



Market Commentary  
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English Version

Insigneo Weekly Dispatch

# Uncertainty is the Name of the Game

Get guidance on investments, and the major structural factors behind your clients' portfolios.

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## Uncertainty is the Name of the Game

Markets have been trading erratically over the last three months, looking for any indication that would lead to further deterioration in tariff negotiations or the slightest signs of improvement.

Although any level of incremental tariffs will likely leave a stain on the U.S. economy, we believe that if the current pace of negotiations remains on track, the damage to the economy could be less than initially feared. As a result, we no longer believe that a recession is the base case scenario for the economy.

The market tends to look through temporary uncertainty, moving higher over the long term. The best thing to do during periods of increased uncertainty is to stay the course.

Think about this hypothetical scenario. Imagine a

group of investors that went on vacation to an island devoid of any form of communication for three months. If they checked the S&P 500 before they left for vacation on February 14th, then checked the markets again when they returned just last week, on May 15th, they might have thought that the market did not move much while they were gone, dropping a little more than 3%. They might have thought the same of the technology-heavy Nasdaq 100. How wrong they would have been...

**The past three months have seen some of the most volatile swings in U.S. equity markets in recent history.** From mid-February, the S&P 500 dropped more than 20% in less than two months, then turned around and bounced close to 23% over the next month or so. In fact, the index's massive move in the 25 trading days following the April 8th low has only happened five times in the past 55 years. The Nasdaq 100 did not fare much differently. Over the same period, the Nasdaq dropped more than 25%, then proceeded to bounce close to 30% over the next month.

The same dynamic that made markets collapse was also responsible for their equally powerful rally: tariffs. More specifically, the high degree of uncertainty as to what tariffs entail and how long they will last. No one knows with full certainty what the final tariff rates will be, how long they will last, or what effects they will have on the economy. Given this high degree of uncertainty, markets have been trading erratically, looking for any indication that would lead to further deterioration in tariff negotiations or the slightest sign of improvement. The trading environment is literally changing on a weekly basis. The latest set of news came out last Monday, when the United States and China announced important initial steps in the de-escalation of tariffs. Both nations agreed to a 90-day pause on tariff increases to continue negotiations. During this 90-day period, the U.S. agreed to lower its tariff rate on Chinese goods from 145% to 30%, while China agreed to lower its tariff rate on U.S. goods from 125% to 10%. Although many of the details of the initial round of negotiations remain vague, it most likely marks the end of the peak of uncertainty in tariff negotiations, setting a temporary floor from which to part, however shaky this might be. This does not mean that negotiations could not deteriorate again, it just means that from a probability standpoint, the trade war is likely to cool off, or at least remain the same, going forward. Equity mar-

kets were quick to price in this new information, leading to a rise of close to 5% and 7% for the S&P 500 and Nasdaq 100 respectively, in just four trading days.

Although any level of incremental tariffs will likely leave a stain on the U.S. economy, we believe that if the current pace of negotiations remains on track, the damage to the economy could be less than initially feared. As a result, we no longer believe that a recession will be the base case scenario for the economy; thus, we are decreasing the probability of recession from 55% down to 40%. The table below shows our updated scenario probabilities, along with possible trading levels for the S&P 500 index associated with each scenario. For reference, at the time of this writing, the index finds itself trading close to 5,900. As we can see from the table, in aggregate, we see approximately a 55% probability of a favorable resolution to the trade wars and a 45% probability of an unfavorable outcome leading to some form of recession. However, this does not mean that we are not likely to experience an economic slowdown in some form or another. Some of the damage has already been inflicted. Additionally, even if all tariff negotiations would conclude with a 10% tariff base rate, this still represents an incremental level of tariffs, which would likely have an impact on the economy.

### 2025 S&P 500 Projections Under Possible Scenarios



Source: Insigneo Research, as of 05/16/2025

**The impact of tariffs on the economy could be felt in several ways, but the most likely outcome would be higher inflation, at least over the short term.** Fed president Jerome Powell himself recently stated that “We may be entering a period of more frequent, and potentially more persistent, supply shocks”. Companies are also starting to warn of the possibility of higher prices. Just last week, the Chief Financial Officer of retail giant Walmart warned of an imminent price increase, stating that “...price hikes from tariffs could start later this month despite deal with China.” Let us remember that Walmart’s business model is based on lower prices, and earlier this year, management had stated that it was going to attempt to absorb price increases before passing them on to consumers. Walmart’s recent statement is a testament to the fact that tariff-induced inflation, at least over the short term, is a real issue to contend with. Recent Consumer Price Index (CPI) and Producer Price Index (PPI) reports showed that over the past month, inflation remained stable. However, looking deeper into the CPI numbers, we can see that consumers are already starting to spend less on highly discretionary items, such as sporting goods. If companies like Walmart are correct, U.S. consumers could be in for a negative surprise as prices rise, especially during the Back-to-School shopping season at the end of the summer. Higher inflation is likely to lead to lower consumer demand, which will most likely lead to profit margin compression for many companies throughout the country. Considering that consumer spending accounts for close to 70% of the U.S. economy, it is unlikely that the latter will not be impacted if consumer demand decreases, at least temporarily. The question is to what degree.

An old friend and colleague, Brian Koble, former Chief Investment Officer at Hefren-Tillotson recently commented “A wild thing about the U.S. economy is that Americans rarely stop spending. They just shift gears. The money keeps moving, just someplace else. Fewer artisanal bars of soap, more jugs of body wash.

This flexibility allows the economy to bend without breaking and is a big reason the stock market keeps bouncing back”. This idea brilliantly encapsulates U.S. consumer behavior; people do not spend less, they just shift their spending habits, and equity markets tend to look past this. That does not mean that markets will not remain volatile, just that over time, they ride out the volatility and move higher. The current inflation issues do not appear to be anything like those brought about by the major supply chain disruptions experienced during the Covid-19 pandemic, and although they lead to higher levels of uncertainty, they should not lead to panic. **The market tends to look through these scenarios, moving higher over the long term, and will likely do the same this time around.**

**So, the question then is, what are investors supposed to do during these high periods of uncertainty? The answer is to stay the course.** Throughout the shifting waves of the past three months, we have retained and continue to retain our neutral stance on U.S. equities. Within this asset class, we are overweight in the Communication Services, Industrials, Financials and Utilities sectors, while we remain underweight in consumer-oriented sectors. We maintain our Neutral weight in the Technology sector. Rightfully so, we like many companies in this sector, as they are likely to be less susceptible to changes in consumers spending and will likely continue to benefit from increased spending in artificial intelligence. However, trading at 35x forward earnings, the sector is trading meaningfully higher than its 5-year average near 29x.

Retaining our overall Neutral stance on U.S. equities has kept us invested in this asset class over the long-term, while helping to mitigate short-term volatility swings. Missing big market moves on the upside can be as costly as participating in large moves to the downside. This is particularly true in periods of high uncertainty, such as the current one, where we have seen the market move violently in either direction.

Just as the market narrative is currently centered around tariffs, it could quickly shift to the Fed, taxes, or deregulation. Tactical adjustments around the edges of these fast-shifting market currents could prove beneficial. However, implementing a long-term investment strategy based on trying to time such moves often results in negative outcomes.

Being a long-term investor is much like being the captain of an aircraft carrier or a large cruise ship traveling across the Atlantic. We know our starting point and we know our destination. Sometimes it might be smooth sailing and other times there might be heavy storms. But barring any major issues, a

well-constructed and well commandeered ship will get to its destination without the need for major directional changes in its voyage, only minor course corrections along the way. ■



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