

2025 Q1 Market Outlook

Executive Summary

As we enter 2025, economic data suggests that growth is stabilizing and inflation is continuing to moderate. GDP growth has exceeded consensus forecasts for eight straight quarters and recent policy shifts—including Fed rate cuts and potential deregulation—have contributed to improving business sentiment, evidenced by recent upticks in hiring intentions and capital spending plans. While these developments create a more constructive near-term backdrop, we maintain a balanced approach given late-cycle dynamics and elevated valuations. This summary details our tactical outlook as we balance these improving near-term catalysts against persistent late-cycle risks.

Economic Data Check

Transition to mild goldilocks regime in Q1.

- Anticipate transition from disinflation to goldilocks in Q1 as growth reaccelerates and inflation slows.
- Recent improvements in hiring intentions and capital spending plans suggest businesses are responding positively to the combination of monetary easing and potential deregulation (p3).
- Despite a more optimistic near-term outlook, we remain in a late-cycle environment where unemployment is rising, and therefore we must still respect the possibility of a recession (p4–5).

Equities

Favor being underweight stocks, but less so than previously.

- Corporate profits expanded for the fifth consecutive quarter (p6).
- Historically, stocks have thrived in Goldilocks environments, where accelerating growth and slowing costs drive profit expansion. This backdrop suggests potential for favorable equity returns, warranting a less defensive posture despite late-cycle dynamics (p7–8).
- That said, the combination of elevated valuations and a tight labor market keeps us from turning more aggressive. We believe a balanced approach remains prudent even as near-term catalysts improve (p9).

Fixed Income

Favor reducing fixed income to neutral.

- The unusual behavior of long-term yields—rising despite Fed rate cuts—echoes the 1998 soft landing and signals persistent economic strength (p10).
- This resilience, combined with a potential shift to a goldilocks regime, suggests more modest fixed income returns in the near-term (p10).
- Within asset class, we maintain preference for high-quality bonds, as historically tight credit spreads offer limited compensation for taking on additional risk.

Commodities

Favor being overweight commodities via gold.

- Favor maintaining exposure to gold as a hedge rising debt burdens. Gold has also historically outperformed broad commodities in goldilocks regimes (p11).

Summary

Favor a defensive but more balanced posture.

- Position portfolios for a mild goldilocks environment while respecting late-cycle risks—maintaining defensive allocations to bonds and gold while selectively reducing equity underweights.
- Within fixed income, continue emphasizing high-quality bonds over credit, as tight spreads offer limited compensation for risk even as yields appear attractive in absolute terms.

Positioning Summary:

○ **Underweight**
Global Equities

○ **Neutral**
Fixed Income

○ **Overweight**
Commodities

○ **Overweight**
Cash

Q4 Review: Markets cap strong year with mixed performance as policy shifts loom.

- **The S&P 500 posted its second consecutive year of 20%+ returns** for the first time since 1998–1999. While the traditional cap-weighted S&P 500 surged, the equal-weight index advanced just +13%, highlighting the outsized impact of the Magnificent Seven stocks in driving overall returns.

In Q4, equity performance was mixed. While the S&P 500 gained +2.4%, gains were notably concentrated. Consumer discretionary (+14.3%) led sectors but benefited from outsized contributions from just two stocks (Amazon and Tesla), while international stocks declined -7.5%, highlighting significant regional divergence.

The November presidential election emerged as a key market catalyst, with Trump's victory and Republican congressional majorities driving optimism around potential tax cuts and deregulation.
- **Treasury yields moved higher** despite rate cuts, with notable curve steepening—the closely watched 2/10 spread turned positive in September, ending a 26-month inversion that began in July 2022. Even after the Fed delivered 100 basis points of anticipated rate cuts, the 10-year yield climbed 69 basis points on the year as markets priced in expectations of continued economic resilience and a more measured policy path ahead.
- **Gold surged +27.5%**—its strongest annual performance since 2010—reaching record highs, while WTI crude ended the year essentially flat, adding just +0.1%.

MARKET REPORT CARD – As of December 31, 2024

Performance Reported in US Dollars	4Q24	2024	12/31/21-to-Present
Equities			
Global (MSCI All World Equity Index)	-1.0%	+17.5%	+17.2%
United States (Russell 3000 Index)	+2.6%	+23.8%	+26.0%
US Equal Weight (S&P 500 Equal Weight Index)	-1.9%	+13.0%	+14.0%
International Developed (MSCI EAFE Index)	-8.1%	+3.8%	+5.0%
Emerging Markets (MSCIEM Index)	-8.0%	+7.5%	-5.7%
Fixed Income			
Barclays US Aggregate Bond Index	-3.1%	+1.3%	-7.1%
Long-Term Treasuries (Barclays 20+ Year)	-9.4%	-8.0%	-34.9%
Investment-Grade Bonds (Barclays USCorp)	-3.0%	+2.1%	-6.6%
High-Yield Bonds (Barclays US HYCorp)	+0.2%	+8.2%	+9.0%
Commodities			
Commodities (S&P GSCI Index)	+3.8%	+9.2%	+31.8%
Crude Oil (S&P Crude Oil Index)	+8.2%	+14.4%	+40.4%
Gold (LBMA Gold PM Price Index)	-0.5%	+26.6%	+41.8%
Diversified Portfolios			
60/40 Global Stocks / US Bonds	-1.8%	+11.0%	+7.4%
40/60 Global Stocks / US Bonds	-2.2%	+7.8%	+2.6%

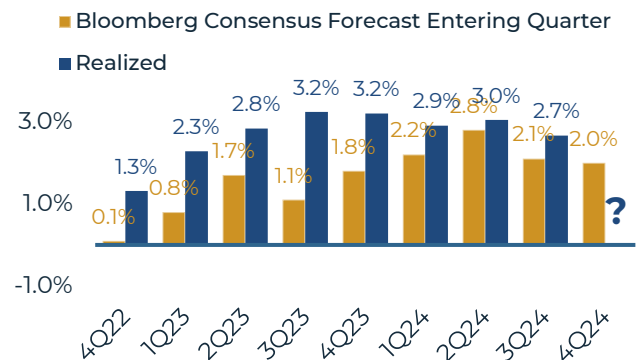
Source: Bloomberg Finance, L.P., Wealthspire Advisors

Economic Data Check (I): While economic growth has moderated from peak levels, potential for pro-business policy shifts suggests an improved outlook in Q1.

Growth: The U.S. economy has demonstrated remarkable resilience the past two years, consistently outperforming int'l peers and consensus forecasts (**Fig 1**). After slowing at a measured pace the past few quarters, we anticipate a slight uptick in growth during Q1 (**Fig 2**), supported by potential pro-business policy shifts including deregulation and tax cuts, sustained AI-related investment, and resilient consumer spending patterns. Recent improvements in [capital spending](#) and [employment plans](#), and [new business applications](#) are consistent with this outlook.

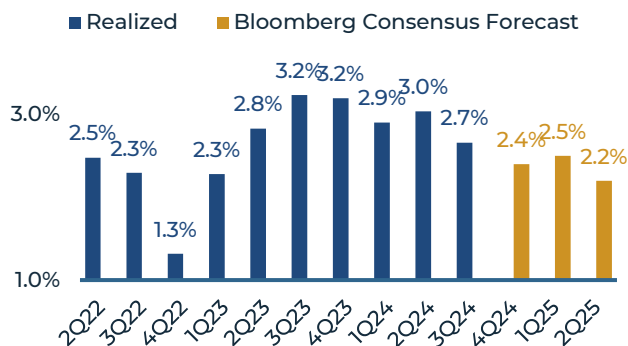
Inflation: The disinflationary trend that began more than two years ago remains intact (**Fig 3**). We continue to observe broad-based moderation across key components of the CPI basket, particularly in the cost of shelter, energy, and core services. While we expect this downward trajectory to persist, it will likely slow to a more gradual pace, with moderate upside risks stemming from a reacceleration in growth and the [potential impact of tariffs](#) (see appendix).

Fig 1: GDP growth has consistently outperformed consensus forecasts



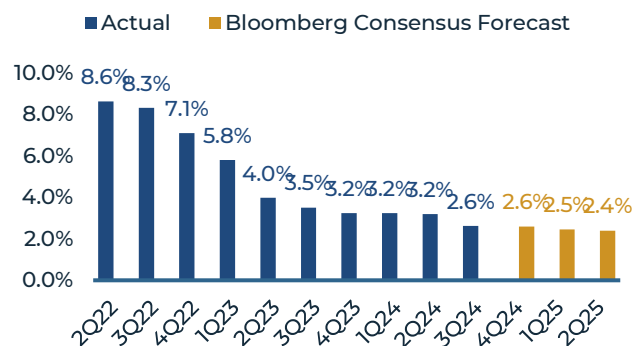
Source: Bloomberg Finance, L.P., Wealthspire Advisors

Fig 2: U.S. YoY Real GDP Growth



Source: Bloomberg Finance, L.P., Wealthspire Advisors

Fig 3: U.S. YoY CPI Growth



Source: Bloomberg Finance, L.P., Wealthspire Advisors

Slightly higher growth and a continued reduction in inflation suggests a transition from a disinflation regime into a goldilocks regime for Q1 (**Fig 4**). While recession risk remains prominent, near-term dynamics suggest growth could remain supported in the interim even as the economy adapts to the higher interest rate environment. If inflation does accelerate, we believe it will more likely result in a shift toward a reflation regime rather than a stagflation regime.

Fig 4: We expect growth and inflation to slow, transitioning to a disinflation regime.

Historical Regimes											Forecasted Regimes		
1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25
S	S	D	D	G	G	G	D	D	G	D	D	G	D

G = Goldilocks (G▲, i▼) R = Reflation (G▲, i▲) S = Stagflation (G▼, i▲) D = Disinflation (G▼, i▼)

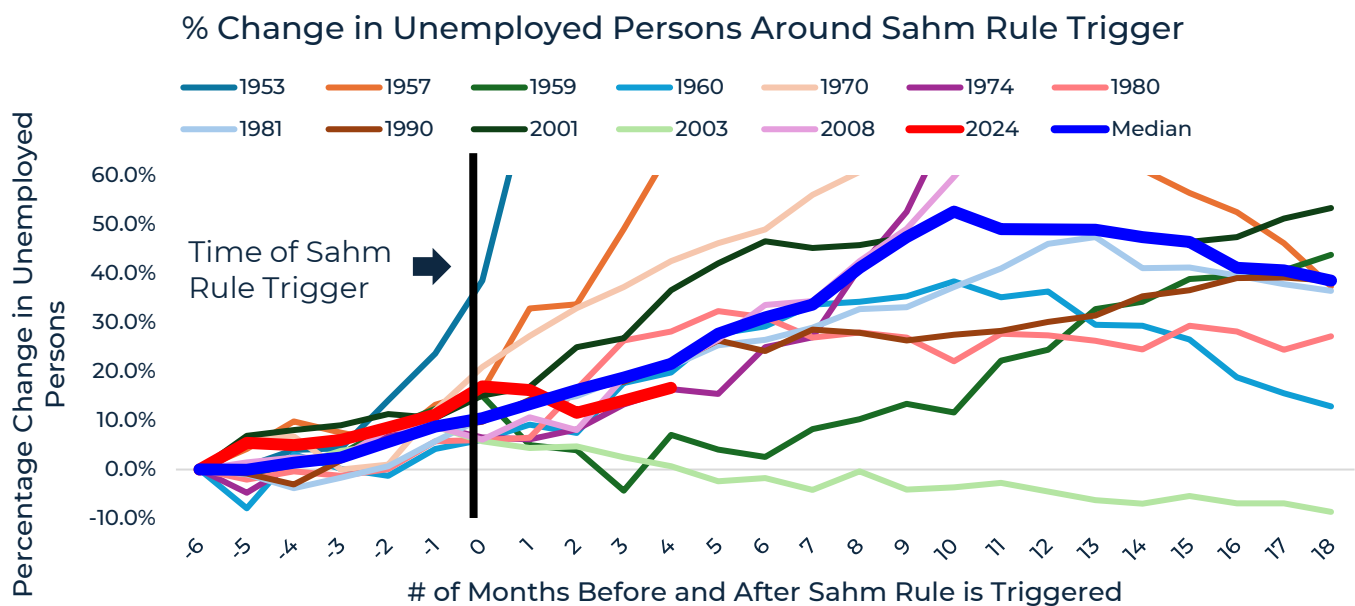
Source: Bloomberg Finance, L.P., Wealthspire Advisors

Economic Data Check (2): Unemployment is still rising. Although we are cautiously optimistic, we remain vigilant of recession risk.

Despite reasons for optimism regarding rate cuts, deregulation, and tax cuts, we remain vigilant of the recent acceleration in unemployment which triggered the Sahm Rule—an economic indicator developed to provide an early signal of recession, helping policymakers respond more quickly with economic stimulus.

In 11 of the past 12 instances when the Sahm Rule was triggered, unemployment rose significantly over the subsequent 12-month period (Fig 5). The exception was in 2003, when the rule triggered toward the end a recession after already providing a valid signal near the start of the recession (2001).

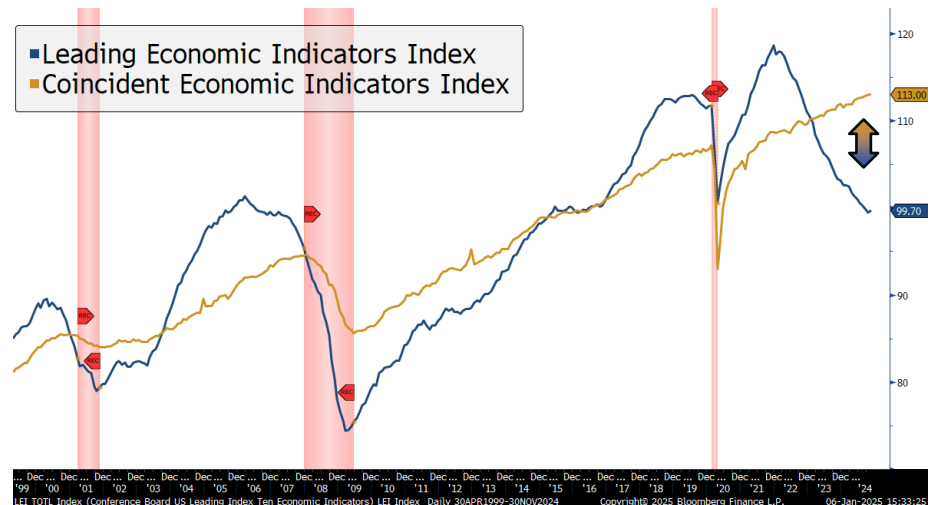
Fig 5: The Sahm Rule Trigger has generally preceded a significant increase in unemployment.



Source: Bloomberg Finance, L.P., Wealthspire Advisors

We also note that leading economic indicators have been contracting since 2021 – a trend that historically has preceded weakness in coincident data such as incomes and employment. While the economy has shown remarkable resilience, the current divergence between leading and coincident indicators is the longest on record (Fig 6). This disconnect likely reflects the lagged impact of tighter monetary policy, suggesting the risk of economic deterioration remains elevated despite recent strength.

Fig 6: The divergence between leading and coincident data is the longest on record.

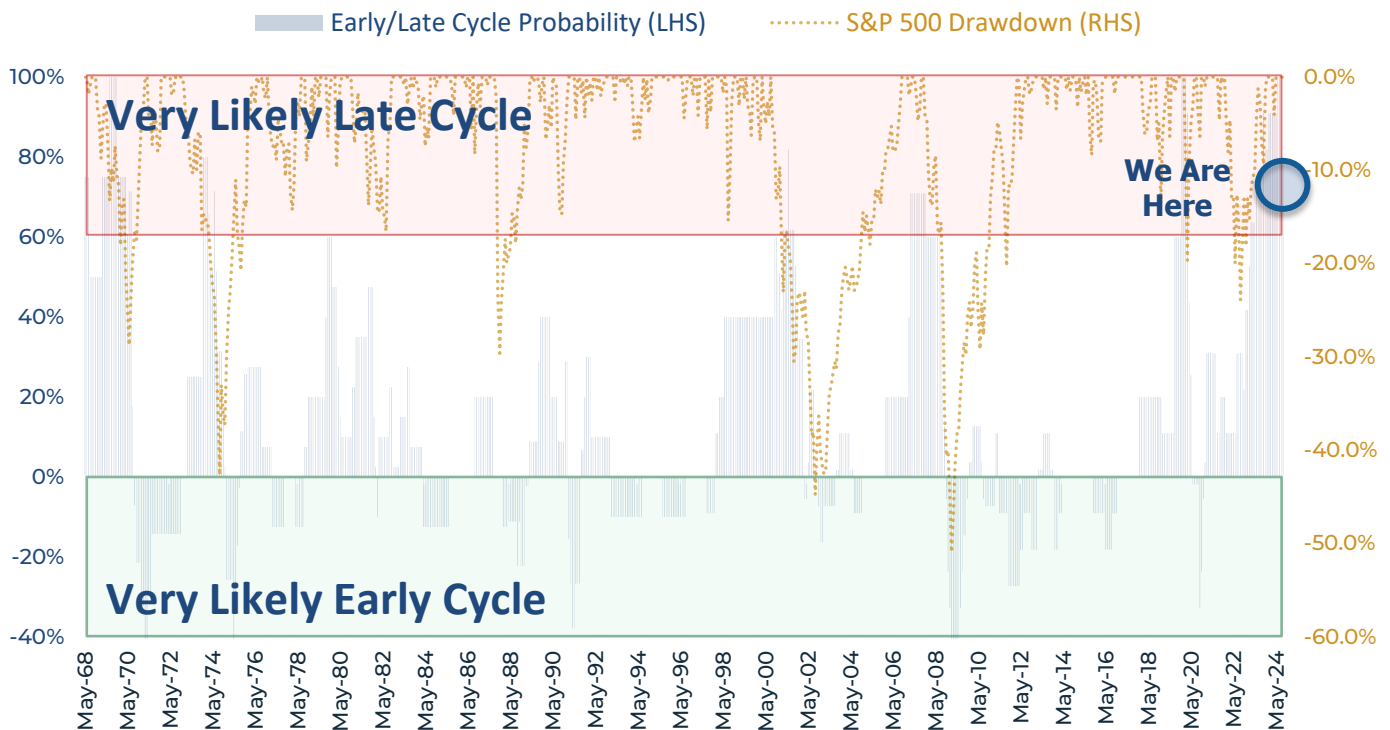


Source: Bloomberg Finance, L.P.

Economic Data Check (3): Our checklists still suggest we remain late in the economic cycle.

Furthermore, 80% of the indicators in our late-cycle checklist are currently active, while only ~10% of our early-cycle indicators are active (**see appendix II & III for details**). This implies the economy is still in the late-cycle phase, even though some sectors, like housing, have already experienced material weakness. **Figure 7** illustrates that historically, late-cycle environments have been associated with a greater stock market volatility.

Fig 7: Our data checklists suggest the economy is in the late stages of the economic cycle.



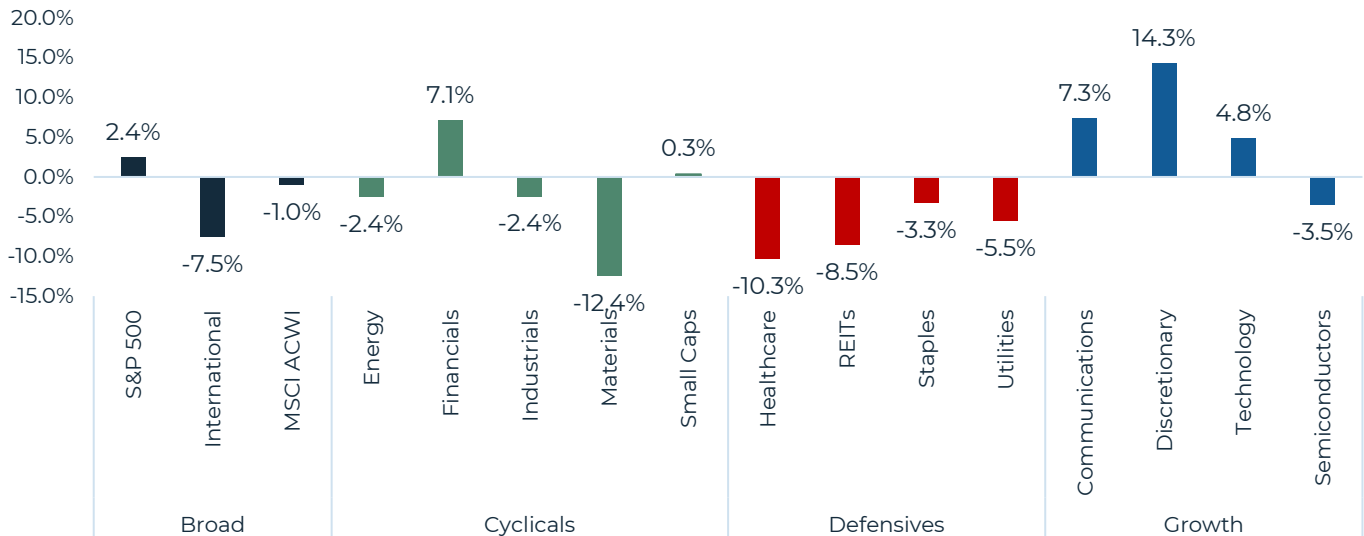
Source: Bloomberg Finance, L.P., Wealthspire Advisors

However, if rate cuts and pro-growth policies cause economic activity to accelerate, it could deactivate some of our late-cycle indicators and prompt a shift toward a more aggressive equity allocation.

Equities (1): Equity performance in Q4 was mixed.

The global equity market declined **-1.0%** in Q4. Looking under the hood there was a wide dispersion among geographies and sectors (**Fig 8**). US growth and financial stocks experienced strong gains but almost everything else declined. Consumer discretionary was the top performing sector (+14.3%), though notably 97% of its gains were concentrated in just two stocks—Amazon and Tesla, highlighting the narrow breadth of market performance during the quarter. International stocks were down **-7.5%**.

Fig 8: Q4 Sector Returns



Source: Bloomberg Finance, L.P., Wealthspire Advisors

Corporate earnings maintained their positive trajectory, with S&P 500 companies posting 6.3% year-over-year EPS growth in Q4—marking the fifth consecutive quarter of expansion.

Broadcom (+35%) surged on investor optimism surrounding its AI server and networking infrastructure prospects, following CEO Hock Tan's characterization of the opportunity as "massive." In a [recent podcast with Brad Gerstner \(Altimeter\)](#) and [Bill Gurley \(Benchmark\)](#), Dylan Patel (Semianalysis) conveyed his belief that consensus estimates for AI spend in 2025 "remain far too low".

Tesla (+54%) attracted significant investor attention, driven by enthusiasm for its AI initiatives, including the upcoming release of Grok-3, advancements in Full Self-Driving technology, and its humanoid robotics program. Speculation about a potentially favorable relationship with President-elect Trump also boosted sentiment.

Palantir (+103%) rallied on excitement over the adoption of its AI platform and expanding government contracts, although some analysts questioned the sustainability of its valuation after the sharp rise.

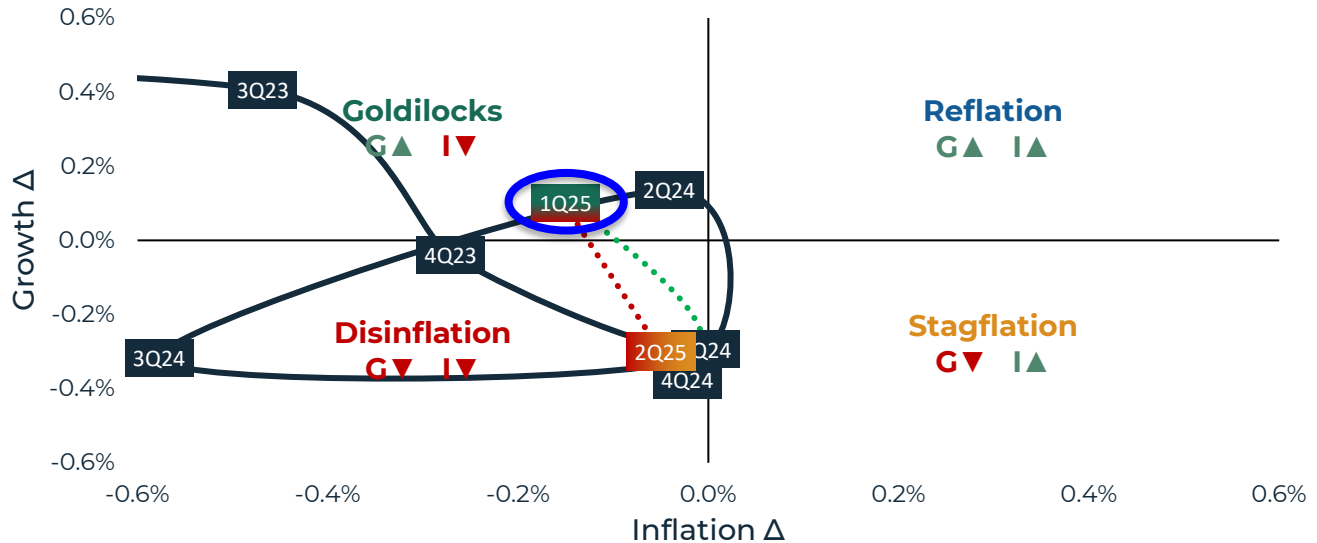
We maintain exposure to the artificial intelligence theme via large cap, large cap growth ETFs, and an explicit position in semiconductor stocks.

In contrast, the pharmaceutical sector (**-9.9%**) underperformed, weighed down by heightened political scrutiny on drug pricing, led by RFK Jr., recently appointed Secretary of Health and Human Services by Trump. We had previously favored specific exposure to healthcare stocks but reduced during the Summer.

Equities (2): Return to goldilocks may provide tailwind for stocks, particularly growth sectors.

As mentioned previously, we expect growth to accelerate in Q1 while inflation continues to slow. If realized, this would put the U.S. economy in a mild goldilocks environment in Q1 (**Fig 9**).

Fig 9: Growth & Inflation Rate of Change Map



Source: Bloomberg Finance, L.P., Wealthspire Advisors

Historically, stocks have thrived in Goldilocks environments, where accelerating growth and slowing costs drive profit expansion. This dynamic suggests the potential for favorable Q1 equity returns, warranting a more neutral allocation even as we remain in a late-cycle environment (details on the next page). Growth sectors like technology and consumer stocks have historically performed best during goldilocks regimes (**Fig 10**).

Fig 10: Average Quarterly Returns by Sector in Varying Economic Regimes (1992 to Present)

	No Recession				Recession			
	G	R	S	D	G	R	S	D
S&P 500	5.2%	5.0%	1.5%	3.4%			-6.0%	-8.2%
Technology	7.3%	8.0%	2.7%	2.7%			-6.1%	-8.7%
Consumer Discretionary	6.4%	4.8%	1.5%	3.2%			-6.1%	-6.2%
Financials	5.1%	5.2%	1.8%	5.1%			-11.5%	-11.0%
Materials	5.1%	4.8%	0.5%	2.8%			-5.3%	-7.0%
Energy	3.4%	5.8%	4.2%	2.1%			-2.3%	-12.4%
Industrials	5.1%	5.2%	1.4%	4.7%			-6.8%	-10.2%
Utilities	2.4%	1.2%	4.2%	5.0%			-3.1%	-8.0%
Healthcare	4.3%	4.2%	0.7%	5.1%			-3.1%	-5.2%
Consumer Staples	4.1%	3.4%	0.9%	4.5%			0.3%	-5.0%
Real Estate	3.5%	3.3%	1.6%	4.6%			-4.7%	-8.4%
Russell 2000	5.3%	5.4%	0.6%	3.2%			-3.8%	-9.1%
MSCI Emerging Markets	6.5%	4.9%	-0.8%	1.8%			-8.7%	-5.5%

G = Goldilocks (G▲, I▼)

R = Reflation (G▲, I▲)

S = Stagflation (G▼, I▲)

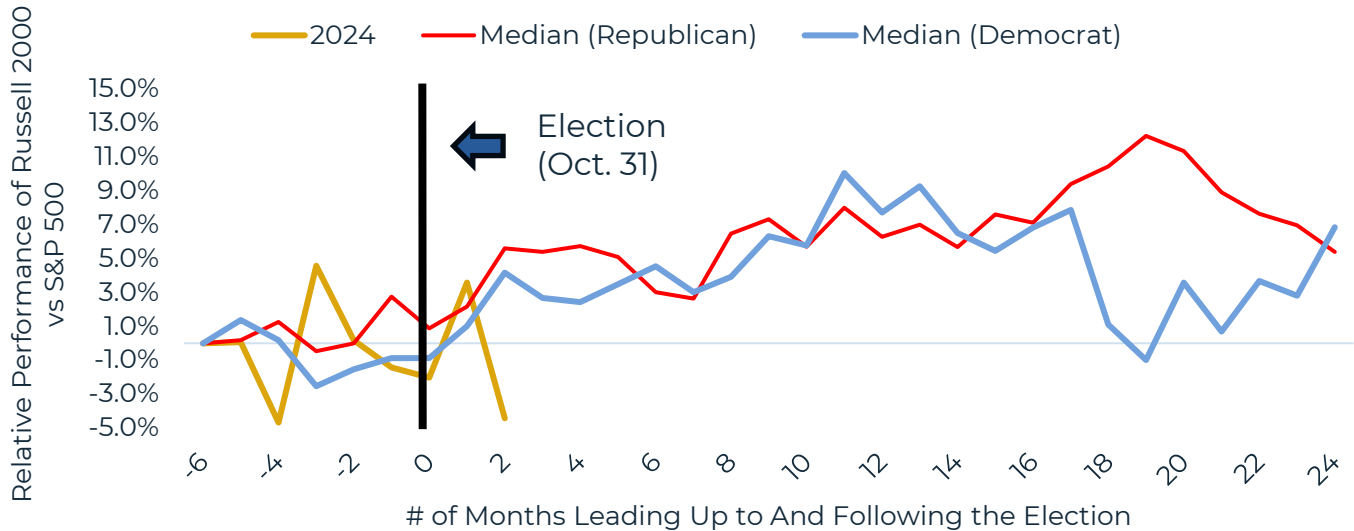
D = Disinflation (G▼, I▼)

Source: Bloomberg Finance, L.P., Wealthspire Advisors

Equities (3): A broader lift to economic activity may also support small caps.

Small-cap stocks have historically outperformed in the first year following U.S. presidential elections (**Fig 11**), presumably because the incoming administration is generally eager to stimulate economic growth, which tends to disproportionately benefit small businesses. If the new administration can catalyze an economic acceleration via deregulation and tax cuts, small caps could benefit.

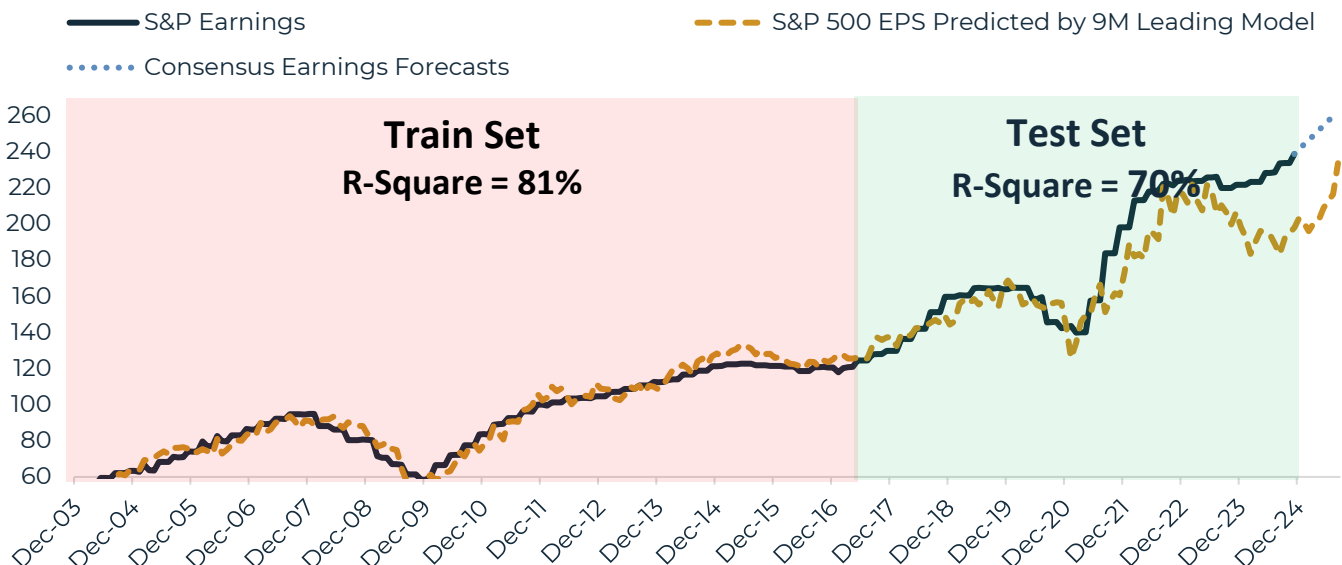
Fig 11: Relative Performance of Russell 2000 vs S&P 500 Leading Up to And Following the Election (1980 to Present)



Source: Bloomberg Finance, L.P., Wealthspire Advisors

Our earnings model suggests corporate profits could improve in 2025 (**Fig 12**), which could lead to broader market participation beyond the narrow leadership we experienced in 2024.

Fig 12: Earnings Model - 9 Month Lead



Source: Bloomberg Finance, L.P., Wealthspire Advisors

Equities (4): Despite cause for near-term optimism, elevated valuations and low unemployment preclude us from favoring an aggressive approach.

Historical analysis suggests that equity returns are heavily influenced by both valuation levels and unemployment rates. The current environment, characterized by high valuations (P/E of 27x) and low unemployment (~4.2%), typically presages below-average forward returns (**Fig 13**).

Fig 13: Avg 3-Year Forward Returns for S&P 500 at Various Valuation and Unemployment Levels

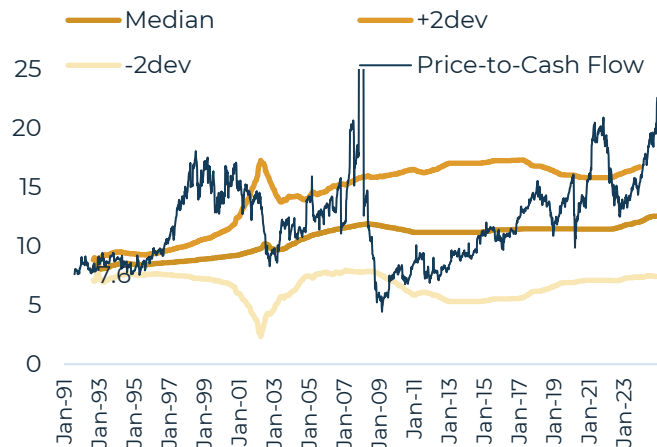
		Trailing P/E Multiple of S&P 500									
		Cheap								Expensive	
		3 to 6	6 to 9	9 to 12	12 to 15	15 to 18	18 to 21	21 to 24	24 to 27	27 to 30	30 to 33
US Unemployment Rate	2.5 to 3			111.0%							
	3 to 3.5		50.7%	81.4%		14.9%	9.8%				
	3.5 to 4		94.4%	88.0%	32.2%	18.8%	-3.7%	-11.7%	-28.7%	-40.9%	
	4 to 4.5		45.0%		35.6%	5.3%	1.9%	2.1%	-10.9%	-18.3%	
	4.5 to 5		77.2%	43.0%	27.5%	-0.4%	37.4%	31.2%			
	5 to 5.5			52.2%	37.4%	40.3%	60.0%		11.1%		
	5.5 to 6	127.7%	46.5%	65.3%	58.1%	55.1%	20.2%		26.9%	8.4%	
	6 to 6.5		77.5%		62.1%	37.8%	62.4%	30.6%			
	6.5 to 7		74.2%	48.6%	45.6%	41.3%	44.2%	39.1%			71.3%
	7 to 7.5		53.9%	64.9%	61.9%	44.3%		42.8%	35.1%		61.0%
Mid Cycle	7.5 to 8		54.4%	34.7%	47.3%	39.8%		52.0%	45.2%		
	8 to 8.5		58.3%	47.8%	58.9%						
	8.5 to 9		65.4%	1.8%	80.3%	50.7%					
	9 to 9.5		101.3%		58.0%	56.9%					
	9.5 to 10			73.1%		54.6%	40.7%				
		Early Cycle		Mid Cycle						Late Cycle	

Source: Bloomberg Finance, L.P., Wealthspire Advisors

Returns are based on quarterly data from 1948 through 2020

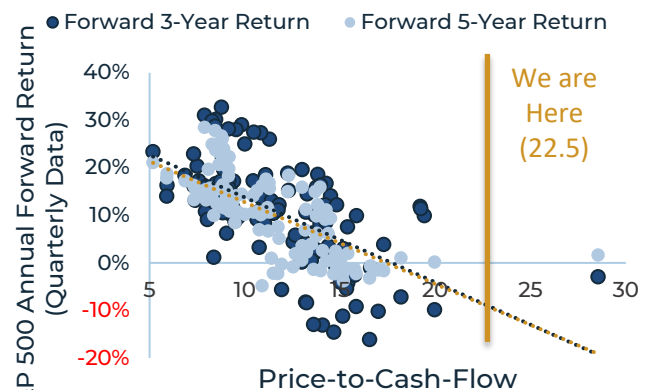
Figures 14 & 15 show a similar relationship between valuation and future returns using price-to-cash-flow, which at 22.5x suggests similarly also muted forward returns over the next few years.

Fig 14: S&P 500 Price-to-Cash-Flow



Source: Bloomberg Finance, L.P., Wealthspire Advisors

Fig 15: Forward Returns for S&P 500 v.s. Price-to-Cash-Flow (1991 - 2021)



Source: Bloomberg Finance, L.P., Wealthspire Advisors

While a potential mix of economic reacceleration, supportive monetary policy, and continued AI enthusiasm create a constructive backdrop, elevated valuations and tight labor markets suggest a balanced rather than aggressive positioning.

Fixed Income: Favor reducing to neutral as soft-landing odds increase.

We have favored being overweight bonds given expectations for slower growth combined with prominent recession risk. Yet this strategy has delivered more muted benefits than anticipated. Although growth has slowed moderately during the past five quarters, it was resilient enough to prevent a meaningful rally in bonds, with the 10-year Treasury and the aggregate bond index gaining only +5.7% and +8.2%, respectively during that time. If growth accelerates in Q1, we would expect mild fixed income returns, as stronger economic activity typically puts upward pressure on bond yields (**Fig 16**).

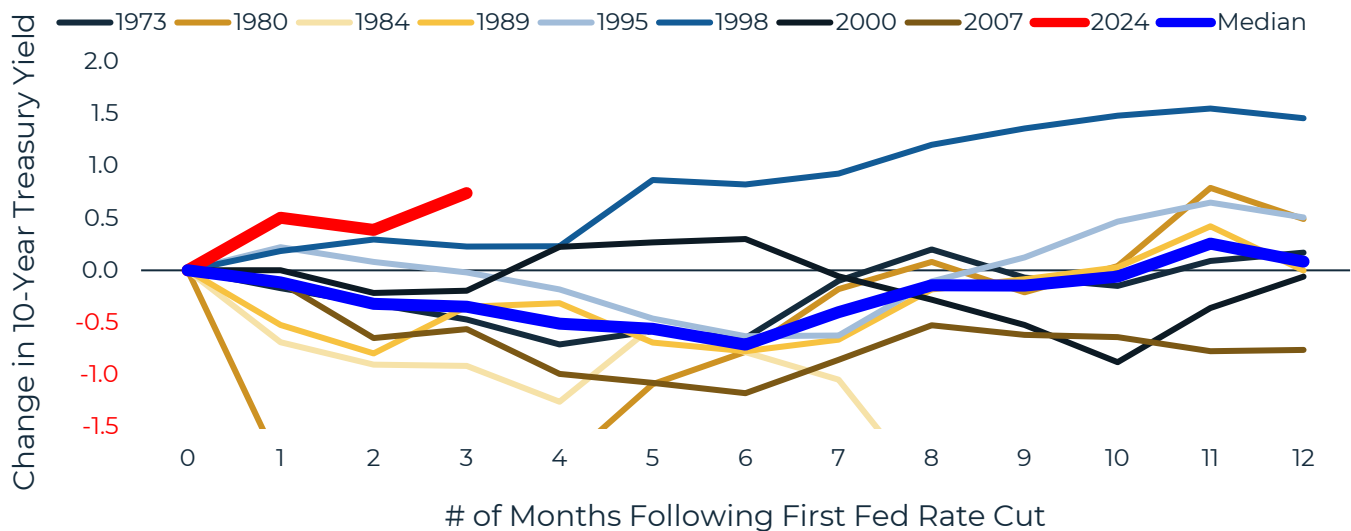
Fig 16: Avg Quarterly Return by Regime – Fixed Income								
	No Recession				Recession			
	G	R	S	D	G	R	S	D
U.S. Aggregate Bond	1.1%	0.9%	0.8%	1.8%			0.9%	2.5%
U.S. IG Corporates	1.5%	1.4%	0.8%	2.2%			-1.7%	2.6%
7-10 Yr Treasury	1.0%	0.5%	1.0%	2.1%			2.6%	3.5%
20+ Year Treasury	1.2%	-0.1%	1.3%	3.4%			2.6%	4.8%

G = Goldilocks (G▲, i▼)
R = Reflation (G▲, i▲)
S = Stagflation (G▼, i▲)
D = Disinflation (G▼, i▼)

Source: Bloomberg Finance, L.P., Wealthspire Advisors

Long-term yields have risen despite recent Fed rate cuts—a rare divergence that parallels the 1998 soft landing, when the economy maintained momentum as monetary policy eased (**Fig 17**).

Fig 17: Change in 10Y After First Rate Cut



Source: Bloomberg Finance, L.P., Wealthspire Advisors

Given this backdrop, we maintain our overweight to fixed income but with reduced conviction. While recession risks and our late-cycle view continue to support bond positioning, the potential for a growth reacceleration and the unusual behavior of long-term yields suggest a more measured approach is warranted. Within fixed income, we continue to favor high-quality bonds like U.S. Treasuries over corporate credit—current credit spreads are historically tight, suggesting limited compensation for taking on additional default risk in an aging economic cycle.

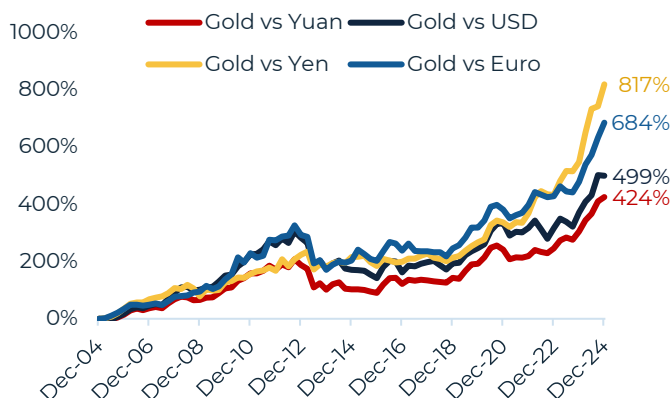
Commodities: Favor overweight, with a bias toward gold.

Gold remains the world's premier store of value, offering protection against a variety of economic scenarios, including sluggish growth, mounting debt burdens, and expansionary monetary policy. Recently, these conditions have converged, fueling [robust demand for the precious metal](#).

Why is gold a store of value? [Gold's stock-to-flow ratio is significantly greater than that of other commodities](#). The stock-to-flow ratio measures the total existing supply of a commodity (the stock) with its annual production (the flow). Gold's exceptionally high ratio means it cannot be as easily diluted or devalued, increasing its appeal as a reliable hedge against currency devaluation.

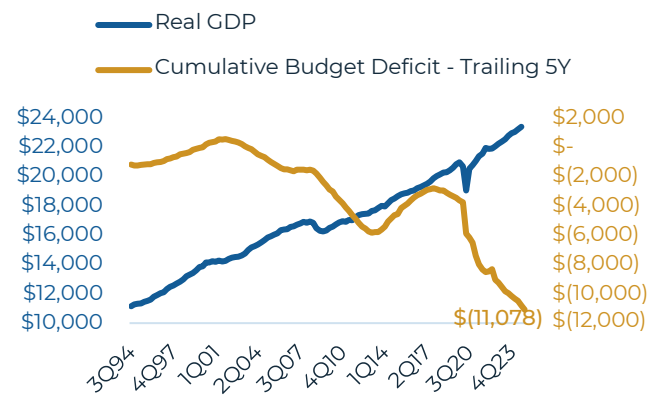
To that point, over the past two decades, gold's value has increased between 4x and 8x relative to the world's major currencies (**Fig 18**). **Why?** Because during that time, the (M2) money supply across the US, Europe, Japan, and China has expanded at an annual rate of more than +7% in US dollar terms. In stark contrast, gold's supply has expanded modestly, at about +1.5% to +2.0% per year. We believe this marked disparity in supply growth is a fundamental driver of gold's appreciation against fiat currencies, highlighting investors' growing preference for the metal's inherent scarcity. Given the recent surge in debts across major economies, including the U.S. (**Fig 19**), gold's utility within a diversified portfolio is perhaps more compelling than ever before.

Fig 18: Performance of Gold vs Fiat: Past 20 Years



Source: Bloomberg Finance, L.P., Wealthspire Advisors

Fig 19: U.S. Budget Deficit v.s. GDP in Trillions USD



Source: Bloomberg Finance, L.P., Wealthspire Advisors

Gold has historically outperformed the broad commodity complex during goldilocks regimes (**Fig 20**).

Fig 20: Avg Quarterly Return by Regime – Commodities

		Fig 20: Avg Quarterly Return by Regime – Commodities							
		No Recession				Recession			
		G	R	S	D	G	R	S	D
		# of Observations	35	30	32	24	0	0	4
Broad Commodities		1.3%	5.7%	2.5%	-3.3%			7.0%	-8.9%
Gold Spot		2.3%	2.2%	1.0%	0.2%			4.0%	2.4%

Source: Bloomberg Finance, L.P., Wealthspire Advisors

Positioning Summary:

 **Underweight**
Global Equities

 **Neutral**
Fixed Income

 **Overweight**
Commodities

 **Overweight**
Cash

Positioning Details:

▪ **Equities: Underweight**

While maintaining an overall underweight position, we favor selectively adding to equities given improving near-term growth dynamics. However, still persistent late-cycle indicators and elevated valuations keep us from turning more aggressive. Within equities, we continue to favor U.S. companies as well as those we expect to benefit from secular growth trends such as AI adoption, which could provide resilience if economic momentum exceeds expectations.

▪ **Fixed Income: Neutral**

We favor reducing fixed income positioning to neutral as economic resilience suggests more modest return potential ahead. While bonds typically benefit in late-cycle environments, the unusual behavior of long-term yields—rising despite Fed rate cuts—echoes the 1998 soft landing and warrants a more measured approach. Within fixed income, we maintain a preference for quality, as tight credit spreads offer limited compensation for additional risk.

▪ **Commodities: Overweight**

We favor an overweight position in gold as a hedge against slowing growth, rising debt burdens, and a continued increase in the money supply.

▪ **Cash: Overweight**

We favor being overweight in cash because of slowing growth and elevated recession risk. Cash should help reduce portfolio volatility while providing dry powder to reinvest opportunistically. Within cash, we favor holding short-term Treasury bills which are still yielding more than +5%.

As always, we thank you for your ongoing trust and confidence. Please do not hesitate to reach out with any questions relating to our outlook or the management of your individual portfolio. We will keep you apprised of any important developments.

Sincerely,

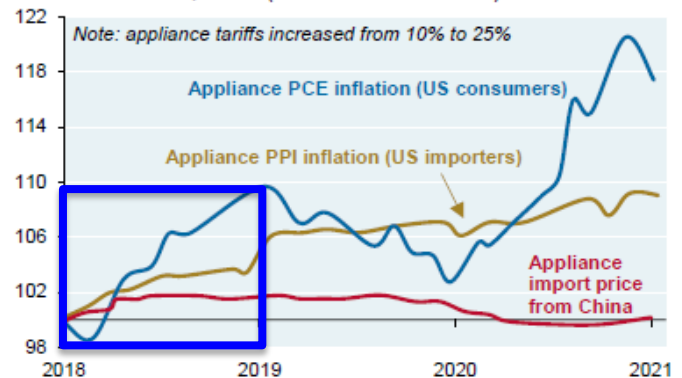
Your advice team at Wealthspire.

Appendix I: Potential Implications of Tariffs

While tariffs may increase prices in targeted sectors, widespread implementation appears unlikely given how it could undermine the incoming administration's own policy objectives. Employment data suggests that aggressive tariffs could accelerate manufacturing job losses. This would be an outcome they are aiming to prevent, making broad implementation counterproductive.

1. Inflationary Risks: Tariffs on imported goods, particularly consumer items, can raise prices modestly for U.S. consumers. For example, appliance tariffs implemented in 2018 increased consumer price indices for the affected categories. However, the inflationary impact is often mitigated as businesses and consumers absorb some of the cost or shift to alternative suppliers, resulting in a less pronounced overall effect.

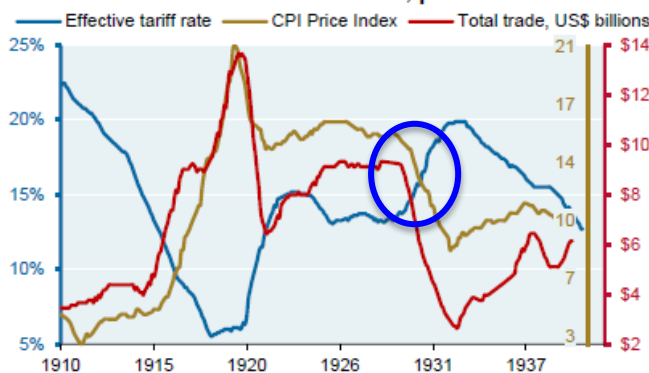
US importers/consumers absorbed cost of 2018 appliance tariffs on China, Index (100 = December 2017)



Source: JP Morgan, WSJ

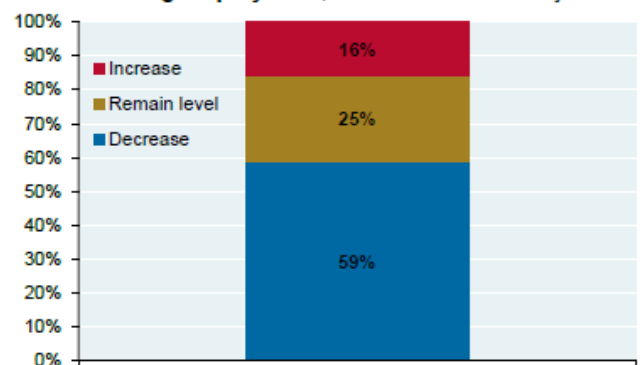
2. Impact on Growth and Employment: Tariffs can have a dampening effect on economic growth, particularly in export-reliant sectors. Historical evidence, such as the tariffs of the 1920s and 1930s, demonstrates a decline in trade volumes and GDP during periods of high protectionism. Manufacturing employment, especially in states with a high reliance on imports, is also at risk—surveys indicate that increases in tariffs often correlate with reductions in manufacturing jobs, particularly in industries dependent on global supply chains.

When tariffs rose in the 1920's/1930's, prices and trade fell



Source: JP Morgan, Alpine Macro, Peterson Institute

Survey of economists on the effect of Trump tariffs on manufacturing employment, 44 economists surveyed



Source: JP Morgan, WSJ

While tariffs can introduce inflationary pressures, their broader economic effects—including negative impacts on growth, employment, and trade—will likely underwhelm expectations.

As a result, we expect the overall contribution of tariffs to inflation is expected to remain modest, with more pronounced consequences for very specific industries and global trade relationships. These dynamics underscore the need for balanced policy considerations to mitigate unintended economic consequences.

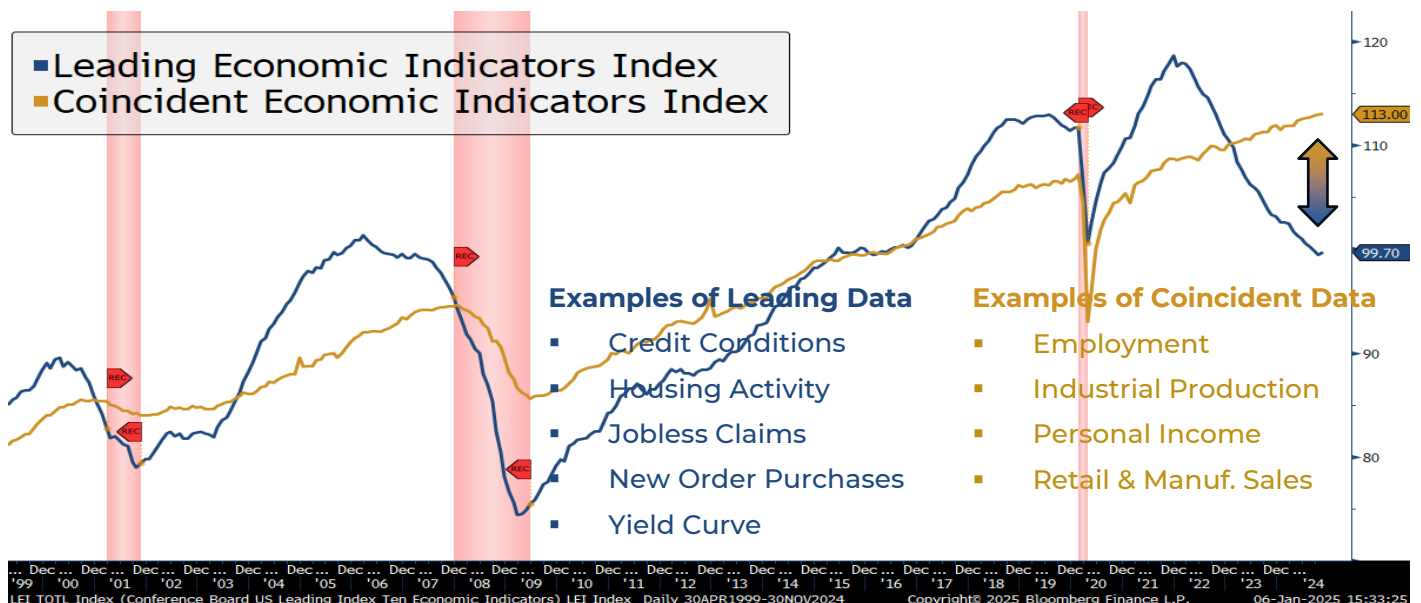
Appendix II: Late-cycle Checklist

Historically, on average, the S&P 500 has peaked eight months prior to the beginning of a recession, with nearly 40% of the peak-to-trough drawdown prior to the start of the recession. As a result, we have constructed a probabilistic framework for determining when the risk of a recession occurring within the next 12–18 months is elevated versus not.

Today, four of the five indicators in our late-cycle checklist have triggered, suggesting that the risk of a recession occurring within the next twelve months is elevated, despite the ongoing resilience in coincident economic data. Furthermore, leading economic indicators are in a deep contraction, which is typical of a late-cycle environment (**see chart at bottom**)

Indicators in our Late-cycle Checklist include:

1. **✓ Tight Headline Labor Market + Slowing Momentum:** Becomes active when the unemployment rate is below 5% and the year-over-year change in continuing jobless claims turns positive. **Active since February 2023.**
2. **✓ Slowing Momentum in Small Business Job Openings:** Becomes active when the 6-month moving average of small business openings crosses below the 2-year moving average. **Active since December 2022.**
3. **✓ Yield Curve:** Becomes active when the 10-year US Treasury Yield crosses below the 1-year US Treasury yield. **Currently set to deactivate in Q3.**
4. **✓ Overconfidence:** Becomes active when consumers are significantly more confident in the current situation than they are in their future situation. We read this as a sign of potential exuberance. **Currently set to deactivate in Q2.**
5. **X Contracting Import Growth:** Becomes active when import growth contracts on a year-over-year basis. **Import growth is currently positive.**



Source: Bloomberg Finance, L.P., Wealthspire Advisors

Appendix III: Early-cycle Checklist

Below is our checklist for probabilistically identifying that we are likely entering the early phase of the business cycle.

Excessive pessimism: 0 of 2 indicators are active

1. **X Excessive Bear/Bull Ratio:** When more than two people are bearish for every person that is bullish, it is generally a sign that participants have become too pessimistic, and stocks may be oversold. **Last activated in March 2023 and is no longer active.**
2. **X Plunge in Relative Consumer Confidence:** Generally, consumers have more confidence in their present situation than their future situation. However, during very trying times, consumer confidence plummets such that surveys reflect higher confidence in the future than the present. This has historically coincided with major market bottoms. Currently, consumers are much more confident in their present situation than their future situation, i.e., **relative consumer confidence remains very high.**

Exhausted selling: 0 of 4 indicators are active

3. **X Coppock Guide:** The [Coppock Guide](#) measures long-term momentum in asset prices. When the Coppock Guide reverses from a very low position, it generally signals a positive shift in price momentum. **Last activated in March 2023 and is no longer active.**
4. **X Zweig Thrust:** Zweig Thrust is a momentum indicator that identifies significant market breadth when a large percentage of stocks advance over a short period, typically indicative of the beginning of a new upward trend. This indicator is widely regarded as a powerful signal of a potential major market uptrend. It is activated when the criteria are met, which historically aligns with the onset of bull markets and early economic cycles. **Last activated in November 2023 and is no longer active.**
5. **X Volatility of Volatility:** When equity volatility of volatility declines materially after reaching extreme levels, it generally signals that the worst is in the rearview. **Signal has not activated since 2020.**
6. **X VIX Divergence:** When the S&P 500 declines substantially while the [VIX](#) is flat or down, it has historically signaled that market participants have nearly priced in known risks. **Last activated in November 2022 and is not longer active.**

Deteriorated fundamentals: 1 of 4 indicators are active

7. **✓ Manufacturing Contraction:** Major market bottoms generally do not form until there is a deep contraction followed by an acceleration in manufacturing new orders. **Currently set to deactivate in Q2.**
8. **X Consumption Contraction:** Often times major market bottoms do not form until real personal consumption has contracted. **Currently, consumption growth remains positive.**
9. **X Rising Unemployment:** Generally, major market bottoms do not form until the unemployment rate rises by at least +1.5%. **Currently, the unemployment rate is only +0.7% higher than its cycle low.**
10. **X Recession Announcement:** The National Bureau of Economic Research generally doesn't announce that the US economy is in a recession until 6-12 months after it has entered one. It is often the case that by that time, the worst of the recession has played out, and therefore, the announcement tends to occur near a bear market bottom. **We do not anticipate an imminent recession announcement from NBER given the current strength in nonfarm payrolls.**

Accelerating liquidity: 0 of 1 indicators are active

11. **X Monetary Stimulus:** Accelerating liquidity generally provides a tailwind to economic activity and asset prices. **We do not anticipate a meaningful acceleration in liquidity until the Fed cuts interest rates and engages in the re-expansion of its balance sheet.**

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