# MARKET MUSINGS

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## Markets Rally On Signs Of Tariff Relief

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# SUMMARY

- The temporary U.S.–China tariff suspension is a clear step forward, lowering effective tariff rates to more manageable levels. But uncertainty remains, especially for small businesses and the direction of future negotiations. Sentiment-based "soft" data continues to fall sharply, while hard economic indicators remain resilient.
- With inflation easing but still above target, and trade tensions cooling, the Fed has little urgency to cut rates. Following the U.S.–China tariff pause, July rate cut odds dropped sharply—reinforcing the Fed's wait-and-see approach.
- Bullish technical signals are stacking up. A rare Zweig Breadth Thrust, a 50% S&P 500 retracement, and a historic drop in Wall Street's Fear index all point to broad-based buying and improving market sentiment. Historically, these patterns have preceded strong gains over the next 6 to 12 months.
- **macro**cast™ is still not indicating signs of a recessionary market decline. Our **micro**cast™ signal is at neutral, after briefly moving to a defensive stance in late April. Both tactical risk models remain flexible and ready to adjust as conditions evolve.

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*See content within for additional information on the summary items discussed above*

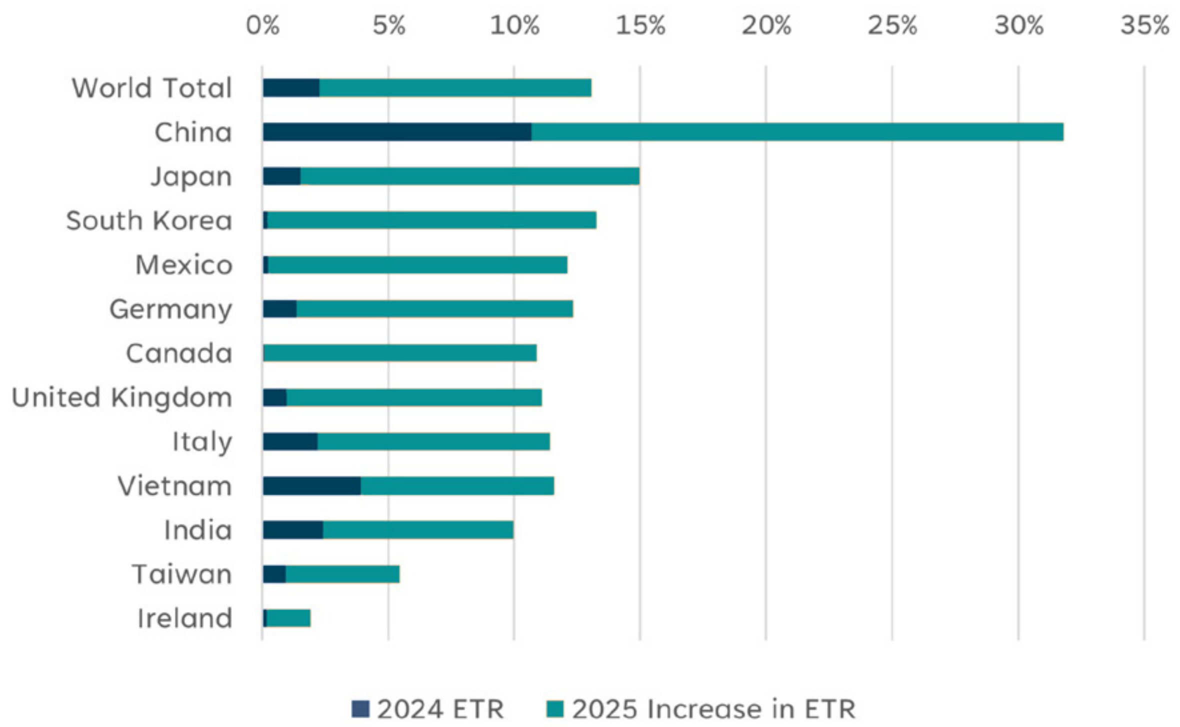
# TARIFF LANDSCAPE **IMPROVES**

Trade developments have improved since our last update. No formal deals have been signed yet, but momentum is clearly building. The recent U.S.–U.K. agreement was a positive step, though limited in impact given the U.S. runs a trade surplus with Britain.

Far more significant are the developments between the U.S. and China. Over the weekend, both sides agreed to suspend the 100%+ tariffs for 90 days—a move that, in our opinion, is unlikely to be reversed. As part of the deal, reciprocal tariffs will drop from 125% to 10%, while the 20% duties on fentanyl-linked imports remain. That leaves the effective tariff rate on Chinese goods around 30%—still high, but far more manageable. And with final talks ongoing, that rate could fall even further.

Yet uncertainty still hangs over the outcome. What will the final tariff rate be? And what about small businesses that depend on Chinese imports but lack the scale to pivot to lower-cost countries like Vietnam? For them, even a "manageable" 30% rate could be challenging. Fitch estimates that with China tariffs near 30%, the overall effective tariff across all U.S. imports would rise to around 13%—the highest level since the 1940s (chart from LPL):

Effective Tariff Rate Now Roughly 13%

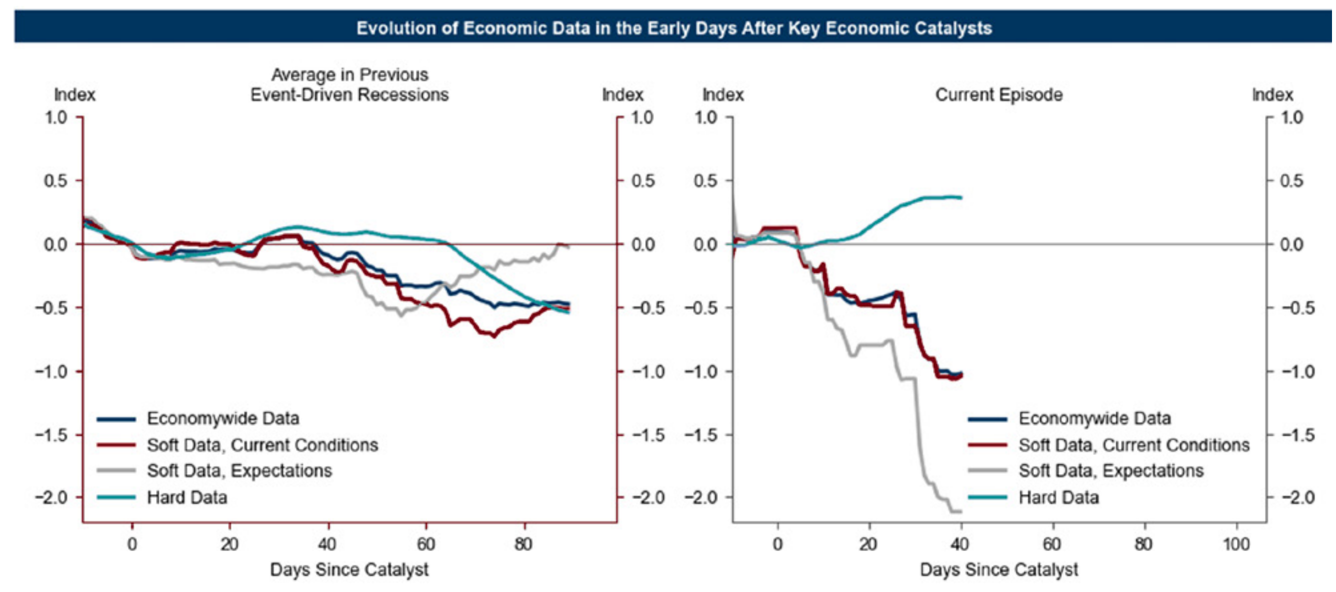



Source: LPL Research, Fitch Ratings, Census Bureau 05/13/2025

*Please see important disclosures at the end of this article*

The uncertainty shows up most clearly in the gap between "soft" data—like business surveys and consumer confidence—and "hard" data that reflects actual economic activity, such as retail sales, jobs, and housing (chart from Goldman Sachs):

**Exhibit 3: It's Not Unusual for Hard Data to Lag in Event-Driven Downturns (and Soft Data Have Already Weakened a Lot)**




Source: Goldman Sachs Global Investment Research

The split is clear: soft data reflects collapsing sentiment, but the hard data still looks solid. The risk with negative sentiment is that it can become self-fulfilling—if enough businesses and consumers pull back on spending, the economy eventually follows. But markets have seen this play out before. In 2022, similar fears didn't pan out, and traders aren't likely to price in a downturn until pessimistic sentiment actually translates into weakening economic activity. This marks a shift from past cycles, when soft data often led. Today, these surveys carry less weight with market participants.

Hard data is likely to lag in the coming months. Many firms front-loaded activity in Q1 to get ahead of tariffs, and the sharp drop in trade with China since April has created an air pocket. Despite this, investors may look past weaker data if trade negotiations continue to lead to resolutions that further reduce economic uncertainty and bolster market sentiment.

In short, it's still a messy backdrop for capital spending and long-term planning. But the economy is on firmer ground today than it was just over a month ago.

# THE FED **HOLDS STEADY**

As expected, the Federal Reserve kept rates steady at last week's meeting. The decision was based on two factors. First, while growth has cooled, the data is still "good enough."

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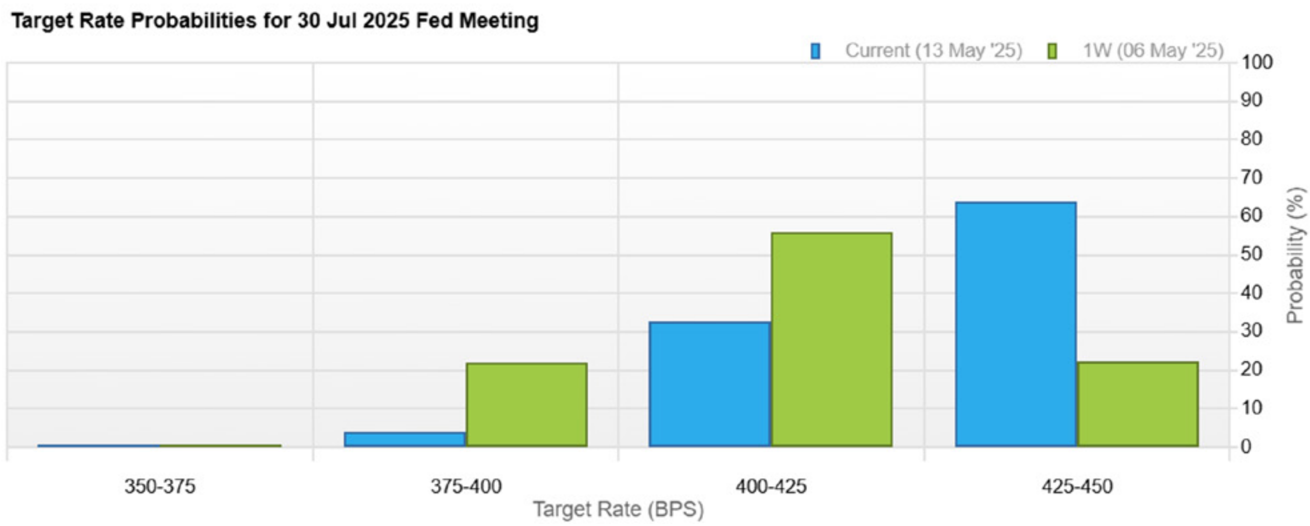
Second, the Fed remains wary of tariffs' potential to stoke inflation. Recent developments may offer some reassurance, but policymakers appear inclined to wait and see. Their stance is notably different from the first Trump term, when inflation stayed below the 2% target for much of the time. Today, inflation remains above target—and the Fed knows it has less room to maneuver than it did pre-pandemic.

Even so, expectations for a July rate cut had been rising over the past month. As of last week, Fed Funds futures were pricing in a 56% chance of a 25 basis point (0.25%) cut and a 22% chance of a 50 basis point (0.50%) move. However, following the U.S.–China tariff announcement, those odds fell sharply. The market now sees almost no chance of a 50 bp cut, and just a 33% chance of a 25 bp cut (chart from FactSet):




# TECHNICAL SIGNALS ALIGN **FOR FURTHER MARKET UPSIDE**

Since the April lows, several bullish price signals have emerged—signals that, historically, point to solid gains 6 and 12 months out. First, and most notably, the market just triggered a Zweig Breadth Thrust, a rare and powerful indicator.

The signal, named after market analyst Martin Zweig, tracks market breadth by measuring the percentage of advancing securities on the New York Stock Exchange (NYSE) and flags a sudden surge in participation. Specifically, it registers when the 10-day average of advancing stocks jumps from below 40% to above 61.5% in fewer than 10 trading days. That kind of move signals broad, aggressive buying—not just strength in a few names, but across the board.

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Historically, stocks did quite well in the year following a Zweig Breadth Thrust (table from SubuTrade):

**S&P 500 after a Zweig Breadth Thrust**
*@SubuTrade, 1950-present*

| | 1 Week Later | 2 Weeks Later | 3 Weeks Later | 1 Month Later | 2 Months Later | 3 Months Later | 6 Months Later | 1 Year Later |
|---|---|---|---|---|---|---|---|---|
| July 21, 1950 | 0.57% | 3.13% | 3.92% | 6.31% | 9.21% | 13.76% | 18.70% | 22.17% |
| July 11, 1962 | -2.65% | -2.20% | 0.03% | -0.28% | 1.25% | -0.92% | 12.09% | 20.84% |
| November 5, 1962 | 1.90% | 3.60% | 6.46% | 7.85% | 10.95% | 13.80% | 19.98% | 24.78% |
| December 3, 1971 | 0.65% | 3.30% | 4.01% | 5.18% | 7.85% | 11.21% | 13.05% | 20.94% |
| October 10, 1974 | 1.98% | 0.62% | 5.89% | 7.34% | -3.60% | 4.04% | 20.62% | 26.62% |
| January 3, 1975 | 2.69% | 0.35% | 3.21% | 10.06% | 18.65% | 14.38% | 33.45% | 28.55% |
| August 20, 1982 | 3.62% | 8.55% | 8.16% | 10.49% | 23.19% | 22.40% | 30.45% | 44.71% |
| August 3, 1984 | 1.89% | 1.10% | 3.18% | 1.56% | 0.06% | 3.17% | 10.03% | 17.94% |
| May 25, 2004 | 1.07% | 1.64% | 1.71% | 1.92% | -1.64% | -0.73% | 5.74% | 6.91% |
| March 18, 2009 | 2.46% | 2.11% | 3.88% | 9.47% | 14.52% | 14.65% | 34.55% | 46.77% |
| October 14, 2011 | 1.12% | 4.94% | 2.34% | 2.22% | -1.04% | 5.64% | 13.57% | 17.60% |
| October 18, 2013 | 0.88% | 0.98% | 1.50% | 2.70% | 3.79% | 5.69% | 7.74% | 9.14% |
| October 8, 2015 | 0.52% | 1.94% | 3.77% | 4.26% | 2.49% | -4.54% | 1.42% | 6.97% |
| January 7, 2019 | 1.29% | 3.26% | 3.54% | 7.13% | 7.58% | 13.57% | 16.86% | 26.96% |
| March 31, 2023 | 0.00% | 1.02% | 0.67% | 0.25% | 2.72% | 8.43% | 4.36% | 26.82% |
| November 3, 2023 | 1.31% | 3.57% | 4.41% | 4.79% | 7.78% | 13.67% | 19.03% | 32.68% |
| April 24, 2025 | | | | | | | | |
| **Average:** | **1.20%** | **2.37%** | **3.54%** | **5.08%** | **6.49%** | **8.64%** | **16.35%** | **23.78%** |
| **% Positive:** | **88%** | **94%** | **100%** | **94%** | **81%** | **81%** | **100%** | **100%** |
| Average Max Loss | -0.84% | -0.84% | -0.84% | -0.90% | -1.70% | -2.12% | -2.64% | -2.64% |
| Average Max Gain | 1.77% | 3.39% | 4.32% | 5.71% | 8.86% | 11.08% | 17.82% | 27.24% |

Second, the S&P 500 has now recouped more than half of its losses since February. Historically, when a market nearing or entering bear territory retraces 50% of its decline, the rally is viewed as more durable. In every past case, the index was higher one year later. (table from Carson Group):

**Recovering 50% Of The Recent Near Bear Market Is A Good Sign**
S&P 500 Returns After Recovering 50% Of Bear Or Near Bear Market (1950 - Current)

| | | | | | S&P 500 Future Returns | | | |
|---|---|---|---|---|---|---|---|---|
| Start Of Bear | End Of Bear | S&P 500 Change | Date To Recover 50% Of The Bear Market | Make New Lows? | 1 Month | 3 Months | 6 Months | 12 Months |
| 8/2/1956 | 10/22/1957 | (21.6%) | 6/4/1958 | No | 2.2% | 8.3% | 18.0% | 29.5% |
| 12/12/1961 | 6/26/1962 | (28.0%) | 12/4/1962 | No | 2.4% | 3.5% | 12.6% | 18.6% |
| 2/9/1966 | 10/7/1966 | (22.2%) | 1/12/1967 | No | 4.3% | 6.6% | 10.1% | 15.3% |
| 11/29/1968 | 5/26/1970 | (36.1%) | 12/3/1970 | No | 3.3% | 11.3% | 13.9% | 7.8% |
| 1/11/1973 | 10/3/1974 | (48.2%) | 5/13/1975 | No | (1.6%) | (4.9%) | (2.4%) | 12.4% |
| 9/21/1976 | 3/6/1978 | (19.4%) | 5/1/1978 | No | (0.4%) | 3.1% | (3.2%) | 4.2% |
| 11/28/1980 | 8/12/1982 | (27.1%) | 9/3/1982 | No | (0.6%) | 13.1% | 25.3% | 33.9% |
| 8/25/1987 | 12/4/1987 | (33.5%) | 10/20/1988 | No | (5.8%) | 1.3% | 9.5% | 22.7% |
| 7/16/1990 | 10/11/1990 | (19.9%) | 1/18/1991 | No | 10.9% | 15.6% | 15.6% | 25.9% |
| 7/17/1998 | 8/31/1998 | (19.3%) | 10/22/1998 | No | 7.9% | 14.4% | 26.1% | 20.7% |
| 3/24/2000 | 10/9/2002 | (49.1%) | 1/26/2004 | No | (1.0%) | (1.7%) | (5.2%) | 1.1% |
| 10/9/2007 | 3/9/2009 | (56.8%) | 12/24/2009 | No | (2.6%) | 4.1% | (4.6%) | 11.6% |
| 4/29/2011 | 10/3/2011 | (19.4%) | 10/21/2011 | No | (3.7%) | 6.2% | 10.8% | 15.8% |
| 9/20/2018 | 12/24/2018 | (19.8%) | 1/18/2019 | No | 4.3% | 8.9% | 11.8% | 24.3% |
| 2/19/2020 | 3/23/2020 | (33.9%) | 4/14/2020 | No | (0.9%) | 12.3% | 24.2% | 44.9% |
| 1/3/2022 | 10/12/2022 | (25.4%) | 8/12/2022 | Yes | (8.1%) | (7.6%) | (3.3%) | 3.7% |
| 2/19/2025 | 4/8/2025 | (18.9%) | 4/30/2025 | ? | ? | ? | ? | ? |
| Average | | (29.3%) | Average | | 0.7% | 5.9% | 10.0% | 18.3% |
| Median | | (29.3%) | Median | | 0.7% | 5.9% | 10.0% | 18.3% |
| | | | % Positive | | 43.8% | 81.3% | 68.8% | 100.0% |

Source: Carson Investment Research, FactSet 05/02/2025
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Finally, the VIX—Wall Street's fear gauge—has plunged since the initial tariff shock, dropping from 45 to just under 23. That marks the second-largest four-week decline on record. Historically, sharp pullbacks in the VIX have been followed by mostly higher returns over the next year. The one major exception came after 1998, when the dot-com bubble burst years later and dragged long-term performance lower.

**Biggest 4-Week $VIX % Declines and Forward S&P 500 Total Returns**

| Biggest 4-Week $VIX Declines | | | | Forward S&P 500 Total Returns | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| End Date | Start $VIX | End $VIX | $VIX Decline | 6-Month | 1-Year | 2-Year | 3-Year | 4-Year | 5-Year |
| 7/22/2016 | 25.76 | 12.02 | -53.3% | 5.5% | 16.1% | 34.1% | 45.4% | 60.6% | 118.9% |
| 5/2/2025 | 45.31 | 22.68 | -49.9% | | | | | | |
| 3/9/2018 | 29.06 | 14.64 | -49.6% | 4.0% | 0.4% | 10.9% | 45.9% | 66.7% | 58.5% |
| 11/27/2020 | 38.02 | 20.84 | -45.2% | 16.4% | 28.1% | 14.1% | 31.3% | 74.4% | |
| 4/24/2020 | 65.54 | 35.93 | -45.2% | 23.3% | 49.8% | 55.3% | 52.9% | 86.6% | 101.1% |
| 12/31/2021 | 30.67 | 17.22 | -43.9% | -19.1% | -18.1% | 3.4% | 31.2% | | |
| 1/25/2013 | 22.72 | 12.89 | -43.3% | 13.8% | 21.7% | 42.3% | 35.1% | 64.5% | 107.6% |
| 10/28/2011 | 42.96 | 24.53 | -42.9% | 10.4% | 12.3% | 43.1% | 63.1% | 75.9% | 85.5% |
| 4/17/2020 | 66.04 | 38.15 | -42.2% | 22.3% | 48.1% | 57.6% | 51.0% | 89.9% | 101.5% |
| 11/24/2023 | 21.27 | 12.46 | -41.4% | 17.2% | 32.8% | | | | |
| 1/18/2019 | 30.11 | 17.80 | -40.9% | 12.6% | 27.2% | 46.6% | 83.9% | 60.4% | 95.0% |
| 6/18/2010 | 40.10 | 23.95 | -40.3% | 12.4% | 16.1% | 25.3% | 55.2% | 88.7% | 108.2% |
| 12/23/2011 | 34.47 | 20.73 | -39.9% | 6.6% | 15.6% | 50.1% | 74.5% | 72.6% | 98.6% |
| 11/14/2014 | 21.99 | 13.31 | -39.5% | 5.1% | 1.3% | 10.7% | 34.8% | 48.0% | 68.0% |
| 10/23/2015 | 23.62 | 14.46 | -38.8% | 1.9% | 5.5% | 29.5% | 41.9% | 56.2% | 85.7% |
| 4/1/2022 | 31.98 | 19.63 | -38.6% | -20.5% | -8.0% | 19.4% | 28.6% | | |
| 1/25/2019 | 28.34 | 17.42 | -38.5% | 14.7% | 26.2% | 49.8% | 73.9% | 59.7% | 97.7% |
| 11/6/1998 | 41.78 | 25.70 | -38.5% | 18.6% | 21.6% | 28.1% | -1.1% | -16.8% | -1.2% |
| 11/29/2024 | 21.88 | 13.51 | -38.3% | | | | | | |
| 11/7/2014 | 21.24 | 13.12 | -38.2% | 5.2% | 5.5% | 7.1% | 35.6% | 45.4% | 67.1% |
| Average (20 Biggest 4-Week % Declines) | | | | 8.4% | 16.8% | 31.0% | 46.1% | 62.2% | 85.2% |
| Average All Other Periods | | | | 5.8% | 12.1% | 25.2% | 39.2% | 55.9% | 74.0% |
| Differential | | | | 2.6% | 4.7% | 5.9% | 6.9% | 6.2% | 11.1% |

The market's continued strength since our last update reinforces a key message: disciplined portfolio construction and steady exposure to risk remain essential, even in uncertain times. Blending tactical strategies with fully invested active solutions offers a balanced approach—managing risk systematically while keeping portfolios positioned for long-term growth.

In summary, the pause in the worst of the U.S.–China tariffs is a welcome move—one that lowers recession risks and gives the economy some breathing room. While soft data remains weak, it hasn't yet spilled into hard data. The trade truce also buys the Fed more time to gauge the path of inflation. At the same time, technical signals are turning bullish: a rare Zweig Breadth Thrust, a 50% retracement in the S&P 500, and a historic collapse in volatility. Taken together, these indicators point to the potential for more upside ahead.

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