



## The crystal ball ain't so crystal clear

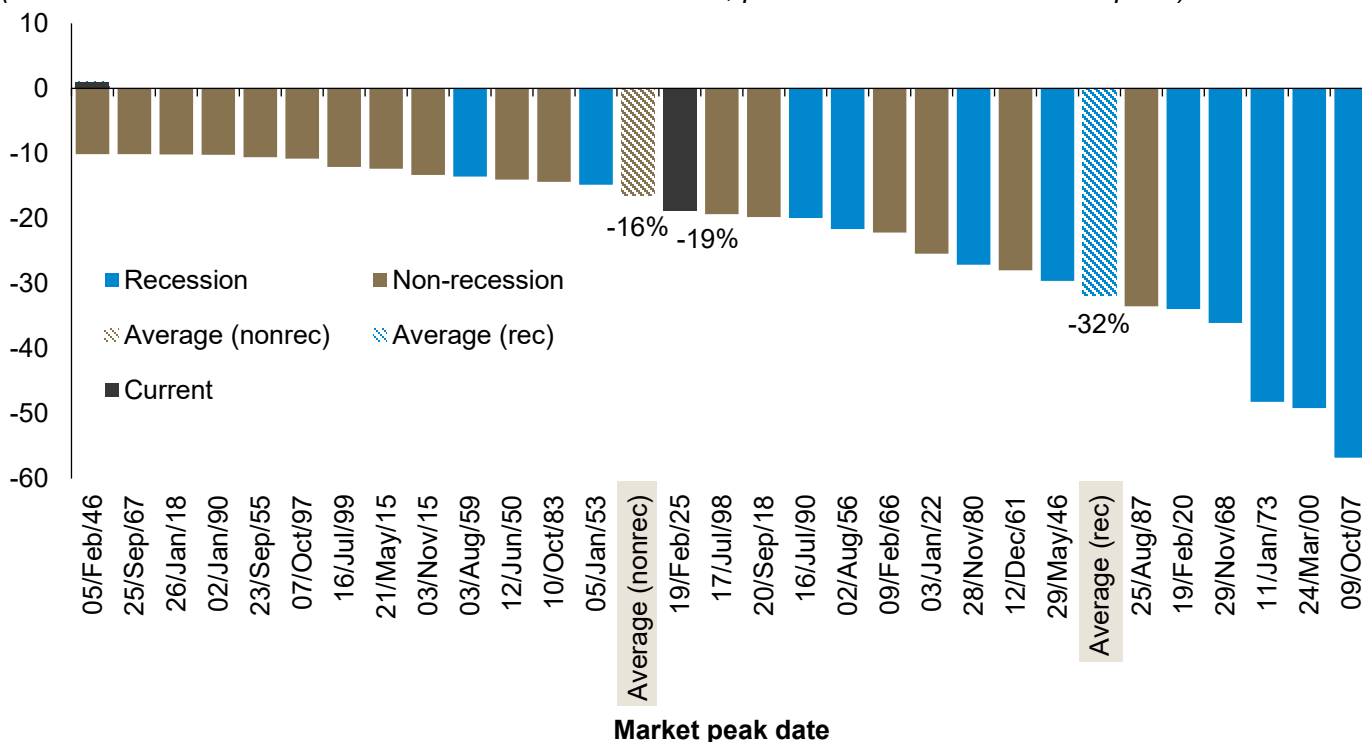
It has been a volatile last 100 days against the heightened uncertainty surrounding US economic policy and the highly unpredictable nature of the related decisions. While there is value in rehashing everything that has happened, the more pressing question is: What might all of this suggest for the road ahead?

For equities, the path forward depends on the path for policy, its impact on corporate profitability and whether a recession materializes as a result.

History shows that in the absence of a material economic downturn or the development of a substantial financial imbalance (neither of which is currently on the radar), the average correction in the S&P 500 Index<sup>1</sup> from the market peak has been 16%. A recessionary drawdown has averaged 32%, but excluding those extreme and idiosyncratic dislocations, it is a mere 25%.

### Needle and the damage done?

(S&P 500 declines of more than 10% since World War II; percent decline from market peak)



Source: Guardian Capital based on data from Bloomberg to April 29, 2025

<sup>1</sup> The S&P 500 is an index of 500 stocks designed to reflect the risk/return characteristics of the large-cap US equity universe.

To the extent that history can serve as a guide, it would suggest there is scope for at least a retest of the recent lows seen following the US President’s presentation in the Rose Garden on April 2.

At the same time, there is a lot of “bad” already priced into the market, as evidenced by the extreme pessimism recorded in recent investor surveys. The fact that things typically never turn out as bad as feared, just as they rarely end up as great as hoped, suggests there is ample potential for markets to gain momentum should headline risks fade (or at least get “less bad”).

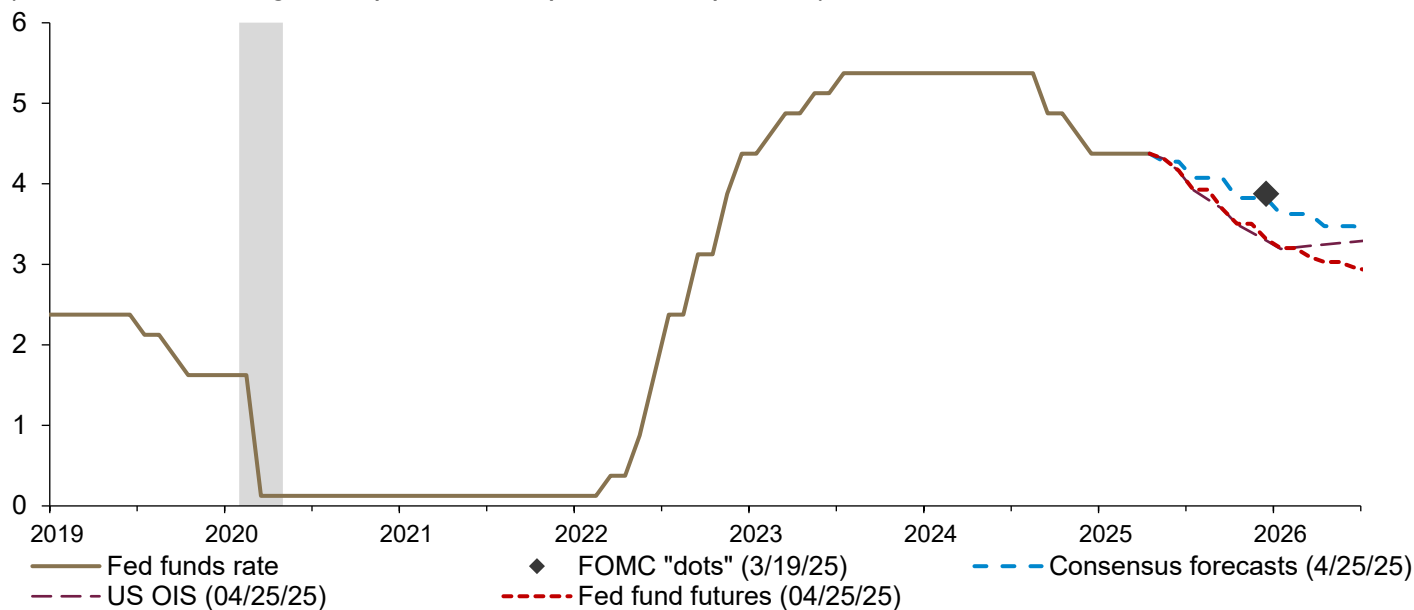
That is especially the case in the current environment, given otherwise generally solid macro underpinnings and the fact that markets have undergone a valuation adjustment that makes assets more attractive, notwithstanding the lower conviction in forward expectations at the moment.

Turning to fixed income, while the core of the asset class is traditionally treated as “risk-free,” there are a couple of risks that suggest there may be better options than standard government bond issues.

Market pricing for the policy path has been volatile, but it continues to suggest that central banks will be more proactive to the headwinds than policymakers have suggested.

**Betting against the Fed**

*(Fed funds rate target midpoint and expectations; percent)*



The shaded region represents a period of US recession; source: Guardian Capital based on data from the US Federal Reserve (Fed) and Bloomberg as at April 25, 2025

Rates could adjust higher in the absence of a material shock to the system, though the less policy-sensitive, long-term rates have been re-establishing their “fiscal vigilante” reputation (and arguably were responsible for the delay on the “reciprocal” tariffs). That suggests less of an adjustment by markets, though the supply of sovereign debt expected in the coming months will likely exert some upward pressure there as well.

In contrast, the recent widening in credit spreads creates an attractive risk/reward trade-off for corporate bonds, especially considering that credit quality is not showing much by way of deterioration amid the uncertain outlook and bond default rates worldwide sit at more than three-year lows.

The bottom line is that while uncertainty and volatility are likely to remain the key watchwords for the foreseeable future, and risks to the downside remain elevated, it is possible to find opportunities in a marketplace that has undergone fairly broad valuation adjustments.

In this environment, prevalent risks reiterate the importance of investors diversifying exposures across asset classes and geographies and placing an added emphasis on high-quality assets that have the potential to weather continued stormy waters.

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