TOVA WEALTH
PLANNING & INVESTMENTS

The Lows Are In, But Volatility To Continue

Tariff Relief Rally

On April 9th, President Trump suspended his “Liberation Day” tariffs for 90 days, while still imposing a flat tariff of 10%, except for China. There are also no tariffs right now on semiconductors, which benefits many companies, especially technology related ones. For China, Trump raised the tariff level again to 125%, effective immediately. The equity market surged on this news, having the best single-day rally since 2008. The equity market was extremely oversold, as we wrote in this week’s Week Ahead and has rallied sharply, showing just how oversold it was.

We have more certainty now but there are still clouds with the risk of tariffs after 90 days. With this change in tariffs, we feel confident the low is set on the S&P 500 at 4835. But lows often get tested, so we still expect continued volatility. It can take time to test the lows, which can take weeks to several months. We believe you can now buy on pullbacks. For investors who can take risk, we maintain Technology and Tech-related remain market leaders. For more cautious investors, we would be more defensive with the Utility and Consumer Staple sectors, and we like Gold on pullbacks. We also like Treasuries here for ballast in the portfolio as we expect interest rates to be biased to the downside.

We are Introducing a 12-month Forecast for the S&P 500 of 6550

We were very optimistic about the economy and equity market earlier this year. We expected Artificial Intelligence (AI) to help drive productivity enhancement, improving not only earnings but profit margins. We are now concerned that corporate profits have peaked near term due to an expected slowing economy, potential employment layoffs and new tariffs. But as we get full clarity on the tariffs, we expect profit growth to recover. We also expect businesses to adopt Artificial Intelligence (AI) to gain productivity enhancements in a slower economy. So, this year, we risk having a down market closing near 5500 or a 6.5% correction. Because the tariff outlook has improved, we do see new highs within the next 12 months. We are introducing a 12-month target on the S&P 500 of 6550 or a 20% gain from current levels.

What If Tariffs Return?

Should tariffs come back which could increase the risk of a recession, the S&P 500 could then fall to a 4400 level, in which case, we believe stocks could close the year near 5275, or down 10%. This is not our base case and we put a low probability on this scenario at this point.

We expect the tariff saga to play out over the coming months, particularly with China. We maintain that this is likely to keep volatility within the markets. We will continue to update our outlook as events in Washington and the markets unfold.