Market Commentary 4/23/25

An Oxford Harriman & Company Market Commentary

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Equity markets were relatively unchanged this past week, with the S&P 500 finishing flat after giving back early gains spurred by news that the U.S. would temporarily exempt certain tech products from new China tariffs.

The Nasdaq declined 0.5%, weighed down by weakness in the "Magnificent 7" and broader technology sector following last week's relief rally. High Beta and Growth stocks underperformed, while Low Volatility, Value, and Equal Weight indexes led on a relative basis.

Despite the S&P 500's flat performance, most sectors outpaced the index, as underperformance from mega-cap Consumer Discretionary, Technology, and Communication Services sectors dragged on returns.

In fixed income, Treasury yields pulled back from last week's spike, giving a lift to long-duration maturities. Corporate bonds also advanced, supported by tightening credit spreads.

Market volatility declined, with both the CBOE VIX and MOVE indices trending lower, reflecting easing uncertainty across equity and bond markets. International equities continued to outperform, bolstered by a weakening U.S. dollar as money continued to rotate out of U.S. assets.

Market Insights & Implications

Historic Daily Moves Reflect Market Whiplash

Wednesday, April 9 marked one of the strongest single-day rallies for the S&P 500 since 2000, driven by the tariff pause. This spike now ranks as the third-largest gain of the past two decades.

In our last commentary, we discussed the importance of not missing the largest up days in the market. Interestingly, many of the largest up days overlap with major down days, underscoring the difficulty of market timing during periods of elevated volatility. This highlights the importance of staying invested during turbulent markets.

Volatility Tied to "Risk Off" Mindset

Investors have been derisking and becoming more cautious due to the current elevated policy and macroeconomic stress.

Nearly all the market's most extreme daily moves—both positive and negative—have occurred during "risk off" environments. Investors have been derisking and becoming more cautious due to the current elevated policy and macroeconomic stress.

Policy Volatility Returns

After temporarily easing tensions with a 90-day tariff exemption, the administration reignited uncertainty by announcing new trade probes into semiconductor and pharmaceutical imports. These probes could pave the way for more tariffs in the months ahead. Despite the initial relief, the policy backdrop remains unpredictable and a source of market stress.

Caution in Early Earnings

Management teams are clearly concerned about the macro backdrop, trade tensions, and potential inflation pressures, all of which could weigh on future earnings.

First quarter earnings season is revealing a more cautious corporate tone. A major airline reaffirmed its 2025 guidance but included a downside scenario based on recession risk. Similarly, another major air airline pulled its forecast altogether. Management teams are clearly concerned about the macro backdrop, trade tensions, and potential inflation pressures, all of which could weigh on future earnings.

Earnings Momentum

There are concerns that S&P 500 earnings may have peaked. While still positive, it is trending lower alongside consensus estimates. The drivers of these lower trends are weaker business surveys and consumer confidence amid growing trade and policy uncertainty. Earnings revisions may soon follow if "soft data" gives way to "hard data" weakness, pressuring EPS growth.

Fed Watch: Rates on Hold - For Now

The Fed appears more patient, waiting for clearer signs of economic slowing before acting, especially with inflation risk still in focus.

The Fed meets again on May 7, and markets are pricing in a 90% probability that rates will remain unchanged. The next meeting on June 18 is more uncertain, with expectations split between a hold and a rate cut. The Fed appears more patient, waiting for clearer signs of economic slowing before acting, especially with inflation risk still in focus.

Capital Rotation Away from U.S. Assets

A growing narrative is centering around the potential end of U.S. exceptionalism. The U.S. dollar has fallen to a three-year low, and long-term Treasury yields have climbed sharply, both seen as symptoms of eroding investor confidence in U.S. policy stability. Continued capital outflows could limit U.S. equity upside and signal a longer-term shift toward international diversification.

Conclusion

Markets remain in a tug-of-war between relief over temporary policy pauses and underlying concerns about economic and earnings strength. While volatility eased this week, structural risks, from trade tensions to monetary policy uncertainty, continue to build.

Have a good week,

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The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.

The CBOE Volatility Index® (VIX®) shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. This volatility is meant to be forward looking and is calculated from both calls and puts. The VIX is a widely used measure of market risk and is often referred to as the "investor fear gauge.