Market Commentary 6th of May 2025

April proved to be one of the most turbulent months for global financial markets in recent memory. On April 2—referred to as "Liberation Day"—President Donald Trump announced broad-based tariffs on all major U.S. trading partners, triggering a sharp sell-off in global equities, and US bonds. The resulting market downturn was the most severe since the pandemic-driven crash of 2020.

The situation was further intensified by retaliatory measures from China and mounting concerns over an escalating global trade war. Investor sentiment quickly shifted to risk-off.

However, markets staged a strong rebound after President Trump announced on April 9 a 90-day suspension of most tariffs—excluding those on China. This move sparked a historic rally across global equity markets, with the S&P 500 recording its largest single-day gain since 2008.

By month-end, U.S. equities delivered a modest gain of 1.89%, while most other developed markets closed the month broadly flat. Fixed income markets performed positively, with the Global Aggregate Bond Index advancing by 2.55%.

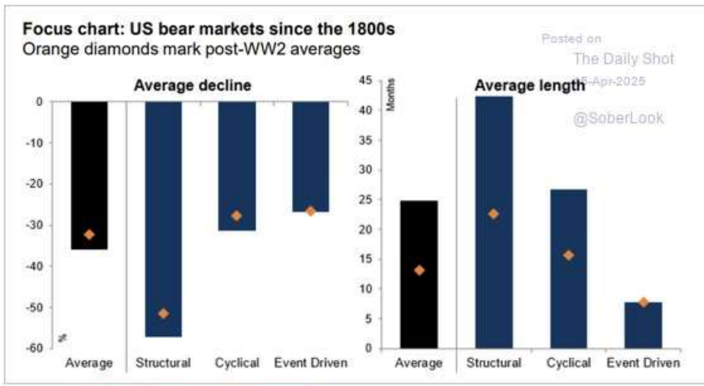
In the currency space, the U.S. dollar weakened significantly, as reflected by a 4.13% decline in the Dollar Index (DXY). In contrast, Bitcoin recorded a strong performance, appreciating 14.68% over the month.

Gold once again demonstrated its role as a safe-haven asset, rising by 5.61% amid heightened market volatility. Conversely, crude oil prices came under pressure, falling sharply by nearly 16% for the month.

The sharp rebound in the markets demonstrates once again that timing the equity markets consistently is extremely difficult, not to mention impossible. Selling to avoid sharp losses can lead to even greater losses from not participating in the recovery. This highlights the importance of investing in quality stocks and maintaining a long-term investment perspective. Periods of high volatility are an inevitable part of investing, but history has repeatedly shown that markets tend to reward patient, disciplined investors who remain invested through cycles rather than reacting to short-term noise.

In fact, the falls in April caused what is called an "event-driven" bear market, rather than a "cyclical" or "secular" one. Event-driven markets, like we experienced during Covid, are much shorter in duration. The graphs on the following page from Goldman Sachs show the difference.

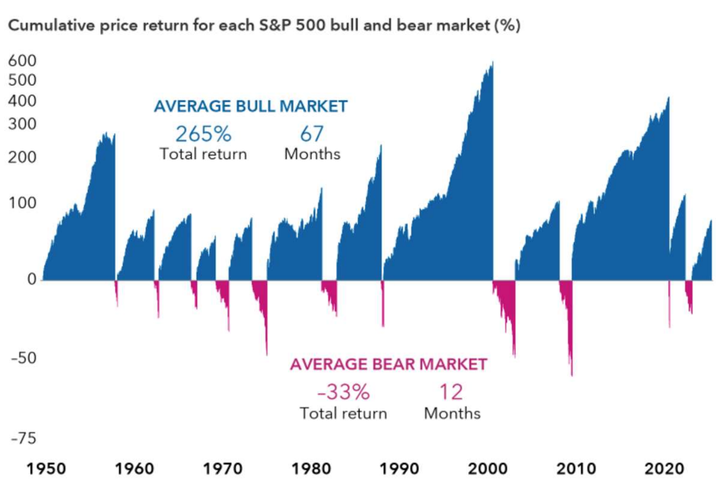
Structural bear markets have historically been the deepest and longest, averaging over 55% declines and lasting nearly four years. In contrast, event-driven bears tend to be shorter and shallower, with quicker recoveries—averaging around 30% declines and under 10 months in duration. Post-WWII averages (orange diamonds) suggest more moderate outcomes relative to the broader historical record.



Source: Goldman Sachs; @MikeZaccardi

Structural v Cyclical v Event-Driven bear markets

The following demonstrates why we should remain invested, and one should always have this graph in mind:



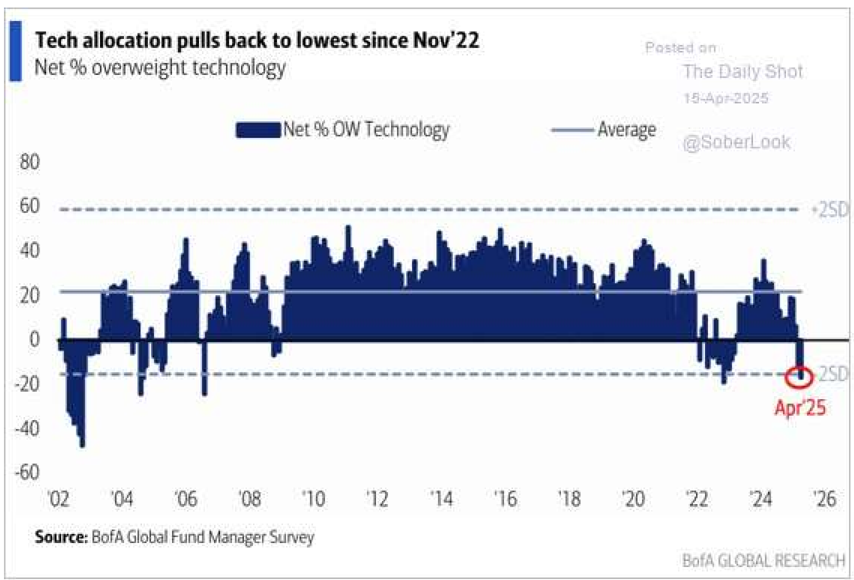
Sources: Capital Group, RIMES, Standard & Poor's. As of December 31, 2024. The bull market that began in 2022 is considered current as of December 31, 2024, and is not included in the "average bull market" calculations. Bear markets are peak-to-trough price declines of 20% or more in the S&P 500, ending with a 50% recovery relative to the prior peak. Bull markets are all other periods. Returns shown on a logarithmic scale.

Returns and duration of bull and bear markets

Finally, there was a large fall in big-tech companies so far this year. Yet, because of their huge resources, whereby they outspend all others on R&D, they continue to produce above-market revenue and profit growth. Jared Franz, an economist at Capital Group put it well:

"*While the cyclical outlook is cloudy, Franz remains positive on the structural underpinnings of the U.S. economy. Innovation related to artificial intelligence, healthcare and other areas of technology will continue, especially as newer AI models are released. He believes the U.S. continues to have among the most robust innovation ecosystem in the world, and it will continue to provide enhancements that contribute to economic productivity*"

The chart below from Bank of America shows that there was a lot of selling in big tech in April. If the past is prologue, it is a good time to buy and not sell! That is what we have done for many clients during this selloff.



Tech allocation by fund managers in last 25 years

The Elgin Analyst's Team

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