Market & Economic Outlook April 2025: Tariffs on Cats and Dogs

1Q25 & YTD Returns	Value (4/11/25)	Total Return* 1Q25	Total Return* 12/31/24 - 4/11/25	All-Time High	Date of All-Time High
S&P 500	5,363.36	-4.3%	-8.5%	6,144.15	2/19/2025
Dow Jones Industrial Average	40,212.71	-0.9%	-6.5%	45,014.04	12/4/2024
NASDAQ Composite	16,724.46	-10.3%	-13.2%	20,173.89	12/16/2024
Russell 2000	1,860.21	-9.5%	-17.6%	2,442.74	11/08/2021
MSCI EAFE (USD)	2,297.70	7.0%	2.6%	2,511.97	3/18/2025
MSCI Emerging Markets (USD)	1,045.20	3.0%	-2.1%	1,444.93	2/17/2021

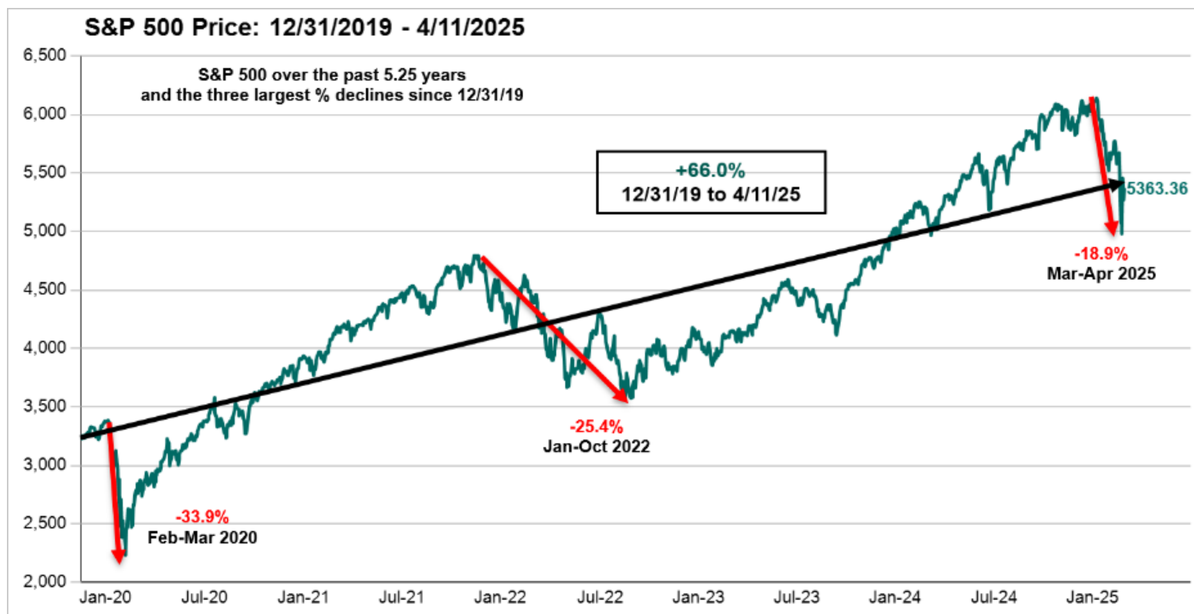
Data Source: FactSet, using closing index prices. Total return includes reinvested dividends. 1Q25 covers 12/31/24 to 3/31/25. YTD is year-to-date.

Outlook Summary:

Tariff anxiety assumed control of the investment zeitgeist in the first 15 weeks (the first quarter plus two weeks in April) of 2025, and despite a 90-day delay for some tariffs, the overall levels currently enacted are high, and could restrict economic growth. To account for elevated economic volatility and reduced investor risk tolerance, we have lowered our S&P 500 fair value estimate and maintained a relatively high potential range. Our S&P 500 fair value estimate moves to 5,800 (8% lower than our previous 6,300 level), and we see a potential wide trading range of 4,400 to 6,200. We entered 2024 (four months ago) with a cautious market view ("It's All Fun & Games Until Someone Gets Hurt") but also increased our fair value estimate on the heels of strong consumer spending in late 2024, and pro-growth optimism from a new administration under President Trump. However, growth expectations deteriorated relatively early in the year as tariff threats escalated and weighed on investor sentiment. The president's tariff "Liberation Day" on 4/2/25 included larger tariffs than expected and was a huge negative surprise for investors driving the S&P 500 equity index to its lowest closing price since February 2024. In fact, the expansive size and breadth of the tariff announcement inspired the title of this report. Levity aside, while the tariff and trade war is ongoing, "Liberation Day" may reflect the period of peak uncertainty, and following the subsequent 90-day tariff pause (beginning on 4/9/25) for some countries, we are more optimistic that negotiations will begin and lead to practical trade deals. Our outlook assumes a slowdown in economic and earnings growth this year, but no recession. Over the near-term, however, we expect continued volatility and would not be surprised to see equity indices retreat and test the recent lows. The one-day gain of +9.5% on 4/9/25 (admittedly, this did not recover all losses) was a reminder of the challenges faced by long-term investors when attempting to time markets. Missing just a few positive days can disrupt long-term returns.

Given market volatility and unpredictable timing of tops and bottoms, we advocate that investors maintain equity exposure, monitor and adjust portfolios to upgrade quality (defendable market positions, resilient profitability, and strong balance sheets), and maintain desired diversification. Use market volatility as an opportunity to rebalance portfolios by trimming overweight positions and adding to underweight (relative to objectives) positions. Below are bullet points summarizing important topics for investors as of April 2025.

1. Our S&P 500 fair value estimate is 5,800, and we see a potential trading range of 4,400 to 6,200.
2. We recommend broad sector diversification with some defensive positioning over the near-term.
3. U.S. economic activity is slowing and recession odds are rising but recession is not the base case.
4. Tariffs are a headwind: A favorable outcome will require trade deals, a tax-friendly budget bill, and/or lower interest rates.
5. Stay the course.

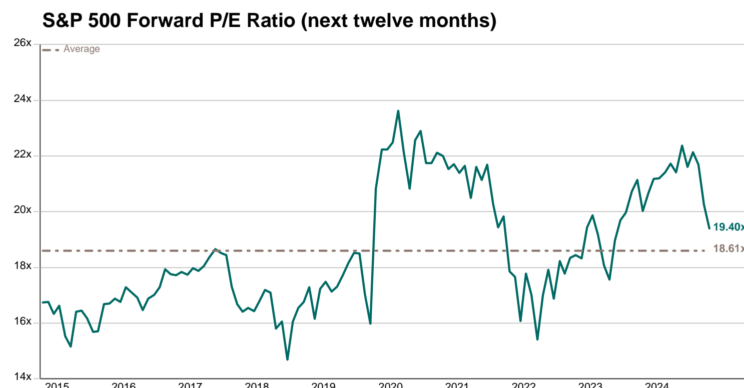


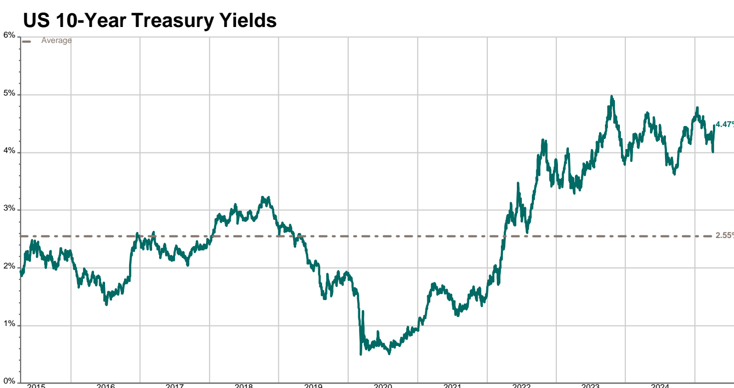
Data Source: FactSet as of 4/11/25. S&P 500 daily closing prices, 12/31/19 to 4/11/25. Price return does not include dividends.

First quarter (and early April) review. The S&P 500 declined -4.3% (total return, including dividends) in 1Q25 as the index turned negative in February and March after starting the year with a gain. Selling pressure continued in early April, and through 4/11/25, the year-to-date (YTD) S&P 500 decrease was -8.5% including dividends (and down -8.8% on a price basis, before dividends). The market decline was more extreme just a few days prior as investors reacted negatively to announced tariffs, which remain a moving target and create significant uncertainty for markets ahead. All of the U.S. equity indices we track were lower in 1Q25, led by a -10.3% decline for the growth- and technology-centric Nasdaq Composite index, and a drop (total return) of -9.5% for the small-company Russell 2000 index. Through the end of March, the market weakness was relatively contained to the growth-oriented sectors as the Equal Weight S&P 500 (EWSP, gives each S&P 500 constituent an equal weight compared to the broad index, which assigns weights based on market value) declined just -0.6% and 7 of the 11 S&P 500 macro sectors (Global Industry Classification Standards, or GICS) were positive. But much of that reversed in early April on the heels of the tariff escalation, and the breadth of the decline expanded, taking the EWSP, the S&P 500, and all 11 GICS sectors lower in April (through 4/11). On 4/8/25, the S&P 500 closed at 4,983, its 2025 closing price low. At that point, the index was down -15.0% for the YTD, and from the 2025 high price on 2/19/25 (6,144), the decline was -18.9%. This was the largest peak-to-trough decline in nearly three years, since a -25.4% price decline that bottomed in October 2022. The market drop stopped short of the down -20% level that we define as a "bear market," but still represented a significant "correction." While the definition of an equity bear market vs. an equity "correction" (down between -10% and -20%) is somewhat arbitrary, those levels are key for the S&P 500 as market corrections are relatively common, while bear markets are comparatively rare. Both deep corrections and bear markets are painful over the near-term and, on average, take longer to recover losses. At the same time, with prices lower, long-term investors with multi-year time horizons can find attractive entry points in equity indices and individual high-quality companies.

While U.S. equity markets struggled in the early part of 2025, foreign equity markets outperformed, although global equities also traded lower in early April when selling pressure accelerated. The MSCI EAFE (Europe, Australasia, Far East) index, which represents developed foreign markets, posted a total return of +7.0% in 1Q25, but the YTD gain slipped to +2.6%, as of 4/11/25. The MSCI Emerging Markets equity index (largest weightings: China, India, Taiwan) was also positive, +3.0% in 1Q25, but after an early April decline was down -2.1% YTD, as of 4/11/25. For the five years 2019 through 2024, gains in U.S. equities, particularly the S&P 500, significantly outpaced foreign equity markets (particularly Europe and emerging markets). We attribute that period of outperformance to strength in the U.S. economy and solid corporate results enhanced by U.S. technology investment. This also drove equity valuations higher in the U.S. Entering 2025, on a price-to-earnings (P/E) basis, the S&P 500 traded at a substantial premium to many global benchmark indices. Many have referred to the U.S. outperformance period as "U.S. Exceptionalism," which also attracted foreign capital investment into U.S. markets. The "Exceptionalism" has reversed to-date in 2025, although debate remains regarding the sustainability of foreign equity market outperformance during an escalating trade war. For now, capital may be exiting U.S. markets, including the U.S. Treasury bond market as well. The U.S. 10-year Treasury yield, which we view as a benchmark indicator of long-term interest rates in the U.S., closed at 4.47% on 4/11/25, a shocking rise from 4.01% just a week earlier. The increase was surprising not only because of the magnitude over just a few days, but because it happened amid intense equity market volatility, which most often leads to investors buying Treasury securities for safety, driving yields lower. This time, investors were selling U.S. Treasury bonds, including foreign holders, suggesting additional eroding confidence in U.S. markets. The 10-year Treasury yield was 4.57% at the end of 2024 (12/31/24) so recent levels remain lower, but we must watch the U.S. Treasury market closely in the days and weeks ahead.

Our S&P 500 fair value (FV) estimate is 5,800, and our potential range of 4,400 to 6,200 remains very wide. Our 5,800 FV level is 8% lower than our estimate four months ago, and from the 2024 year-end closing price of 5,882, our estimate reflects a full-year 2025 decline of about -1.4%. But from the 4/11/25 closing price of 5,363, our FV is +8.2% higher. Our FV contemplates economic headwinds from tariffs and related uncertainty receding to some extent, resulting in slowing U.S. economic and earnings growth, but with the U.S. economy easing into a soft landing (no recession). We are concerned that economic activity is slowing, driven by increasingly cautious consumers, which could deteriorate further if business investment slows and companies scale back hiring plans. Estimates for Gross Domestic Product (GDP) have moved lower since January, with the FactSet consensus 1Q25 GDP estimate at +1.2% as of 4/11/25 versus an estimate of +2.1% in late January. The reported first quarter GDP number could be even lower due to surging imports (imports are subtracted from GDP because the goods are not produced in the U.S.) attributed to corporate actions ahead of expected tariffs. But there are several actions that can be taken to support economic growth. Importantly, trade deals can be signed, and tariffs can be adjusted lower, or removed. Both would reduce uncertainty. In addition, the U.S. Congress has started the process of passing a budget bill that is expected to include tax cuts beyond just extending the expiring tax provisions from President Trump's first term. The third action that could provide economic support would be the Federal Reserve Bank (Fed) lowering its overnight fed funds interest rate targets. Over the next few months, we expect ongoing market volatility, but we see a path for more stability for equity markets and the economy by year-end.

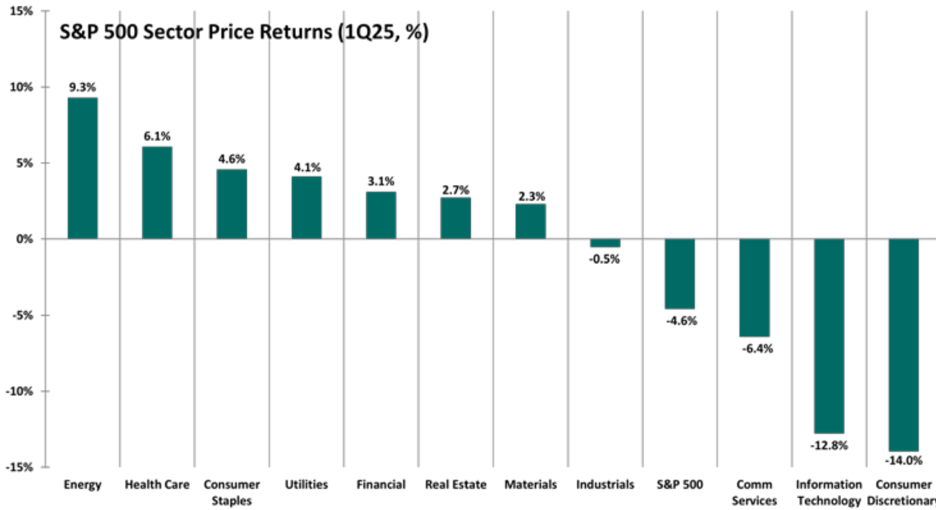




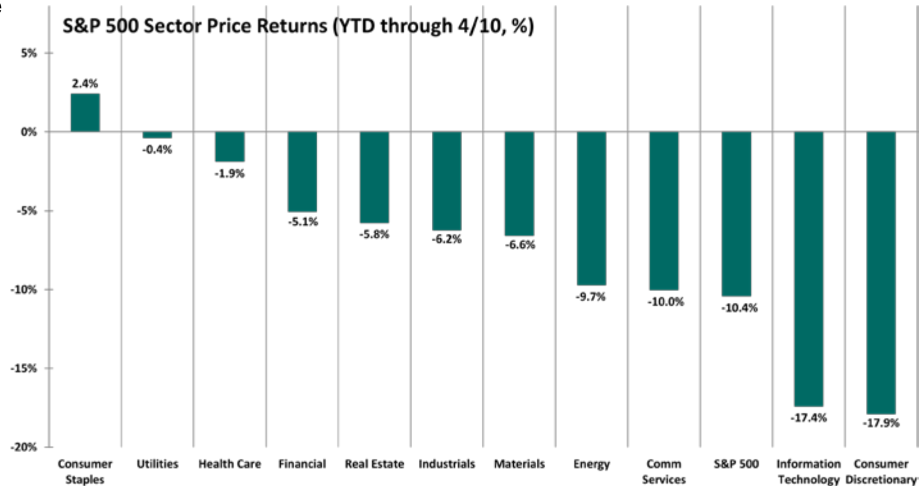
Data source: FactSet, using exchange data, as of 4/11/25. Shows ratios over the past ten years, 2015 to 2025. Dotted lines represent the average over the period. See Other Disclosures on page 8 for further discussion of P/Es and Treasury yields.

As of 4/11/25, the S&P 500 traded at 19.4x the FactSet consensus earnings estimate over the next four quarters of $277. This represents a slight premium to the 18.6x P/E (one year forward earnings estimates) average since 2014 (a 10-year period of relatively elevated valuations). Our 5,800 FV is 20.9x that next twelve months consensus estimate and 19.0x the 2026 consensus estimate of $305. Our outlook could be influenced by improved visibility for growth, headwinds receding and for solid expectations continuing into 2026. All else being equal, higher uncertainty will lead to lower valuations because equity investors are less likely to pay higher multiples of expected earnings during uncertain times. We have viewed a decline in the P/E multiples as a risk to the market, but with multiples adjusting lower in the first quarter, the risk now is regarding sustained earnings growth. Our downside range of 4,400 is nearly 18% below the closing level on 4/11/25 and applies an 18.0x P/E multiple to flat earnings (meaning no change Y/Y). This is not necessarily a recession scenario but does reflect a much weaker economy than is currently factored into our base case. The odds of a recession, in our view, are not immaterial, but are less than 50%. Consensus 1Q25 expected earnings growth is +7.3% and a majority of S&P 500 companies will report quarterly results over the next few weeks. While 1Q25 reflects a period before most tariffs were imposed, companies should be able to discuss potential tariff scenarios and their impacts on business. Our upside range of 6,200 reflects 20.3x the 2026 estimate and, in our opinion, will require much better visibility than exists currently, driven by positive trade negotiations and a successful budget reconciliation bill.

We recommend broad sector diversification with some defensive positioning over the near-term. Through the end of March, the S&P 500 price decline (-4.6%) was largely contained to weakness in 3 sectors: Consumer Discretionary, Technology, and Communication Services. Each of the other eight S&P 500 GICS sectors outperformed the broad index and seven were positive. In our view, this reflected a healthy rotation into diversified sectors, although the broad index was still lower, as those three underperforming sectors collectively comprised 53.2% of the market capitalization of the S&P 500, as of 12/31/24 (as of 3/31/25, the weighting of those three dropped to 49.1%). Consumer Discretionary, Technology, and Communication Services are each heavily growth- and tech-centric sectors and include all seven of the "Magnificent 7" (Mag 7) stocks that led U.S. equity market gains in both 2023 and 2024. Each of the Mag 7 was lower in 1Q25, with an average decline of -15.8%, significantly worse than the index. We came into 2025 with a view that investors should closely monitor sector positioning and build broad diversification, and the 1Q25 saw broad gains both from cyclical sectors that typically lead when the economic growth outlook is favorable, as well as defensive sectors that often lead as the economy slows. In our view, through most of the first quarter, investors were still unsure about potential economic headwinds as the tariff policy was largely undefined and difficult to model. News in January that Chinese generative artificial intelligence (GenAI) company, Deep Seek, had developed a potentially disruptive GenAI alternative to U.S leadership drove weakness across the GenAI landscape that has continued. Then, as the tariff and bond market scare escalated in April, no sectors were spared. Updating the S&P 500 sector gains YTD through 4/11/25, while Consumer Discretionary and Technology led the downside and were the only two sectors to deliver returns worse than the broad index, 10 of 11 GICS sectors produced declines for the period. Consumer Staples were holding YTD gains, and the other two classic defensive sectors, Utilities and Health Care, were down only modestly.



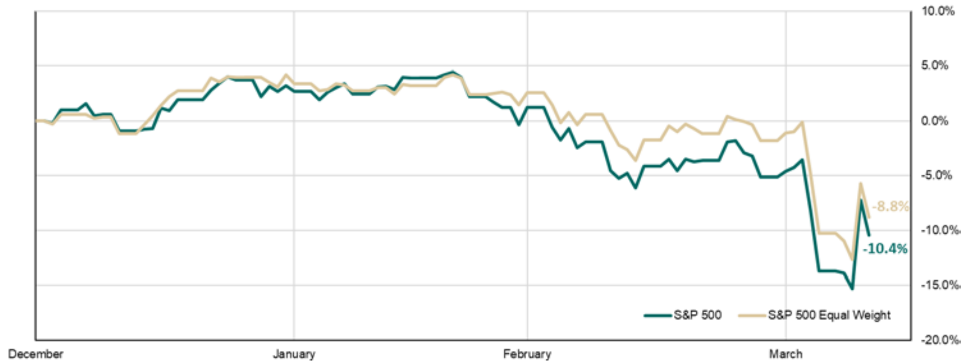
Data Source: FactSet & MSCI. Price returns 12/31/24 to 3/31/25



Data Source: FactSet & MSCI. Price returns 12/31/24 to 4/10/25.

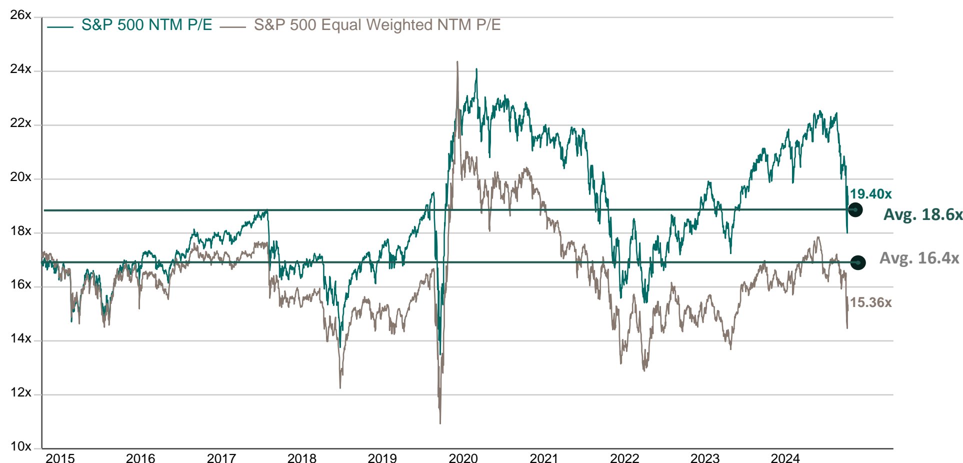
As the tariffs and trade wars evolve over the weeks and months ahead, we expect investor anxiety to remain high, especially through the 1Q25 earnings reporting season (mid-April through mid-May), as companies are expected to provide cautious outlooks in the current environment. At the same time, sentiment could improve on positive trade news, continued strength in the labor market, a rebound in consumer spending, or progress on the aforementioned budget reconciliation bill. As investors wait for the uncertain timing of good news, the relative outperformance of defensive sectors could continue. As the year plays out, however, we continue to look for broader sector diversification and we advocate maintaining broad exposure across the sectors.

We watch the EWSP vs. the S&P 500 to monitor the relative performance of the average stock in the index. In 2023 and 2024, the S&P 500 significantly outperformed the EWSP, although over long periods of time (25 years from 2000 to 2024) the EWSP has delivered higher compounded annual returns. In 1Q25, the EWSP declined -1.1% (price return), which was 350 basis points (bp) better than the S&P 500's -4.6% decline. The EW index's outperformance began in late January, about the time of the Deep Seek GenAI news and reduced investor enthusiasm for premium valuation multiples. But as the equity market decline accelerated in April, both the EWSP and S&P 500 plunged as the sell-off included all sectors and most indices across the board. As of 4/10/25, the EWSP YTD decline was -8.8%, which was 160 bp better than the S&P 500's -10.4% price decline.



Data Source: FactSet 12/31/24 to 4/10/25. Price returns (not including dividends) using closing prices.

As of 4/11/25, the EWSP traded at a discount to the S&P 500 using the forward P/E ratio (using the price divided by the consensus earnings estimates over the next 12 months). The S&P 500's forward P/E as of 4/10 was 19.4x, down from over 22.3x in January, while the EWSP P/E was most recently at 15.4x, down from 17.8x in January. Over the past 10 years, the S&P 500 valuation has traded at a premium (higher multiple) to the EWSP, which can be justified by the higher concentration of successful high-growth technology leaders, and since late 2022, the valuation differential favored the S&P 500 by a wide margin. With the equity market decline in 2025, the S&P 500 forward P/E of 19.4x still trades at a modest 4% premium to its 18.6x 10-year average. The EWSP P/E of 15.4x trades at a -6% discount to its 10-year average of 16.4x. We see two avenues of stronger relative performance of the EWSP in future periods. The EWSP P/E can trade more in line with its 10-year average and can also narrow the valuation differential with the S&P 500.



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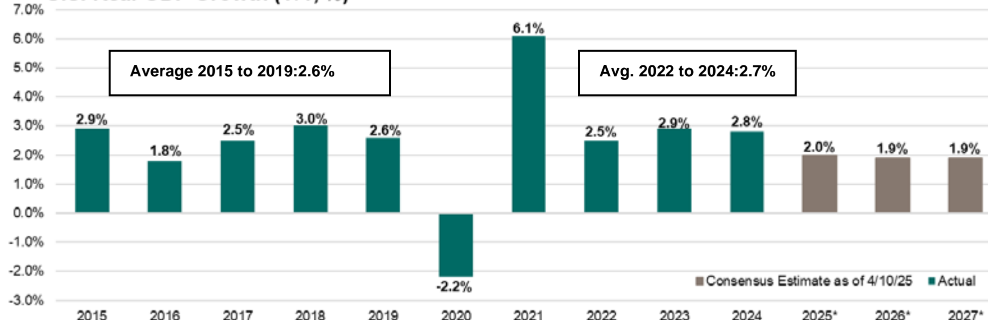
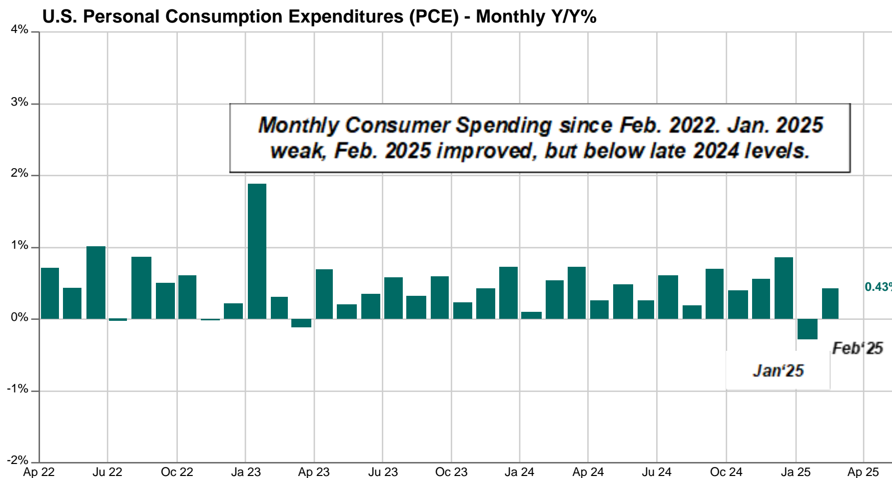


Data Source: FactSet consensus estimates and Bureau of Economic Analysis, as of 4/10/25. Chart shows annual real GDP reported by the BEA, 2015-2024 (green bars), and FactSet consensus estimates, 2025-2027 (gray bars).

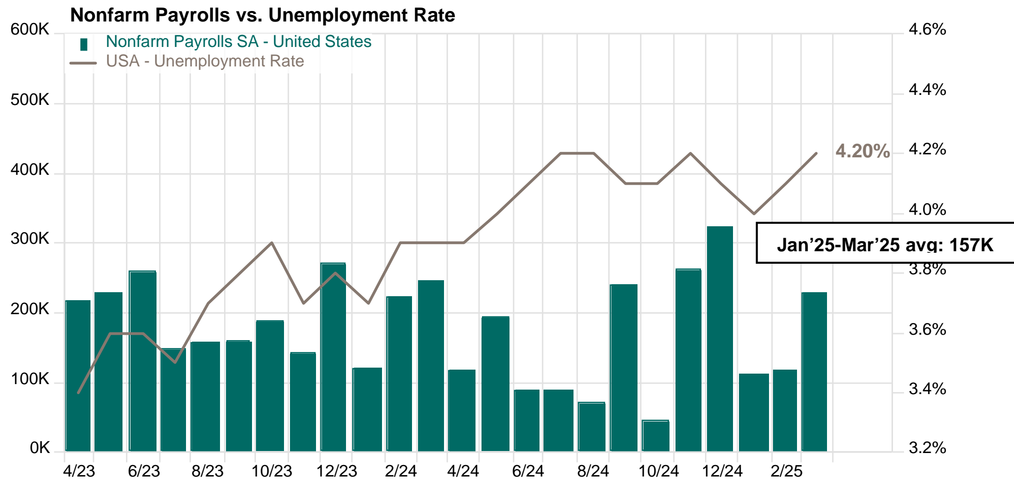
U.S. economic growth was already expected to slow in 2025, and now tariffs create an additional growth scare. U.S. GDP in the three-year period from fiscal 2022-2024 averaged +2.7% annually on an inflation-adjusted (real GDP) basis (federal fiscal years, FY, end in September). This was better than the average growth of +2.6% annually from fiscal 2015-2019, the year period prior to the pandemic, and reflects some normalization of the U.S economy following the 2020 pandemic. However, federal government spending was $4.55 trillion (T) in FY19, but due to COVID-19 stimulus programs, surged to $6.55T in FY20 and $6.82T in FY21 (+50% vs. 2019). FY24 spending was still $6.75T (U.S. nominal GDP grew from $21.52T in FY19 to $29.70T in FY24, an increase of 38%), which includes most categories remaining elevated, and an increase in net interest expense to $949 billion (B) in FY24, from $423B in FY19. In our view, this contributed to moderating growth expectations entering 2025 as government spending growth was expected to moderate. In addition, consumer spending could moderate from 2024 levels, with a backdrop of an expected Congressional budget battle, and a crackdown on undocumented immigration, potentially altering labor market fundamentals. In October (10/31/24) last year, the FactSet consensus 2025 full-year GDP estimate was +1.8%. By early January this year, the estimate had strengthened to +2.1%, likely reflecting a view that the Trump Administration would foster growth through lower regulation and expanding business investment. Those expectations have diminished in 2025 as the president's proposed tariff policies weigh on consumer confidence. As of 4/11/25, the 2025 consensus estimate has slipped back to +2.0%, but given an expected lower number for the first quarter, we believe that the outlook for 2025 GDP should be closer to +1.0%. Early year GDP (1Q25 and 2Q25) will likely be distorted by trade flows, as January and February trade data showed a surge in imports as companies took delivery of shipments ahead of the tariffs. Over the next three years, the consensus GDP growth estimate is +1.9% annually. Growth above that level will require economic and policy success on multiple levels. This includes clarity and visibility on the trade and tariff policy, a surge in domestic investment from reshoring, power generation and/or GenAI and data center infrastructure build out, a reduced regulatory burden, and a healthy labor market characterized by growth in both jobs and wages. We believe the largest headwind to sustained growth in early 2025 is the tariff uncertainty. Once (and if) that is solved, success in the other areas becomes achievable.

Consumers are cautious but recession is not the base case. Expectations for consumer spending eroded quickly in 2025, when the January report on retail sales, a key input to total consumer activity, was much worse than expected. The two closely followed consumer confidence surveys (one from the Conference Board, the other from the University of Michigan) have showed negative readings for the past three months, with respondents particularly worried about inflation and future income and jobs prospects. We do not dismiss the confidence surveys due to their long history of accurately reflecting consumer attitudes in changing economies; however, surveys are "soft data," reflecting attitudes and expectations, while "hard data" reports reflect actual results. The weak January 2025 retail sales report fed into the broader personal consumption expenditures (PCE) report, which also was lower in January. PCE is reported by the Bureau of Economic Analysis (BEA) and represents consumer spending, comprising an estimated 68% of the U.S. economy as measured by GDP. In February, both retail sales and PCE rebounded from January's negative surprise. We expect another positive month when March spending is reported in late April, despite more intense tariff uncertainty. But the three-month consumer spending average for 1Q25 will be lower than seen in the past several quarters. This will point to slowing consumer spending, in line with expectations to begin the year, and not yet at recessionary levels (a decline). We expect markets to watch consumer trends closely in the weeks ahead, monitoring both delinquencies among low-income earners and a potential negative "wealth effect" for high-income earners, if spending levels moderate due to lower investment account balances. Perhaps an underappreciated development that can help consumers is the 2025 drop in oil prices. U.S. oil prices, as measured by West Texas Intermediate, traded at $79 per barrel as recently as 1/15/25, and closed at $61.50 on 4/11/25, down more than 22% from that mid-January price. According to the Automobile Club, the national average for regular unleaded gasoline was $3.18 per gallon on 4/11/25, down more than 12% from $3.63 per gallon one year ago. Consumer spending trends are also influenced by the labor market, including jobs and wage growth.



Data Source: FactSet and Bureau of Economic Analysis. Monthly data April 2022 to February 2025, as of 4/11/25.

The U.S. economy created more than 2.0 million nonfarm payrolls (jobs) in 2024, according to the Bureau of Labor Statistics. This averaged 168 thousand (K) per month, including a monthly average of 164K over the first half of 2024 and 171K in the second half. In the first quarter of 2025, jobs growth averaged 157K. This was modestly below job creation levels in the second half of last year, but March 2025 nonfarm payrolls increased 228K. We believe consistent monthly jobs increases above 125K can support modest economic growth, while numbers below that level would reflect potential layoffs and limited hiring. While monthly jobs data does not point to a recession in recent reports, the data is backward facing and is a lagging indicator. A companion data series, also from the BLS, is the weekly jobless claims, which monitors the weekly change in new filings for unemployment insurance, and the total number currently receiving unemployment payments. For the week of 4/5/25, the new weekly jobless claims totaled 223K, equal to the four-week average. The four-week average of jobless claims at the end of December 2024 was 227K, and 4 weeks through June 2024 was 236K. While the weekly claims data can increase rapidly if corporate layoffs ensue, this has not happened in 2025, and at least through early April, the level of new claims has decreased.



Data Source: FactSet and Bureau of Labor Statistics (BLS). Monthly data, April 2023 to February 2025, as of 4/11/25. Grey line is unemployment rate.

Tariffs are a headwind: A favorable outcome will require trade deals, a tax-friendly budget bill, and/or lower interest rates. President Trump's inconsistent trade policy has weighed on markets, as elevated uncertainty has pushed investors to consider increasingly negative outcomes. Much of potential negative effects of tariffs (higher input costs, higher prices, and lower demand) are front loaded and can pressure growth and corporate earnings. The potential benefits, domestic investment and jobs growth, and fairer export markets, could take longer to develop, requiring patience from investors. The first salvo began in March with tariffs on Mexico and Canada and global levies on steel, aluminum, and lumber, and tit-for-tat retaliation was immediately promised. But the March announcements were just a warmup act for the 4/2/25 Tariff "Liberation Day," which caused global financial markets to sell off, ultimately pushing the S&P 500 decline to more than -12% in four days, extending a peak-to-trough decline since late February of -18.9%. Then, one week later, on 4/9/25, the President announced a 90-day delay on many of the tariffs, sparking a mini-S&P 500 rally of +8.5% over four days. Volatility in both the equity and government bond markets has been extreme and is much more common in unhealthy markets than healthy ones, in our opinion. We might have passed the point of peak uncertainty despite still-uncertain tariff outcomes, as it appears that the Trump Administration is watching markets closely and will pivot policy, if needed, to avoid worst-case outcomes.

Debate continues about the president's ultimate tariff policy goals, which could include A) prioritizing tariff revenue and domestic manufacturing vs. B) negotiating trade deals to open export markets (which can also include domestic manufacturing). The U.S. trade deficit (imports greater than exports) in 2024 with all countries combined was $918B and comprised of $4.11T of imports and $3.19T of exports. That included a trade surplus from services of $294B (think tourism), so that the deficit in goods was $1.21T (2024 goods imports of $3.30T and exports of $2.08T). The president talks about bringing the goods deficit to zero (fewer imports and more exports), which he believes will lead to more manufacturing in the U.S. and increase GDP through higher U.S. output. A full move to zero is challenging in a short period of time, but some movement is likely, in our view. Of course, it is complicated and to get there, costs and prices may rise, creating less demand, and the total combined output (imports and exports) could be lower. To offset the higher costs (which can drag economic growth), the tariff collections produce revenue for the Federal government. With tariff levels, delays, exclusions and carve-outs changing by the day, it is nearly impossible to accurately forecast potential revenue, at least in mid-April. The administration has discussed asking Congress to use tariff revenue in the 2025 budget bill as a "pay for" for tax cuts that can provide stimulus to offset the drag from tariffs. The use of tariffs in the budget bill is complicated as well as tariffs become permanent if enshrined in a bill, preventing negotiating flexibility. We calculated four simple scenarios for tariff revenue: 1) 10% universal on all imports (tariff revenue would be $330B), 2) 20% universal (raises $659B), 3) 100% on China/10% on others (revenue of $725B), 4) 100% on China w/ electronics excluded/10% on others (revenue of $602B). In all cases, the revenue is substantial, which also reflects a serious headwind for U.S. economic growth in the short-term. We used a 100% tariff rate on China, but the actual number today is closer to 150%, and interestingly, even with the 90-day pause on reciprocal tariffs, a 10% universal tariff, with 100% on China, creates a higher tariff level than a universal 20% tariff. Although equity markets have rallied from lows in recent days on news of more tariff delays, the value of those in place today are much higher than many predicted several months ago.

On 4/9/25, when the S&P 500 reached a new low for the year and the U.S. Treasury bond market had selling pressure and higher yields (unexpected during economic chaos), the Trump Administration eased trade policy and placed a 90-day delay on most reciprocal tariffs. Perhaps this was an emergency response, but an alternative explanation is that the president is receptive to trade negotiations and is prepared to either ease or delay tariffs and sign trade deals. This is no easy task as most countries will not roll over, and he wants to see deals that both open export markets and include investment in U.S. production. But there are other factors that could improve potential outcomes as well. Courts could intervene and challenge presidential authority to impose universal tariffs. Economic trends could also remain resilient, similar to the recent March jobs report that was better than expected. Corporate earnings have also been solid, although we expect cautious commentary from 1Q25 earnings reporting season just underway. And we reiterate the option of asking Congress to 'recycle' tariff revenue back into the U.S. economy through tax cuts and debt reduction as an offset (albeit delayed) to tariff headwinds.

The table on the next page lists the ten countries/regions (treating the European Union as one entity) with the largest 2024 trade deficits in goods with the U.S. From 2018 (Trump 1 began China tariffs) to 2024, the U.S. trade deficit in goods increased 37% (nominal GDP increased 41%). China's goods deficit decreased 30% over that six-year period but still comprised 24% of the total U.S. goods deficit. In addition, the Trump Administration believes that China has diverted goods through other countries to avoid tariffs, so that its adjusted imbalance with the U.S. is substantially greater. As an example, in 2018, Vietnam's trade balance with the U.S, was not large enough to be called out separately from its region, but in 2024 Vietnam, at $123B, represented the U.S.' fourth largest trade deficit. Increasingly, we believe that China is the president's primary concern and that trade deals with others might be comparatively easy vs. a difficult and challenging path with China.

U.S. International Trade in Goods and Services

$ billions (B)

	2024			change since	2018		
	exports	imports	net	2018	exports	imports	net
Total U.S. Trade	**3,192**	**4,110**	**(918)**	**46%**	**2,501**	**3,129**	**(628)**
Goods	**2,084**	**3,296**	**(1,212)**	**37%**	**1,674**	**2,562**	**(887)**
Services	**1,108**	**813**	**294**	**13%**	**827**	**567**	**260**

GDP	2024				2018		
U.S. Nominal GDP	**29,179**				**20,657**		
Tot as a % of GDP	11%	14%	-3%		12%	15%	-3%
Goods as % GDP	7%	11%	-4%		8%	12%	-4%

Exports/Imports by Country Goods Only

U.S Trading Ranked by 2024 Trade Deficit

	2024 exports	2024 imports	2024 net	change since 2018	2018 exports	2018 imports	2018 net
China	144	439	(295)	-30%	120	540	(420)
European Union*	370	606	(236)	40%	318	487	(169)
Mexico	334	506	(172)	113%	265	346	(81)
Vietnam	13	137	(123)	n/a	n/a	n/a	
Taiwan	42	116	(74)	386%	31	46	(15)
Canada	349	413	(63)	216%	299	319	(20)
Japan	80	148	(68)	2%	75	142	(67)
South Korea	67	132	(65)	266%	57	74	(18)
India	42	87	(46)	119%	34	54	(21)
Thailand	18	63	(46)	135%	12	32	(19)
Total from 10 largest deficits			(1,188)				

*the largest EU contributors to the goods deficit with the U.S. are Ireland (-$87B), Germany (-$85B), Italy (-$44B) and Switzerland (-$38B). Netherlands has a +$55B goods surplus with the U.S. (2024 data)

Potential Revenue from tariffs on imports	$B
10% Universal	330
20% Universal	659
100% China/10% Universal	725
100% China/10% Universal (computers-electronics exempt)	602

Data Source: FactSet, Bureau of Economic Analysis, D.A. Davidson
U.S. International Trade Report and Gross Domestic Product, 2024 and 2018

Sector weightings. Given recent market volatility and elevated uncertainty, valuation multiples have declined to reflect lower risk tolerance or expected negative earnings surprises, or both. Over the very near term, we are comfortable with more defensive positions (includes Health Care, Utilities, and Consumer Staples). But given our view for a soft landing in 2025, we expect improved relative performance from cyclical sectors over the next few quarters. Thus, our sector weights are very balanced with many market-weight outlooks across the board. Within sectors, we advocate diversification as well, with exposure to high-quality companies in different sub-industry groups. The sector weights in the table below show the composition of the S&P 500 index as of 4/11/25.

S&P 500 Sector Recommendations -April 2025

GICS Sector	S&P 500 Weight by Market Cap	WM Research 2025 Outlook	Notes (reflect current expectations and are subject to change)	Change
Technology	30.1%	marketweight	has lagged the index in 2025, earnings trends remain favorable	
Financials	14.4%	overweight	outlook remains positive due favorable regulatory regime, needs a soft landing	
Health Care	11.0%	overweight	our favorite among the defensive groups, look for improving sentimemnt	marketweight
Consumer Discretionary	10.4%	marketweight	challening environment, look for leading brands	
Communications Services	9.4%	marketweight	after valuation adjustment, source of earnings growth, and less exposed to tariff risks	overweight
Industrials	8.5%	marketweight	less favorable due to tariff risk, global exposure a plus	overweight
Consumer Staples	6.3%	marketweight	defensive group could continue to lead, but valuations elevated	underweight
Energy	3.2%	underweight	low energy prices could constrain profits, but electricity demand needs natural gas	
Utilities	2.6%	marketweight	benefits from energy infrastructure demand, still a defensive sector	
Real Estate (REITs)	2.2%	underweight	remain selective as higher interest rates a concern, stick with earnings leaders	
Materials	2.0%	marketweight	weak global growth and tariff risk to creat challenges	

Data source: D.A. Davidson Wealth Management Research, as of 4/11/25.

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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 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. Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification. The Bloomberg U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The Russell 1000® Growth Index is a market cap weighted index that measures the performance of the large-cap growth segment of the U.S. equity market. It includes those Russell 1000 companies with relatively higher price-to-book ratios and higher expected earnings growth rates. The Russell 1000® Value Index includes those Russell 1000 companies with relatively lower price-to-book ratios and lower expected earnings growth rates. 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.

Other Disclosures: 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.

The forward S&P 500 price-to-earnings ratio (P/E) is a valuation measure, calculated by dividing the price of the S&P 500 index over the weighted average earnings per share (EPS) estimate of each company in the index. Earnings are based on "forward" consensus estimates expected over the next 12 months (NTM), using quarterly analyst estimates as provided by FactSet.

Fair value refers to a valuation method based on our view of the intrinsic value of an asset or index, determined by macroeconomic factors and earnings expectations rather than current market prices. This is our view of intrinsic value as of the date of this report.

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 www.bea.gov.

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

The annual price returns of the S&P 500 index are calculated using index closing value on 12/31 of one year to 12/31 of the next year. 2024 returns are calculated as of 3/31/2024. Intra-year, peak-to-trough percentage declines are calculated using the index closing prices from an intra-year high date to a subsequent low date. Closing prices are provided by S&P Global through FactSet. Averages across years are calculated using the arithmetic mean.

S&P 500 earnings growth reflects the year-over-year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members – the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and four of the remaining eleven Federal Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth.

The term "monetary policy" refers to the actions undertaken by a central bank, such as the Federal Reserve, to influence the availability and cost of money and credit to help promote national economic goals. The Board of Governors of the Federal Reserve System is responsible for the discount rate and reserve requirements, and the Federal Open Market Committee is responsible for open market operations. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and, in this way, alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment. Treasury security data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

The U.S. Personal Consumption Expenditures (PCE) Price Index 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. PCE inflation is the percentage rates of change in the price index for personal consumption expenditures (PCE).

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.

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys. The household survey measures labor force status by demographics, while the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component of the establishment survey is drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work.

The BLS also publishes the Job Openings and Labor Turnover Survey (JOLTS) which measures job openings, hires, and separations from a monthly survey of U.S. business establishments. The Department of Labor (DOL) reports weekly data from states on initial insurance claims from unemployed persons.

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.

Volatility looks at to what degree and how quickly prices move over a given span of time. In the stock market, increased volatility, in the form of rapidly falling prices, is often a sign of rising uncertainty.

The U.S. Census reports annualized monthly data on housing starts, permits, and completions. It is a widely followed measure to track construction activity in the residential housing market. New home sales measures sales of new single-family homes and is a measure of the demand for housing. Home price data is monitored by the S&P CoreLogic Case-Shiller Home Price Index.

We define a "bear market" as a peak-to-trough decline (using closing prices) of -20% or more. We generally use the S&P 500 index as a proxy for the broad market for large, leading U.S. companies. A market correction is down more than -10% but less than -20%.

Daily prices for West Texas Intermediate (WTI) crude oil from Cushing, Oklahoma are quoted daily on a price per barrel basis and are available from the U.S. Energy Information Administration.

We track a measure of wages, average hourly earnings of all private employees, which is calculated and reported on a monthly basis by the U.S. Bureau of Labor Statistics. The data measures average hourly earnings of all private employees on a "gross" basis (includes overtime and late shift work, but excludes benefits).

U.S. monthly receipts, outlay, deficit, or surplus are reported by the U.S. Treasury at fiscal.treasury.gov. Supporting data is also available from the Congressional Budget Office (CBO). Federal revenue (mostly tax receipts) and outlays is reported on a monthly and annual basis.

Generative Artificial Intelligence (GenAI): We think of artificial intelligence as using advanced computers to process large amounts of data to ultimately approach human problem solving and decision making. Early versions were often called "machine learning" and could sift through large data sets and accurately predict single outcomes. Now, generative AI goes further to utilize all forms of inputs. While still predictive models, generative AI can give detailed responses, much better than a search engine, which does a good job of telling the user where to go to find additional information. As generative AI systems access more data, they become larger and learn to make better decisions. At each iteration, the system gains knowledge, enhancing its predictive (reliable) capabilities and ability to produce original content. Generative AI systems become more robust as they are used as all new data can be trained into the system, creating new challenges and opportunities.

The term "Magnificent 7" was first used in early 2023 by Bank of America. It referred to seven publicly traded stocks that at the time were the most highly valued companies in the S&P 500 index ranked by equity market value. The seven stocks were: Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta, and Tesla.
We track a measure of wages, average hourly earnings (AHE) of all private employees, which is calculated and reported on a monthly basis by the U.S. Bureau of Labor Statistics. The data measures average hourly earnings of all private employees on a "gross" basis (includes overtime and late shift work, but excludes benefits)

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 referred to 4/2/25 as tariff "Liberation Day" and released a Reciprocal Tariff Memorandum.

When we discuss "growth stocks", we are referring to companies that generate expected earnings growth (over a multi-year period) that is above expected earnings growth for the overall market (typically the S&P 500 index). The largest sector weights (by market capitalization) in the Russell 1000 growth index (as of 12/31/24) were Information Technology, Consumer Discretionary, and Communication Services. "Value" stocks are characterized by companies that trade at discounted valuations to an index, sector, and/or a peer group. The largest sector weights in the Russell 1000 value index (as of 12/31/24) were Financials, Industrials, and Health Care.

Defensive sectors include companies that are historically less sensitive to economic cycles as product demand remains relatively more consistent across the business cycle. Cyclical sectors include companies that are more exposed to the business cycle such that growth accelerates when economic growth is above trend and decelerates when the economy slows.

International Trade in Goods and Services is published monthly by the Bureau of Economic Analysis. It measures trade in goods and services between U.S. residents and residents of other countries. U.S. sales are exports, U.S. purchases are imports.

The U.S. Census reports retail sales through its Advance Estimates of U.S. Retail and Food Services. It is a survey that measures monthly sales for companies in the retail trade and food services sectors. This survey covers retail companies with one or more establishments that sell merchandise and related services to final consumers. These firms provide data on dollar value of retail sales for selected establishments.

In 2025 the U.S. Congress (both the Senate of House of Representatives) will work on a joint budget bill that is expected to include an increase in the debt ceiling and include spending priorities and spending cuts supported by the President. The reconciliation process is a way the expedite bills, as they can be passed by a simple majority vote in the senate as long as certain budgetary rules are followed.

The wealth effect is an economic theory that predicts that consumers will increase spending when their investment accounts rise in value rise, and decrease spending when investment values decline.