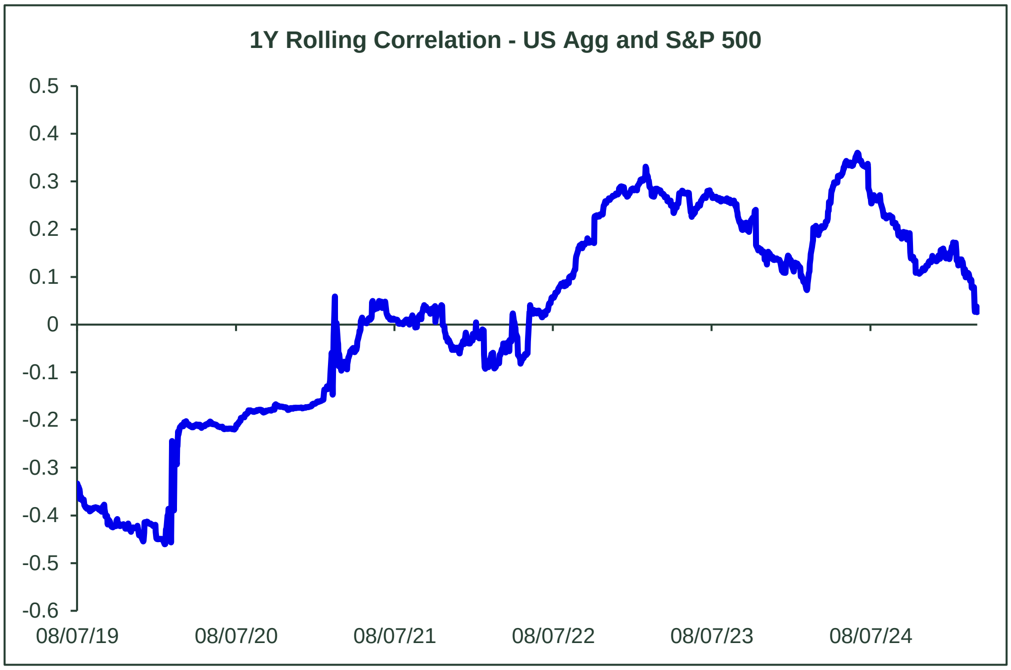
April 10, 2025
Commentary

Weekly Market Update

Insight of the Week

A Return of A Well-Functioning Stock/Bond Correlation?

Long term asset allocators rely on the diversification benefits of owning bonds during market dislocations, but bonds haven't always delivered as of late.



Source: S&P, Bloomberg, State Street Global Advisors. One year of daily price changes used for the correlation calculation. Data as of 4/9/2025.

As witnessed during the inflation spike of 2022, the stock/bond correlation broke down and became positive, ruining the coveted negative relationship. Excessive inflation is a headwind to both bonds and stocks. It puts upward pressure on bond yields, and as a result, tighter financial conditions can effect corporate profitability, creating conditions for a less favorable equity market. Bottom line – higher yields and lower equity prices can be ruinous for diversification.

There are implications to both economic growth and inflation stemming from the recently announced tariffs. Currently the market is more focused on growth concerns stemming from a slowdown in global trade, but higher inflationary impulses exist… and just when correlations started to approach 0.0.

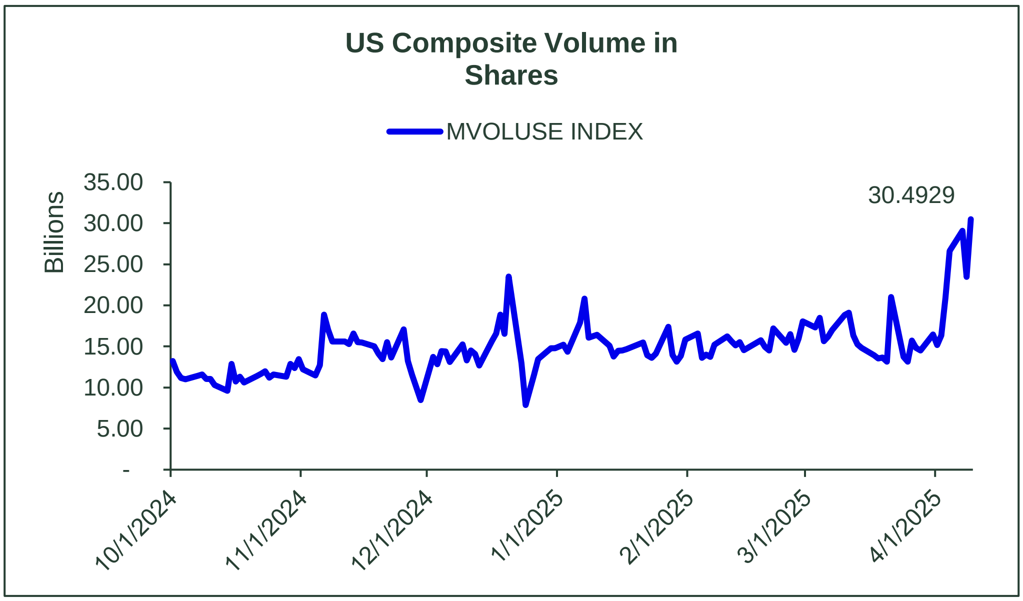
Source: S&P, Bloomberg. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses.

Equities

Self-Inflicted Turmoil and then the Trump Put?

Perhaps the market truly is the Trump administration's scorecard. After the S&P 500 saw a drawdown as low as 13% post Liberation Day, Trump enacted a 90 day pause on reciprocal tariffs on April 9th. This marked a historic day for the equity market, with the S&P 500 +9.5%, and NASDAQ +12.1%. The VIX moved from an elevated level of 52.3 on April 8th to 33.6, and of the 503 constituents in the S&P 500, 494 were in the green. The best performing sectors were Information Technology and Consumer Discretionary, producing strong gains after lagging the more defensive sectors YTD.

For the last few days we've seen intra-day market swings as much as 10%. From April 7th to April 9th, the average intraday market swing for the S&P 500 was 7.95%. Massive levels of uncertainty have created extremely reactionary markets, where sentiment takes precedence over fundamentals. The chart below illustrates the sheer volume of trading during this politically eventful environment, and equity traders on the desk notified us that April 9th now marks the highest volume day in history, crossing 30 billion shares traded.



Source: SSGA Trading, Bloomberg. Tape A, B and C trading volume on all US exchanges for all security types. **A special thanks to Nat Evarts, Cory Schad and Jamie McKenna for the data and insights.**

Before the market bounce, we endeavored to explore how valuations have evolved based on price action, however metrics quickly reverted. The S&P 500 now trades at 19.6x next-twelve-month earnings up from a low of 17.9x on April 8th. Prior to the uptick, we hadn't seen valuations that "depressed" since November of 2023.

With so much uncertainty, let's level set with what we do know:

- Trade policy volatility is expected to continue
- The U.S. is placing tariffs of ~145% on one of their largest trading partners, and 10% elsewhere, putting emphasis on how policy is targeting China
- Tariffs are likely to create growth and inflation risks

- The Fed has pushed back on rate cut rhetoric due to potential for tariffs to impact inflation and inflation expectations

We are confident sentiment will continue to be a headwind as policy uncertainty remains high. Some of our latest thinking and discussion among the team has evolved around sectors that can defend earnings multiples and return value to shareholders. For now, we believe long-term US investors can be opportunistic during periods of market dislocation and regional performance, such as in Europe and APAC, will eventually feel the acuteness of tariffs, especially should the 90 day pause result in failed negotiations.

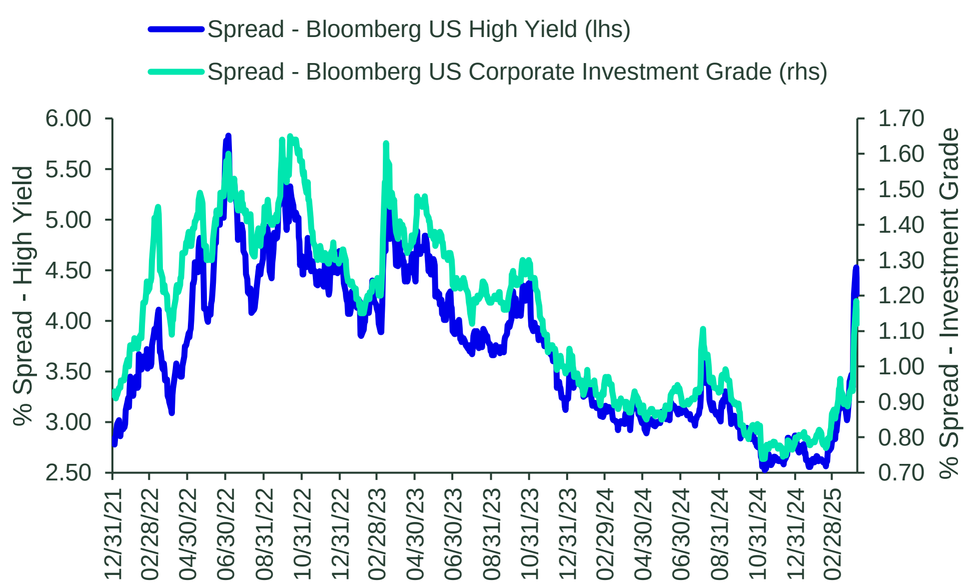
Source: Bloomberg, FactSet. Data as of 4/9/2025 unless otherwise stated. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses.

Fixed Income

Uncertainty Remains

Across almost every market, we've seen a strong thrust in prices stemming from policy uncertainly. When looking at corporate credit spreads, they were at long term tights after the presidential election up until March when they began widening, with a spike coming after "Liberation Day". Ultimately, what caught many investors by surprise is the degree to which President Trump was willing to disrupt growth, despite his pro-growth campaign promises.

Investment Grade and High Yield Spreads Remain Elevated From Recent Lows



Source: Bloomberg, FactSet. Data as of 4/9/2025.

With the subsequent 90-day pause of tariffs, we saw spreads come down but still remain elevated. As of April 9th, HY spreads were 426bps and IG Credit were 112bps. Relative to recent history, they are currently about halfway between recent lows, and the highs from the technical recessionary period of 2022.

In addition to widening spreads, the rates market has experienced volatility as well, with the 10Y UST yield rising from 4.01% on April 4th to 4.30%. Amid the volatility on Wednesday, the Treasury held an auction for $39B of 10Y notes, which surprisingly saw strong demand, alleviating worries there would be less buyers after the sell off.

We came into the year having a preference for treasuries over credit, in part due to rich valuations in spread risk. Has the recent moves changed our view? The positioning hasn't changed. Despite spreads now offering more return, there is greater uncertainty ahead and we prefer treasuries in this environment.

Source: Bloomberg, FactSet. 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.

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*Pensions & Investments Research Center, as of 12/31/23.
†This figure is presented as of December 31, 2024 and includes ETF AUM of $1,577.74 billion USD of which approximately $82.19 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.

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