income in nine U.S. regions. A second widely followed survey of consumer confidence is conducted monthly by the University of Michigan. Its Survey of Consumers surveys personal finances, business condition, unemployment, and inflation.

The Trump Administration, on 2/12/25, announced a framework for its Reciprocal Tariffs, with a link to the memorandum, "Fair and Reciprocal Plan." On 3/26/25, the White House announced tariffs on imported automobiles and certain automobile parts. Here is a link to a Fact Sheet from the President that outlines the action. The President's April 2, 2024 Tariff Announcement is also linked.

The calculations of $620 billion on the announced tariffs were from Strategas Research Partners and include the impact of all 2025 announced tariffs.

The National Bureau of Economic Research (NBER) is a private non-profit research organization. The NBER is widely used as an organization that analyzes U.S. economic data and the business cycle and determines the start dates and end dates of economic recessions. The NBER defines recession as "a significant decline in economic activity that is spread across the economy and that lasts more than a few months;" and also looks at the depth, diffusion, and duration of the downturn.