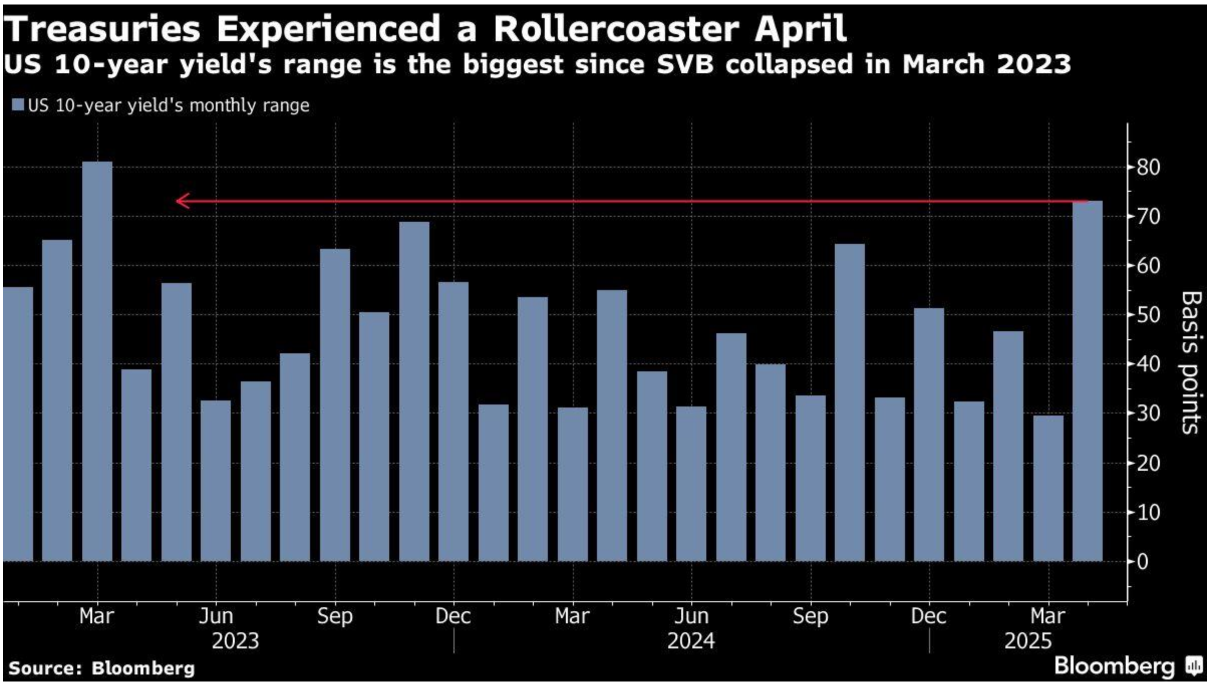
April Market Commentary | Rebound or Reset?

By Rob Edel, Chief Economist

For the first half of April, markets were down. By the end of the month, however, traders were all smiles again. Last month, we warned investors to brace for a rollercoaster ride, and the markets delivered just that.

The S&P 500 fell sharply following President Trump's April 2 "Liberation Day" tariff announcement. By April 8, large-cap U.S. stocks had dropped nearly 11% from the start of the month and almost 19% from their February 19 high, coming dangerously close to marking the start of a bear market. However, by May 2, the S&P 500 had rebounded by over 14%, erasing all of the losses from the tariff-driven sell-off. Bond yields mirrored this volatility, with 10-year yields reversing the downward trend seen earlier in the year, rising sharply in early April.



A back-and-forth between Trump and the market.

Trading action last month could be best characterized as a back-and-forth between President Trump and the market, with the market winning a split decision. The stock market fell sharply after the April 2 tariff announcement, putting pressure on

President Trump to pause some tariffs, which led to a dramatic rally of nearly 10% on April 9.

An additional 5% single-day rally followed on April 22, after Trump assured Wall Street that he would not fire Federal Reserve Chair Jerome Powell.

We call it a split decision because neither the markets nor President Trump are back to acting as usual. While bond yields have stabilized, they remain elevated, and the U.S. dollar is notably weak.

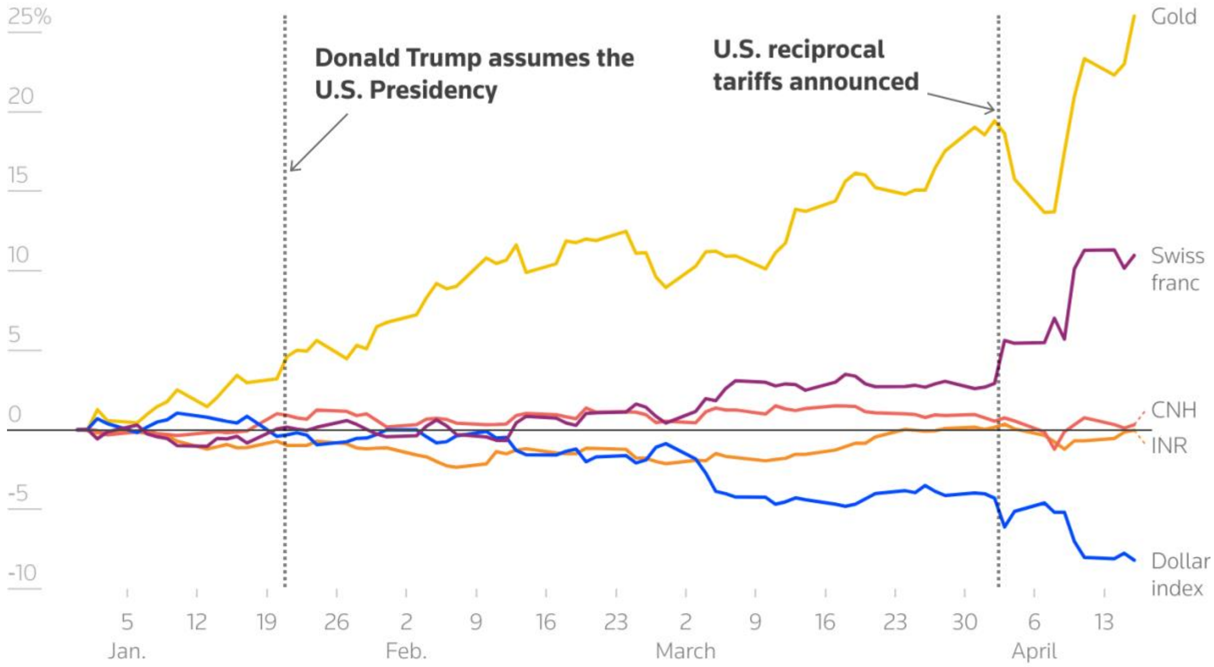
A breakdown in safe haven assets.

In times of crisis, investors typically flock to safe havens like the U.S. dollar and 10-year U.S. Treasuries. Not this time. Stocks fell, but rather than rally, both the U.S. dollar and bond prices weakened. Stocks have recovered somewhat, but by early May, the dollar and bonds have not.

Other safe havens, such as gold and the Swiss franc, have rallied, but the weak U.S. dollar and elevated 10-year bond yields signal that the market still has challenges ahead.

Based on the market action last month, it seems the market is trying to keep American exceptionalism alive, but President Trump’s actions may not be helping. While we admit uncertainty regarding Trump’s underlying strategy and goals, it appears that his desire to “Make America Great Again” may not align with the concept of American exceptionalism. What’s good for Main Street may not always be good for Wall Street.

Non-dollar safe havens have run up amid U.S. tariff spurred uncertainty



Note: All values rebased to 0 starting Dec 31, 2024

Source: LSEG

U.S. stocks face a reality check.

U.S. stocks are off to their worst start in more than 30 years relative to global peers. In April, the S&P 500 returned -0.7% (total return in U.S. dollars), while the MSCI All-Country ex-U.S. index returned +3.7% (total return in U.S. dollars). While both U.S. and non-U.S. stocks have rebounded since Trump's April 2 tariff announcement, non-U.S. stocks have bounced back more quickly.

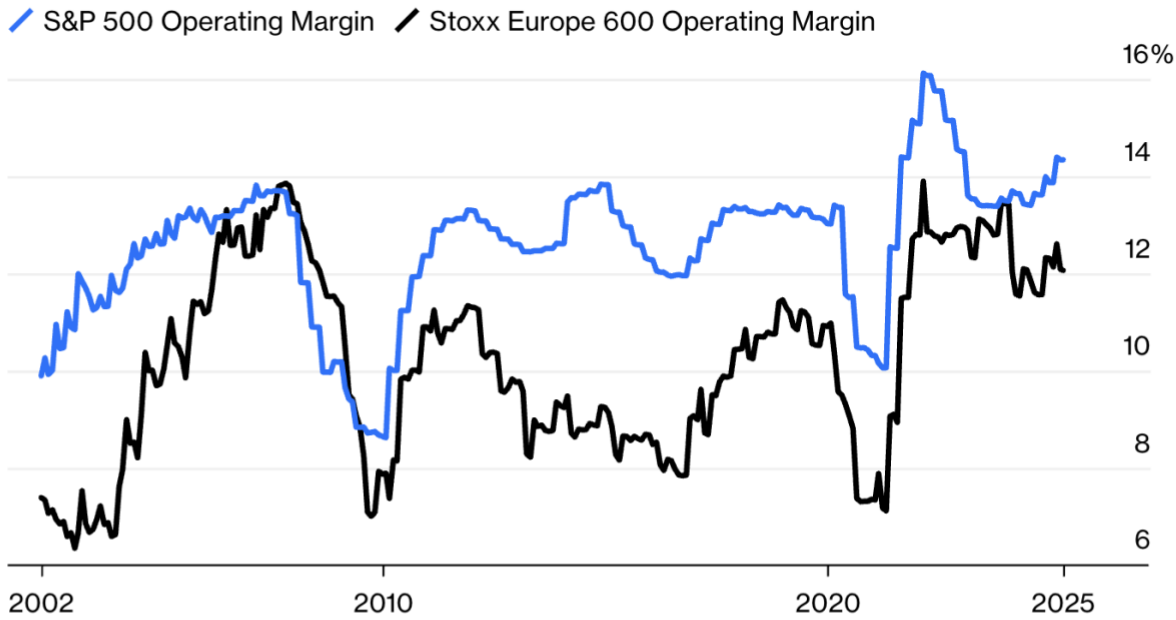
Global markets reassess the American advantage.

The relative weakness in U.S. stocks in 2025 may signal that investors are re-evaluating the concept of U.S. exceptionalism. There are both advantages and disadvantages to consider.

From a GDP perspective, U.S. stocks significantly outperform their global counterparts, and represent 63% of the global stock benchmark MSCI All Country World Index, far exceeding America's 27% share of global GDP. U.S. stocks are also notably profitable. Profit margins for U.S. companies have consistently outpaced those of European companies since 2009. While the S&P 500's outsized exposure to the technology sector accounts for much of this difference, U.S. exceptionalism extends beyond just tech and Silicon Valley.

It's the Profit Margins, Stupid

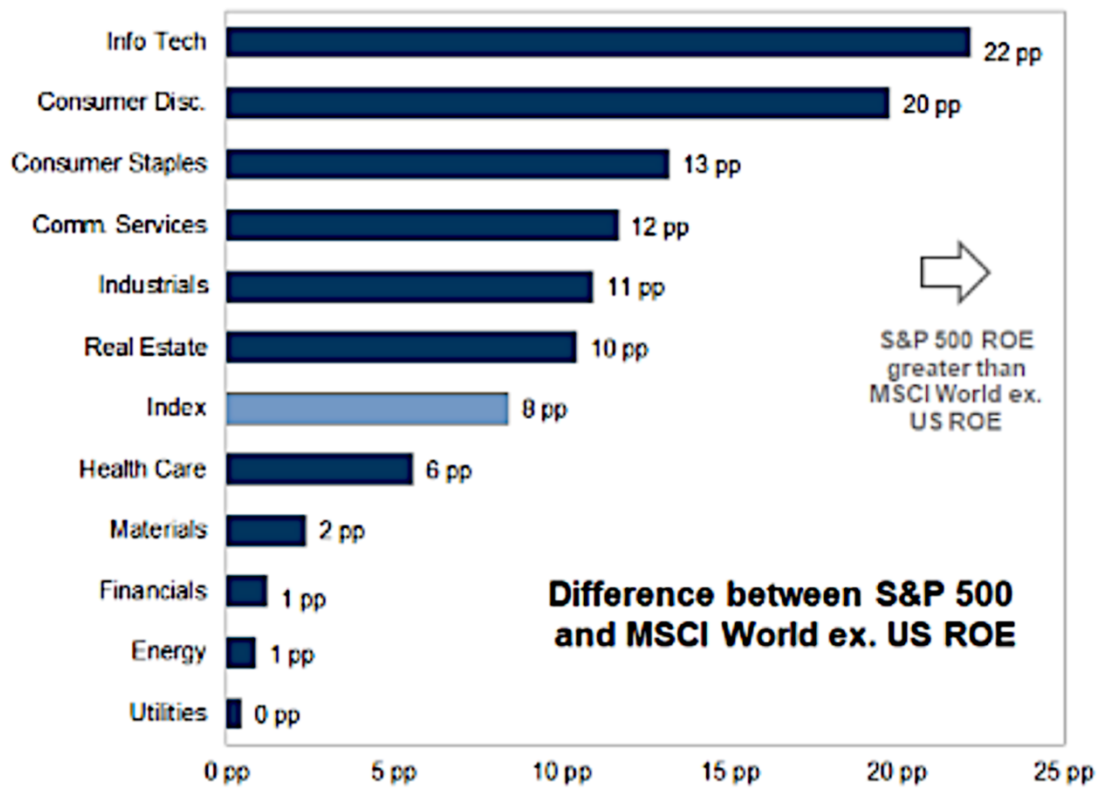
Since 2009, US companies have been more profitable



Source: Bloomberg

As highlighted by Goldman Sachs, S&P 500 companies outperform in every sector, with a greater return on equity (ROE) than the MSCI All Country World Index ex-U.S. U.S. companies' superior performance is driven by their higher levels of investment. Goldman reports that the growth investment ratio (growth capex plus R&D as a percentage of cash flow) is 42% for U.S. companies, compared to just 26% for global equity markets.

Exhibit 7: Every sector has a higher ROE in the S&P 500 compared to the MSCI World ex. US

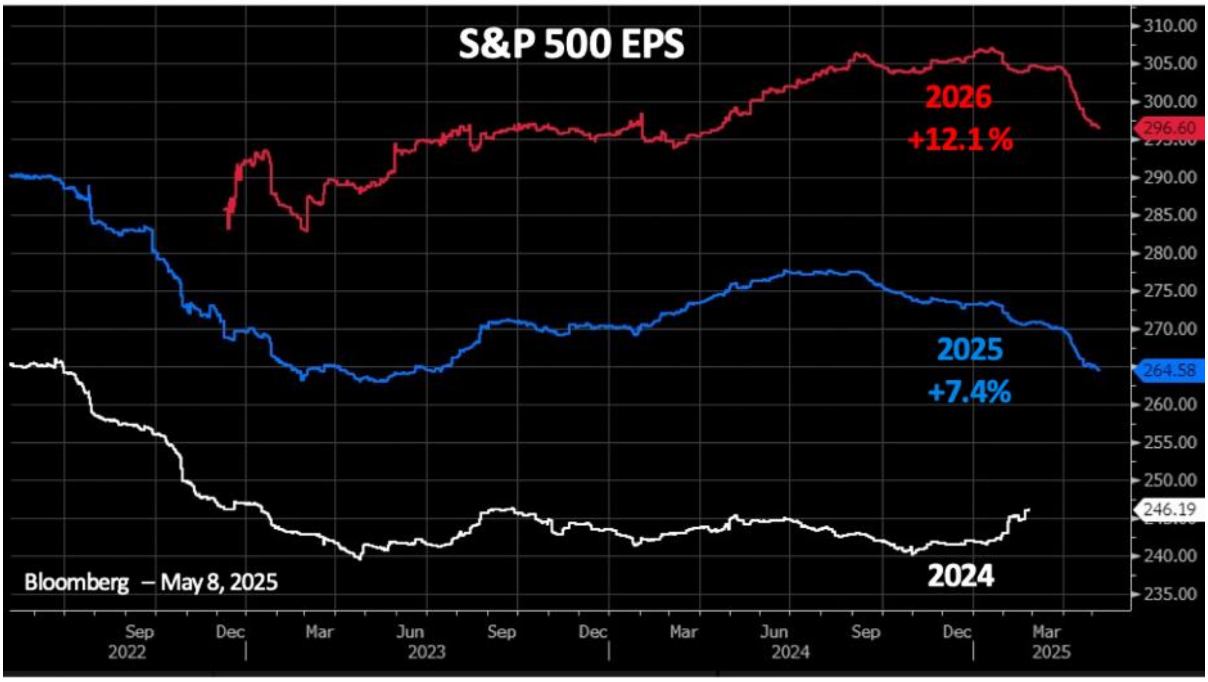


Source: FactSet, Goldman Sachs Global Investment Research

Corporate earnings outlook.

While superior growth and profits have long supported U.S. exceptionalism, traders are focused on current corporate earnings, which are being sharply revised lower. As a percentage of total revisions, more S&P 500 companies are lowering rather than raising their 12-month earnings estimates than at any point since 2020.

As of May 8, earnings per share (EPS) for the S&P 500 are still expected to grow by 7.4% in 2025 and 12.1% in 2026. Even the recent downward revision is not unusual. It's common for companies to lower their earnings expectations early in the year, only to surpass them later on — a classic "under promise and over deliver" strategy.



Wall Street's bearish outlook.

Still, Wall Street remains unconvinced. According to Barron's Big Money Poll, institutional money managers are the most bearish they've been in nearly 30 years, with only 26% describing their outlook as bullish over the next 12 months. Strategas reports that the average sell-side analyst has lowered their year-end target for the S&P 500 by approximately 750 points since March.

GOOD NEWS… EXPECTATIONS MEANINGFULLY LOWER

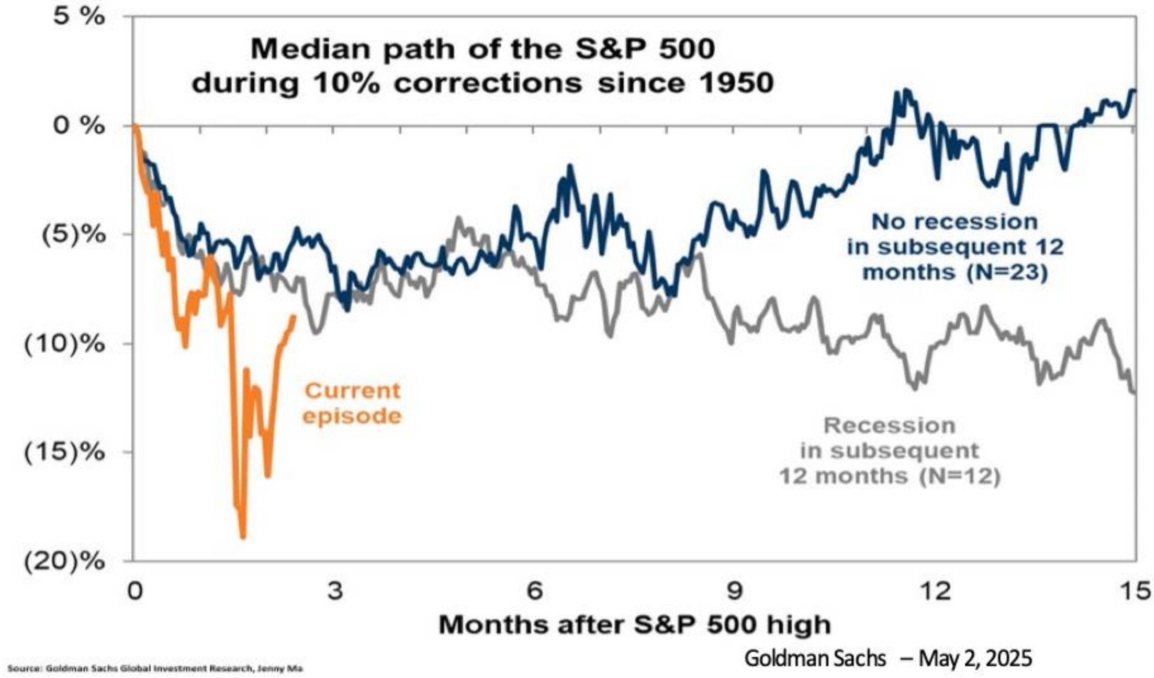
Year-End 2025 Wall Street Strategist Targets

Firm	Px Target	YTD Change	Date Changed
JP Morgan	5200	-1,300	4/7/2025
Evercore ISI	5600	-1,200	4/6/2025
Oppenheimer	5950	-1,150	4/6/2025
BofA Securities	5600	-1,066	4/7/2025
RBC	5550	-1,050	4/7/2025
Yardeni Research	6,000	-1,000	3/31/2025
Natixis	5800	-900	4/10/2025
Goldman Sachs	5,700	-800	3/31/2025
Citi	5800	-700	4/11/2024
Barclays	5,900	-700	4/14/2025
BMO Capital Markets	6100	-600	4/9/2025
RBC	6,200	-400	3/17/2025
Societe Generale	6400	-350	4/1/2025
Morgan Stanley	6500	0	4/1/2025
Ned Davis Research	6,600	0	3/18/2025
Raiffeisen	6100	-	4/8/2025
22V Research	6,440	-	3/18/2025
Average	*5967*	*-748*	
Current S&P	*5406*		

Since March, the average sell-side target has been revised lower ≈750 points from Jan 1.

Strategas – Apr 15, 2025

With an average year-end target of 5,967, Wall Street was expecting only a 5% return for the remainder of 2025 by the end of April. Much depends on the U.S. economy and whether it enters a recession. Goldman Sachs sees U.S. markets currently trading at an inflection point between recession and no recession. Based on the median path of the S&P 500 during previous 10% market corrections since 1950, while the current market had been trading as though a recession was likely in the next 12 months, the rally at the end of April has left markets in an undecided state.

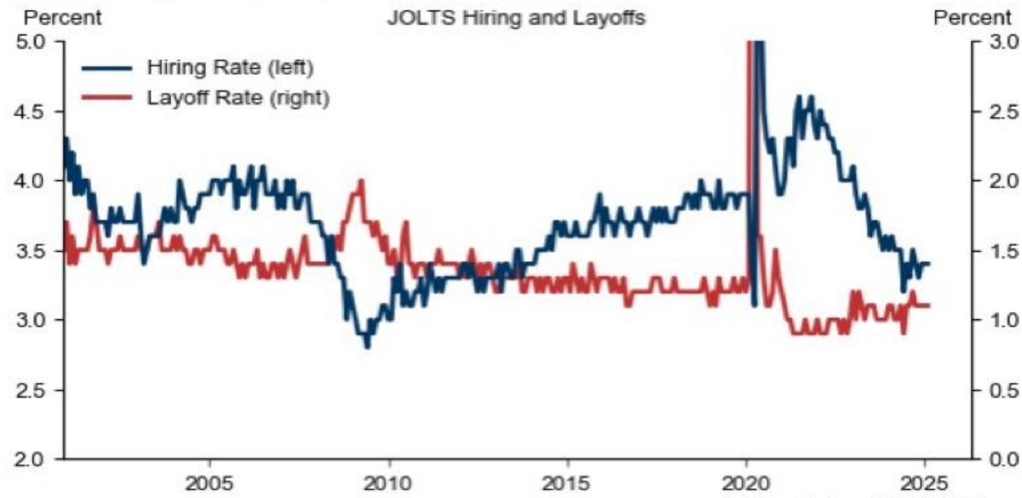


Recession outlook: diverging signals.

With such high stakes, economists are reluctant to make a definitive call, with the chances of a recession now seen as nearly a coin toss. According to a recent Bloomberg survey of economists, the median respondent estimates a 45% chance of a downturn in the next year, up from 30% in March.

In their defense, economic data has been far from conclusive. Soft data (based on surveys and sentiment) has turned sharply negative, while hard data (actual economic figures) has remained resilient. For example, the Conference Board reported last month that consumer confidence dropped to five-year lows, while consumer expectations fell to their lowest level in 14 years. According to the Bureau of Labor Statistics, however, the job market remains in decent shape. Hiring has slowed, but layoffs have remained stable. Consumer confidence and employment are key indicators for the future direction of the economy, and they are not telling the same story.

No Rise in Layoffs So Far; Watch the Hiring Rate

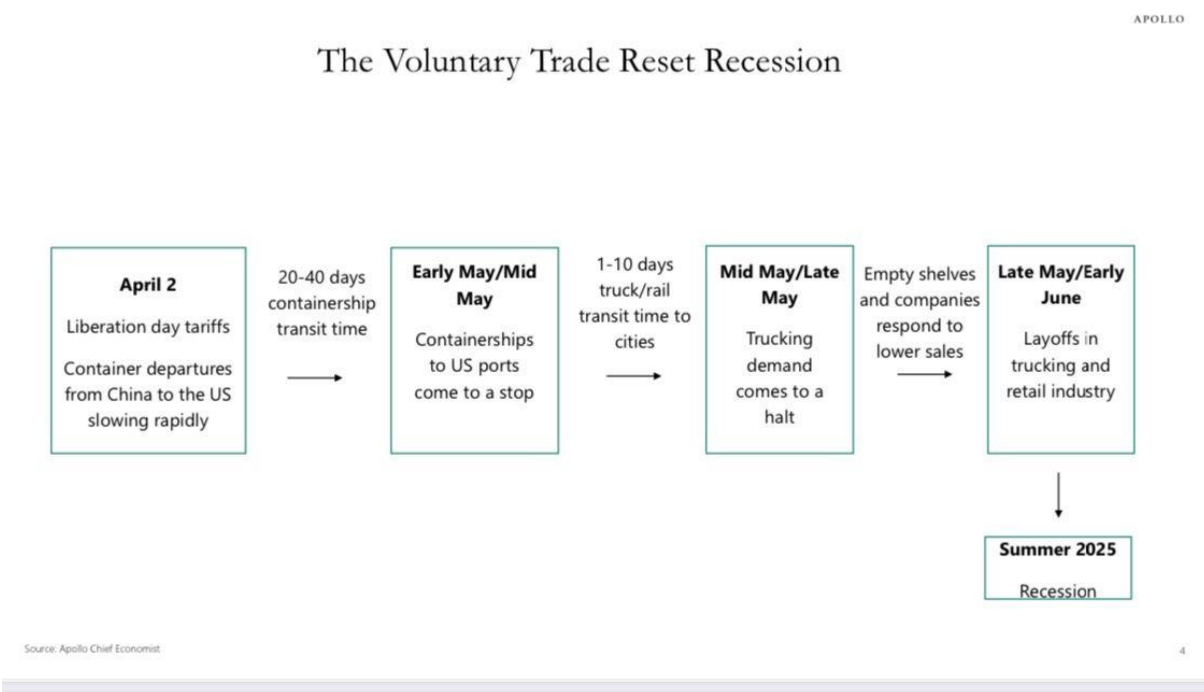


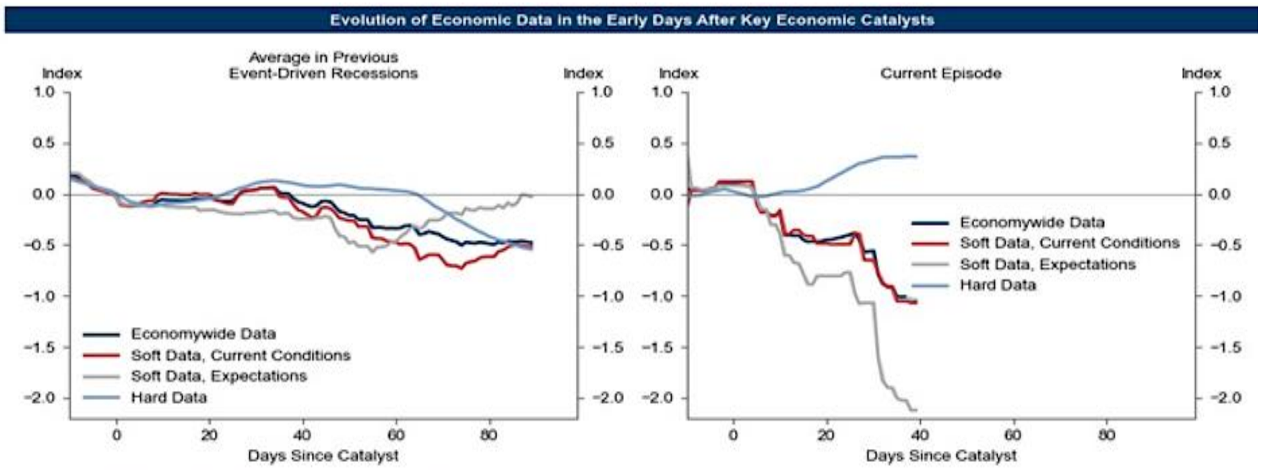
Goldman Sachs – May 2, 2025

Source: US Bureau of Labor Statistics, Haver Analytics, Goldman Sachs Global Investment Research

Uncertainty and trade war impact.

The risk for the economy is whether the downturn in soft data is a precursor to similar weakness in hard data. A flow chart prepared by Apollo outlines how tariffs and the trade war could filter through the economy, potentially triggering a recession by the summer. Apollo points to the dramatic decline in containers departing China as evidence of a slowdown in economic activity. According to Goldman Sachs, an event-driven recession — the kind they believe the tariff war risks creating — has historically followed a pattern of rapidly declining soft data, followed by a deterioration in hard data about three months later. We find this view worth considering.

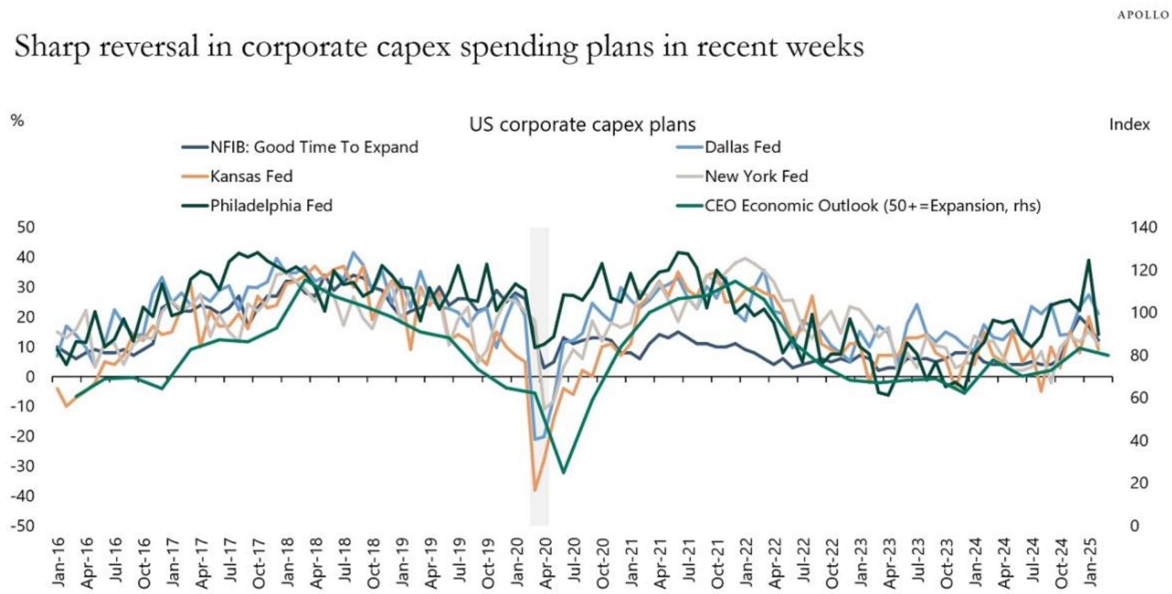




Source: Goldman Sachs Global Investment Research Goldman Sachs – May 5, 2025

Corporate America and tariffs.

Chief among our concerns is the uncertainty that tariffs and the trade war have introduced for corporate America. How can companies make business decisions in such an environment? As highlighted by Apollo, plans for U.S. corporate capital expenditures have been sharply reduced, and new manufacturing orders have plummeted. Markets likely rallied in late April on hopes that we had reached the peak of global policy uncertainty, with President Trump reversing some of his tariffs. Even if this proves to be the case, the damage to the economy has already been done, and its effects are likely to appear in hard economic data over the coming months.

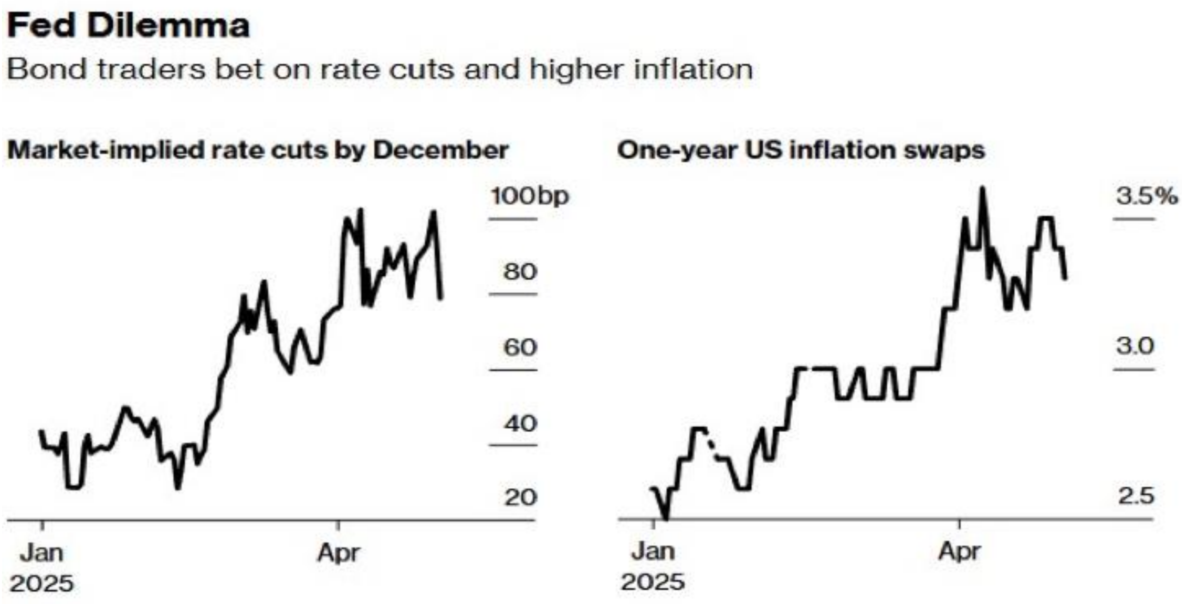


Bond yields and the dollar.

If a mild recession is expected, bond yields would typically fall as investors seek safety. But after "Liberation Day" on April 2, bond yields rose even as stocks declined. This is unusual, given that U.S. Treasuries are normally seen as a safe haven during market stress.

One explanation is that short-term yields moved higher due to concerns that tariffs could drive inflation, limiting the Federal Reserve's ability to cut interest rates. However, longer-term yields also increased, suggesting that bond traders may not be too concerned about a recession. Credit spreads, another measure of market stress, also remained relatively narrow.

There are a few possible reasons why longer-term bonds were sold. Some investors may be worried about persistent inflation or weakening demand for U.S. assets. Another explanation is that hedge funds unwound certain trading strategies that rely on heavy borrowing, which triggered a wave of Treasury bond sales and pushed yields higher.



Source: Bloomberg Bloomberg – May 2, 2025

Currency concerns and capital flow.

The unwinding of the basis trade might explain why U.S. 10-year bond yields rose last month, but it doesn't clarify why the dollar fell.

It is true that the U.S. dollar is overvalued, and has been for quite some time. The Broad Trade-Weighted Dollar Index is trading more than two standard deviations above its average level over the past 50 years, so some reversion to the mean is expected. However, the timing does not align with current fundamentals.

Exhibit 8: The Dollar Looks Very Overvalued

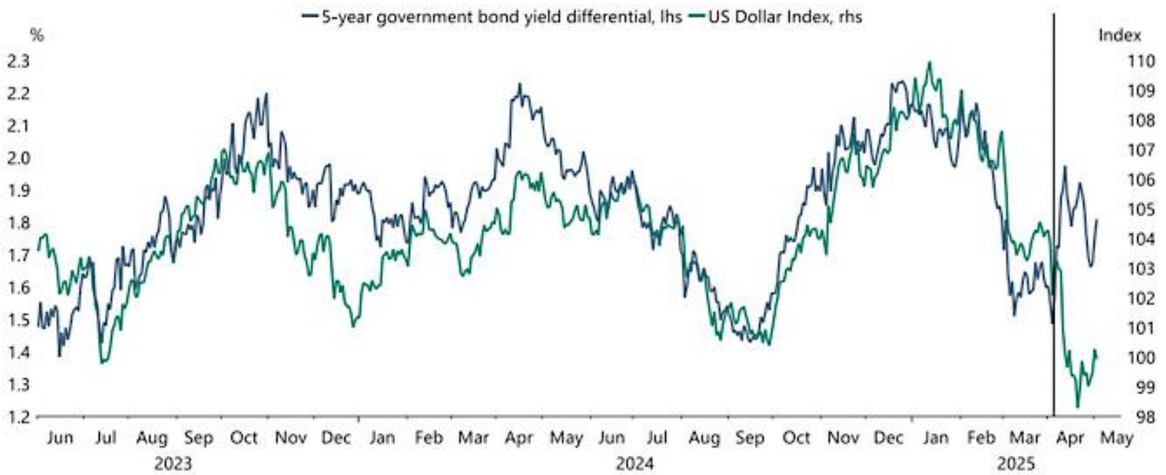
Source: FRB, Haver Analytics, Goldman Sachs Global Investment Research

Goldman Sachs – Apr 29, 2025

As highlighted by Apollo, the dollar typically trades in line with bond rate differentials: when U.S. bond yields are higher than those of other countries, the dollar strengthens, and vice versa. After "Liberation Day," the dollar decoupled from interest rate differentials, falling despite U.S. yields increasing relative to their trading partners.

APOLLO

After Liberation Day, the dollar has disconnected from interest rate differentials



Note: Yield differential is DXY weighted. Sources: Bloomberg, Macrobond, Apollo Chief Economist

Apollo – May 6, 2025

Additionally, higher tariffs are typically expected to lead to a stronger dollar, not a weaker one. Similar to the discussion on Treasury yields, the concern is whether this is a sign of capital leaving the U.S. According to Bloomberg's Simon White, U.S. Treasuries aren't the only asset foreign investors can sell. Foreign ownership of U.S. stocks has surged, and foreigners now own as much U.S. corporate debt as they do U.S. Treasuries.

Treasury Secretary Bessent's role.

Fed Chairman Jerome Powell's dual mandate is to keep inflation in check and ensure Americans have jobs. The health of the dollar and U.S. Treasury bonds falls under the jurisdiction of Treasury Secretary Scott Bessent.

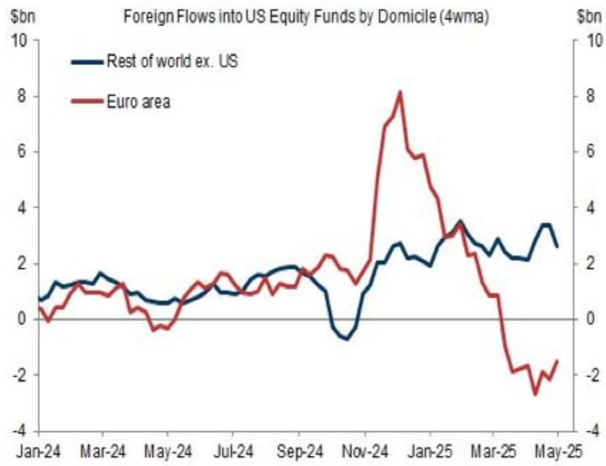
It is Bessent's job to explain Trump's trade policy to foreign governments, Congress, and the American people. He walks a tightrope as he navigates between multiple conflicting goals. The Treasury Secretary has publicly stated his desire to lower bond yields, weaken the dollar, and reduce oil prices, but without triggering a recession.

Bessent is aware of the unsustainable fiscal path the U.S. is on, understanding that a recession would only make it worse. He also knows that the U.S. needs low interest rates to ease the burden of growing national debt. Foreign capital plays a key role in this strategy.

While a falling dollar can benefit American exporters, if it results from foreign capital leaving the U.S., it could pose a problem. According to Goldman Sachs, Europe has begun to sell U.S. equities, but the rest of the world has not. However, there are signs that demand for non-U.S. assets from foreign investors is increasing. It's Bessent's responsibility to ensure this trend doesn't gain momentum.

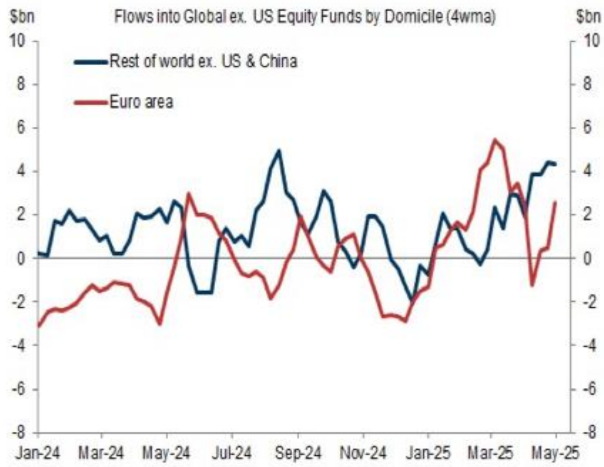
Bessent could be described as the chief U.S. bond salesman, and his job is becoming increasingly difficult. Not only is there more U.S. government debt to sell, but Trump's policies are pushing away some of his best customers.

Exhibit 2: While Europe has repatriated assets, investors outside of Europe have continued to purchase US equities at a steady pace



Source: EPFR, Goldman Sachs Global Investment Research

Exhibit 3: However, there are early signs that suggest increased marginal demand for non-US assets from foreign investors

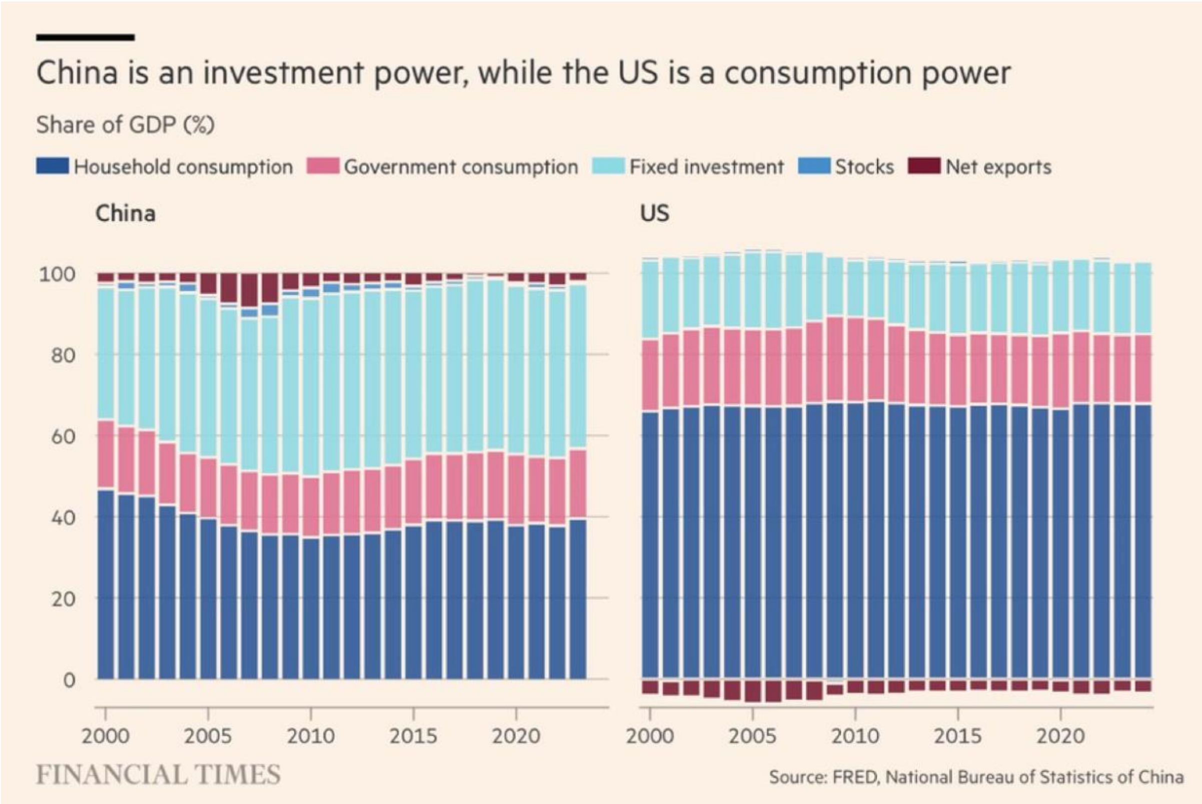


Source: EPFR, Goldman Sachs Global Investment Research

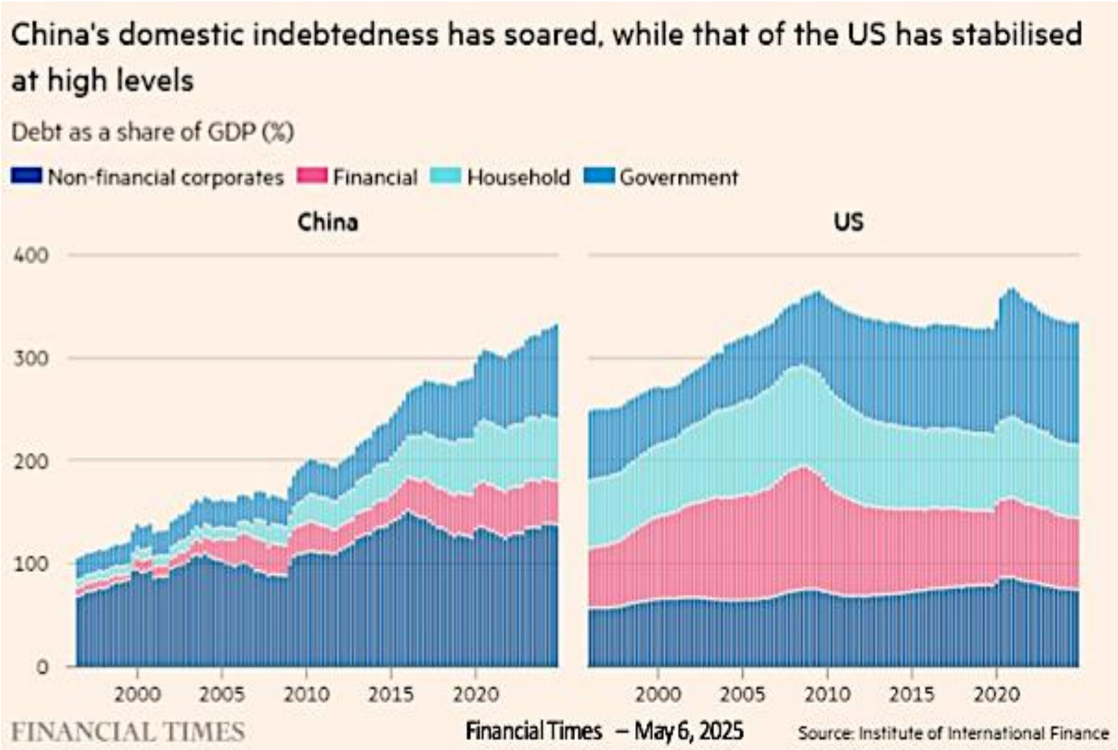
Goldman Sachs – May 8, 2025

Global Economic Rebalancing

We do not claim to understand President Trump's tariff strategy, and we're not sure Treasury Secretary Bessent fully does either. However, we agree that the global economic order needs rebalancing, particularly between the world's two largest economies, the U.S. and China. U.S. Vice President JD Vance was quoted on Fox News last month questioning the benefits of the globalist economy from an American perspective. He stated, "We borrow money from Chinese peasants to buy the things those Chinese peasants manufacture. That is not a recipe for economic prosperity." China took exception to the reference of its citizens as "peasants," but remained largely quiet on the economic merits of the existing relationship.



In the view of former hedge fund manager Ray Dalio, founder of Bridgewater Associates, the U.S. needs to cut its trade deficit by increasing manufacturing output and reducing consumption, while China must do the opposite. According to Dalio, both countries need to reduce their unsustainable debt burdens. China is an investment power, while America leads in consumption power. Both countries face challenges with domestic indebtedness, although U.S. debt levels have stabilized—primarily because U.S. households and corporations are less leveraged. However, the U.S. government continues to borrow at an unsustainable pace.

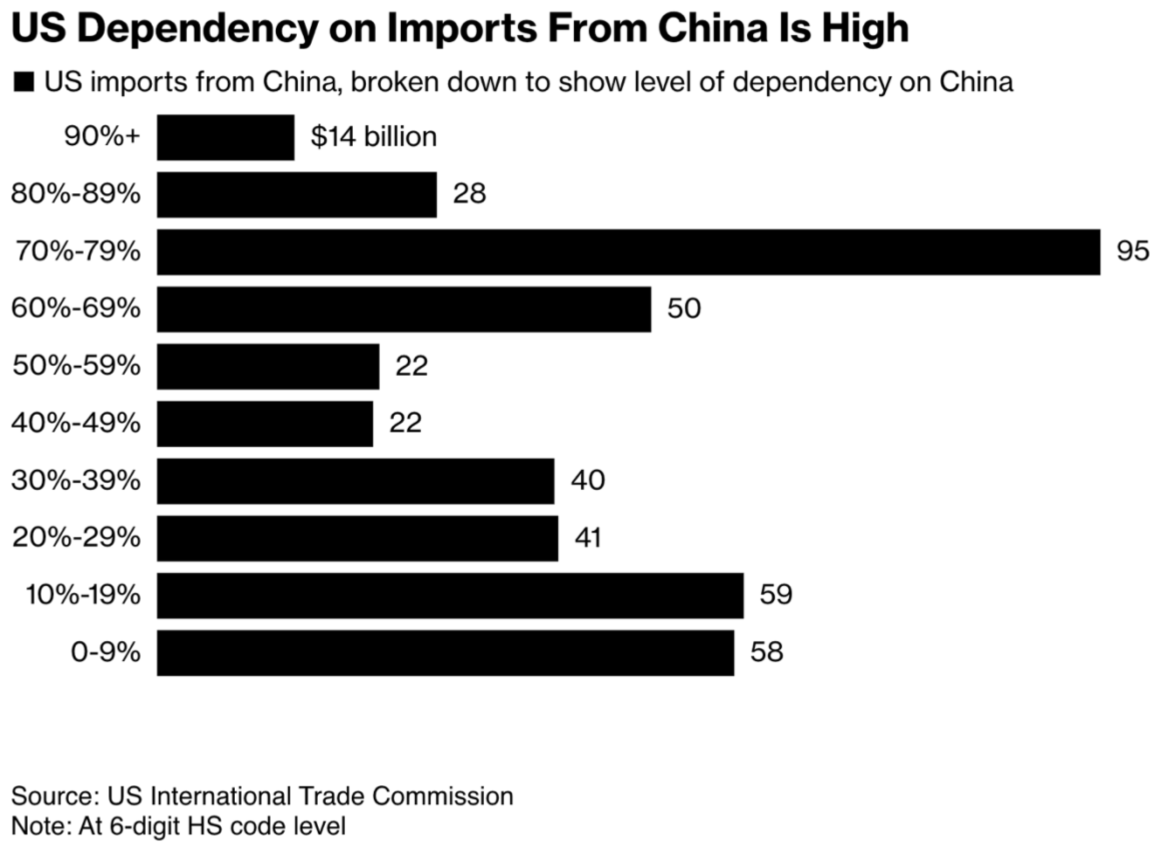


The road ahead: America's economic future.

It sounds like a simple problem to fix: America, buy less, make more. China, make less, buy more. Over time, this may be possible, but not at the pace President Trump seems to want the rebalancing to happen. Trump may also not have the leverage to achieve his goals. While it's unclear exactly what he wants, his decision to impose broad-based tariffs on most goods from China suggests he aims to sharply reduce imports from China entirely. This appears short-sighted.

As highlighted by Bloomberg, U.S. dependency on imports from China remains high for certain goods. Of over $180 billion in imports, America relies on China for 50% or more. On a more detailed level, Apollo notes that 97% of baby carriages, 96% of artificial flowers, and 96% of umbrellas come from China. Not concerned yet? Consider that 90% of rare earth minerals are sourced from China.

However, China doesn't hold all the cards. Its economy is weak, with consumer spending still recovering from the pandemic. China may struggle to find new buyers for the baby carriages and other products it had hoped to sell to the U.S., especially as other countries may be reluctant to face a domestic manufacturing crisis from cheap Chinese imports. As of early May, the U.S. and China appear to be de-escalating the trade war with a 90-day tariff pause. While this is a positive development, much work remains.

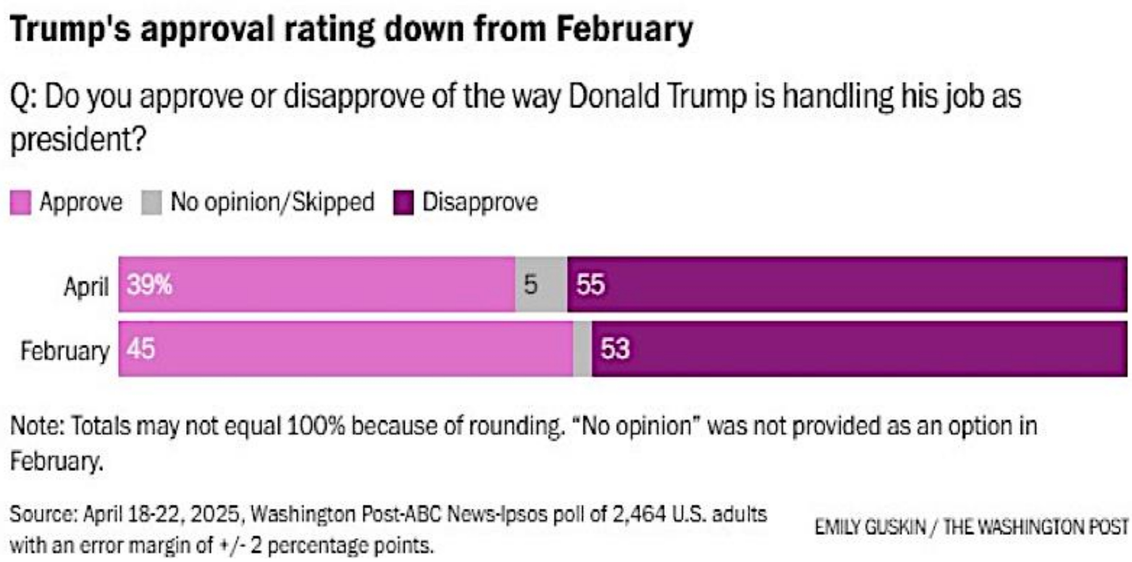


Political pressures and public opinion.

For America, public opinion will ultimately determine whether Trump has the political support to win a trade war with China. While Republicans control Congress, their majorities in both the House and Senate are razor-thin. Trump doesn't need to worry about re-election, but with mid-term elections less than two years away, many Republican congress members do.

The first 100 days of a U.S. presidency are typically seen as a honeymoon period. Trump's first 100 days, however, have been chaotic, and public opinion is starting to shift. Trump's approval rating has dropped to 39%, the lowest of any president at the 100-day mark.

The market appears to be giving Trump a similar failing grade, with only Nixon's second term showing a worse return for the S&P 500 after the first 100 days in office. Even Fox News seems to have struggled to find positive highlights from Trump's first 100 days, listing the declassification of the JFK files, the end of support for paper straws, and the demise of the penny as key achievements.



The road ahead for Trump.

There may still time be for Trump to turn things around. While soft economic data has weakened, hard data still points to an economy on firm footing.

Perhaps the tariffs are simply a bargaining tool, and the master of the art of the deal will secure favourable trade agreements. Instead of risking American exceptionalism, Trump may be attempting to rebalance the global economic order and put America on a more sustainable fiscal path.

Alternatively, the tariffs may simply be a revenue grab to help pass Trump's tax cuts and spending programs in Congress. The U.S. budget process is just beginning to unfold and could become the next major challenge for markets to digest. Tax cuts and deregulation are likely to be more market-friendly, but Trump needs to make the numbers work and appease Republicans who believe the U.S. must reduce its budget deficit.

With so many moving parts to Trump's ambitious agenda, his whirlwind approach risks overwhelming markets and public opinion. Apollo recently highlighted some of the significant headwinds facing the U.S. economy, all stemming from policies the Trump administration is trying to implement.

While markets rebounded in late April after Trump announced a 90-day pause on most tariffs, it feels more like we are in the eye of the storm rather than past it. According to Bank of America Global Research, while private clients were still buying stocks, hedge funds and institutional clients have been selling.

In a blow to American exceptionalism, foreign investors may be next. There is merit to Trump's approach: the global economic order needs to be rebalanced, particularly the U.S.-China relationship. However, changing global economic orders is delicate work that requires finesse and patience—qualities Trump seems to lack.

Expect more volatility in the months ahead.