WELLS FARGO
Investment Institute

Market Commentary

Weekly perspective on current market sentiment **April 9, 2025**

Scott Wren
Senior Global Market Strategist

Last week's S&P 500 Index: -9.1%

What to do now

Key takeaways

- Our view is that tariffs are going to result in slower gross domestic product (GDP) growth and slightly higher inflation than previously expected
- But we believe that investors with a longer-term time horizon should be stepping in to buy U.S. large- and mid-cap equities at current levels.

The administration's reciprocal tariffs take effect this week and cover imports from most U.S. trading partners. In addition, President Trump imposed a minimum 10% tariff on all countries. Markets have clearly been extremely volatile during the last few trading sessions as investors try to decipher how these tariffs are going to impact the economy and corporate earnings. While many market participants may have held on to the opinion that tariffs were being used only as a negotiating tactic in recent months, the harsh reality is that tariffs have been implemented and there is likely to be an economic cost, not just to the American economy but the global economy as a whole.

Our view is that tariffs are going to result in slower GDP growth and slightly higher inflation than previously expected. As we have stated, tariffs have economic costs. Not only do tariffs result in higher prices but they also clearly weigh on business and consumer sentiment and confidence. Small-business optimism has fallen, and, not surprisingly, the National Federation of Independent Business (NFIB) gauge measuring small-business uncertainty has jumped higher. When business owners are uncertain about economic conditions looking down the road, they could very well reduce or place a on hold capital expenditure (capex) plans until there is more clarity. Likewise, when consumers are not confident about their job prospects or the economy, they might reduce spending and put off plans for a vacation or buying a car.

So given all the current uncertainty, the question is what to do now? We believe that investors with a longer-term time horizon should consider stepping in to buy U.S. large- and mid-cap equities at current levels. We want to focus on high-quality equities. Favored sectors include Energy, Information Technology, Communication Services, and Financials. Does that mean we are calling a bottom in the stock market? Absolutely not. If the uncertainty persists and consumer and business spending slump, the economy might fall into a recession and equity prices may have further to fall. Note that we believe the probability of a recession is low. But we do believe current levels represent an attractive entry point.

How about fixed income? A couple of weeks ago we suggested that investors move some funds from the bond market into mid-cap equities to take advantage of the pullback in equities and the rally in bond prices. But that doesn't mean we want to abandon fixed income. Our fixed-income guidance emphasizes selectivity. We favor buying investment-grade fixed income and would focus on corporate bonds and essential-service municipal securities. We prefer buying in the intermediate (three to seven year maturities) portion of the curve.

Investors who want to take a more cautious approach might consider parking some funds in a money market account. Rates are noticeably higher now than when the pandemic hit and offer a bit of calm away from the storm. As markets hopefully stabilize in coming months, we would favor incrementally reallocating to financial markets, primarily toward equities.

Risk considerations

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Small- and mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. Income from **municipal** securities is generally free from federal taxes and state taxes for residents of the issuing state. While the interest income is tax-free, capital gains, if any, will be subject to taxes. Income for some investors may be subject to the federal Alternative Minimum Tax (AMT).

Sector investing can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio's vulnerability to any single economic, political, or regulatory development affecting the sector. This can result in greater price volatility. The **Energy** sector may be adversely affected by changes in worldwide energy prices, exploration, production spending, government regulation, and changes in exchange rates, depletion of natural resources, and risks that arise from extreme weather conditions. Risks associated with the **Technology** sector include increased competition from domestic and international companies, unexpected changes in demand, regulatory actions, technical problems with key products, and the departure of key members of management. Technology and Internet-related stocks, especially smaller, less-seasoned companies, tend to be more volatile than the overall market. **Communication** services companies are vulnerable to their products and services becoming outdated because of technological advancement and the innovation of competitors. Companies in the communication services sector may also be affected by rapid technology changes; pricing competition, large equipment upgrades, substantial capital requirements and government regulation and approval of products and services. In addition, companies within the industry may invest heavily in research and development which is not guaranteed to lead to successful implementation of the proposed product. Investing in the **Financial** services companies will subject an investment to adverse economic or regulatory occurrences affecting the sector.

General Disclosures

Global Investment Strategy (GIS) is a division of Wells Fargo Investment Institute, Inc. (WFII). WFII is a registered investment adviser and wholly owned subsidiary of Wells Fargo Bank, N.A., a bank affiliate of Wells Fargo & Company.

The information in this report was prepared by Global Investment Strategy. Opinions represent GIS' opinion as of the date of this report and are for general information purposes only and are not intended to predict or guarantee the future performance of any individual security, market sector or the markets generally. GIS does not undertake to advise you of any change in its opinions or the information contained in this report. Wells Fargo & Company affiliates may issue reports or have opinions that are inconsistent with, and reach different conclusions from, this report.

The information contained herein constitutes general information and is not directed to, designed for, or individually tailored to, any particular investor or potential investor. This report is not intended to be a client-specific suitability or best interest analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities. Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon. The material contained herein has been prepared from sources and data we believe to be reliable but we make no guarantee to its accuracy or completeness.

Wells Fargo Advisors is registered with the U.S. Securities and Exchange Commission and the Financial Industry Regulatory Authority, but is not licensed or registered with any financial services regulatory authority outside of the U.S. Non-U.S. residents who maintain U.S.-based financial services account(s) with Wells Fargo Advisors may not be afforded certain protections conferred by legislation and regulations in their country of residence in respect of any investments, investment transactions or communications made with Wells Fargo Advisors.

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, separate registered broker-dealers and non-bank affiliates of Wells Fargo & Company. PM-10082026-7835690.1.1