TOVA WEALTH
PLANNING & INVESTMENTS

April
2025

Tariff Saga to Continue Bringing Volatility

Executive Summary

Secular Bull Intact But Cyclical Bear Still Here

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 Utilities and Consumer Staples 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.

What To Watch For That Is Important

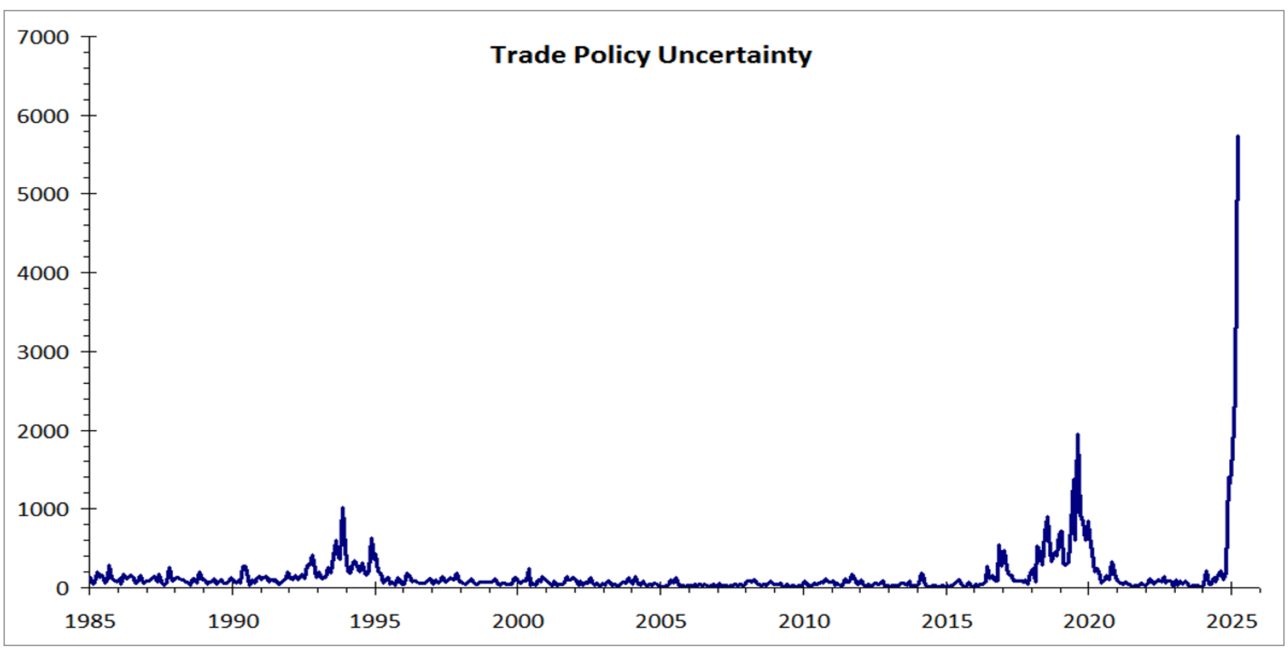
First, extended tax cuts and potentially new tax cuts are expected to offset some of the impact of the tariffs. This will be an important component for the growth of the economy. Secondly, we are now in earnings season. We expect earnings to be good for 1Q25, but this is looking in the rearview mirror. What the market will be paying attention to is not just reported earnings, revenues and profits, but what CEOs say about the outlook for their businesses. This could cause additional stock and market volatility.

Traversing Tariff Turbulence

Risk is the probability of an outcome, such as a stock price rising or falling. Uncertainty is when future events are unknown. With risk, the chances of an outcome can be estimated, no matter how roughly. With uncertainty, however, the outcomes are unknown, so probabilities cannot be assigned to them.

Asset markets are good at discounting risk but cannot discount uncertainty. The current turbulence in equity and bond prices – and hence in bond yields, which move in the opposite direction of bond prices – comes from the uncertainty over tariffs and their impact on corporate earnings through international trade, supply chains, and customers. But now we have more clarity.

Trade Policy Uncertainty Has Reached Levels Never Before Seen



Source: "Measuring Economic Policy Uncertainty" by Scott Baker, Nicholas Bloom and Steven J. Davis at www.PolicyUncertainty.com

A Simple Description Of Stock Pricing

The market is a discounting mechanism. Analysts and investors estimate forward earnings and apply a multiple – the price-earnings (PE) ratio – based upon their assessment of the market's ability to grow those earnings. So, there's a measure of risk in the forward earnings estimate, and a measure of risk in the estimate of the PE ratio. The accompanying table of forward earnings and PE ratios shows valuations for the S&P 500 at the end of 2025, based upon four scenarios of forward earnings and four PE ratios. As you can see, there is a wide range of scenarios that can occur in a world of uncertainty.

S&P 500 Prices From Various Forward Earnings And PE Ratios

S&P 500		Current 1Y Fwd EPS	Down 5%	Down 10%	Down 15%
		$277	**$263**	**$249**	**$235**
Multiple on Feb 19th	**22.4x**	6,205	5,895	5,584	5,274
20x	**20.0x**	5,540	5,263	4,986	4,709
Current	**18.3x**	5,069	4,816	4,562	4,309
25Y Median	**16.3x**	4,515	4,289	4,064	3,838

Source: BlackRock, April 7, 2025

Charts Don't Lie

We can also show our estimate using technical analysis. Fibonacci patterns appear throughout nature: in the spirals of seashells, hurricanes, galaxies, and many other places – including the stock market. The accompanying chart uses the Fibonacci series from the October 2022 lows to the recent highs. There are various support levels for the S&P 500. It is normal to retrace any move by one-third to one-half. The S&P 500 is holding support near 4800, which is the one-half or 50% level. The market rallied up into resistance, near the 5500 level, showing just how oversold markets were. The rally could advance in time as high as the 200-day moving average near 5700. But the 4800 level needs to be tested, in our view. Testing the lows doesn't necessarily mean a full drop back to 4835 – but it could and might even result in a new low. So, the testing process is challenging for investors. But this is the best time to find value in the equity market.

S&P 500 With Fibonacci Levels: Good Support At 4800 For A Rally

How Should We Invest In This Uncertain Market?

The market is undergoing *sector rotation*. This is normal. Depending upon the economic and business environment, some sectors will outperform the market while others lag. This is *relative price* investing, looking for the best sectors relative to the market and avoiding the laggards. In a strong market, this provides the highest gains, but it also works in weak markets by avoiding the worst losses.

Through the remainder of the April Corner, we examine each of the S&P 500 Sectors to determine which are most likely to outperform the market in this uncertain environment.

What we are seeing in the sectors is rotation to Value and defensive sectors, which is normal in a correction and a bear market.

We believe the secular uptrend in the equity market is still intact, meaning that after this correction, the market will be able to achieve new record highs within the next year.

History has shown that, after corrections, the market is up over a 12-month time frame. We maintain that Technology and Tech related companies continue to be the long-term leadership of the market.

Growth Vs. Value

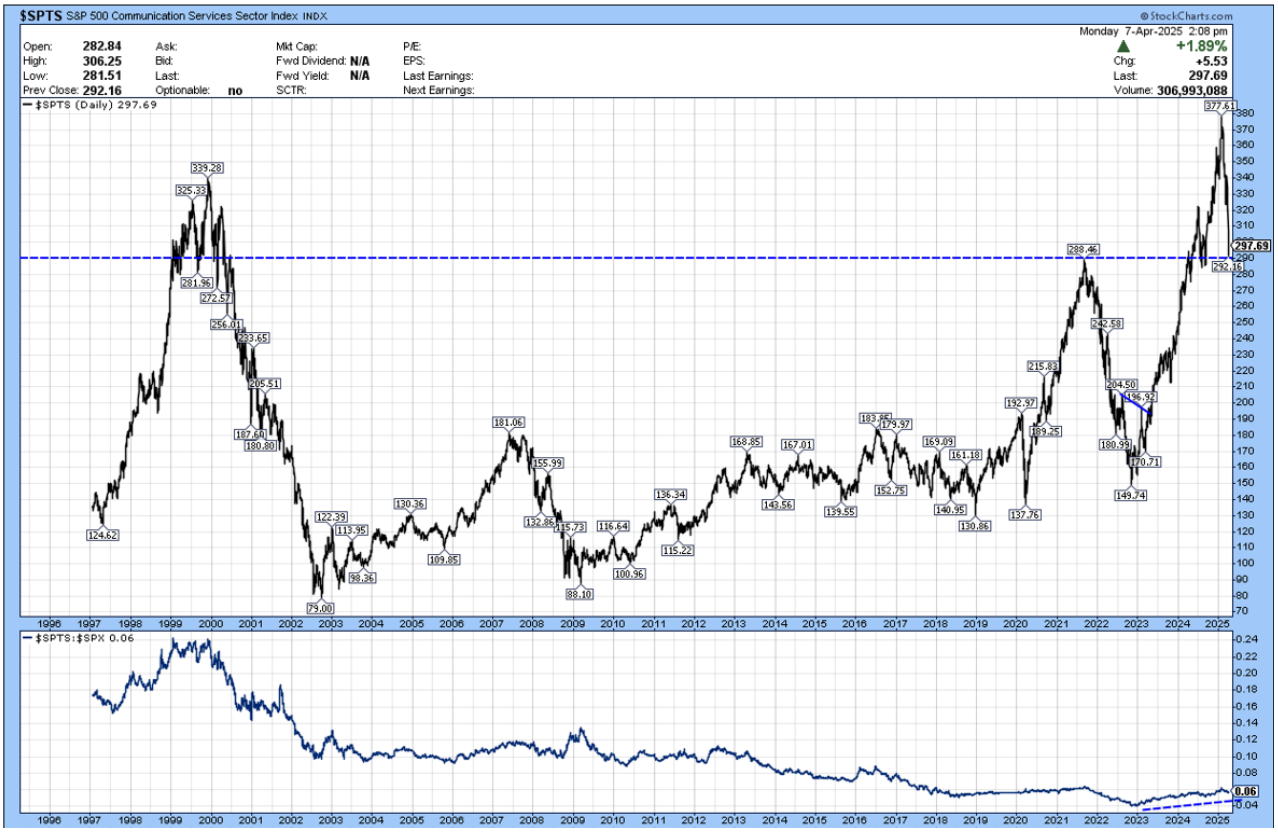
The market pullback has created a cyclical (short- to intermediate-term) Value cycle. But the secular (long, underlying term) cycle still favors Growth, in our view.

iShares Russell 1000 Growth ETF (IGF) Vs. iShares Russell 1000 Value ETF (IGV)

Communication Services

The S&P 500 Communication Services index includes Alphabet (GOOGL) and META (META), and this sector also includes AT&T (T) and Verizon (VZ). The sector has performed relatively well during the sell-off, and its relative price uptrend versus the S&P 500 has bottomed and still has an upward bias.

S&P 500 Communication Services Index (Top) Relative To S&P 500 (Bottom)



Consumer Discretionary

Consumer Discretionary stocks have broken down on an absolute basis (upper chart), but the relative price uptrend that began last fall remains in place. This indicates that cyclical companies are taking a temporary pause in a more upward biased trend.

S&P 500 Consumer Discretionary Index (Top) Relative To S&P 500 (Bottom)

Consumer Staples

Consumer Staples stocks appear to be a place where investors can hide during the confusion surrounding trade issues. There seems to be a bottom in the price, marked by the red line in the upper chart, while the relative price in the lower chart is performing well against the broader market, represented by the S&P 500.

S&P 500 Consumer Staples Index (Top) Relative To S&P 500 (Bottom)

Discretionary Or Staples?

The market sell-off has created a situation in which Staples are rallying compared to Discretionary stocks on a cyclical basis, but we think the long-term (secular) trend will return leadership to Discretionary issues. The up-sloping red line showing the Consumer Discretionary outperformance relative to Consumer Staples could be tested – indicating that cyclical stocks are likely to remain under pressure.

S&P 500 Consumer Discretionary Index Versus S&P 500 Consumer Staples Index

Energy

We are neutral on the Energy sector at this juncture. Crude oil prices are declining on ample supply and expectations of economic weakness, but there are pockets of opportunity, such as liquefied natural gas providers – an industry for which export restrictions have been lifted since the change in administrations. The relative price of Energy still has a downward sloping bias but is stabilizing. This sector offers deep value, with many large-cap energy stocks boasting solid balance sheets and with strong cash flows.

S&P 500 Energy Index (Top) Relative To S&P 500 (Bottom)

Healthcare

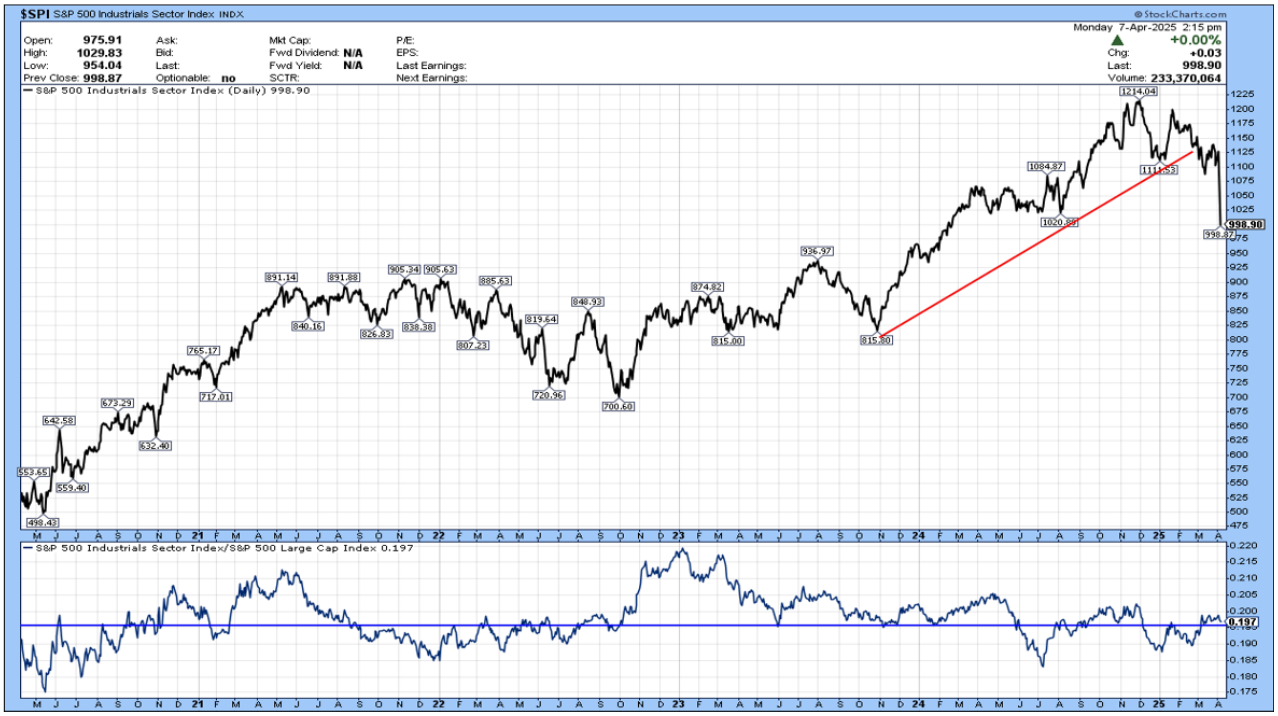
Healthcare stocks have begun to improve on a relative price basis, but we note that tariffs on pharmaceuticals remain an overhang for the sector and will likely be addressed at a later stage.

S&P 500 Healthcare Index (Top) Relative To S&P 500 (Bottom)

Industrials

On an absolute basis (upper chart), Industrials have broken down with the rest of the market, but on a relative price basis (lower chart), the sector is trading in a neutral way. It is not pricing a recession yet.

S&P 500 Industrials Index (Top) Relative To S&P 500 (Bottom)



Information Technology

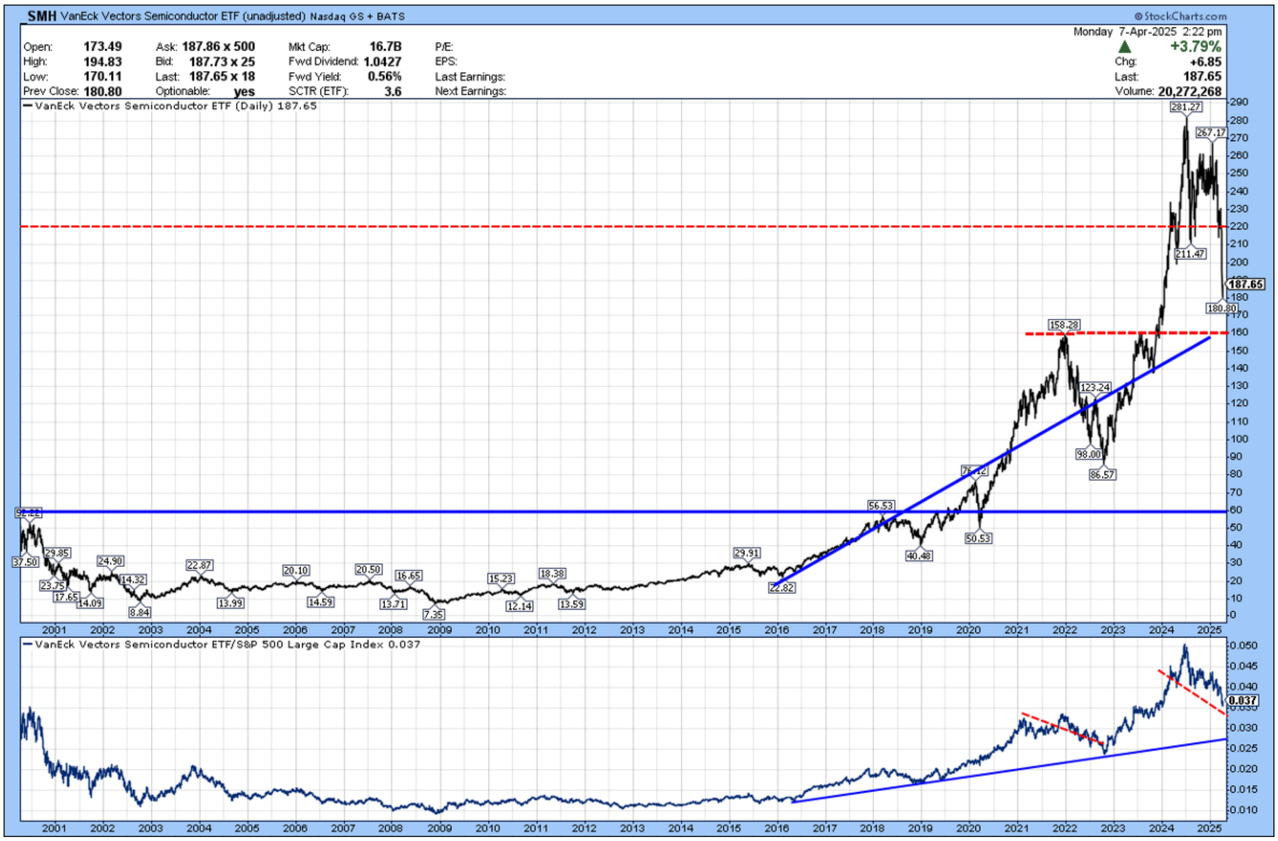
Information Technology led the market up, and it is taking a lot of price damage from the correction – and in a correction: *what goes up the most goes down the most*. We expect to see more downside in this sector. However, the red line in the lower chart shows the relative price of Information Technology to the S&P 500 going back to 2000, and so, (even if it's briefly undercut) as long as that line holds, we believe the secular leadership of Information Technology will remain intact. Companies will need artificial intelligence (AI) and robotics in a tightened labor market in order to compete. The U.S. remains the leader in the incubation and creation of new technologies.

S&P 500 Information Technology Index (Top) Relative To S&P 500 (Bottom)

Semiconductors

We have made the case that the industry leader in this cycle is semiconductors but that it would consolidate this year. This will be a deep correction for the semis, but as long as the uptrend holds in both the absolute and relative chart, they will maintain their leadership in the years ahead.

VanEck Semiconductor ETF (SMH_ (Top) Relative To S&P 500 (Bottom)



Financials

The absolute price of Financial stocks is broken (upper chart), but the relative price (lower chart) of the sector remains in an uptrend. Banks make up the largest segment of the Financial sector and the Banks have much stronger balance sheets coming out of the Great Financial Crisis.

S&P 500 Financials Index (Top) Relative To S&P 500 (Bottom)

Materials

Materials stocks have broken down on an absolute price basis. They were already in a relative price decline. We believe this augurs lower inflation ahead as this sector is sensitive to commodity prices.

S&P 500 Materials (Top) Relative To S&P 500 (Bottom)

Real Estate

While Real Estate stocks have shown a modest relative price improvement (lower chart), we regard the sector as neutral, though it does tend to perform better when interest rates decline. This sector could be in the early stages of a recovery.

S&P 500 Real Estate (Top) Relative To S&P 500 (Bottom)

Utilities

Utilities stocks are weaker on an absolute basis (upper chart) but are improving on a relative price basis. Utilities are a traditional defensive sector. They also benefit when interest rates go down because they have a capital intensive balance sheet. We believe this sector is likely to continue to play a defensive role, and that this is a place investors can hide while the equity market remains in turmoil.

S&P 500 Utilities (Top) Relative To S&P 500 (Bottom)

Sector Rankings By Relative Performance Over Time

We are introducing a new sector model using the S&P 500 GICs sector classifications that looks at price momentum over various periods of time where we have created a weighted measure of three periods of time. We rank each sector from best to worst based upon the average of its 40-, 26-, and 13-week relative price performances. We rank each sector from 1-10 with 1 being the strongest and 10 the weakest. Note the improvement in the Consumer Staples and Utilities sectors. Information Technology is ranked last and indicates it is very oversold and is in a position to rally.

Sector Rankings By 40-, 26-, And 13-Week Average Relative Price Performance

	Apr 4	Mar 28	Mar 21	Mar 14	Mar 7	Feb 28	Feb 21	Feb 14
Consumer Discretionary	8	9	9	9	5	3	2	2
Consumer Staples	1	4	6	7	3	4	6	7
Energy	10	2	2	4	10	10	10	11
Financials	3	1	1	1	2	1	3	3
Health Care	5	8	8	8	8	9	9	9
Industrials	6	6	5	5	4	7	7	6
Information Technology	11	11	11	11	9	8	4	4
Materials	9	10	10	10	11	11	11	10
Communication Services	7	7	4	3	1	2	1	1
Utilities	2	3	3	2	7	5	5	5
Real Estate	4	5	7	6	6	6	8	8

Source: Standard & Poor's, Bloomberg, Sanctuary Wealth, April 5, 2025

Overbought-Oversold List

We are also introducing a tactical sector rotation model using the S&P 500 GICs sector classifications. We apply a 13-week rate of change methodology that normalizes the rankings from overbought to oversold. An overbought industry group is when it has risen too far too fast, relative to the rest of the market, *based upon its normal movement*. Conversely, it's oversold when it has lost too much too fast, relative to the rest of the market, *based upon its normal movement*. Over time, the sector tends to move back toward its normal change, relative to the rest of the market. Overbought sectors tend to slow their pace of gains in relative price, while oversold sectors tend to improve in relative price until they reach their average performance again.

Here's our methodology: the overbought-oversold table of sectors measures the 13-week rate of change in the relative price of each sector. We then average (smooth) this for 3 weeks and normalize the results. Normalized oscillator values over 1.0 are considered overbought, while those between 0.6 and 1.0 are considered near overbought. Normalized oscillator values below -1.0 are considered oversold, while those between -0.6 and -1.0 are considered near oversold.

Note that the defensive sectors of Consumer Staples, Healthcare and Utilities are the most overbought and Technology and Consumer Discretionary are the most oversold. On a market rally, the most oversold are expected to rally the most and the most overbought are expected to not rally as much or even correct.

Sector Overbought / Oversold List as of 4 April 2025

Rank	S&P Sector	Normalized Oscillator
1	Consumer Staples	3.4081
2	Health Care	2.7511
3	Utilities	1.9802
4	Materials	1.9779
5	Real Estate	1.7074
6	Industrials	1.1477
7	Financials	1.1211 Overbought
8	Energy	0.6764 Near Overbought
9	Communication Services	-0.0855 Near Oversold
10	Consumer Discretionary	-2.0166 Oversold
11	Information Technology	-2.4329

Source: Standard & Poor's, Bloomberg, Sanctuary Wealth, April 4, 2025

Last Words

Although we are presently in a cyclical downturn, once clarity begins to return to international trade, we believe stocks should resume their secular bull market.

We also believe investors can buy on pullbacks. For conservative investors, we prefer the more defensive sectors of Utilities and Consumer Staples sectors. We're not out of the woods yet. Value is cyclically outperforming Growth, but we expect Growth to reassert secular leadership once this downturn ends. We maintain that Technology is the leadership in the market. We also like Gold on pullbacks. With our outlook for yields to be biased to the downside, fixed income is expected to provide ballast to the portfolio. We prefer Treasuries and, in the near-term, duration can be extended. Some dry powder of cash would also reduce portfolio volatility.

The risk to our outlook is that the trade and tariff turmoil could end as it began with little notice, and the equity market rallies very sharply, with the old secular leadership of Information Technology and Financials reasserting themselves, which in the near-term has happened. There is also the risk that the economy slides into recession, so that equity prices decline further. Corrections are challenging for investors, but a patient investor has proven to grow a portfolio over time.

We recall the advice of Warren Buffett: *"The stock market is the only market where things go on sale and all the customers run out of the store."*

Don't run out of the store.

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