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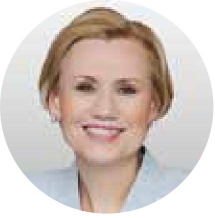
Staying focused through tariff uncertainty and market jitters

Weekly Market Compass | April 1, 2025



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Key takeaways

US stocks

Uncertainty contributed to a significant sell-off in US stocks last week, especially in technology stocks.

Global good news

While we're seeing headwinds in the US, we're getting some good news in other parts of the world.

Long-term view

There have been dramatic sell-offs throughout history, but stocks have had a way of moving higher over the longer term.

Last week brought investors another bout of policy uncertainty and market jitters. Not surprisingly, the US stock market had a significant sell-off last week, with Friday's action violently dragging down US stocks — especially tech stocks.[1] However, while we're seeing headwinds in the US, we're getting some good news in other parts of the world. In times like these, it's critical for investors to focus on their time horizon before reacting to short-term market reactions. Here's what we know and what I'm watching.

What drove markets last week?

Last week saw some bad news for US stocks:

- US core personal consumption expenditures (PCE), the Federal Reserve's (Fed) preferred gauge of inflation, rose 0.4% month-over-month and 2.8% year-over-year.[2] This was slightly higher than expected, and added to concerns about a potential resurgence in inflation.
- According to the most recent Conference Board survey,[3] US consumer confidence fell to 92.9 in March, well below February's reading of 100.1; this was the lowest level in more than four years. Even worse, the consumer expectations sub-index fell to 65.2 from 74.8 in February; this is a 12-year low. It is also worth noting that the critical level that usually signals a recession ahead is below 80, so this reading is concerning.
- The final results of the University of Michigan Survey of Consumers for March were worse than the preliminary reading.[4] The key takeaways is that US consumer sentiment continues to decline. It fell to 57.0, a significant drop from February and the lowest level since November 2022. The expectations sub-index fell to 52.6. What's more, expectations for inflation are on a dramatic upward slope. One-year consumer inflation expectations rose to 5.0%. Five-year expectations rose to 4.1% — its highest level since February 1993. This indicates longer-term inflation expectations are not very well anchored (despite Fed Chair Jay Powell's assertion at the last Federal Open Market Committee press conference that they are) — and also suggests the risk of stagflation has materially increased.
- More tariffs were announced by the Trump administration last week, most notably 25% tariffs on automobiles and certain auto parts manufactured outside the United States. This is set to take effect April 2.
- And "Liberation Day," April 2, is fast upon us. That's when the US is expected to impose more tariffs on imported goods — but it's still not clear how broad and deep that will be. That of course is causing even more market jitters, as the stock market hates uncertainty. I will note that some economists expect tariffs to reach 1940s levels in coming months.

Focusing on the long term

In the last 8-10 weeks, I've been getting the same question from investors, "Should I change my allocation?" And my answer is always the same: For those who have a long time horizon and are well diversified across and within the three major asset classes (stocks, fixed income, and alternatives), I would typically favor staying the course.

I know that can be easier said than done. The headlines and the market movements can be very unsettling for investors. So let me provide some perspective. This week we're celebrating my mother's 90th birthday, and I think it's fitting that it's happening in the midst of uncertainty and market volatility. She was born in 1935, in the midst of the Great Depression, when Franklin Delano Roosevelt was president of the United States. In the month she was born, the unemployment rate in the US was 17.54%.[5] She lived through World War II, 1940s-level tariffs, the Cuban Missile Crisis, the assassination of President John F. Kennedy, the Vietnam War, Watergate, stagflation, the 1970s stock market stagnation, the end of the Cold War, 9/11, the Global Financial Crisis, and so much more. Uncertainty has been one of the certainties of her lifetime — along with the decades-long advance of the stock market,[6] despite all this tumult and change. There have been sell-offs — some very dramatic — along the way, but stocks have had a way of moving higher over the longer term.

Global good news

Even now, while we're seeing headwinds in the US, we're getting some good news in other parts of the world. For example, eurozone manufacturing activity appears poised to improve, as indicated in the most recent Purchasing Managers' Index (PMI) survey, which showed manufacturing PMI rose to 48.7 — the eurozone's highest level in 26 months.[7]

As I've said before, there is a seismic change occurring in Europe, with a very significant increase in fiscal spending, particularly around defense spending. It's not just Germany — France recently announced a material increase in defense spending as well — and I'm sure there will be more to come. This should bode well for the European economy in general and its manufacturing sector in particular. I expect to see "green shoots," signs that the economy is improving, in coming months thanks to the ramp up in fiscal spending.

Looking ahead and staying focused

This will be a very important week given the potential for a significant increase in tariffs on April 2. This is already causing a lot of market trepidation. In addition, we will get monthly jobs reports for both the US and Canada on Friday as well as some Consumer Price Index and PMI readings. We'll also hear from the Reserve Bank of Australia, which is making its monetary policy decision early this week.

And so, getting back to the question I've gotten so often in recent weeks — "Should I change my allocation?" — I usually follow up with questions of my own: Is your time horizon longer than a presidential term? Is it longer than a recession? Is it longer than a decade? That's because if one has a long enough time horizon (and it doesn't need to be nearly as long as my mom's), one can maintain allocations to equities and other more volatile asset classes, especially if a portfolio is well diversified and has exposure to lower-correlating asset classes that can help smooth volatility. This is important to keep in mind given the potential for more tariffs this week — and more market jitters and understandable urges to abandon stocks. Buckle your seat belts, stay calm and carry on. And happy birthday, Mom!

Dates to watch

Date	Report	What it tells us
March 31	Germany Consumer Price Index (CPI)	Tracks the path of inflation.
	Chicago Purchasing Managers' Index (PMI)	Indicates the economic health of the manufacturing and services sectors.
	Japan Tankan Survey	Tracks Japanese companies' views of economic and business conditions.
	Japan unemployment rate	Indicates the health of the job market.
	Reserve Bank of Australia Monetary Policy Decision	Reveals the latest decision on the path of interest rates.
April 1	Eurozone Consumer Price Index (CPI)	Tracks the path of inflation.
	Eurozone unemployment rate	Indicates the health of the job market.
	US JOLTS Report	Gathers data related to job openings, hires, and separations.
	US Manufacturing Purchasing Managers' Index (PMI)	Indicates the economic health of the manufacturing sector.
	US ISM Manufacturing Purchasing Managers' Index (PMI)	Indicates the economic health of the manufacturing sector.
	India Manufacturing Purchasing Managers' Index (PMI)	Indicates the economic health of the manufacturing sector.
April 2	US ADP Report	Indicates the health of the US labor market.
	US factory orders	Indicates the health of the manufacturing sector.
	Japan Services Purchasing Managers' Index (PMI)	Indicates the economic health of the services sector.
	China Caixin Services Purchasing Managers' Index (PMI)	Indicates the economic health of the services sector.
April 3	Eurozone Services Purchasing Managers' Index (PMI)	Indicates the economic health of the services sector.
	UK Services Purchasing Managers' Index (PMI)	Indicates the economic health of the services sector.
	US Services Purchasing Managers' Index (PMI)	Indicates the economic health of the services sector.
	US ISM Services Purchasing Managers' Index (PMI)	Indicates the economic health of the services sector.
	Japan household spending	Tracks the health of the consumer.

Dates to watch

Date	Report	What it tells us
April 4	US Employment Situation Report	Estimates the number of people on payrolls in the US economy, their average weekly working hours and hourly earnings, and several versions of the unemployment rate.
	Canada Jobs Report	Collects data on employment, unemployment, and labor force participation.

Notes

[1]Source: Bloomberg L.P., as of March 28, 2025. US stocks represented by the S&P 500 Index, which lost 1.53% for the week. Tech stocks represented by the NASDAQ Index, which lost 2.59% for the week. The Nasdaq Composite Index is the market-capitalization-weighted index of approximately 3,000 common equities listed on the Nasdaq stock exchange.

[2]Source: US Bureau of Economic Analysis, March 28, 2025.

[3]Source: Conference Board, March 25, 2025.

[4]Source: University of Michigan Survey of Consumers, March 28, 2025.

[5]Source: National Bureau of Economic Research, March 31, 2025.

[6]Source: Bloomberg L.P., as of March 28, 2025. The Dow Jones Industrial Average is up 38,149% since March 1935.

[7]Source: S&P Global/HCOB, as of March 27, 2025.

The Consumer Price Index (CPI) measures the change in consumer prices and is a commonly cited measure of inflation.

The Dow Jones Industrial Average is a price-weighted index of the 30 largest, most widely held stocks traded on the New York Stock Exchange.

The Employment Situation Report is released by the US Bureau of Labor Statistics to monitor labor market data on a monthly basis.

The Eurozone Services PMI (Purchasing Managers' Index) is produced by IHS Markit and is based on original survey data collected from a representative panel of around 2,000 private service sector firms. National data are included for Germany, France, Italy, Spain, and the Republic of Ireland.

The Federal Open Market Committee (FOMC) is a committee of the Federal Reserve Board that meets regularly to set monetary policy, including the interest rates that are charged to banks.

Fixed income investments are subject to credit risk of the issuer and the effects of changing interest rates. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa. An issuer may be unable to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer's credit rating.

Inflation is the rate at which the general price level for goods and services is increasing.

The Job Openings and Labor Turnover Survey (JOLTS) from the US Bureau of Labor Statistics produces data on job openings, hires, and separations.

Personal consumption expenditures (PCE), or the PCE Index, measures price changes in consumer goods and services. Expenditures included in the index are actual US household expenditures. Core PCE excludes food and energy prices.

Purchasing Managers' Indexes (PMI) are based on monthly surveys of companies worldwide and gauge business conditions within the manufacturing and services sectors.

The S&P 500® Index is an unmanaged index considered representative of the US stock market.

Stagflation is an economic condition marked by a combination of slow economic growth and rising prices.

In general, stock values fluctuate, sometimes widely, in response to activities specific to the company as well as general market, economic and political conditions.

The Survey of Consumers is a monthly telephone survey conducted by the University of Michigan that provides indexes of consumer sentiment and inflation expectations.

The Tankan survey is a quarterly assessment of business conditions in Japan from the Central Bank of Japan.

Many products and services offered in technology-related industries are subject to rapid obsolescence, which may lower the value of the issuers.

The opinions referenced above are those of the author as of **March 31, 2025**. These comments should not be construed as recommendations, but as an illustration of broader themes. Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions; there can be no assurance that actual results will not differ materially from expectations.