Insights
Systematic Equity-Active

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Looking for a Signal in the Noise

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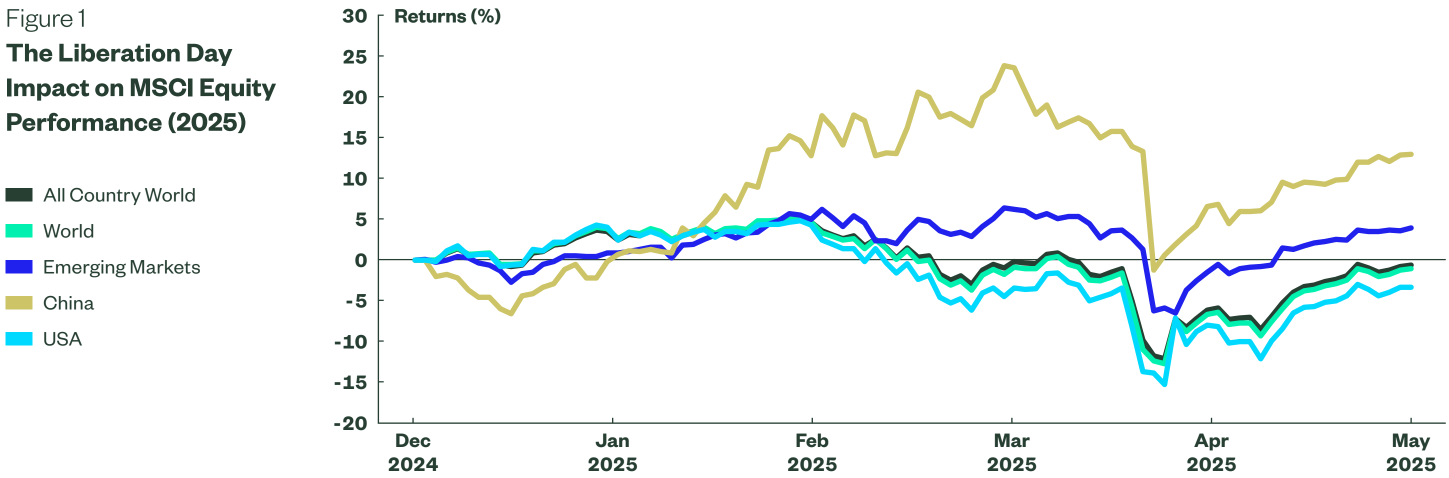
Trade war and tariff noise has reverberated through equity markets around the world since the US 'Liberation Day' announcements on 2 April. We believe that looking through such volatile narratives to extract what market price actions are telling us about future expectations is key to effective equity investing.

When the United States unleashed its round of bigger-than-anticipated tariffs on world trading partners in early April, stock markets sold off aggressively as investors targeted the few pockets of safety around the world. Many global equity markets had already been struggling this year, with the US a notable laggard after bumper years in 2023 and 2024. The subsequent rebound from this 'mini crash' has been equally impressive, given that markets were dealing as much in rumor as fact for much of this time.

Figure 1
The Liberation Day Impact on MSCI Equity Performance (2025)



Source: Factset, State Street Global Advisors, MSCI, as of May 12, 2025. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

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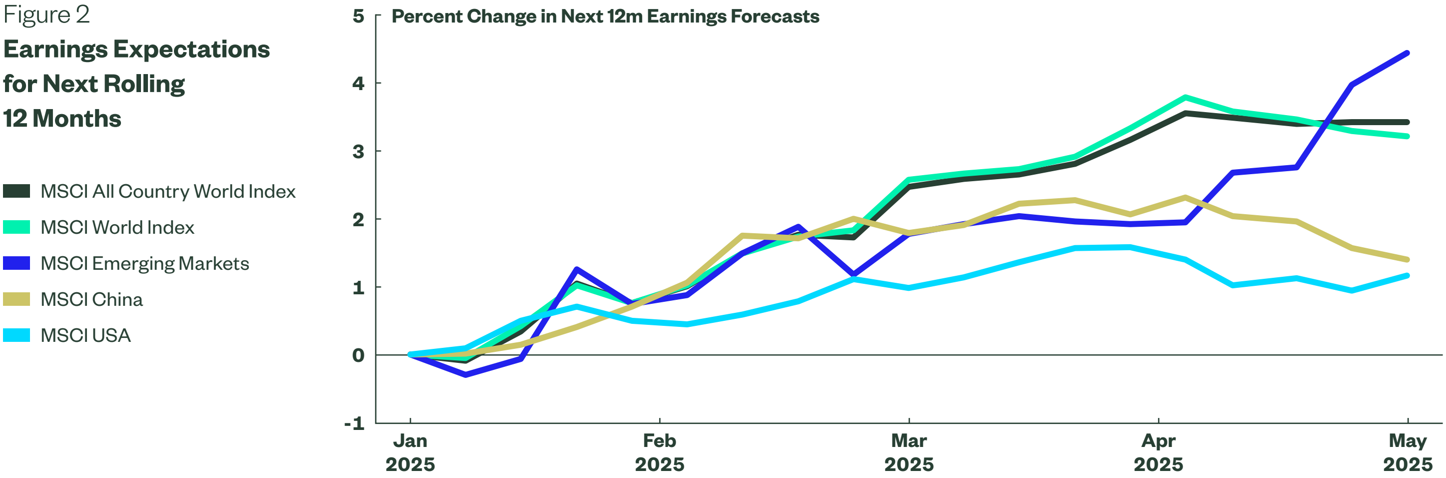
Fundamentals Not Reflecting Share Price Volatility

The difficulty for investors in these environments is the complexity of accurately assessing the impact of a fast-moving and unpredictable narrative and converting the 'news' into expectations for future corporate earnings. Measures of analysts' aggregate earnings forecasts over the next 12 months have barely changed through April and into May across most markets, and certainly haven't reversed the impressive increase in earnings expectations year-to-date. There are currently too many unknowns to make informed changes to forecasts, and so the forecasts have been notably more stable than share prices over this period.

Figure 2
Earnings Expectations for Next Rolling 12 Months



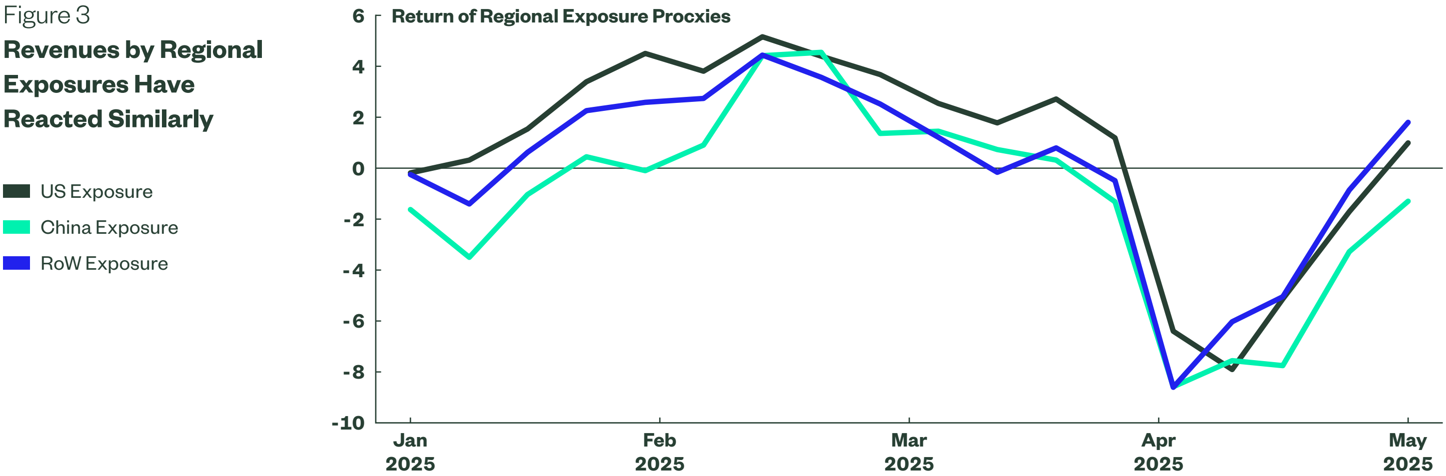
Source: FactSet, State Street Global Advisors, MSCI, as of May 12, 2025. Earnings expectations in local currency terms.

Assessing the Impact is Challenging

To better understand the recent market price action we drilled down into which companies globally were most exposed to the tariff war epicenters of the United States and China. Through analysis of disclosed geographic sales information for companies within the MSCI All Country World Index, we built proxies of the revenue exposure of each company to the US, China, and Rest of the World (ROW).

Despite the likely damaging long-term impact to exporters around the world, there has been little differentiation in stock price moves by geographic exposure, with US, China, and ROW exposures behaving similarly. Again, this highlights the difficulty in assessing exactly where the exposures are, the path of the imposed and retracted tariff threats, and therefore the long-term impact on earnings.

Figure 3
Revenues by Regional Exposures Have Reacted Similarly



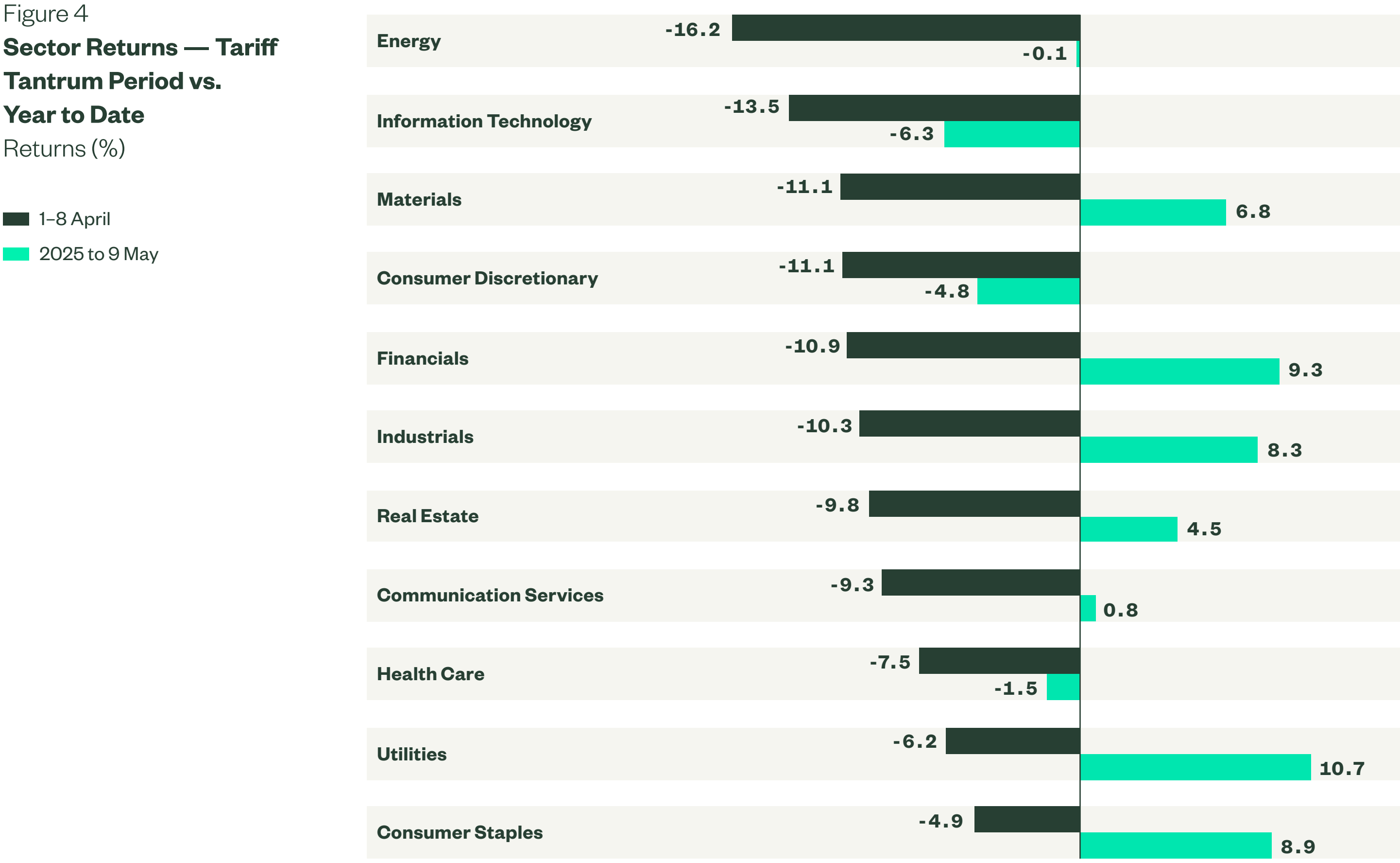
Source: FactSet, State Street Global Advisors, MSCI, as of May 12, 2025.

In Times of Crisis, Go on Defense

As we have outlined, the volatile April 2-April 8 period between US tariff announcements and the 90-day pause triggered something akin to crisis mode for equity investors. A careful, rational, data-driven approach was almost impossible to maintain in the face of so much noise and rapidly revolving newsflow. In this short period, investors reverted to a conditioned response for volatile times: selling bad news, buying good news, and favoring more defensive sectors over economically sensitive ones.

While all sectors were down, Consumer Staples, Utilities, and Healthcare held up the best, with Energy and Materials among the weakest performers. When we widen the lens to take stock of performance for the year to date (to May 9), which captures the recent recovery period, Staples and Utilities still remain amongst the better performing sectors.

Figure 4
Sector Returns — Tariff Tantrum Period vs. Year to Date
Returns (%)



Source: FacSset, State Street Global Advisors, MSCI, as of May 12, 2025. Past performance is not a reliable indicator of future returns.

The Bottom Line

Even though equity markets have recovered from the tariff-induced lows hit on April 8, the signs are clear that we are not yet out of the woods. The initial sell-off was a natural reaction to the uncertainty resulting from the ever-changing trade war narrative.

The fact that equity markets have broadly returned to where they were prior to early April suggests we should move ahead cautiously. Earnings forecasts for companies have not changed as a result of the tariff rhetoric; this might be because the final outcome is so opaque that analysts are in wait-and-see mode or because there's a genuine sense that earnings will not be notably affected. We lean more towards the former view than the latter.

But even if cashflow and earnings expectations for companies has not changed as yet, the discount rate that should be applied to those cashflows in a discounted cash flow (DCF) valuation framework should surely have increased to reflect the raised uncertainty about policy and the heightened volatility around the narrative.

To us, this suggests that equity markets may not have found a safe landing point just yet and increased volatility might be a feature of the next few months. It's in market environments like these when the value of holding defensive exposures in a portfolio is arguably easier to recognize. Our own experience provides support for this: our active Defensive Equity strategy helped cushion the drawdowns in equity markets during April, while outperforming its cap-weighted benchmark for the year-to-date.[1] During periods of booming equity markets, this defensive approach has underperformed, but it illustrates the benefits of playing defense in times of crisis.

Endnote

1 For 2025 to date up to May 9, 2025.

About State Street Global Advisors

For over four decades, State Street Global Advisors has served the world's governments, institutions, and financial advisors. With a rigorous, risk-aware approach built on research, analysis, and market-tested experience, and as pioneers in index and ETF investing, we are always inventing new ways to invest. As a result, we have become the world's fourth-largest asset manager* with US $4.67 trillion† under our care.

* Pensions & Investments Research Center, as of December 31, 2023.
† This figure is presented as of March 31, 2025 and includes ETF AUM of $1,553.58 billion USD of which approximately $106.42 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.