Weekly Market Perspectives

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Anthony Saglimbene
Chief Market Strategist
Ameriprise Financial

"Investing takes discipline, patience, and an understanding that market and economic conditions move through good times and bad times. How one reacts or doesn't react to the stress is what largely determines investment success over time."

What Investors Need to Know Right Now.

Economic, policy, and market conditions, as well as expectations about future growth, are evolving quickly, making it very challenging to make hard and fast forecasts about where growth and profits are headed over the next few weeks and months — let alone for the rest of the year.

As is often the case in periods of high uncertainty (this time due to a barrage of aggressive tariff policies), investors should start by taking a step back from the headlines to carefully assess overall conditions before making any decisions around their investments.

As we have been highlighting since the start of the year, high-quality and income-producing assets, well-diversified investment strategies based on risk tolerance, and taking a "longer-term" approach to periods of volatility would likely be the ingredients necessary to navigating the market and economic environment this year. A little over three months into the year, and it seems the advice continues to hold merit.

Notably, before markets corrected in March, and President Trump more fully began laying out his tariff strategy in February, financial conditions were firm, and profit growth was expected to expand beyond just the handful of tech and tech-related companies tied to artificial intelligence. In addition, consumer and business balance sheets remained sound, employment trends were solid, and inflation was slowly trending to the Federal Reserve's 2.0% target (albeit slowly). At the same time, we believed U.S. GDP would grow in 2025, Treasury yields would glide modestly lower from levels at the end of last year, and U.S. equities would likely finish the year higher than where they started. While we aren't ready to change these forecasts just yet, given the still uncertain backdrop of tariff effects and possible changes in the degree and scope of the levies over the coming days, weeks, and months, it's safe to say we are less convicted in our year-end forecasts than even a few weeks ago. As we also take time to assess overall conditions, we would like to provide investors with a bulleted view of what we are thinking at the moment and highlight what investors need to know right now.

- Yesterday, the S&P 500 Index and NASDAQ Composite posted their worst day since the early days of COVID-19 in 2020. Rising global recession fears, potential bouts of higher inflation, and elevated concerns about unintended consequences on consumers and businesses from White House policies have increased uncertainty to levels last seen during the pandemic. The S&P 500 Index is now down over 12% from its February high, the NASDAQ Composite is down almost 18% from its December high, and the Russell 2000 Index is now in a bear market, down nearly 22% from its November 2024 high. Yes, stocks can certainly move lower, particularly if this growth scare turns into a recession. But we believe we are starting to approach levels that historically have provided good entry points for investors willing to stomach the volatility and have time to ride out the storms.

- Cyclical areas outside of technology saw severe selling pressure on Thursday, as did Big Tech. Energy, Industrials, Financials, retail-related areas, multinational companies with high revenue exposure overseas and heavily integrated international supply chains (ex., Apple), and small

cap domestic companies all took major stock price hits yesterday. Investors appeared to take a sell-first, ask questions-later approach, and the selling pressure may continue as some sectors of the S&P 500 were not fully discounting the potential profit pain Trump's tariff policies could instill on corporate America.

- The Trump administration’s tariff strategy is generally outside of what most economists would consider sound economic policy. For instance, the formula the administration used to determine the reciprocal tariff rates for each country was largely determined by a country's trade surplus with the U.S., which was divided by total bilateral trade and reduced by 50%. The across-the-board formula severely penalized countries with large trade surpluses with the U.S. and ignored services from the equation, just focusing on goods. Generally speaking, measuring a country's success versus another based on bilateral trade surpluses and deficits and omitting services from the trade equation is not necessarily an informative way to evaluate economies. Under this construct, it's currently difficult to see how some countries can easily reduce or eliminate these tariffs.

- Although President Trump has said he has left room for countries to negotiate and U.S. Treasury Secretary Scott Bessent noted these new tariffs could be considered the highwater mark for countries that don't retaliate, it is becoming clear the world may operate at new higher tariff rates when trading with the U.S. for the foreseeable future. Note that we still need to see how countries ultimately respond to the U.S. tariffs. Bottom line: Tariffs are a tax on consumption. That tax will be borne by consumers principally, producers, and importers and exporters. The U.S. is the largest consumption market on the planet, meaning every American is likely to see higher prices for most goods they buy if these tariffs remain in place.

- FactSet estimates call for S&P 500 profits to grow by roughly +11.0% year-over-year in 2025. With yesterday's stock decline, the S&P 500 now trades at 20x 2025 earnings per share (EPS). The good news is that it's meaningfully down from the 24x the Index was trading at the beginning of the year. The bad news is that it's still meaningfully above 15 and 20-year averages. In our view, there is a growing risk that S&P 500 companies could lower guidance and provide weaker outlooks over the coming weeks on Q1 earnings calls. This would likely cause analysts to bring down their earnings estimates for the second quarter and possibly beyond over the coming weeks. Yesterday's negative stock reactions are partly a function of investors getting ahead of this potential reality.

- Technically, stock conditions are very oversold at the moment, and they will likely become even more oversold by the end of today. At our 5,500 adverse year-end target, which accounts for some of the unexpected tariff developments we have seen thus far, the S&P 500 is trading well below that level. At some point, we would expect the Index to test its 200-day moving-day average (around 5,760), which is well above our adverse target for the year, particularly if a recession is avoided or more positive developments start coming out of Washington.

- In our view, the risk to growth outweighs the risk of higher inflation based on the current U.S. tariff policy. Thus, we believe the Federal Reserve may need to act sooner rather than later by cutting its policy rate if it also believes or sees a deterioration in the labor market based on current fiscal policies. The Fed will deliver its next policy decision in a little over a month, which may feel like an eternity based on how rapidly markets are moving. But the odds of a 25-basis point Fed rate cut on May 7 has jumped to roughly 33% from approximately 11% on Wednesday. Most of the market now sees one or two 25 basis point rate cuts by the June meeting. Though a potential stagflation environment would challenge the Fed, we believe there is ample room for the central bank to support growth and cut rates if needed.

- Diversification is working. Stay the course. The Bloomberg U.S. Universal Bond Index (+3.4%) and the Bloomberg U.S. Government Bond Index (+3.8%) are higher year-to-date, as high-quality bonds have added stability within a portfolio. Gold is higher by over +18.2% this year, the Bloomberg Commodity Index is higher by +6.7%, and the Credit Suisse Hedge Fund Index (a measure of alternative strategies) is higher by +2.4% in 2025. Times like this is why an investor doesn't put all their eggs in one basket.

- Finally, reminder that investing takes discipline, patience, and an understanding that market and economic conditions move through good times and bad times. How one reacts or doesn't react to the stress is what largely determines investment success over time. Simply, staying invested continuously generally outperforms market

timing, whereas missing the best days in performance, which often cluster around the worst days in performance, can have dramatically negative effects on long-term returns. Notably, there have been many times in history when stocks experienced significant drawdowns intra-year (similar to now) and still finished the year higher, particularly when recessions were avoided. Recently, we have published a series of Committee Perspectives reports that highlight some principles of investing and address our thoughts on market volatility from a longer-term perspective. Please ask your Ameriprise financial advisor for copies of How Good is Your Aim, Compounding is Hard, Catching the Wave, and It Takes Time for Trees and Portfolios to Grow.

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Diversification does not assure a profit or protect against loss.

There are risks associated with **fixed-income** investments, including credit (issuer default) risk, interest rate risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer term securities.

Stock investments involve risk, including loss of principal. High-quality stocks may be appropriate for some investment strategies. Ensure that your investment objectives, time horizon and risk tolerance are aligned with investing in stocks, as they can lose value.

Past performance is not a guarantee of future results.

An index is a statistical composite that is not managed. It is not possible to invest directly in an index.

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The **S&P 500 Index** is a basket of 500 stocks that are considered to be widely held. The S&P 500 index is weighted by market value (shares outstanding times share price), and its performance is thought to be representative of the stock market as a whole. The S&P 500 index was created in 1957 although it has been extrapolated backwards to several decades earlier for performance comparison purposes. This index provides a broad snapshot of the overall US equity market. Over 70% of all US equity value is tracked by the S&P 500. Inclusion in the index is determined by Standard & Poor's and is based upon their market size, liquidity, and sector.

The **NASDAQ Composite** index measures all NASDAQ domestic and international based common type stocks listed on the Nasdaq Stock Market.

The **Dow Jones Industrial Average** (DJIA) is an index containing stocks of 30 Large-Cap corporations in the United States. The index is owned and maintained by Dow Jones & Company.

The **Russell 2000 Index** measures the performance of the small-cap segment of the US equity universe. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set. The Russell 2000 includes the smallest 2000 securities in the Russell 3000.

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