Yardeni Research

April 7, 2025

Morning Briefing

Annihilation Days

Check out the accompanying chart collection.

Executive Summary: Trump's Liberation Day last Wednesday triggered Annihilation Days on Thursday and Friday, with the Stock Market Vigilantes giving a costly thumbs-down to Trump's Reign of Tariffs. Trump officials say they aim to make Main Street wealthy again even if that's bad for Wall Street. The problem is that Main Street owns lots of equities traded on Wall Street, so the two streets prosper and suffer together. Congress can't do much to stop Trump given his veto power, but he might get the message that hurting Main Street's stock portfolios can cause a recession and jeopardize the GOP majority in Congress. If so, he might postpone the reciprocal tariffs, giving trade negotiations time to work. Also, the courts might block Trump's tariffs. An early end to Trump's tariff nightmare would result in a V-shaped stock-market bottom. We're counting on that; the alternative is just plain ugly.

YRI Weekly Webcast. Join Dr Ed's live webcast with Q&A on Mondays at 11 a.m., EST. You will receive an email with the link one hour before showtime. Replays of the weekly webcasts are available *here*.

Trump's Tariffs I: President's Exit Ramp. So far, congressional Republicans are giving Trump Tariffs 2.0 the benefit of the doubt. Some are voicing their concerns. A few Senate Republicans are joining the Democrats in the Senate to support a bill to cancel Trump's tariffs on Canada. But it won't pass in the House, and Trump has already said that he won't sign it.

Meanwhile, the Stock Market Vigilantes aren't giving Trump Tariffs 2.0 the benefit of the doubt. The S&P 500 and the Nasdaq plunged 9.9% and 10.7% from April 1, i.e., the day before Liberation Day through Friday's close (*Fig. 1* and *Fig. 2*). They are now down 17.4% and 22.7% from their respective record highs on February 19 and December 16.

In other words, Liberation Day has been followed by Annihilation Days in the stock market.

On Saturday morning, I nearly gagged on my bagel listening to a CNN *interview* with Peter Navarro. The President's senior counselor for trade and manufacturing declared that the tariffs are aimed at benefiting Main Street, not Wall Street. Other senior officials in the Trump administration, including Treasury Secretary Scott Bessent, have said the same.

I have news for them: Wall Street is Main Street. Wall Street matters a great deal to Main Street. Main Street owns lots of stocks in American corporations that are facing massive disruptions as a result of Trump Tariffs 2.0. Navarro predicted that the stock market will bottom "soon" and that the stock market rally will broaden to include the S&P 493 and not just the Magnificent 7. Navarro also predicted that the Dow Jones will rise to 50,000 by the end of Trump's term. He implored the media to accentuate the positives of Trump's tariffs. In fact, the media was just as surprised by last week's stock market rout as were Wall Street and Main Street.

Congress is about to get an earful. Main Street undoubtedly will voice our anger about the immediate adverse effects of Trump's tariffs on our investment and retirement portfolios. Senior citizens who have retired or were planning to do so must be especially mad. The administration's response is that the short-term pain will be worth the long-term gain. The problem is that Americans don't do pain very well and aren't convinced that the eventual gain will be worth it. So the pressures on congressional representatives from their constituencies to stop the tariff madness will be intense in coming days, especially if the stock market continues to crash.

Trump needs an exit strategy. The obvious one is for him to declare victory. He can keep his 10% base tariff on imports from all countries while delaying implementation of the reciprocal tariffs on countries that agree to negotiations. The stock market undoubtedly would rebound sharply if he were to do that.

There is some good news regarding tariffs. The Vietnamese reportedly are ready to drop their 90% tariffs. Argentina wants to go down to 0%. India and South Korea are negotiating with the White House. In February, the European Union considered dropping its auto tariff from 10.0% to 2.5%, and offered to buy American energy and weaponry to avoid Trump's tariffs. Now, however, the EU is planning countermeasures to the new US tariffs. That could be the next shoe to drop on the stock market. Indeed, the EU was already finalizing a first package of tariffs on up to €26 billion ($28.4 billion) of US goods for mid-April in response to the US's steel and aluminum tariffs that took effect on March 12.

Meanwhile, as I noted in Friday's *QuickTakes*, Trump's tariffs are bound to be challenged in courts:

(1) The first case has been started by the *New Civil Liberties Alliance* (NCLA) on behalf of a small retail stationery business named "Simplified." Bloomberg *reported*: "The lawsuit filed in federal court in Florida may be the first legal challenge to the sweeping new US tariffs. ... 'By invoking emergency power to impose an across-the-board tariff on imports from China that the statute does not authorize, President Trump has misused that power, usurped Congress's right to control tariffs, and upset the Constitution's separation of powers,' Andrew Morris, senior litigation counsel at NCLA, said in a statement announcing the suit. The complaint seeks a court order declaring the tariffs unconstitutional and finding that they were adopted in violation of US administrative rules."

(2) Other business groups are considering similar challenges. Politico *reports*: "At issue is a nearly-50-year-old law, the International Emergency Economic Powers Act, that Trump is citing to impose both the duties on China and the global 'reciprocal tariffs' he announced this week. The 1977 law gives the president broad authority to respond to a national emergency. But Trump is the first president to use it to impose tariffs, which is a power the U.S. Constitution assigned to Congress."

Might the Fed come to the rescue and provide enough monetary easing to offset the deflationary consequences of Trump's tariffs? On Friday, Trump posted the following on Truth Social: "This would be a PERFECT time for Fed Chairman Jerome Powell to cut Interest Rates. He is always 'late,' but he could now change his image, and quickly. Energy prices are down, Interest Rates are down, Inflation is down, even Eggs are down 69%, and Jobs are UP, all within two months - A BIG WIN for America. CUT INTEREST RATES, JEROME, AND STOP PLAYING POLITICS!"

Also on Friday, shortly after Trump's plea, Powell told business journalists in Arlington, Virginia, that the Fed is in no hurry to cut the federal funds rate. He said the Fed faces a "highly uncertain outlook" because of Trump's reciprocal tariffs. He also said that the tariffs announced were "significantly larger than expected." In his *prepared remarks*, Powell stated: "Our obligation is to keep longer-term inflation expectations well anchored and to make certain that a one-time increase in the price level does not become an ongoing inflation problem. … We are well positioned to wait for greater clarity before considering any adjustments to our policy stance. It is too soon to say what will be the appropriate path for monetary policy."

In other words, "Fuhgeddaboudit" was Powell's response to Trump.

That was also Powell's message to the financial markets. Nevertheless, by the end of trading on Friday, the financial futures market signaled that it expects two to three 25bps rate cuts over the next six months and four to five rate cuts over the next 12 months (*Fig. 3* and *Fig. 4*).

Trump's Tariffs II: Nero Golfs. In his CNN interview Saturday morning, Navarro claimed that thanks to Trump's policies, the price of oil has dropped sharply, thus reducing the price of gasoline (*Fig. 5* and *Fig. 6*). He also noted that bond yields have dropped, causing mortgage rates to decline (*Fig. 7* and *Fig. 8*). He was making the debatable claim that the pain the tariffs are causing for stock investors has been more than offset by the gain of lower gasoline prices and mortgage rates. In addition, he stated that a few companies and countries have recently committed to spend trillions of dollars on capital investments in the US.

The Great Crash during the Great Depression was also accompanied by plunging commodity prices and interest rates. So it is hard to take comfort from last week's drop in commodity prices and interest rates. The administration can't take any credit for falling commodity prices and interest rates if the reason they are falling is that the administration's tariff policies are causing a recession! Capital spending always declines during recessions even if spending commitments were made during good times.

The biggest risk to the economy currently, following last week's stock market rout, is that the resulting negative wealth effect depresses consumer spending:

(1) *Total equity market capitalization.* Data compiled by the Fed show that the total value of stocks traded in the US at the end of 2024 was $93 trillion (*Fig. 9*). At the end of Q1-2025, the total value of the S&P 500 was $50 trillion. So a 10% to 20% drop in this stock index would amount to a loss of $5 trillion to $10 trillion just in the S&P 500. That could have a significant negative wealth effect on US consumer spending, especially by retired and retiring Baby Boomers.

(2) *Who owns US equities?* Of the $93 trillion in total equities, American households directly held $38 trillion at the end of Q4-2024. Mutual funds and ETFs held $24 trillion. Institutional investors including life insurance companies, private pension funds, and federal, state & local government retirement funds held $10.2 trillion. The rest of the world held $16.5 trillion (*Fig. 10*).

(3) *Households & Baby Boomers.* The Fed also compiles data for the net worth of the household sector excluding nonprofit organizations. At the end of 2024, households held

$46.8 trillion in corporate equities and mutual funds (*Fig. 11*). The Baby Boomers accounted for more than half of that at $25.2 trillion (*Fig. 12*).

At the end of last year, households held a record $15.2 trillion in IRAs (*Fig. 13*). Altogether, equities as a share of the assets held by households (including NPOs) rose to a record 43.5% during Q4-2025 (*Fig. 14*). This means that they are more exposed to a negative wealth effect from falling stock prices. That's what is happening on Main Street.

(4) '*Nero fiddles as Rome burns*.' On Friday, the President went to Trump International Golf Club in West Palm Beach, before attending a fundraising dinner for a super PAC that backs Trump, MAGA Inc. On Saturday, he golfed at his course in Jupiter, where the Senior Club Championships are taking place. The White House reported that Trump "won his second round matchup of the Senior Club Championship ... and advances to the Championship Round tomorrow."

The President wasn't negotiating trade deals this weekend. He was too busy relaxing on the links.

Trump's Tariffs III: Stress Testing a Resilient Economy. The plunge in stock prices since Liberation Day increases the odds that the resulting negative wealth effect will depress consumer spending, which increases the odds of a recession, which is, in turn, depresses stock prices. The odds of a recession according to Polymarket.com rose to 60% at the end of Friday (*Fig. 15*). It was at 42% on April 1.

We raised our subjective probability of a recession this year from 20% to 35% on March 5, and from 35% to 45% on March 31. Along the way, we also slashed our year-end target for the S&P 500 from 7000 to 6000 and cut our projection for 2025 S&P 500 earnings per share from $285 to $260. We also lowered our real GDP growth rate projection for this year from 2.5% to 3.0%, then down to 1.5%.

We expected Liberation Day to bring trouble. So for now, we aren't changing our outlook or our odds of a recession. Call us delusional optimists, but we aren't ready to bet against the resilience of the US economy in general or its consumers in particular. Of course, our big assumption is that Trump's tariff nightmare will go away sooner rather than later, one way or another.

Meanwhile, let's review the latest signs of the economy's resilience; we acknowledge that they might be the last ones for a while if the nightmare persists:

(1) *Employment*. We anticipated a strong rebound in March employment from the depressed gains during January and February, which we attribute to colder-than-normal weather. Nonfarm payrolls rose 228,000 during March (*Fig. 16*). Private services-providing industries increased their payrolls by 197,000. Aggregate weekly hours worked rose to a record 4.6 billion (*Fig. 17*).

(2) *Retail sales*. We also expect to see a rebound in March retail sales when it's reported on April 16. We already know that auto sales jumped 11% m/m during March to 17.8 million units (saar), the highest since April 2021 (*Fig. 18*). Some of that rebound undoubtedly reflected buying in advance of price increases resulting from Trump's tariffs. April's sales should also be very strong. But after that, sales could go over a cliff unless Tariff Man changes his mind.

Calendars

US: Mon: Consumer Credit $15.2b. **Tues:** NFIB Optimism Index 101.3; EIA Short-Term Energy Outlook; Daly. (FXStreet estimates)

Global: Mon: Eurozone Retail Sales 0.5%m/m, 1.8%y/y; Germany Industrial Production -1.1%; De Guindos; Cipollone. **Tues:** De Guindos. (FXStreet estimates)

Strategy Indicators

Global Stock Markets (US$ Performance) (*link*): The US MSCI index tumbled 9.2% last week to 17.8% below its January 23 record high, well behind the 5.7% drop for the AC World ex-US index to 9.0% below its June 15, 2021 record high. The US MSCI has now has trailed the AC World ex-US in 10 of the past 11 weeks. EM Latin America was the best performing region last week, albeit with a decline of 4.9%, and was the only region to outperform the AC World ex-US. Europe was the worst regional performer, with a decline of 7.0%, followed by EAFE (-6.9%), EMU (-6.6), and EMEA (-6.0). The Taiwan MSCI index performed the best among country indexes last week, albeit with a drop of 1.3%, followed by Hong Kong (-1.4), Korea (-2.3), and India (-2.3). The South Africa MSCI index was the week's worst country performer, falling 12.5%, followed by Sweden (-11.0), the USA (-9.2), Japan (-7.4), and Australia (-7.1). On a ytd basis, the US MSCI index is now the worst country performer, with a decline of 14.0% and trails the 0.5% gain for the AC World ex-US.

Among the regional indexes, all of them are outperforming the AC World ex-US. EM Latin America is now ahead of the pack ytd, leading with a gain of 7.0%, followed by EMU (6.3), Europe (3.9), EAFE (1.4), EM (1.1), EAFE (0.9), and EM Asia (0.6), and the AC World ex-US. Looking at the major selected country markets that we follow, Spain is the best ytd performer, with a gain of 17.2%, followed by China (12.9), Germany (9.6), Brazil (7.4), and Mexico (6.0). The worst performing countries ytd: the US (-14.0), Taiwan (-10.1), Australia (-8.1), India (-5.4), and Canada (-5.1).

US Stock Indexes (*link*): All of the 48 major US stock indexes that we follow fell for the week. The Dow Jones 15 Utilities index was the best performer, albeit with a decline of 3.6%, ahead of Dow Jones 65 Composite (-7.7%), S&P 600 SmallCap Pure Growth (-7.7), Dow Jones Industrials (-7.9), and S&P 500 LargeCap Pure Value (-8.0). The S&P 500 LargeCap Pure Growth index, with a decline of 10.9%, was the worst performer, followed by S&P 500 Transportation (-10.5), S&P 600 SmallCap Pure Value (-10.4), Russell MidCap Growth (-10.2), and Nasdaq Composite (-10.0). All 48 indexes are now down so far in 2025, down from six rising ytd a week earlier, 47 of 48 rising ytd in mid-February, and 46 rising for all of 2024. The Dow Jones 15 Utilities is in the top spot as the best performer so far in 2025, albeit with a decline of 0.8%, ahead of S&P 500 LargeCap Pure Value (-6.7), Russell 1000 Value (-7.8), Russell 3000 Value (-8.3), and S&P 100 Equal Weighted (-8.8). The worst performing major US stock indexes ytd: S&P 600 SmallCap Pure Value (-20.5), Russell 1000 Growth (-19.6), Russell 3000 Growth (-19.6), Russell 2000 Growth (-19.4), and Nasdaq Composite (-19.3).

S&P 500 Sectors Performance (*link*): All 11 S&P 500 sectors fell during the week ended April 4 , but seven sectors were ahead of the S&P 500's 9.1% decline. The outperformers last week: Consumer Staples (-2.2%), Utilities (-4.4), Real Estate (-6.1), Health Care (-6.5), Consumer Discretionary (-8.0), Materials (-8.2), and Communication Services (-8.4). The underperformers last week: Energy (-14.1), Information Technology (-11.4), Financials (-10.3), and Industrials (-9.4). The S&P 500 is now down 13.7% ytd, with 10 of the 11 sectors also in the red, but only three sectors have underperformed the index ytd. Consumer Staples wears the crown as the best ytd performer, with a gain of 0.6%, ahead of Utilities (-1.6), Health Care (-1.7), Real Estate (-4.4), Energy (-7.1), Materials (-7.1), Financials (-8.6), and Industrials (-10.5). These three sectors have lagged the S&P 500 so far in 2025: Information Technology (-22.8), Consumer Discretionary (-20.7), and Communication Services (-14.5).

US Economic Indicators

Employment (*link*): Employment blew past expectations in March, though there were downward revisions to the prior two months. *Payroll employment* jumped 228,000 in March, well above the 140,000 expected gain, while revisions show both February (to 117,000 from 151,000) and January (111,000 from 125,000) payrolls were revised lower, for a net loss of 48,000. *Private payroll* employment climbed 209,000 in March, above February's 116,000, with the *service-providing* sector adding 197,000 to payrolls last month, following 90,000 in February, and the goods-producing sector adding 12,000 jobs, half February's 26,000 increase. *Within service-producing industries*, once again *health care* led the pack, adding 54,000 in March—in line with the average monthly gain of 52,000 over prior 12 months—with ambulatory health care services (20,000), hospitals (17,000), and nursing & residential facilities (17,000) accounting for the gain. Last month, social assistance jobs rose by 24,000, surpassing the average monthly gain of 19,000 during the previous 12-month span. Retail trade jobs had a strike affect, rising 24,000 in March, as workers returning from a strike boosted food & beverage (21,000) employment, while general merchandise retailers cut 5,000 jobs last month. Retail trade employment showed little change over the 12-month period. Transportation & warehousing employment increased 23,000 in March—roughly double the average monthly gain recorded during 2024. *Within goods-producing industries*, construction (13,000) accounted for basically all the decline, with manufacturing adding only 1,000 jobs, and mining and logging losing 2,000 jobs. Meanwhile, federal government jobs fell 4,000 last month, after a 11,000 shortfall during February.

Wages (*link*): Average hourly earnings (AHE) for *all workers on private payrolls* increased 0.3% in March, while the three-month rate increased 3.6% (saar), slightly below the yearly rate of 3.8%. The yearly rate is down from November's 4.2%; it was at 3.6% in July, which was the lowest since May 2021, and has been hovering around 4.0% since August. *Service-providing industries showing three-month rates above their yearly rates*: leisure & hospitality (6.2% & 4.2% y/y), retail trade (5.2 & 3.4), financial services (4.9 & 4.0), and wholesale trade (3.5 & 2.0). *Service-providing industries showing three-month rates below their yearly rates:* education & health services (1.1 & 3.4), professional & business services (3.0 & 4.8), information services (3.5 & 4.2), other services (0.2 & 3.2), and utilities (-2.5 & 2.1). Meanwhile, the three-month and yearly rates for transportation & warehousing (2.6 & 2.4) are very close. Within *goods-producing* industries, the annualized three-month rate was well above the yearly rate for *durable goods* manufacturing (8.9 & 4.2), while the three-month rate for *nondurable goods* manufacturing (4.0 & 3.6) was only slightly above the yearly rate.

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, climbed to yet another a new record high in March, increasing 0.4%. *Average hourly earnings* in March advanced 0.3%, while *aggregate weekly hours* ticked up 0.1%—with private payroll employment edging up 0.1% and the average workweek flat. Over the past 12 months, our EIP advanced 4.4%—with aggregate weekly hours up 0.6% and average hourly earnings up 3.8%.

Unemployment (*link*): The *number of unemployed* rose 31,000 in March, holding around 7.1 million, with the *unemployment rate* edging up from 4.1% to 4.2%—remaining in a narrow range from 4.0% to 4.2% since last May. *Household employment* rose 201,000 last month, while the *labor force* was 232,000 higher. The *participation rate* edged up to 62.5% in March from 62.4% in February—which was the lowest since January 2023. *By race:* The unemployment rates in March rose for Asians (to 3.5% from 3.2%) and African Americans (6.2 from 6.0) and edged lower for Hispanics (5.1 from 5.2) and Whites (3.7 from 3.8). *By education:* Unemployment rates fell in March for those with less than a high-school diploma (to 5.8 from 6.0) and those with a high-school degree (4.1 from 4.2), while it ticked up for those with a bachelor's degree or higher (2.6 from 2.5) and was unchanged (at 3.5%) for those with some college or an associate's degree.

US Non-Manufacturing PMI (*link*): The US service sector expanded for the ninth successive month in March, though was weaker than expected, as federal layoffs accelerated and uncertainty over trade tariffs continued. The *ISM N-PMI* fell to 50.8 in March, well below consensus expectations of 53.0, recording its softest expansion in the services sector since last June. March's index indicated expansion for the 55th time in 58 months since recovery from the coronavirus pandemic-induced recession began in June 2020. It peaked recently at 55.8 in October. Three of the four subindexes weakened in March, with the *employment* (to 46.2 from 53.9) measure moving from expansion to contraction, while both the *new orders* (50.4 from 52.2) and *supplier deliveries* (50.6 from 53.4) dropped closer to 50.0. Meanwhile, the business activity/production (55.9 from 54.4) measure accelerated during the month. On the *inflation* front, the price index (to 60.9 from 62.6) slowed a bit—though posted its fourth straight reading above 60.0.

Global Economic Indicators

Germany Factory Orders (*link*): Germany *factory orders* stalled in February, missing the consensus estimate of a 3.5% gain, following January's sharp fall, on continued tariff concerns. *Manufacturing orders* were flat in February, following January's downwardly revised decline of 5.5%, first reported down 7.0%. Orders for aircraft, ships, trains, and military vehicles (3.8%) rose during the month, followed by mechanical engineering (3.4) and autos (0.6), but were offset by declines in orders for metal products (-7.4), electrical equipment (-5.9), and pharmaceuticals (-5.9). *Domestic orders* fell 1.2% in February, while foreign orders rose 0.8%—with orders sinking 3.0% from *within the Eurozone* while jumping 3.4% *outside the Eurozone*. *By sector*, capital goods (1.5%) orders rose during the month, while both consumer (-5.2) and intermediate (-1.3) goods orders fell.

Contact us by *email* or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-241-6502
Melissa Tagg, Senior Global Investment Strategist, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-228-9102