

### ▲ What We're Watching Next Week:

- ▲ The National Federation of Independent Businesses (NFIB) Small Business Optimism index for March is released Tuesday with the reading expected to fall to 99.0 after a 100.7 reading in February.
- ▲ U.S. Consumer Price Index (CPI) for March is released Thursday with headline inflation expected to rise 0.1% month over month and 2.6% year over year, which compares to 0.2% and 2.8% readings in February. Core CPI, which is more closely monitored by policymakers, is expected to rise 0.3% month over month and 3.0% year over year, versus 0.2% and 3.1% readings the prior month.
- ▲ The University of Michigan's Consumer Sentiment survey for April is released Friday and is expected to fall further to 54.0 from a 57.0 reading in March. This release has made headlines in recent months due to the sharp rise in the future inflation expectations component of the survey, and the 1-Yr. Inflation Expectations piece of the survey is expected to rise to 5.1% from 5.0% in February. Some stabilization in inflation expectations would be welcomed by market participants.

### ▲ Key Observations:

- ▲ U.S. stocks climbed a wall of worry in the lead-up to Wednesday's tariff announcement as short covering forced equity prices higher, but a 'worse than worst-case scenario' on the trade front weighed on sentiment and led to a sharp move lower for stock prices into the weekend. The U.S. dollar fell after tariffs were announced and contributed to relative outperformance out of developed and developing market stocks abroad versus the U.S.
- ▲ It will be worth watching how our trading partners react to the tariff news; 1) will they negotiate and remove tariff barriers for U.S. imports as the administration desires, 2) will they retaliate, contributing to fears of an outright trade war, or 3) will they devalue their currencies to make their goods more appealing for U.S. importers, likely drawing the ire of the administration and potentially leading to tariffs being raised further on some countries.
- ▲ Treasuries remained in bull market mode as yields across the curve fell as a flight to safety took hold on the heels of the tariff announcement. Yields on both the 2-year and 10-year U.S. Treasury fell more than 25-basis points on the week with the rally taking prices to levels last seen in September of last year.

	Price/Yield				Total Return (%)			
	4/4/2025	1 Week Ago	1 Month Ago	Year to Date	1 Year	3 Years	5 Years	
S&P 500	5074.08	-9.05	-13.03	-13.42	-0.08	5.51	17.11	
NASDAQ	15587.79	-10.00	-15.91	-19.13	-2.18	3.98	17.05	
S&P Mid Cap 400	2648.54	-9.08	-11.94	-14.79	-9.29	1.58	16.41	
S&P Small Cap 600	1155.99	-9.02	-12.53	-17.54	-9.75	-2.03	15.00	
MSCI World ex US	327.38	-5.64	-6.14	1.12	1.89	3.00	10.89	
MSCI EM	1087.59	-2.90	-2.22	1.69	6.18	0.59	8.11	
Bloomberg U.S. Aggregate	4.44	1.12	1.34	3.69	6.39	1.18	-0.27	
Bloomberg Corporate	5.10	0.55	0.35	2.65	5.96	1.58	1.63	
Bloomberg U.S.High Yield	8.30	-1.78	-2.64	-0.73	6.31	4.45	7.37	
Bloomberg EM USD Aggregate	6.61	-0.36	-0.70	1.90	7.21	3.55	3.11	
Bloomberg Global Aggregate	3.47	1.65	1.79	4.22	4.87	-0.70	-1.01	
Bloomberg Municipal Bond	3.62	1.82	-0.21	1.26	3.33	2.06	1.73	
	Price/Yield							
	4/4/2025	1 Week Ago	1 Month Ago	12/31/2024	1 Year Ago	3 Years Ago	5 Years Ago	
SOFR (yield)	4.39	4.34	4.33	4.49	5.32	0.30	0.01	
30 Year Mortgage (average rate)	6.71	6.75	6.74	7.28	7.28	4.85	3.79	
2 Year Treasury (yield)	3.65	3.91	3.99	4.24	4.65	2.42	0.23	
10 Year Treasury (yield)	3.99	4.25	4.24	4.57	4.31	2.40	0.59	
30 Year Treasury (yield)	4.41	4.63	4.54	4.78	4.48	2.46	1.21	
WTI Crude (closing price)	61.99	69.36	68.26	71.72	86.59	103.28	28.34	
Gold (NYM \$/oz)	3012.00	3086.50	2920.60	2641.00	2288.80	1929.20	1633.70	

Source: Bloomberg (3- and 5-Year Annualized)

## What Happened Last Week:

### ▲ **Stocks: U.S. Indices Found Their Footing In The Lead-Up To The Tariff Announcement On Short Covering, But Pulled Back Sharply After; Important To Put The Pullback In Proper Context; Tariff Announcement Furthers The Case For Geographic, Currency Diversification.**

▲ **'Worse Than The Worst Case Scenario' On Tariffs Weighs On U.S. Stocks, The Dollar; Focus Now Is On How Trading Partners Respond.** President Trump's tariff announcement on April 2 rattled markets and led to a sharp drop in stock prices and the U.S. dollar, and a commensurate rally in Treasury bonds as yields fell sharply on the week. We've seen the details described as 'worse than the worst-case scenario.' A universal 10% tariff was feared and delivered, which along with a blanket 25% tariff on all imported automobiles (with some exclusions for USMCA-compliant goods from Canada and Mexico) appeared to generate the most investor angst. Whether the tariffs are used as a negotiating tactic and prove to be short-lived, or whether they remain in place over the intermediate term to encourage more domestic investment remains to be seen. It will be worth watching how our trading partners react to the news; 1) will they attempt to negotiate and/or remove tariff barriers for U.S. imports as the administration desires, 2) will they retaliate, thus generating fears of an outright trade war, or 3) will they attempt to ease monetary policy to stimulate economic growth and/or devalue their currencies to make their goods more appealing for U.S. importers, likely drawing the ire of the administration and potentially lead to tariffs being raised further on some countries. Mexico's president has stated that that country would not retaliate, leading to hopes that tariffs could be reduced or removed on imported goods from that country, specifically. On the other hand, China already announced a retaliatory 34% tariff on U.S. imports Friday, which most view as a display of strength to save-face and put President Xi in a stronger negotiating position, but that also remains to be seen. If other countries enact a similar gameplan to Mexico and fail to escalate the situation then stocks should find their footing and respond positively in the coming months, but if more take China's tact the downside could

continue to dominate.

▲ **Putting The Pullback In Context.** The S&P 500 fell 9% last week and is now lower by 13.4% year-to-date. While those are large and unsettling numbers to be sure, even after the selloff that has taken root over the past month and a half, the S&P 500 is just back to levels seen in August of 2024 during the initial unwind of the Japanese yen carry trade. Volatility (VIX) spiked last Thursday and made a new year-to-date high on Friday closing out the week above 45 as the S&P 500 fell 10.5% over that two-day stretch. This is a notable 'higher high' for the VIX and evidence of some degree of panic and a 'get me out' mentality which can coincide with more durable market bottoms. An elevated VIX makes the bar to chin for additional downside high as hedging costs are now exceedingly high for protection over the next 30 days. This is no guarantee that Friday's flush is the bottom for stocks, but it's worth noting that just 2 stocks in the Nasdaq 100 closed last Friday in positive territory, highlighting just how bad breadth was, particularly for communication services, consumer discretionary, and information technology stocks. With high trading volume behind Friday's move lower, this is potentially a contrarian signal worth watching.

▲ **Tariffs Reinforce The Case For Diversification.** On the equity front, there were few places to hide last week as U.S. indices as well as markets tied to Europe, Japan, and emerging markets all fell after the mid-week announcement on tariffs. Initially, stocks tied to developed and developing markets abroad held up better than U.S. large-caps and SMid, highlighting the continued value of geographic diversification. But it's notable that the selloff spilled over outside the U.S. and made its way into foreign markets with Eurozone indices, specifically, pulling back in a big way into the weekend. The sharp drop in the U.S. dollar contributed to this relative outperformance and could buoy markets abroad as capital that has been hiding out in U.S. assets is repatriated and reallocated in its country of origin. At some point, the Trump administration is likely to pivot/shift and focus on more pro-growth policies, and if Canada and Mexico, specifically, attempt to deescalate the situation, U.S. equities could stabilize and find their footing in the coming weeks. From an asset allocation perspective, we remain neutral across asset classes and sub-asset classes. Diversification via geography and via exposures to assets

denominated in foreign currencies remains desirable as we expect opportunities to be presented in the coming months/quarters as investors digest this news and see how it ultimately impacts economic growth and inflation. Swift market moves are unsettling, but investors with a longer-term investment horizon can take solace in improving valuations. At the time of this writing, the S&P 500 is trading at a more reasonable forward price-to-earnings (PE) ratio of 18.6 compared to 21.6 at the start of the year.

### ▲ **Bonds: Treasuries The Preferred 'Risk-Off Asset' In A Tough Tariff-Impacted Tape; Credit Spreads Widen, Corporate Bonds Cheapen As Issuance Drops Off; Labor Market Solid - For Now, Likely Keeping The Fed On The Sidelines In May.**

▲ **Treasury Bond Bulls Big Winners Amid The Tariff Tumult.** Core fixed income holdings were one of the few ports in the storm for investors last week with the Bloomberg Aggregate Bond index returning 1.1% as a lengthy list of tariffs were announced on a broad swath of the U.S.' trading partners. Treasury yields fell every day last week, with the 10-year yield sinking by 26-basis points to close the week at 3.99%. The U.S. dollar reacted in kind to the move lower in Treasury yields, maintaining its positive correlation with interest rates with the U.S. Dollar Index (DXY) diving from 104.04 to 102.09 before rebounding slightly on Friday to 103.02 as sentiment around the U.S. economy's standing relative to the rest of the world soured. With many investors wondering in recent years if they were getting the same diversification benefit from fixed income as they have grown accustomed to historically, the asset class has risen to the occasion during this latest bout of volatility, providing a lower correlation to equities and gains to help offset losses from stocks.

▲ **Credit Cheapens As Debt Issuance Comes To A Halt Due To Investor Angst.** Higher quality corporate bonds that are stalwarts in most traditional investment portfolios couldn't keep pace with the price appreciation out of U.S. Treasuries last week but did manage a respectable 0.5% gain on the week. Bond issuance dried up over the back-half of the week as trade uncertainty contributed to volatility which reverberated across markets. Just \$6B of newly issued paper came to market prior to the tariff announcement

and estimates calling for \$10-15B in the coming week appears to be written in pencil, not pen. Valuations, as measured by option-adjusted spread (OAS), cheapened for both investment grade and high yield corporates with credit spreads in the latter widening enough to generate a negative total return for the Bloomberg U.S. Corporate High Yield index on the week. High grade bond spreads rose above 100-basis points for the first time in 2025 and high yield spreads widened by 75-basis points last week alone to 450-basis points above Treasuries, leading to a 1.7% weekly drop for lower quality bonds. The move in spreads is the largest weekly change since the onset of the pandemic in 2020 and captures the gravity of how markets are interpreting the potential impacts from the tariff announcement. Price declines that come with cheaper valuations can be difficult to stomach, but current investors that are reinvesting coupon payments at higher yields are set to benefit while those rushing for the exits crystalize losses.

▲ **March Nonfarm Payrolls Solid, Likely Keeping The Fed On The Sidelines.** In the days leading up to President Trump's tariff announcement, credit markets were already pushing yields lower as manufacturing gauges reflected a more downbeat view of the U.S. economy with the March Manufacturing ISM, specifically, falling further into contraction territory than expected. To add economic concerns, the February Job Openings and Labor Turnover Survey (JOLTS) revealed that both Job Openings and Quits fell by 4.5% and 2.0%, month over month, signaling less willingness to hire and fewer voluntary exits as the labor market has cooled. That decrease in labor demand comes at a time when we're seeing new supply enter the market from the public sector as government job cuts surged to 217,000 during March per the Challenger US Job Cuts Index. Those job cuts didn't make their way into Friday's Nonfarm Payrolls report which surprised to the upside but may be a matter of 'when' not 'if' they make an impact. During March, 228k jobs were created, well above the 140k estimate, although payrolls were revised lower by a net 48k for January and February. The unemployment rate ticked higher to 4.2% from 4.1% in February, but this was due to rounding and didn't come in much above our estimate. Average hourly earnings rose 0.3% month over month, in-line with the consensus estimate, but the 3.8% year over year rise fell below the 4.0% estimate. Federal Open

Market Committee (FOMC) Chairman Jerome Powell's remarks on Friday were centered around the Fed's role in keeping long-term inflation expectations anchored and noted that the labor market was on solid footing. Given the solid payrolls report, near-term intervention and policy easing out of the Fed or the resurgence of the 'Fed Put' seems off the table unless we see liquidity conditions deteriorate or seize up with markets unable to function or operate as normal. May could turn out to be a 'live' meeting, but June appears to be the earliest meeting at which a rate cut or policy easing of some sort will be on the viable.

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