CLARUS WEALTH ADVISORS

Market Watch

April 21, 2025

Primary Market Drivers

Earnings & Economic Data

Earnings season is in full swing this week as we look to find out if results and outlook from corporate America can help quell the significant uncertainty this market is dealing with. Nearly a quarter of the S&P 500 will be releasing results. Notable earnings announcements this week include 3M (MMM 4/22), Elevance Health (ELV 4/22), Lockheed Martin (LMT 4/22), RTX Corp (RTX 4/22), Capital One (COF 4/22), Tesla (TSLA 4/22), AT&T (T 4/23), Philim Morris (PM 4/23), IBM (IBM 4/23), ServiceNow (NOW 4/23), Texas Instruments (TXN 4/23), Comcast (CMCSA 4/24), Pepsi (PEP 4/24), Valero Energy (VLO 4/24), Alphabet (GOOGL 4/24), Intel (INTC 4/24), T-Mobile (TMUS 4/24), AbbVie (ABBV 4/25), Centene (CNC 4/25), HCA Healthcare (HCA 4/25), and Phillips 66 (PSX 4/25), among many others. On the economic calendar, this week brings a diverse set of reports with PMI Manufacturing & Services (4/23), New Home Sales (4/23), Durable Goods Orders (4/24), Existing Home Sales (4/24), and Michigan Consumer Sentiment (4/25). While the housing data is from March, the PMI Services & Manufacturing data is from April and will be of great interest to investors.

Fed Policy

It's pretty clear that Jerome Powell has no intention of taking any action on rates anytime soon. The scrutiny over the Fed's inaction and propensity to be late to policy change is becoming increasingly political as the Trump administration has voiced its displeasure numerous times over the past few weeks. Powell's recent speech at the Economic Club of Chicago felt a bit at odds with itself, talking down the economy and outlook while remaining indecisive and trepidatious on policy path. Market odds of a 25bps cut on May 7th have fallen to just 13.1%, a clear indication that the market is holding its breath for April's inflation and economic data after many tariffs have officially gone into effect. A strong labor market and elevated inflation expectations moving forward have given the Fed some cover to leave rates alone and wait for additional data points, though the pressure is heating up and motivations are being questioned.

Tariffs

Tariffs have been dominating the market action over the past two months. At the current juncture, trade deals with Japan, the EU, and Mexico appear imminent, though there we have not seen any formal announcements yet as it's being reported that details are causing snags. China continues its defiant stand against adjusting trade policy, warning other nations of retaliation should they introduce any measures that hurt trade relations with the CCP. Absent any meaningful progress since the reciprocal pause, the market is once again beside itself over "the uncertainty" of it all. General sentiment is driving extreme volatility on a daily basis, with 3% moves the new normal for the time being. The situation is fluid, so we will have to wait and see if a deal is struck this week. In the meantime, expect the volatility to continue.

All referenced market information, statistics, and economic data were gathered from StreetAccount, a paid subscription data service provided by FactSet Research Systems Inc.

Market Returns		4/18/2025
Category	*Ticker*	*YTD%*
Domestic Equity		
S&P 500	SPY	-9.91%
Dow Jones	DIA	-7.63%
Large-Cap Growth	QQQ	-13.00%
Large-Cap Value	IVE	-6.71%
Mid Caps	MDY	-11.69%
Small Caps	IWM	-15.41%
International Equity		
Developed Intl	EFA	7.26%
Emerging Markets	EEM	0.24%
Fixed Income		
Core Bonds	AGG	1.98%
Corporate Bonds	LQD	1.04%
High Yield Bonds	HYG	0.28%
ST Treasuries	IEI	3.09%
LT Treasuries	TLT	1.26%
International Bonds	BNDX	1.05%

Performance data and stock chart were gathered from eSignal, a paid market screening application provided by Intercontinental Exchange, Inc.

Current Environment Summary

What's Working	What's Not	What's Next
Inflation Falling	Tariff Policy	**120 S&P 500 Companies Report Earnings**
Fed Easing Cycle	Global Economic Uncertainty	**Tech Earnings: TSLA, GOOGL, IBM, INTC**
Strong Earnings Growth	Fed Inaction	**Tariff Developments**
Interest Rates Falling	Bond Market Volatility	Data: PMI Services & Manufacturing
Strong Labor Market	Extreme Equity Volatility	Trade Deal with Japan Imminent?
	Extreme Uncertainty	Expect Volatility to Continue

Portfolio Manager Commentary

Ken Hartley, CFA

In my 3.30.25 commentary I touched upon uncertainty as a major cause of the market volatility taking place at the time. Three weeks later, I'm not sure much has changed, except there are more sources of concern. It is almost a foregone conclusion in the market that the US economy is heading for a recession. As the major players continue to increase the probability of it happening, I'm concerned this constant drumbeat is becoming a self-fulfilling prophecy.

Historically, the market has been a discounting mechanism for future events. The curious thing to me is that with so much of the tariff process being ongoing, how does the market have anything other that "best guess" probability? The quick (and lazy) comparisons are being made to the 1930's. The Smooth-Hawley tariffs implemented then are considered to be a major reason for the great depression. It would seem too easy to draw comparisons with today based only on this data point. The consumer is roughly 2/3's of the economy. If their spending drops, the economy will slow down. According to Bank of America's most recent earnings report, the consumer continues to spend at levels seen pre-tariff announcements.

Two additional points lead me to believe that Smoot-Hawley is an inaccurate comparison: First, the US was primarily an agrarian economy with a growing manufacturing sector. Today, the US economy is overwhelmingly a service-based economy. Second, today's banking system is better capitalized and backstopped by the Federal Reserve, whereas in 1930, there was no Fed, and most banks were state chartered. The banks of the 1930's were more vulnerable to panics of the depositor's, leading to "runs" that could leave a bank with no capital and no way to raise any.

The success of this "restructuring" of world trade will be a tough process. However, given the extension of the tariff deadlines to Jul 4th of 2025, I believe that there will be considerable clarity as these deals get worked and eventually settled. Until we get a more complete picture of who the winners and losers may be, I think the best course of action is to stick with your long-term investing goals. The market volatility is elevated now and will stay high for the foreseeable future. Do not let the daily swings cause you to make emotional decisions. At Clarus, we will give our best efforts to guide you through the market turbulence.

Don Moenning

On Thursday, April 10th, we had the 2nd largest single session gain on the Nasdaq in the history of the US stock market. Trump had just announced a 90-day pause on reciprocal tariffs for all countries not named China, and it appeared that the US had notable leverage and had masterfully played its hand amidst the chaos.

Fast forward a week and a half, and the mood has soured considerably. China has (unsurprisingly) chosen to remain steadfastly defiant in adjusting trade policy and has now threatened other nations with retaliation should they take a swing at the CCP in their new trade deals with the US. The Trump administration is using private industry products (NVDA H20 GPUs) as a negotiation tactic as if it were some natural resource. Jerome Powell got in front of a camera last Thursday and made numerous critical comments about fiscal policy, the economy, and even threw in his two cents on the stock market (which ne never does) in a rather bizarre display. Now Trump is calling for his job. Oh, and China is now conducting major military drills around Taiwan again. As such, the optimism of 10 days ago has evaporated into thin air and we are careening violently towards a retest of the April lows. With so little room for optimism in this negative news cycle, what is the path to base here?

First and foremost, trade deals with Japan, the EU, and Mexico (or any other country, for that matter). It's being reported that all three are getting close but final talks have hit some snags. We need to see meaningful, real progress on trade with our allies in order to justify this process, and soon. I am confident we will start seeing some announcements in the days to come. This is the market's primary need and the easiest path to a establishign a long-term base here.

Second, earnings season kicks into high gear this week. 120 companies in the S&P 500 announce, with the highlights being Tesla and Alphabet. Unfortunately, both might have too large of company-specific asterisks right now to make a dent in the macro narrative. But results from the other 118 reporting companies should give a pretty clear indication of how guidance is shaping up in the face of tariffs. Next week's slate is the main event and includes Meta, Microsoft, Apple, and Amazon in addition to appx. 120 additional S&P 500 companies. We could see some market stabilization if results are good and guidances follow recent estimates from TSMC and NFLX, which were unphased by tariffs.

Finally, we've seen several economic data reports have an outsized impact on the market this year. While the market typically isn't laser focused on PMI Services & Manufacturing, tomorrow's figures could be significant. Recall, 77% of US GDP is derived from services, so April's PMI Services is suddenly an extremely important number for those weighing the scales of recession. I've yet to see a recession at full employment with a healthy consumer and strong services sector in my lifetime. If PMI Services comes in strong (expectations are for 52.0, signaling expansion), that could provide a sigh of relief and calm the recession hysteria the media has been pitching in recent weeks.

Powell taking a dovish turn or a de-escalation with China would help, but I'm not holding my breath for either. Expect this week to be another roller coaster.

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Small Company Risk *: Securities of small companies are often less liquid than those of large companies and this could make it difficult to sell a small company security at a desired time or price. As a result, small company stocks may fluctuate relatively more in price. In general, smaller capitalization companies are also more vulnerable than larger companies to adverse business or economic developments and they may have more limited resources.*

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