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Investment Institute

Market Commentary

Weekly perspective on current market sentiment **April 30, 2025**

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Last week's S&P 500 Index: +4.6%

Taking a break

Key takeaways

- Investors do not like uncertainty, but that's what we have seen a heavy dose of as the S&P 500 Index briefly fell 20% from the record high.
- We wouldn't be surprised if the index retested its lows as additional uncertainties create headwinds.

We have been hammering home the theme of tariffs and the accompanying uncertainties over the course of the past three months. And, clearly, with good reason. We know that market participants do not like uncertainty, and that's unfortunately what we have seen a heavy dose of as the S&P 500 Index (SPX) briefly dipped 20% from its mid-February intraday record high (of approximately 6,144). The index, at the time of this writing, is down 10% from that record high. And as this strategist likes to point out, over the long history of the SPX, a 10% pullback has occurred on average every 10½ months since 1930 according to Bloomberg data. So from that perspective, the index is not far below this year's earlier record high, especially given the intense level of uncertainty and the likelihood that earnings growth is going to be negatively affected.

We keep getting the absolutely rational question: "Have we seen the bottom in stocks?" As much as we would like to boldly answer that question with a resounding "yes!" that just isn't the case. Again, tariff and growth concerns are the main market drivers right now, but there will likely be a few other issues that result in road bumps in the months ahead. We wouldn't be surprised if the SPX retested its lows as additional uncertainties create headwinds.

Take the month of May, for example. House Speaker Mike Johnson's goal has been to get budget legislation on the president's desk by Memorial Day, a tall task in the eyes of many pundits. The Republicans are using the budget reconciliation process to get around the Senate's 60-vote requirement to advance a bill. The main components of this bill that the administration is pushing include extending the Trump 1.0 tax cuts (they expire at the end of this year) and cutting a broad range of government expenses while increasing defense spending and raising the debt ceiling. Narrow Republican majorities, particularly in the House, along with volatile financial markets do not make the job of moving this legislation forward and ultimately ready for the president's signature any easier.

We think in the nearer term the SPX could spend a lot of time in a relatively wide range from 5,000 to 5,500. The SPX has been just above the top end of that range the last couple of trading days, but it seems a catalyst will be needed to push the market noticeably higher. A completed trade deal with Europe or China could be one such catalyst, but such a completed trade deal will likely take time if history is any example. Meanwhile, U.S. and international leaders are posturing with moves and countermoves, which only leave investors with more questions.

Against the high policy uncertainty, we favor focusing on two goals. First, we would use the recent rebound to reallocate to our highest-rated asset classes, including U.S. large- and mid-cap equities, and quality sectors that emphasize stable balance sheets and good cash flow, such as Information Technology, Communication Services, Financials, and Energy. We also favor selectivity in fixed income and prefer intermediate maturities (three to seven years) in investment-grade corporates and municipals. Our view is that quality allocations should help preserve wealth and offer better growth opportunities as uncertainties finally fade.

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An index is unmanaged and not available for direct investment.

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