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ARGUS ECONOMIC COMMENTARY

May 5, 2025

Tamer Tariffs Drive Stock Recovery

The stock market has been uncommonly volatile in April. Amid a range of economic and geopolitical cross-currents, the driving force has been tariffs and, even more so, tariff talk. The early days of the month were characterized by sharp selloffs reminiscent of the market crashing toward recession in 2008 or plunging on COVID-19 shutdown fears in 2020. But as the Trump administration has softened its tone on tariffs, the stock market has rallied. Stocks remain far from recapturing year-opening levels and are even further away from establishing new all-time highs. But the recovery has taken some panic out the market. We are now seeing selling days that do not turn into routs, as was the case earlier in April.

As of market close on 4/25/25, the S&P 500, at 5,525, was down 6.1% year to date; it was also down 1.5% for April to date. The Nasdaq was down 10.0% and the Dow Jones Industrial Average was down 5.7%. At a closing lows of 4,983 on 4/8/25, and at the height of tariff panic, the S&P 500 was down 15.3% year to date and 18.9% below its all-time closing high of 6,147 from February 2025. At its low near 15,267, the Nasdaq was down 20.9% year to date and 24.4% below its all-time closing high.

In addition to a more-moderate pace of tariff implementation and ongoing negotiations with a host of countries, the stock market has also rallied on a reversal from the president regarding the Fed chairman. A week after calling Jerome Powell a “major loser” and saying the central bank was making a mistake by not immediately cutting interest rates, President Trump said he had “no intention” of seeking to fire the Fed chair. Investors believe Treasury secretary Scott Bessent and other administration officials persuaded the president to back down by citing rapid deterioration in the Treasury market and in the U.S. dollar.

Yet investors are not celebrating the comeback in stocks. The market bravado of 2024 appears to be completely gone. Institutional investors who were inclined to buy every dip in the 2023-24 timeframe now seem trigger-ready to sell every rally.

Currently, key tariff negotiations are underway with Japan, India, and other nations. By many accounts, any negotiations with China are at the lowest level or are non-existent. The outcome of the elections in Canada suggest an anti-American tone from our northern neighbor. Events of that type, or a stray posting from the president on Truth Social, could knock the market back down toward its lows.

Sectors in 2Q25: Growth Returns

Assuming the rally since mid-April does hold up, the market is showing very different sector leadership in 2Q25 compared with 1Q25. During the first quarter, the best-performing sectors were defensive, rate sensitive, and/or provided inflation protection. Winning sectors in 1Q25 included Energy, Utilities, Consumer Staples, Healthcare, and Materials.

The worst first-quarter sectors were Information Technology, Consumer Discretionary and Communication Services. These three sectors led the market in 2023 and 2024. They also tend to offer the best growth prospects and apparently have become attractive to investors on weakness.

The best-performing sectors in 2Q25 to date are Utilities and Information Technology. Consumer Discretionary and Consumer Staples are also fractionally positive. No other sectors are positive as of late April. Energy, the first-quarter winner, has unwound its 8% gain for 1Q and is down almost 11% for 2Q25 as energy prices continue to sink. Healthcare

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has also given back its first-quarter gain and is down about 4% for 2Q25 as of late April, with leading health insurers getting crushed.

Weakness in growth sectors in 1Q25 and weakness in defensive, rate-sensitive, cyclical, and inflation-protection sectors in 2Q25 results in just four sectors being positive for the 2025 trading year to date: Utilities (up almost 4%), Consumer Staples (up 2.5%), Healthcare (up 0.75%), and Real Estate (up 0.35). The remaining sectors are all negative year to date. Thanks to its April bounce-back, Information Technology is no longer 2025's worst sector. That distinction belongs to Consumer Discretionary.

Discretionary also had a poor start to 2024, deeply lagging the broad market in 1Q24 and 2Q24. It bounced higher in the third and fourth quarters last year on hopes that the Fed's newly launched rate-cutting campaign would reduce financing costs and stimulate big-ticket purchases. The sector has weakened this year on fears that tariffs would cause costs and prices on big-ticket items to balloon. Expensive items such as vehicles, homes, and appliances tend to be built with parts and components sourced from all over the world via highly complex supply chains. Forecasting the final costs and prices for such items is impossible when the tariff landscape is changing every day.

If half or more of the 11 sectors were to push into positive territory, it would be hugely positive for a broad market reversal.

Earnings Update

The 1Q25 earnings scorecard has improved meaningfully over the past week. The blended EPS growth estimates from FactSet, Refinitiv, and Bloomberg have all ticked 300 to 400 basis points higher than they were at the end of the first week of 1Q25 earnings, as upside surprises displace conservative estimates in the blended tally.

With a little over one-third (36%) of component companies having reported, FactSet is now estimating a 10.1% blended growth rate for S&P 500 earnings from continuing operations for 1Q25. That is up from 7% a week earlier, when just 12% of companies had reported 1Q results. Refinitiv is estimating 10.9% EPS growth on a blended basis, while Bloomberg is right around 10%; both were in the 7%-8% range a week earlier.

About 73% of companies to date have surpassed Street expectations; a week ago, that percentage was closer to 70%. On a long-term basis (past 10 years), about three-quarters of companies reporting EPS growth have surprised to the upside.

Additionally, the magnitude of the EPS beat jumped meaningfully higher, to 10% (with 36% of companies having reported) from 6% (with 12% of companies having reported). That is better than the 7% long-term average and now also better than the 9% intermediate-term average. Several large and notable Communication Services component companies – Alphabet, Netflix, and Comcast – have delivered strong upside EPS surprises and are responsible for much of the cumulative increase.

Six or seven sectors are reporting positive 1Q25 EPS growth, and four or five sectors are posting year-over-year declines. [The different agencies using slightly different metrics, explaining the discrepancy in earnings measurement.] All the earnings compiling agencies agree that Energy has had the worst EPS performance for 1Q25 season to date, with a high-teens decline. Hopes that Energy would swing to positive annual comps by 2Q25 are now fading, given the downtrend in petroleum prices spanning late 2024 into the first half of 2025.

Healthcare is showing the best 1Q25 earnings momentum, with growth in the mid- to upper-30% range. The sector is being led by pharmaceuticals and biotech, with growth in the high-double-digit to low-triple-digit range. Healthcare providers and healthcare equipment are more modest contributors. First-quarter EPS growth is in the low-20% range for Communication Services and in the mid-teens range for Information Technology. Utilities is not only one of the best-performing sectors in 2025; it is also in fourth place in terms of 1Q25 earnings growth with a low-double-digit rate.

Revenue growth for S&P 500 component companies in 1Q25 is running just under 5% year over year. That is below the intermediate-term average of 7%. Inflation contributed to that 7% growth rate over the 2020-24 period, however. If inflation heats up again in coming quarters due to tariffs, revenue growth could rise again as well.

Conclusion

The S&P 500, as noted, is down about 6% year to date. While that is meaningfully off the lows, markets tend to move in waves; and the latest recovery wave may have spent itself on the beach.

About a year ago late in April 2024, the S&P 500 was in the 5,100 range. The index moved briskly to the 5,600 range by July 2024, only to tumble to 5,200 in August. Investors interpreted the weak July jobs report as evidence that the Fed had waited too long to cut rates. That perception quickly faded. Stocks resumed a jagged climb, with downdrafts in September 2024 and November 2024 followed by new all-time highs. Stocks made an early January 2025 low before reaching an all-time high in the 6,150s in February.

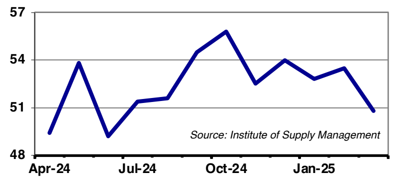
The year-long pattern of higher highs has been replaced so far in 2025 by a pattern of lower lows. This includes key lows in mid-March and in early April in the wake of

President Trump's tariff announcements. If the market is able resume its climb, key markers for the S&P 500 would be the close at 5,671 just before "Liberation Day" and the close at 5,777 on 3/25/25. If the market does pitch lower from here, red flag zone would be the 4/21/25 close at 5,158 and the year-to-date low at 4,982 from 4/8/25.

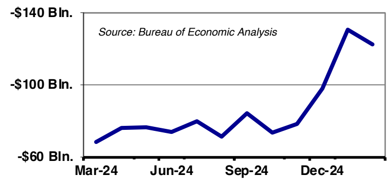
Jim Kelleher, CFA,
Director of Research

ECONOMIC TRADING CALENDAR

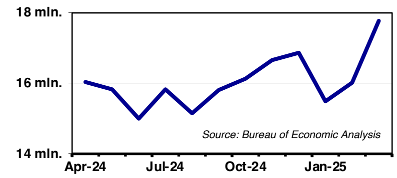
Release: **ISM Services Index**
Date: 5/5/2025
Month: April
Previous Report: 50.8
Argus Estimate: 50.2
Street Estimate: 50.4



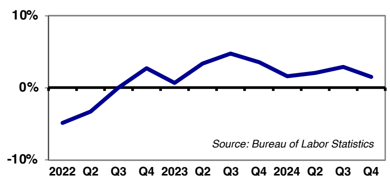
Release: **Trade Balance**
Date: 5/6/2025
Month: March
Previous Report: -$122.7 Bln.
Argus Estimate: -$120.0 Bln.
Street Estimate: -$109.5 Bln.



Release: **Total Vehicle Sales**
Date: 5/7/2025
Month: April
Previous Report: 17.77 mln.
Argus Estimate: 17.20 mln.
Street Estimate: 17.15 mln.

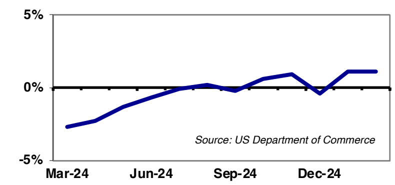


Release: **Nonfarm Productivity**
Date: 5/8/2025
Month: 1Q
Previous Report: 1.5%
Argus Estimate: 1.0%
Street Estimate: -0.5%



Release: **Unit Labor Costs**
Date: 5/8/2025
Month: 1Q
Previous Report: 2.2%
Argus Estimate: 3.5%
Street Estimate: 5.5%

Release: **Wholesale Inventories**
Date: 5/8/2025
Month: March
Previous Report: 1.1%
Argus Estimate: 1.3%
Street Estimate: NA



Previous Week's Releases and Next Week's Releases on next page.

ECONOMIC TRADING CALENDAR (CONT.)

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
29-Apr	Consumer Confidence	April	92.9	86.0	87.0	NA
30-Apr	GDP Annualized QoQ	1Q "1st est."	2.4%	1.4%	0.4%	NA
	GDP Price Index	1Q "1st est."	2.3%	2.4%	NA	NA
	PCE Deflator	March	2.5%	2.2%	2.2%	NA
	PCE Core Deflator	March	2.8%	2.5%	2.6%	NA
	Personal Income	March	4.6%	4.4%	NA	NA
	Personal Spending	March	5.3%	5.4%	NA	NA
1-May	ISM Manufacturing	April	49.0	48.6	NA	NA
	ISM New Orders	April	45.2	44.0	NA	NA
	Construction Spending	March	2.9%	3.2%	NA	NA
2-May	Nonfarm Payrolls	April	228K	130K	128K	NA
	Unemployment Rate	April	4.2%	4.3%	4.2%	NA
	Average Weekly Hours	April	34.2	34.2	34.2	NA
	Average Hourly Earnings	April	3.8%	3.8%	3.9%	NA
	Factory Orders	March	2.5%	2.2%	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
13-May	Consumer Price Index	April	2.4%	NA	NA	NA
	CPI ex-Food & Energy	April	2.8%	NA	NA	NA
15-May	Retail Sales	April	4.9%	NA	NA	NA
	Retail Sales ex-autos	April	4.1%	NA	NA	NA
	Industrial Production	April	1.3%	NA	NA	NA
	Capacity Utilization	April	77.8%	NA	NA	NA
	PPI Final Demand	April	2.7%	NA	NA	NA
	PPI ex-Food & Energy	April	3.3%	NA	NA	NA
	Business Inventories	March	2.1%	NA	NA	NA
16-May	Housing Starts	April	1,324K	NA	NA	NA
	Import Price Index	April	0.9%	NA	NA	NA

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