



Market Commentary - April 2025

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Equities

The broad market began 2025 by moving higher, reaching a peak on February 19, but the drop that followed took it negative for the quarter. The drop in late February and March was driven by uncertainty over the tariff threats emanating from the White House. Some analysts argue that, like most tax increases, they will slow the economy and even increase unemployment. Other analysts believe that tariffs will be inflationary which could derail the Federal Reserve's trend toward easier monetary policy. A third group combines those two concerns and is calling for stagflation, a slowing economy combined with higher inflation. We believe these fears are overblown, but that is normal when there is a high level of uncertainty. The uncertainty is primarily a result of not knowing which potential tariffs are just threats that may go away if a country makes certain desired concessions, or which threats are part of the administration's economic policy.

ICON defines problematic inflation as a compounding price increase, on top of price increase, on top of price increase, and so on. Instead, tariffs would seem to be just a one-time price increase, highly unlikely to induce a spiral. The difference between compounding and one-time matters, because with a one-time price increase, there is no need for investors to reprice stocks and bonds for continued higher inflation. Supporting the case that sustained higher inflation is unlikely is Capacity Utilization. It is currently at 78.2%. During the 1970s' high inflation it was between 86% and 88%. We would expect our ability to produce more would have a dampening affect on any potential inflation.

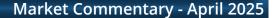
During the market drop of late February and March, so-called recession proof, defensive stocks held up best, and economically sensitive, cyclical sectors fared the worst. Such performance reflects that investors are anticipating or fearing a recession. Given the current strong economic data, the leap from tariffs to recession seems to be excessive and unwarranted.

Bonds

During the stock market retreat, the yield on the 10-Year Treasury dropped so, in general, investors were selling stocks and buying bonds. This, too, is consistent with investor expectations of a slowing economy and this left the yield at the low end of a trading range it has been in for about five months. This range has seemed sensible to ICON.

Summary

Looking at various behaviors and data, we do not see extremes often seen at bottoms or peaks. The recent selloff just seems to be investors pricing in a worst case scenario regarding potential tariffs. You might call it, "sell first and ask questions later." At the company level, we can still find companies with growing earnings and attractive stock prices.





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Capacity Utilization refers to the extent to which a company or economy uses its productive resources (like equipment, labor, and facilities) to generate output, measured as a percentage of potential output. For example, if a factory can produce 1000 units per day at full capacity but is currently producing 800 units, its capacity utilization rate is 80% (800/1000 * 100).

The 10-year yield is the benchmark 10-year yield to maturity reflected by the current issue 10 year U.S. Treasury note.

Sources: Bloomberg

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