Richard Rose Wealth Management April 21, 2025

WEEKLY COMMENTARY **Richard Rose AIF®**

Good morning,

What's in this week's Report:

- Why This Is (Likely) A Rangebound Market
- Weekly Market Preview: Earnings in Focus (Will Corporate America Confirm Investors' Fears?)
- Weekly Economic Cheat Sheet: Is Uncertainty Pressuring Economic Growth Yet?
- What Happens If Markets Tire of Trade Headlines?
- Sentiment Update: A Somewhat Shocking Discovery
- Powell Highlights Emerging Risks to the Dual Mandate

Futures are sharply lower (down around 1%) following the holiday weekend as rising tension between Fed Chair Powell and President Trump pressured sentiment.

On Friday, National Economic Director Hasset said the White House was studying whether Powell can be fired, adding another potential source of uncertainty to the markets.

Today, volumes will be low, given that many global markets (including the UK, EU, Hong Kong, and Australia) are closed. But there is one economic report, Leading Indicators (E: -0.3%), and one Fed speaker, Goolsbee (8:30 a.m. ET). Any data that implies stable growth and a dovish Fed should help support stocks.

Market	Level	Change	% Change
S&P 500 Futures	5,244.50	-38.25	-1.28%
U.S. Dollar (DXY)	98.12	-1.26	-1.27%
Gold	3,415.89	87.49	2.63%
WTI	62.49	-1.52	-2.37%
10 Year	4.401%	0.074	1.71%

Stocks

Last Week (Needed Context as We Start a New Week)

Trade-war uncertainty remained the primary influence on equity markets last week as tentative early week gains gave way to heavy selling pressure as Fed Chair Powell noted tariff policies had become a threat to the Fed's "dual mandate." The S&P 500 dropped 1.49% on the week .

Stocks gapped higher at the open last Monday after the Trump administration issued reciprocal tariff exemptions for most electronics imports from China, a meaningful de-escalation in the U.S.-China trade spat. The market rolled over after the release of the NY Fed's Survey of Consumers revealed a material rise in 1-Yr ahead inflation expectations, which rose to 3.6% in April from 3.1% in March. Stocks quickly stabilized, however, as plans for trade negotiations between the U.S. and Europe were reportedly coming together. The Fed's Waller noted that "recession risks outweigh inflation risks," which helped the S&P 500 notch a gain of 0.79%.

Traders focused on trade-war headlines on Tuesday, as news that the U.S. was considering tariff relief on car imports and Canada delaying tariffs on certain goods for six months were both supportive developments. However, China banning U.S. aircraft imports and EU officials reporting limited progress in U.S. trade negotiations in Washington saw the S&P 500 begin to roll over from the morning highs, and the index ended the day down 0.17%.

However, stocks dropped sharply on Wednesday as the U.S. announced restrictions on AI-chip exports to China, hitting semiconductor names and the broader tech sector hard. Early selling accelerated during the afternoon and into the close after Powell issued a stark warning that much higher-than-anticipated tariff rates were increasing stagflation risks and that it may prevent the Fed from being able to cut rates should growth slow. The S&P 500 ended down 2.24%.

Stocks ended the holiday-shortened trading week with a choppy session on Thursday. An advance into the mid-afternoon on the back of optimism about a U.S.-EU trade deal was derailed when President Trump voiced clear criticism and disapproval of Powell's recent performance as head of the FOMC. The S&P 500 fell short of turning negative and ended the day with a gain of 0.13%.

<u>Why I Think This Is A Rangebound Market</u>

Stocks dropped last week, mostly in response to Fed Chair Powell's tariff warning. But ignoring that, the actual news last week was positive. First, there was more backing down on tariffs, as the tariff exemptions on electronics from China are a de-escalation and will reduce the negative impact on the economy. Second, the Q1 earnings season has started well (and much better than feared). Numerous companies from differing industries (AXP, BAC, UAL, TSM) posted solid results and largely held guidance intact, showing us activity didn't collapse in Q1 despite the policy volatility. Third, economic data remained solid, also pushing back against slowdown fears. Retail sales were fine, while jobless claims remained historically low.

The bottom line is that the news has been positive over the past two weeks. Given still deeply skeptical sentiment and investor nervousness (something we highlighted in recent sentiment readings), the ingredients are in place for another near-term rally (if we get additional good news). However, despite that positive setup, I still think the S&P 500 will be unable to sustain a rally to (and beyond) 5,500-ish. Conversely, unless we have a material negative surprise, the S&P 500 shouldn't trade far below 5,000-ish, and here's why.

<u>Why the S&P 500 Can't Rally Into the High 5,000s:</u> First, cutting through the tariff noise, the reality is that tariffs are much higher than at the start of the year (at a minimum, there are 10% blanket tariffs on imports). That will boost inflation, complicate the Fed's strategy, pressure earnings, and possibly restrain consumer spending. The only question is how much. Second, policy chaos hasn't slowed down. Sure, the chaos has tilted a bit more positively in the last two weeks, but it's still chaotic. Third, the longer tariffs and policy chaos remain in place, the worse it will be for growth and the markets (so we are just in the beginning innings of the impacts). Finally, there is a new risk to worry about: A conflict between Fed Chair Powell and President Trump. If Trump tries to remove Powell and Powell refuses, a Constitutional debate will erupt, further eroding market confidence. In my opinion, the bottom line is that these factors limit the upside in this market.

<u>Why the S&P 500 Won't Drop (Much) Below 5,000:</u> First, the Trump Put. The past few weeks have shown us that if the market starts to fall apart, Trump will back off on tariffs. That implies a backstop of sorts in the markets (at least for now). Second, corporate America and the U.S. economy have earned the benefit of the doubt. This will be the third time in the last five years that analysts have issued dire warnings on growth and earnings (Covid and when the Fed hiked

rates). Both times, they underestimated the strength of corporate America and the U.S. economy. Perhaps the third time will be the charm, but data and earnings are proving resilient in the face of unprecedented uncertainty.

Economic Data (What You Need to Know in Plain English)

Last Week

Economic data last week was mixed, and as such, it provided a bit of a Rorschach test for investors. If you're negative on the outlook, you cite weak April survey readings and more signs of stagflation. If you're positive on the outlook, the actual data from March remains solid, and the labor market is staying healthy and pushing back against recession fears.

Starting with the hard data, the March Retail Sales report was better than expected on the headline (1.4% vs. (E) 1.3%), which was attributed to a lot of car buying ahead of potential tariffs. However, dismissing the report was good only because of car buying would be simplistic.

The "control" group within retail sales, which is retail sales less autos, gasoline, and building supplies, rose 0.4% vs. (E) 0.6%. That's less than expected, but it's still a positive number and shows us that, at least so far in March, consumer spending did not crater. Similarly, weekly jobless claims remain good as weekly claims fell to 215k vs. (E) 225k, a multi-week low and at a level indicative of a healthy labor market. Unlike the March retail sales report, bears cannot label jobless claims as outdated because it's weekly data, and so far, we are not seeing signs of deterioration.

The first look at April economic data from the regional Empire and Philly Manufacturing surveys showed a different story than the hard data last week. The worst number of the week was Philly Fed, which imploded to -26.4 vs. (E) 2.2 and down from 12.5 in March. That's a huge drop; the report's details confirmed it as New Orders plunged to -34.2 from 7.7. Empire manufacturing (the other April reading) was also negative but showed improvement from March, as the index rose to -8.1 from -20. New Orders also improved but stayed negative, increasing to -8.8 from -14.9. Notably, both the Empire and Philly also saw monthly increases in the price indices.

The bottom line, if we step back, we've got negative readings on both headlines, negative readings on New Orders, and rising prices, and that does point towards future stagflation. Again, these are surveys, so they are volatile and need to be taken with a grain of salt. However, the bottom line is that readings like this will reinforce investor concerns about returning stagflation.

Last week's data largely confirmed the current status quo on the economy, namely that data so far is actually holding up well, and if we just went by the data, no one would be worried about a slowdown. But survey results remain terrible, and warnings about recession and stagflation are rampant. Until we get policy clarity (and consistency) along with solid data, worries about future growth will remain a headwind on stocks.

Important Economic Data This Week

The economic calendar is quiet this week (next week is busy) as earnings take center stage, but what reports we get could move markets because, again, investors are looking for any clues as to whether the tariff chaos is starting to weigh on economic activity (and if the answer is "yes," that's negative for stocks).

This week's most important report is Wednesday via the April flash composite PMIs. These are the first widely followed national data points for April, and investors will be watching to see if they decline sharply in response to tariff/trade chaos. Of the two, the flash service PMI is a bit more important because the service portion of the economy drives growth. So, if services are surprisingly slow, that will increase recession fears and weigh on stocks.

This week's other two notable reports come on Thursday via Durable Goods and jobless claims. Durable goods is our best look at business spending and investment, although this is a March report, so it will be taken with a grain of salt and, to a point, makes this report a no-win scenario for the bulls. If Durable Goods is weak, it will increase recession concerns because Durable Goods is our best look at business spending. Since business spending, consumer spending, and government spending power the economy, weakness will increase slowdown concerns. Conversely, if the number is better than expected, it'll likely be ignored as not reflecting the current tariff uncertainty. The bottom line is that an "in-line" number is probably the best outcome for investors.

Finally, jobless claims come on Thursday and continue to show a solid labor market. This is one number the bears can't list as "dated" because it's effectively real-time, and so far, they are pushing back against the "slowdown" narrative. However, until we get more tariff and trade clarity, the strength of this data set is unlikely to ease recession worries.

While these reports can move markets, the calendar this week is mostly quiet (again, focus will be more on earnings than data this week). Next week is the "important" week of data as we get the "Big Three" monthly reports (ISM Manufacturing PMI, Services PMI, and Jobs Report). That data has the potential to either greatly exacerbate slowdown concerns or push back on them.

Special Reports and Editorial

What Happens If Markets Tire of Trade Headlines?

The market internals last Monday implied the market didn't trade off the tariff headlines directly (if they had, tech and tech-aligned sectors should have been the outperformers). Instead, the market traded off Treasury yields, which declined and contributed to the lift.

One day doesn't make a trend, but it raises the question: What if markets begin to ignore the daily trade proclamations?

Major trade announcements like the reinstatement of reciprocal tariffs or the removal of tariffs will move markets. I'm not talking about those types of headlines. Instead, I'm talking about the mercurial tariffs mentioned almost daily.

For instance, on Friday, Apr. 11, the administration announced the electronics exemption. On Sunday, Apr. 13, Trump said it was only temporary and they'd have industry-specific tariffs. On Monday, Apr. 14, Trump hinted about exemptions for autos from the 25% tariffs set to go into effect in May but simultaneously threatened new tariffs on pharmaceuticals.

After six-plus weeks of this nonstop and possibly nonsensical back-and-forth on trade, the market instead focused on the decline in yields and welcomed that, as it implies that the market stress from the last reciprocal tariffs may be easing (and that's good for everyone).

Again, I'm not saying the tariff headlines won't still move markets, but there are hints the markets are starting to view non-political headlines (threats, random thoughts, impromptu answers to tariff questions) as a type of "white noise" that goes on in the background. And if that continues, it should help calm the intraday volatility.

If markets begin to view non-policy tariff thoughts as white noise, then look for 1) Economic growth to once again become the dominant influence on markets. Investors and officials are warning of a material economic slowdown, and if economic data begins to confirm those fears (and it could start this week), that will become a major influence on markets amidst Tariff white noise. Bottom line: Obviously, tariffs still matter, but don't ignore everything else either, because the market isn't.

Sentiment Update: A Somewhat Shocking Discovery

Unsurprisingly, investor sentiment remained extremely negative as multiple measures of investor and advisor sentiment remained at levels last seen in 2022 and lower. To that point, CNBC reported last week that the Bank of America Global Fund Manager Survey shows 82% of respondents believed the global economy will weaken, which was a 30-year low! For context, that's lower than the Great Financial Crisis, when virtually every bank in the country faced possible insolvency given the real estate crash.

Now, obviously, there are reasons to be cautious, as the reciprocal tariffs were worse than feared. While the recent easing of trade tensions is positive, there are obviously a lot of unknowns facing investors and advisors. That said, most sentiment readings are at levels that imply a market reversal is looming, and the near-universal negative outlook from investors and advisors has, in the past, been a contrarian indicator.

To be clear, I'm not saying these readings are bullish. I'm just saying that according to them, investors or advisors expect many negative events, and if they don't happen (for instance, the economy is resilient, inflation doesn't spike, corporate earnings don't tank, or we see meaningful tariff reduction), then these sentiment readings imply the rebound in stocks could be substantial, as there are very few bulls out there right now.

· **AAII Investor Sentiment Survey shows just 28.5% bulls, close to the lowest level since October 2022.** This survey asks respondents (individual investors) whether their outlook is bullish or bearish, and the percentage of respondents that say they're bullish, bearish, or neutral is tracked over time. The historical average for bulls is 37.5%. This is far below average and currently sits at levels we haven't seen since the depths of the 2022 bear market. The bottom line is that increased trade threats and geopolitical upheaval negatively impact investor sentiment.

· **The CNN Fear/Greed Indicator currently sits at 19% (on a scale of 0-100). That's in the "Extreme Fear" range.** The Fear/Greed Index has become more widely followed on the Street because it incorporates seven different momentum and sentiment indicators. As such, it provides a wide view of current investor and market sentiment. Because it includes numerous momentum and sentiment indicators (and it's just a survey), it's not reflecting the full investor anxiety we see in the AAII Sentiment Survey. The CNN Fear/Greed Index reflects the most fear in the markets in over a year.

· **Investors Intelligence Advisor Sentiment Survey has a Bulls/Bears spread of -11%, an extremely bearish reading.** The Investors Intelligence Advisor Sentiment Index is similar to the AAII survey but polls financial advisors, not individual investors. The key to this index is in the Bulls/Bears spread (the difference between the two). It is very unusual for the spread to be negative (more bears than bulls) like it is now; historically, this has pointed to an accumulation opportunity. This is the lowest bulls/bears spread since fall 2022, although it remains above the absolute low of -19% (so it can get worse).

Bottom line, sentiment remained extremely depressed, and while that caution may be warranted if looming policies continue economic chaos and upheaval, it's important to realize that investors are expecting a lot of bad news and are now vulnerable to news that is not as bad as feared.

Powell Highlights Emerging Risks to the Dual Mandate

While stocks were lower from the start of Wednesday, the S&P 500 notably held above intraday support at the session's morning lows, just above 5,300. That changed quickly as Powell began speaking at the Economic Club of Chicago, as he effectively admitted four important things: 1) The FOMC was surprised by the size and scale of the Trump tariffs. 2) The tariffs will put more upside risks on inflation than previously anticipated. 3) The tariffs are likely to put downward pressure on future economic growth prospects as demand is being pulled forward at an immeasurable rate (this was evident in the Retail Sales data), and finally, potentially most importantly, 4) The Trump administration's tariff policies are threatening to put the components of the Fed's dual mandate "in conflict," which raises significant concerns about future Fed policy and stagflation risks.

The fact that the S&P 500 took out the Wednesday-1.5 % morning lows near 5,300 and extended session losses to as much as -3.5% towards 5,200 in late-day trade underscores the fact that, as forward-looking discount mechanisms, markets inherently hate uncertainty. And Powell just confirmed that tariff policies are not only contributing to a broad sense of uncertainty on Main Street America, with consumer sentiment and business confidence levels both crumbling considerably since the start of the year, but even the "smartest people in the room" at the Fed are effectively at a loss regarding how to do their jobs. As a refresher, the FOMC's "job" is to achieve full employment and target 2% inflation; their Congressionally imposed "dual mandate."

The most important takeaway from Powell's comments was that the Fed's likely approach to navigating this period of extreme uncertainty is "wait and see" how things play out to avoid committing an expansion-ending policy error the likes of which have previously killed equity bull markets. Without a better idea of underlying economic trends and a clear understanding of how tariffs will impact growth and inflation in the future, Powell and company have their hands tied, stuck between a rock (inflation) and a hard place (growth risks). The bottom line is that Powell effectively communicated the risks of a policy mistake by his FOMC, the highest since he took the reins at the Fed from Yellen in 2018.

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