PAPAMARKOU WELLNER PERKIN

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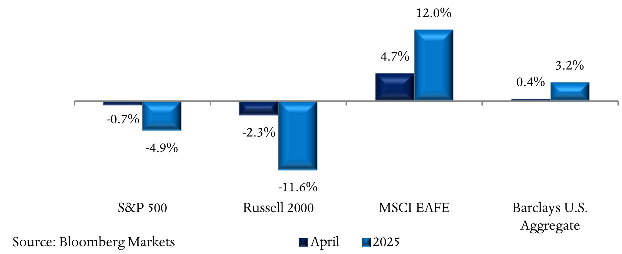
Markets

Financial markets were ultra volatile in April, as the implications of US trade policy impacted stocks, bonds, and currencies. Following the Trump administration's April 2 "Liberation Day" global reciprocal tariff announcement, which was far more onerous than expected, the S&P 500 index saw a sharp -13.8% intra-month drawdown through April 8th. Subsequently, a Trump pivot, including temporary pauses, exemptions, and reductions in certain tariffs, as well as hints of potential trade deals with various countries, led to the 3rd largest-ever one day rally (+9.5%) and a powerful continuation that resulted in a +15.2% rebound, with the index ending down a mere -0.7% in April (-4.9% ytd). Small capitalization US stocks in the Russell 2000 index also fell for the third straight month (-2.3% in April; -11.7% ytd). The technology heavy Nasdaq, however, bucked the trend, rising +0.9% in April but remained down -11.6% in 2025. From a style factor perspective, growth stocks outperformed their value counterparts by nearly 6% during the month.

Overseas stocks continued their recent strong performance as seen by the MSCI EAFE index (+4.7% in April; +12.1% ytd). In Asia, equities experienced reversions. China's Hang Seng index pulled back -4.0% in April (+11.4% ytd) while Japan's Nikkei 225 index rose +1.2% during the month (-8.8% ytd). Emerging markets were relatively resilient (+1.3% in April; +4.4% ytd), supported by solid returns from Latin America.

The confidence shock triggered by the US tariff announcements also affected the bond and currency markets. During the month, the yield on 10-year US Treasuries spiked from 4.21%, reaching an intra-day high of 4.60% by April 11, before settling down at 4.16%. Technical factors such as hedge fund deleveraging, in addition to structural shifts in Treasury demand were contributors to the volatility. Finally, the Barclays US Aggregate index ended April higher by +0.4% (+3.2% ytd).



The Dollar index (DXY) saw its second worst monthly performance in 15 years. The euro, Japanese yen and Australian dollar all rose, versus the Dollar, in April, up +5.2%, +4.8% and +2.7%, respectively. This culminated in a -9.5% correction in the DXY since its January high, driven by seemingly isolationist US policies.

Commodities have exhibited varied performances of late. The most notable mover last month was WTI crude oil which fell to $58.21/barrel, an -18.6% decline (-18.8% ytd) on worries over reduced demand resulting from a potential global economic slowdown. Meanwhile, gold continued to rally, aided by its defensive qualities, rising +5.3% in April (+25.3% ytd). Conversely, more economically sensitive silver and copper dropped by -5.4% and -4.5%, respectively, last month. As global trade tensions rapidly intensified, the Bloomberg Commodity index fell -4.8% in April (+3.6% ytd).

Geopolitics

On April 2, President Trump unveiled his long-awaited "reciprocal" tariff plan: a 10% levy on all imports, a 34% duty on Chinese goods, 25% on autos, and 20% on EU products. In reaction, the S&P 500 index suffered its steepest two-day drop since March 2020 amid growth worries. In turn, China imposed 34% tariffs on US exports and the EU announced its own reprisals.

A week later, on April 9, Trump allowed for a 90-day moratorium on the higher-rate reciprocal tariffs, to facilitate talks, sparking the S&P's best single-day gain since October 2008. However, China was excluded from the pause, with Trump instead raising those tariffs to 145%, prompting Beijing to retaliate, boosting its US duties to 125%, amounting to dual-sided embargo.

US-China trade tensions remained elevated through the month, even as Treasury Secretary Bessent predicted a thaw. Trump signaled that Chinese tariffs would be sharply reduced (though not fully removed), granted relief on auto levies after industry pushback, and suggested trade deals with Japan and India were imminent, while negotiations with the EU were challenged.

US

Sizable shocks to US growth, inflation, and employment are anticipated following the tariff announcements. First quarter GDP unexpectedly contracted at a 0.3% annual rate, marking the lowest level since early 2022. It should be noted, however, the drawdown was driven by imports being frontloaded ahead of tariffs as well as a drop in government spending. While a technical recession (defined as two negative quarters of GDP growth) is likely in the near-term, we believe that solid economic fundamentals will allow the economy to eke-out positive growth for the full year.

Consumer confidence continued to decline, for a fifth consecutive month in April, falling 7.9 points to 86.0, a level not seen since the onset of the pandemic. Further, consumers' short-term outlook for income, business, and labor market conditions dropped 12.5 points to 54.4, the lowest level since October 2011 and well below the threshold of 80 that usually signals a recession ahead.

The April jobs report revealed that employers added 177,000 jobs, exceeding expectations, but at a lower rate than the prior month, with unemployment holding steady at 4.2%. Average hourly earnings grew 0.2% sequentially, to $36.06, a considerable deceleration compared to the trailing 12-month rate of 3.8%. Federal-government employment declined by 9,000 jobs, the third month in a row of such job losses. These figures don't reflect the magnitude of the massive job cuts announced by the Trump administration because many federal workers are on paid leave or still getting severance pay, and therefore still counted as employed. Ongoing lawsuits and court orders have also slowed government layoffs.

April 2025 Economic Statistics

	Apr-25	Dec-23	Dec-22
Federal Funds Target Rate	*4.25 - 4.50%*	*5.25 - 5.50%*	*4.25 - 4.50%*
Consumer Confidence Index	*86.0*	*110.7*	*108.3*
Manufacturing PMI Index	*48.7%*	*47.4%*	*48.4%*
Unemployment Rate	*4.2%*	*3.7%*	*3.5%*
JPY / USD	*143.07*	*141.06*	*131.11*
USD / EUR	*1.1327*	*1.1036*	*1.0702*
Gold / oz.	*$3,287.72*	*$2,062.59*	*$1,824.40*
Oil (WTI) / bbl	*$58.21*	*$71.65*	*$80.26*

Sources: see disclosure *

On the inflation front, both March CPI and PPI were cooler than anticipated, though the data is outdated due to subsequent tariff developments, and expected knock-on effects. Economists are now forecasting prices to begin rising by four, or more, percent starting this summer.

Headline March retail sales saw the biggest gain since January 2022, driven by strong auto sales, likely pulled forward ahead of tariffs. Meanwhile, the NY Fed's April Empire State Manufacturing Index future business conditions component fell to its second lowest reading in the survey's more than 20-year history. In all, recent softening economic and sentiment data are an indication of the trepidation of decision makers given the current uncertain business environment.

Europe

US tariff announcements pose a serious risk to European economies due to the region's reliance on exports. In response to rising trade tensions and a weaker economic outlook, the European Central Bank cut interest rates by 25 basis points to 2.25% from 2.50%, aided by stable headline inflation of 2.2% in April. Despite the latest challenges, Germany's fiscal expansion and increased defense spending across the region are expected to help mitigate some of the economic impact.

Asia

China's economy performed better than anticipated in the first quarter, with gross domestic product (GDP) growing by 5.4% during the period. March exports saw a significant year-over-year increase of 12.4%, driven by businesses rushing to ship goods to the US, ahead of potential tariffs. Bank lending in the quarter totaled the equivalent of $3.64 trillion, exceeding expectations, while consumer prices in March dipped slightly, falling 0.1% year-over-year. However, the threat of US tariffs remains a major concern, as their scale effectively amounts to a freezing of trade with the largest economy. Nevertheless, while many trade partners rushed to engage Washington in trade negotiations, China opted to stand firm and retaliated with import duties against US products, as well as export restrictions on rare earths. During the April Politburo meeting, Chinese policymakers reaffirmed their commitment to supporting the economy and signaled their readiness to introduce stimulus measures, though they appear to be waiting for greater clarity on tariffs. Elsewhere in Asia, central banks in India, New Zealand, and the Philippines cut interest rates in an effort to bolster their economies.

Outlook

Investors are contemplating whether 2025 is shaping up to be a watershed moment from the perspective of the economic cycle and potentially the start of a structural shift in the global order. The Trump administration is clearly not happy with the US's offshoring of manufacturing, which has hollowed out the middle class, as well as the country's economic self-sufficiency, especially in areas deemed to be strategic. At the same time, the federal government has to contend with spiraling budget deficits (the Congressional Budget Office projects the shortfall will rise to $1.9 trillion in fiscal 2025), which have led to $36.8 trillion in national debt. In response, The Trump White House has decided to pursue material wealth at the same time as it is asserting its power geopolitically, and patriotically championing Made-in-America, using a much broader and unconventional set of tools. The risk going-forward is the loss of trust in the US-led international order. In addition, the unpredictability of political actions has created an air of uncertainty and in-turn adverse reactions.

As a result, equity strategists have revised their S&P 500 index year-end price targets downward, primarily due to tariff headwinds and increased odds of a recession. A China trade deal would seem to be a major driver of this year's prospects, given the potential supply chain disruptions from the virtual trade embargo currently in effect. From a corporate earnings perspective, the associated negative effects will be increasingly felt in upcoming quarters. On a more positive note, there are tariff negotiations underway, as well as the mitigating factor that levies are based on manufacturing prices, not finished goods prices, both of which may dampen the margin effects on US importers, as well as inflationary impact. As such, we maintain a cautious stance towards equities, with the caveat that global valuations are inexpensive and also that it's important for investors to maintain a longer-term perspective. For those requiring income, we continue to suggest remaining exposed to the shorter end of the yield curve in risk-free, investment grade, as well as select higher yielding credit instruments.

Notwithstanding the recent bout of volatility, our favored hedge funds and non-market correlated investments have predominantly managed to produce positive returns, warranting increased allocations. European equities also offer compelling value for investors seeking investment opportunities. While precious metal mining equities have appreciated, we believe the majority of returns are still to come, warranting purchase. Volatility in credit markets can potentially be capitalized on via our suggested dislocation fund. For capital appreciation oriented investors, select software equities, with an activist element, offer interesting opportunities. We have also identified various unique private equity and credit funds focused on the cybersecurity, healthcare, education and natural resource sectors.

*Sources: Reuters, Bloomberg, Bureau of Labor Statistics, Conference Board, Federal Reserve, Institute for Supply Management, MSCI, Russell, Standard & Poor's, Financial Times and the Wall Street Journal.