STOCK MARKET OUTLOOK

2025: Part II

Independent Research & Analysis

Published Quarterly by the Investment Policy Committee

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2025 STOCK MARKET OUTLOOK – PART II

Executive Summary

April 29, 2025

For global stocks, Q1 was a tale of two halves, capped by early April's wild volatility over President Donald Trump's reciprocal tariff announcement and subsequent 90-day pause. Stocks notched new highs through mid-February, but volatility from there left global markets down -1.8% on the quarter.[1] Despite the up-and-down ride, Europe and Asia saw much different Q1s than US stocks. In keeping with our outlook, non-US stocks are vastly outperforming America. Value is beating growth. Tech is lagging. Though non-US stocks weren't immune to April's slide, they continue leading.

Corrections like the current one are possible at any time, for any or no reason. We never try forecasting or timing corrections and similarly short-term moves. The reason for this is simple: Not all market negativity is the same. Corrections are steep, sudden, sentiment-driven swoons of -10% to -20% from a prior high. They usually feature a big scary story or two—fanning huge false fears—that draw vast attention from pundits and individual investors. They are frightening and psychologically painful, but normal in bull markets—healthy, even. We know they can be trying and difficult to endure in the moment. But they reset sentiment lower and rebuild the wall of worry, setting the stage for the bull market's next romp higher. And they don't impair a properly designed portfolio's ability to help finance your longer-term goals and needs.

Bear markets are deep, grueling, usually slower and longer-lasting declines exceeding -20%, typically fueled by negative fundamentals like recession. They start slowly and grind lower until panicky throes strike late. The combination of a slow rolling top, longer duration and fundamental deterioration give evasive action during a bear market a much higher probability of success if the conditions warrant.

Corrections are different, offering no exit and re-entry point. They both start *and end* without warning. The danger corrections present isn't the decline itself, but the fight-or-flight response it triggers. Surrendering to this with radical portfolio changes to "stop the bleeding" usually backfires terribly. If you are investing for long-term growth, it is vital to remain focused on your long-term goals and needs, allocating your assets commensurately. Avoiding stocks merely because of recently rocky markets can easily be an error that costs you gains in a recovery that compound throughout much of your time horizon.

Whenever volatility strikes, we work carefully and diligently to determine whether it is a bear market or correction. Q1's downturn has all the classic correction hallmarks. As noted, world and US stocks stood at record highs in mid-February. From there, sentiment darkened rapidly. Tariffs and American geopolitical gyrations emerged as the scary stories, reaching fever pitch after April 2's "Liberation Day" tariff announcement. That four-day slide ended when Trump announced a 90-day reciprocal tariff pause on April 9, but many questions—and widespread fear—persist.

As Appendix II details, tariffs are always negative economically, and the tariffs announced on "Liberation Day" were unprecedented in size and scope. The market's knee-jerk reaction to significant, scary developments such as this is usually to quickly price in worst-case scenarios, often without giving much credence to more middling outcomes. Although the worst scenario in this case could be quite bad for the US economy, possibly even recessionary, there are underappreciated alternatives with much more benign or even positive economic impacts that would lead to meaningful upside surprise. While fear over this is high today, it should fall moving forward as worried anticipation melts into acceptance and unknowns become known.

That said, we are monitoring developments closely. Tariffs are a real negative, but their scope and how that relates to what markets have pre-priced matters most. So, to what extent are tariffs implemented, mitigated or avoided by companies? How will other countries react—with compromise or retaliation? And what of the many lawsuits and constitutional questions blanket tariffs surely and immediately raise? The sheer scale and breadth of bureaucracy needed to inspect and collect all these tariffs simply doesn't exist today. Nor can non-US companies quickly or easily move production to the US given state regulations and permitting processes, to say nothing of construction and capacity.

When unknowns abound, we narrow them to a few most likely paths forward. Here are the three most plausible outcomes to us:

1. **Strong pushback from the courts and Congress.** There is high likelihood courts will find these tariffs unconstitutional and need congressional legislation—at the very least, it seems likely to be hotly contested and could fall to the Supreme Court quickly. Republican control of Congress is flimsy—only a few defectors, perhaps from battleground states and districts, could sink all this very quickly. Already, a symbolic Senate vote disavowing Trump's Canada tariffs passed April 2 with Republican defectors. It may never become law, but it hints at the underlying reality. Markets likely see relief from any mitigation here.

2. **Countries come to the table to negotiate.** So far, most countries have demonstrated a willingness to negotiate—true of Canada and Mexico, Japan, the UK and much of Europe, and even China, to an extent. Many see Trump's tactics as starting points for negotiation, the goal being to have other tariffs reduced toward US exports. Trump himself offered this path. Perhaps. If true, market relief would likely be swift as a much better-than-feared outcome arises on a tide of compromise.

These first two possibilities, or some combination of them, are the most likely in our view. Either would fit the correction form—again, the disproportionate fear of a plausible negative ultimately fueling the bull market. However, a third, and more negative possibility is also on the table:

3. **Countries join to retaliate.** Such a scenario could be a significant negative. Up to this point we have argued implemented tariffs don't have the scale to erase global GDP growth. But a full implementation—with retaliation—of tariffs would constitute a meaningful negative. While much of the world got a reprieve, China didn't. After multiple rounds of retaliation, tariffs on both sides top 100% (albeit with some loopholes and carveouts emerging). This is a negative, but one we think stocks can overcome, as Appendix II details. But if more major countries follow China's lead, it could be very bad. This is an unlikely outcome, in our view, but not impossible.

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Regardless of scenario, consider the plan's viability. Again, the bureaucracy, staffing and systems necessary to inspect imports and collect all these new tariffs simply doesn't exist today. This also argues for actual collection versus reality to be far less than most fear.

Our base case remains: We still think US stocks should do fine this year. But we believe stocks outside America likely lead, as they did in Q1. Tariff turmoil shows this, in our view. While April's volatility struck markets globally with few exceptions, Q1 ended with much of Europe up low double-digits this year. Much of Asia is also positive. We suspect this leadership will persist beyond the correction—if not during it.

Corrections are impossible to time at their start or end. Because they hammer sentiment, they typically end sooner than everyone anticipates, with a V-shaped bounce and march to new highs and beyond. We expect that as 2025 unfolds, if that bounce isn't already underway as you read this. Resurgent recession talk still looks unfounded. The global economy has pockets of weakness as well as strength. But the balance is more positive than most perceive, as Appendix III will show. Markets don't need perfection. They are efficient discounters of all common fears, forecasts and opinions. Whatever you think about the economic outlook, if you can find people on a simple Internet search or social media who share your view, it is pre-priced to a great degree. Shunning stocks because of recession fears would be selling on what markets have already discounted.

What moves stocks is how reality unfolds relative to current expectations over the next 3 – 30 months. The balance should now be positive surprise, in our opinion. With sentiment so dreary, things even going bad—but less bad than feared—would bring big bullish relief. This is what we expect for the balance of 2025.

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Appendix I: Europe Leads in 2025's Choppy Start

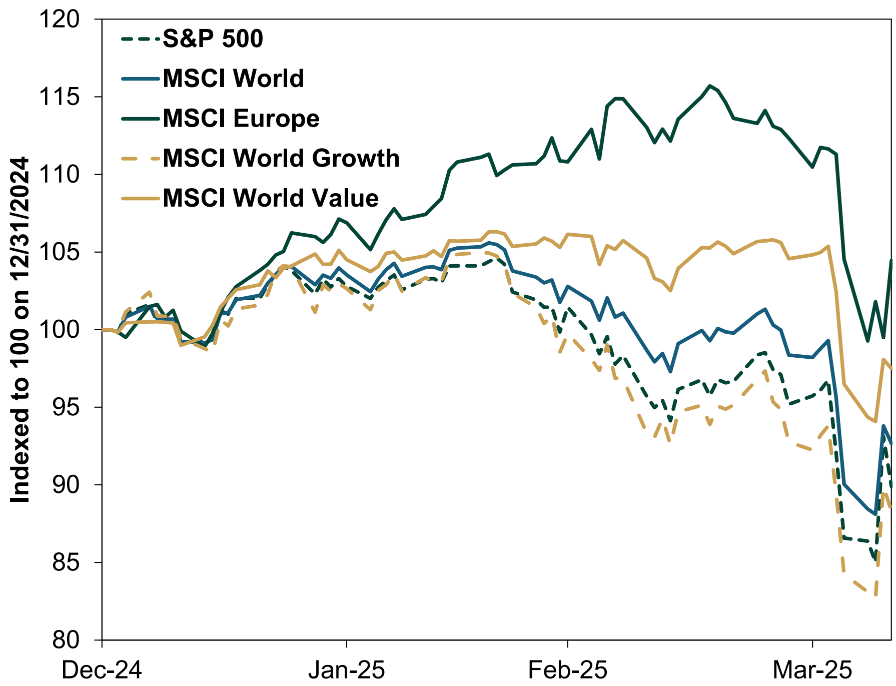
While April's wildness makes it feel like ancient history, Q1 was a mixed and Europe-led quarter that wasn't terribly dissimilar to what we expected. And a quarter that would have surprised many investors even before early April's sharp swings.

This underscores how trying to time short-term swings is impossible—a recipe for disappointment. We cover the volatility more shortly but let us first review Q1 and the developments since to see the lay of the land as it stands in late April.

As 2025 began, many penciled in another year of US leadership. They foresaw President Trump's policies (tax cuts, deregulation and tariffs) plus AI as tailwinds for US stocks to continue yearslong leadership trends. Many of the same cast European markets as moribund, dogged by political turmoil and economic malaise—especially Germany, commonly dubbed Europe's latest "sick man."

In our view, these expectations became quickly pre-priced, unlikely to materialize. European sentiment was gloomier than American, buoying the probability of positive surprise there. In our view, that favored leadership outside the US. As the quarter unfolded, that took shape and has persisted through April's chop.

Exhibit 1: Europe Leads the Way



Source: FactSet, as of 4/14/2025. S&P 500 Total Return Index; MSCI World, MSCI Europe, MSCI World Growth and MSCI World Value Indexes with net dividends, 12/31/2024 – 4/11/2025. All indexed to 100 at 12/31/2024.

The Tariff Surprise, Briefly

Before we go further, please note this and our other recent commentary on tariffs aim to be nonpartisan. We do think these measures are negative for stocks and the economy in the near term—which is our focus here. But we are aware some believe President Trump's trade policies are a necessary evil to right years of trade abuse against the US, and the short-term pain they may impose is worth the long-term gain they believe will come. Others believe these policies will end US exceptionalism, severely harm the economy and do irreparable harm to international relationships. Both are possibilities, but our responsibility is to determine these measures' effects on the economy and markets as best we can. Our Research teams and Investment Policy Committee are squarely focused on just that.

Notable as Q1 leadership trends were, all eyes now fix on the sharp swings following President Trump's April 2 announcement of a 10% universal tax on imports and even higher "reciprocal tariffs," paused by Trump a week later on all nations outside China.

We discuss these measures at length in Appendix II. For now, the key is this: While Trump's tariffs are negative for economic growth, markets' reaction is likely overdone. We suspect, for a variety of reasons, the outcome proves less onerous than feared. Again, Appendix II builds on this in detail. Here we focus on the market reaction thus far.

Why Markets Reacted Violently

After April's steep moves, many wonder: Why did efficient markets react so violently to the tariff announcement? The answer is simple: While Trump touted tariffs often on the campaign trail and thereafter, he said many disparate, contradictory things. Sometimes he floated universal tariffs. Sometimes it was "reciprocal," pitched earlier as matching tariffs to other nations' trade barriers. Other times he targeted select imports or nations. There was little consistency.

After Trump took office, universal tariff talk quieted. Given this likely requires an act of Congress to pass constitutional muster, we didn't think it was likely, either. Besides, as we and others noted, Trump historically used tariffs as bargaining chips—not lasting policy. (It is possible he is doing that now!) And we doubt we need to tell you what campaign talk is traditionally worth.

Liberation Day differed from earlier talk—it was far broader and much larger. The moves billed as "reciprocal" far exceed most tariff rates other nations place on US goods and derive from a bizarre formula based on the trade deficit—economically meaningless. Vietnam got one of the highest tariff rates under the new code—46%. According to the World Trade Organization, Vietnam's average tariff rate is 5.1%.

Some say other non-tariff barriers justify a higher rate. Yet that isn't the White House's math. There was no attempt to estimate tariffs' and non-tariff barriers' total effect. Only a loose estimate of the country's trade surplus with America as a percentage of its total exports, divided by two. This calculation implied the policy wasn't about equalizing trade parameters or rules. It seemed to be about equalizing trade *outcomes*, which hinge on many factors, like a country's

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relative wealth. Vietnam has a trade surplus with America mostly because Vietnamese consumers are far lower-income and can't afford imported goods in sufficient volume. These parameters seem arbitrary and aren't fixable through talks or deals.

After the announcement, the administration initially said it wouldn't negotiate tariff rates, leading many investors to doubt dealmaking would follow. This was all more sweeping and worse economically than markets pre-priced. Therefore, stocks registered a significant, lightning-fast hit in early-April's selloff. In many ways, that hit likely reflected the worst-case scenario, as talk of no negotiations and sweeping high barriers stole headlines.

Then Trump swung the other way on April 9. He paused reciprocal tariffs, stating around 75 nations sought trade deals. The S&P 500 jumped 9.5% that day, re-pricing talks and potentially lower barriers, before wobbling in both directions since.[2] At their lowest close to date, US stocks were down -18.7% from February 19's all-time high.[3] As we write, they are off -12.5%.[4] World stocks' decline is smaller: -16.6% at the nadir and -11.0% presently.[5]

Whatever you think of these tariffs, the process raised uncertainty—bad for stocks and businesses. Many reports indicate the administration set this policy in haste, having no final plan *24 hours before the unveiling.* Congress had no clue. The administration's earlier studies on reciprocal tariffs weren't used. Then, a week later, Trump paused the reciprocal tariffs. This back-and-forth sows nothing but uncertainty. Even if the administration's claim is correct—that this was the plan all along—the arbitrary appearance doesn't help businesses and investors.

Looking Past the Present Day

With markets having priced the worst-case scenario, it won't take much to render relief. If it hasn't already begun, we expect that reality to deliver recovery before long, resuming the Europe-led bullish trend that began the year.

Still, the challenge you face today is that sharp market swings often *feel* like a call to action, triggering the deeply human fight-or-flight sense. But in markets, this raises the likelihood of exiting markets or reducing equity exposure *just before a steep recovery.*

Early April was a masterclass in why reacting to volatility can devastate. Things looked bleakest on April 8, as stocks touched bear market territory intraday. The next day brought Trump's pause and a historic rally.

But steep climbs following sharp drops aren't exclusive to this administration or any policy suite. Volatility often clusters. Exhibit 2 proves this, showing the S&P 500's top 50 daily percentage gains from 2009 to the present. Note how they cluster during or shortly after bear markets and corrections. This is why we say reacting to market volatility or avoiding stocks because of it is likely a mistake. Capturing steep upside isn't only key to near-term recovery, but the recovery's gains also compound as the bull market persists. Missing even a slice of a recovery, a seemingly small slice at the time, can be exceedingly hard to make up. (Appendix IV)

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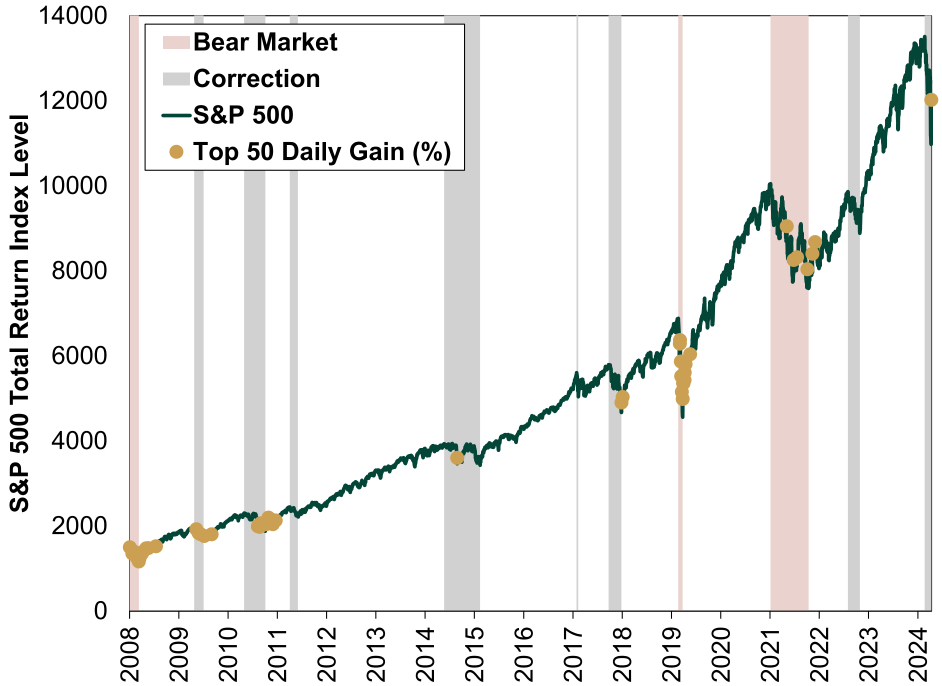
Exhibit 2: Volatility—Up and Down—Often Clusters



Source: FactSet, as of 4/14/2025. S&P 500 Total Return Index level, top 50 daily percentage gains, corrections and bear markets, 12/31/2008 – 4/11/2025.

Today, with nearly everyone focused on tariffs and any associated chatter and rumor, acting on fears of what may happen would be the height of folly. As Fisher Investments founder and Executive Chairman Ken Fisher wrote in his 2006 bestselling book, *The Only Three Questions That Count,* the only basis for taking action in markets is when you think you know something others don't. Today, it is nearly impossible to know anything others don't about tariffs.

Crucially, we think that logic holds whether this downturn remains a correction (short, sharp, sentiment-driven drop of -10% to -20%) or breaches -20% and technically gets labeled a bear market (generally, a prolonged decline deeper than -20% driven by a fundamental cause). While we try to identify bear markets early enough to sidestep part of the decline, the distinction between a shallow, swift bear market and deeper correction can be semantic—hinging on a day or two's wobbles. If you need equity-like longer-term returns to finance your goals, it is important to recall those returns came with every period of negativity along the way.

On the Downturn

Speed makes the present look much more like a classic correction than a bear market. Bear markets typically start with a whimper, not a bang. This move was a bang even before early April's major fireworks. It has been fast—with the S&P 500 hitting correction territory 16 days after February 19's all-time high. That is atypical of bear markets, which usually begin with long, drawn out, rolling tops.

Corrections almost always feature big, scary stories that suck the oxygen from the room—like bigger-than-expected tariffs now. This is important: Because the downturn's "cause" sits in plain

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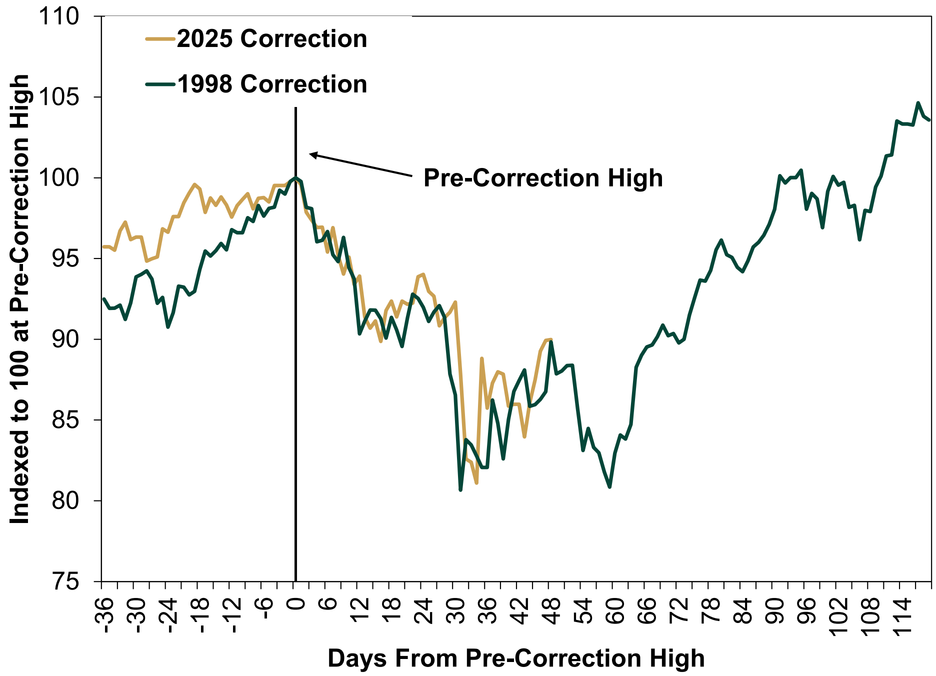
sight and everyone discusses it, markets price in the fears fast. This underpins corrections' typical speed and sharpness. By contrast, bear markets typically have unseen or underappreciated causes. They move slower amid mystery about the decline's cause. Markets gradually price this in late, when the driver is more apparent.

Little about this move looks unusual in this regard. Consider Exhibit 3, which shows 2025's correction plotted against 1998's. Note: We aren't comparing the alleged causes, economic conditions or anything to that effect here. We aren't saying the two are destined to play out the same, with a W-bottom or anything of the sort. We solely want you to see that how the market is behaving is not so unusual compared to an archetypal large correction that occurred during an otherwise great bull market year.

Exhibit 3: An Archetypal Correction



Source: FactSet, as of 4/29/2025. S&P 500 Price Index, 12/31/2024 – 4/28/2024 and 5/28/1998 – 12/31/1998. Both series start 36 days before the correction began (which is year-to-date for 2025).

The exception proving this rule is 2020. Economic lockdowns in response to COVID five years ago knocked stocks into a flash bear market—a -34% decline in 23 trading days.[6] Because the cause was obvious and widely discussed, markets priced it rapidly—and moved on. Through other variants, a rising death toll and case count, feared labor market effects, vaccine fears and more, the bull market persisted because stocks pre-priced this noise early. This made the COVID decline much more like a correction than a traditional bear market, even if its magnitude and ensuing recession are bear market traits.

The Sentiment Reset

Corrections' speed means they morph sentiment fast. Weeks ago, when markets were climbing, recession fears were largely absent. Now they are everywhere. Many analysts are cutting

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economic growth forecasts, like Goldman Sachs, which hiked recession odds to 45% as of April 7, the second upward revision in a week.[7] JPMorgan cut its growth outlook similarly. Rapidly resetting expectations is exactly how corrections normally tee up positive surprise and recovery.

Incoming data needn't be great. Tariffs' effects needn't be minimally bad or positive. With outlooks dire, bad—but not worse than feared—data are sufficient for a rally and recovery. As Appendix III notes, the economy looked fine entering Q2. Fear likely lowers expectations more than warranted now.

The Unusual Administration

It isn't just tariffs. Nearly everything about Trump and the administration is quite unusual. No American president in modern history has acted like this. His bluster and talk rile both sides and independents. His actions, some real and others more theatrical, steal vast headlines and attention. It is all particularly hard for people outside the US to process. Whether this is tariffs, DOGE layoffs or cuts, ceasing American participation in the Paris Accords, negotiations with Ukraine and Russia, disparaging the Fed chair or otherwise, the administration is unconventional and stirs controversy. This amps up investors' emotion, complicating coolheaded analysis.

But it is important to scale the administration's actions and assess whether each move is sociological or market-related. Fear or cheer them, the former may be big to you personally, politically or even for society at large—but lack a cyclical market or economic effect. Consider deportations and related policies. Questions around them are significant for America, but are far less so for S&P 500 revenues and profits. This is a key filter investors need to exercise.

It is crucial to set aside ideology when viewing the relationship between politics and markets. Love or loathe the current administration (or any politician), approach their words and deeds skeptically. It is easy to see political bias in others whose views contradict yours. It is far harder to perceive your own biases—again, whether that is for or against this administration and its effect on markets.

If you find yourself feeling the urge to act on some political theory, ask yourself again Ken's basic question: What do you know about Trump tens of millions of others don't know?

The likely answer, for those willing to be honest with themselves, is nothing. The administration is so widely watched and discussed from all angles that almost any theory has been chewed over. Those widely dissected views are priced by markets to a great extent, sapping their power to sway stocks from here. Or, consider another question: If your market view hinges on who is in the White House, what would change it? If the only answer, for better or worse, is the 2028 election, you have an investing strategy problem to fix.

On the Bond Market

Bonds' recent volatility saw headlines cast 10- and 30-year Treasury yields' rise as a sign investors no longer trust Treasurys as a volatility safe haven. They say yields should be falling now, given the correction.

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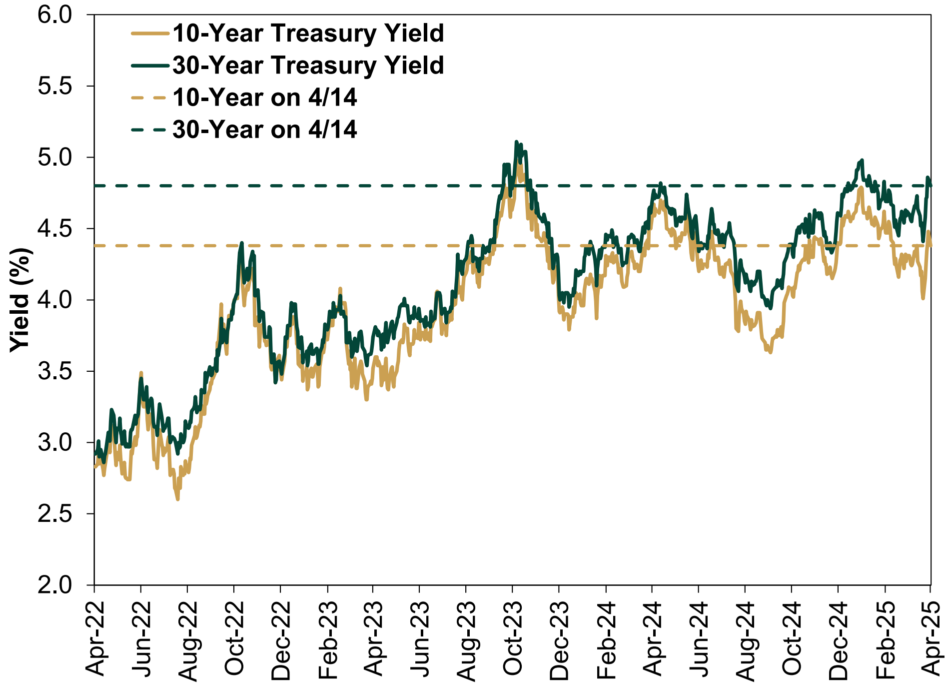
There is some truth but more fiction to this. For one, long-term bond yields aren't reliably negatively correlated with stocks. Bonds are useful in portfolios largely because they are typically less volatile than stocks in the short term, and their correlation to stocks is low but not negative. This means bonds often move differently from stocks but not necessarily inversely to them. Two, long-term bond yields hinge largely on inflation expectations. While we think inflation fears are overstated, they are up, and bond markets would logically reflect this.

But most of the issue here is simple myopia. If you look beyond a couple of weeks, the rise in 10- and 30-year yields fades into nothingness. When volatility strikes, there is an enormous risk of overthinking it and seeking meaning. Always start by putting things in perspective and scaling. Exhibit 4 does so, plotting the 10- and 30-year Treasury yields over the past three years and the current level in this longer perspective. Nothing about the current move or level looks extraordinary.

Exhibit 4: 10- and 30-Year Moves in Perspective

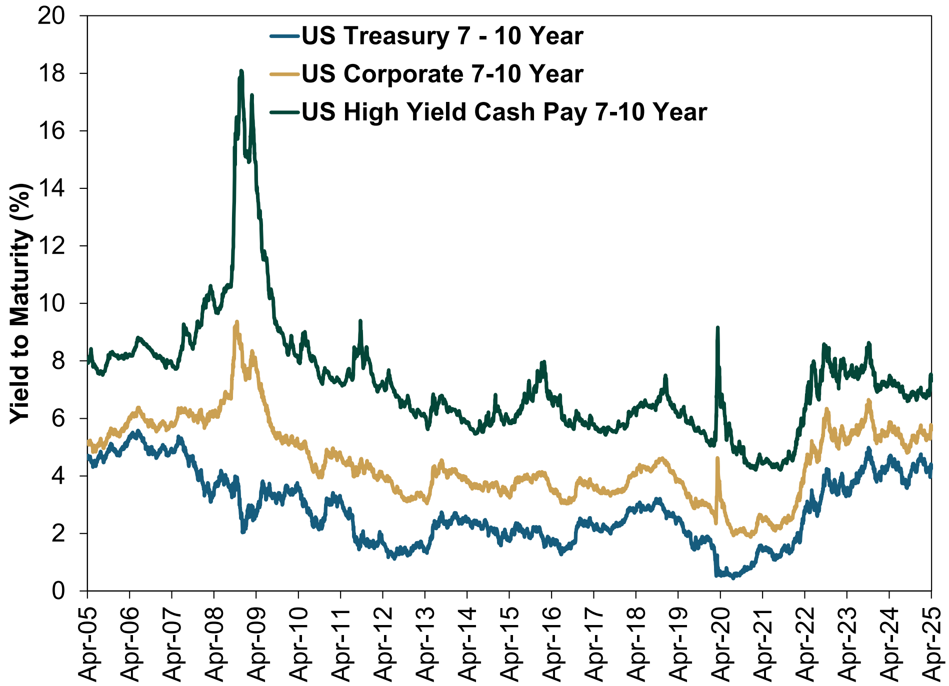


Source: FactSet, as of 4/14/2025. 10- and 30-Year Treasury yield, 4/14/2022 – 4/14/2025.

Moreover, credit spreads—the difference in corporate versus Treasury yields—aren't alarming. Many see rising spreads as indicating rising default risk, as investors demand more to lend to corporate borrowers than the US Treasury. But this is also a normal correction feature and easy to exaggerate.

As Exhibit 5 shows, high-yield and corporate spreads are up lately, but not by much. Furthermore, much of the widening stemmed from falling Treasury yields in late March. If investors were growing reticent to lend to businesses, we would expect sharply rising yields, as in 2022, 2020 or 2008. Perhaps spreads increase further ahead, but to this point, the matter is widely discussed and doesn't seem problematic to us.

Exhibit 5: Don't Exaggerate Credit Spreads' Widening



Source: FactSet, as of 4/16/2025. Yield to maturity for the ICE BofA US Treasury 7-10 Year Index, ICE BofA US Corporate 7-10 Year Index and ICE BofA US Cash Pay High-Yield 7-10 Year Index, 4/15/2005 – 4/15/2025.

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Appendix II: Those Tumultuous Tariffs

Corrections usually feature a big, negative story—a plausible cause dominating airwaves, with headlines casting virtually everything through its lens. This time, it is tariffs, particularly the market's swift reaction to Trump's April 2 announcement of a blanket 10% tariff rate and additional "reciprocal" tariffs on countries where the US has a large trade deficit.

In our view, this is bad policy, and the April 2 announcement was a negative shock—bigger tariffs than almost anyone expected. April 9's 90-day partial pause brought relief—and the S&P 500's ninth-largest daily gain in history—but extended uncertainty. Markets priced worst-case scenarios rapidly, just as they rapidly priced the negative shock of COVID lockdowns in early 2020. But these tariffs are unlikely to stand as is, which creates big upside surprise potential. Let us show you how and why.

Exhibit 6 tracks all US tariffs announced or implemented thus far.

Exhibit 6: US Tariffs Announced or Implemented Under Second Trump Administration

Category	Effective Date	Value Subject to Tariffs (Bil)	Max Tariff Payment (Bil)	% of 2024 US GDP
25% Tariff on all US Steel/Alum.	3/12/2025	$42	$9	0.03%
25% Tariffs on non-USMCA autos/auto parts**	3/26/2025	$193	$43	0.15%
10% Blanket Tariffs (Ex. CN, MX & CA, Industry Exclusions)***	4/5/2025	$1,547	$155	0.52%
Reciprocal Tariffs***	**PAUSED**	$1,223	$210	0.71%
10% Tariff on Imports from China	2/4/2025	$439	$44	0.15%
Additional 10% Tariff on Imports from China	3/4/2025	$439	$44	0.15%
Additional 125% Tariff on Imports from China	4/9/2025	$334	$418	1.41%
China Total		**$439**	**$506**	**1.70%**
25% Tariff on Imports from Mexico Outside USMCA****	3/4/2025	$253	$63	0.21%
Mexico Total		**$253**	**$63**	
25% Tariff on Imports (ex Energy) Outside USMCA****	3/4/2025	$162	$41	0.14%
10% Tariff on Energy Outside USMCA****	3/4/2025	$98	$10	0.03%
Canada Total		**$260**	**$50**	
Total (with % of US GDP)		**$2,733**	**$1,036**	**3.49%**

Source: FactSet, S&P Global, Federal Reserve, US Bureau of Economic Analysis, the White House, CNBC and Reuters, as of 4/16/2025.

Blanket and reciprocal tariffs were the major negative shock. Make no mistake: This is bad policy. Tariffs add trade costs and friction, burdening people and businesses. And there are no positive trade-offs. They won't rush manufacturing jobs back to America. The trade deficit may shift, but that has little economic meaning. Because the latest round was much larger than almost anyone expected, markets had to price these downsides lightning fast. Pausing reciprocal tariffs on all but China for 90 days let investors breathe but extends the many unknowns. Meanwhile, the spiraling China battle ramped up bilateral trade war fears, a classic correction fear morph.

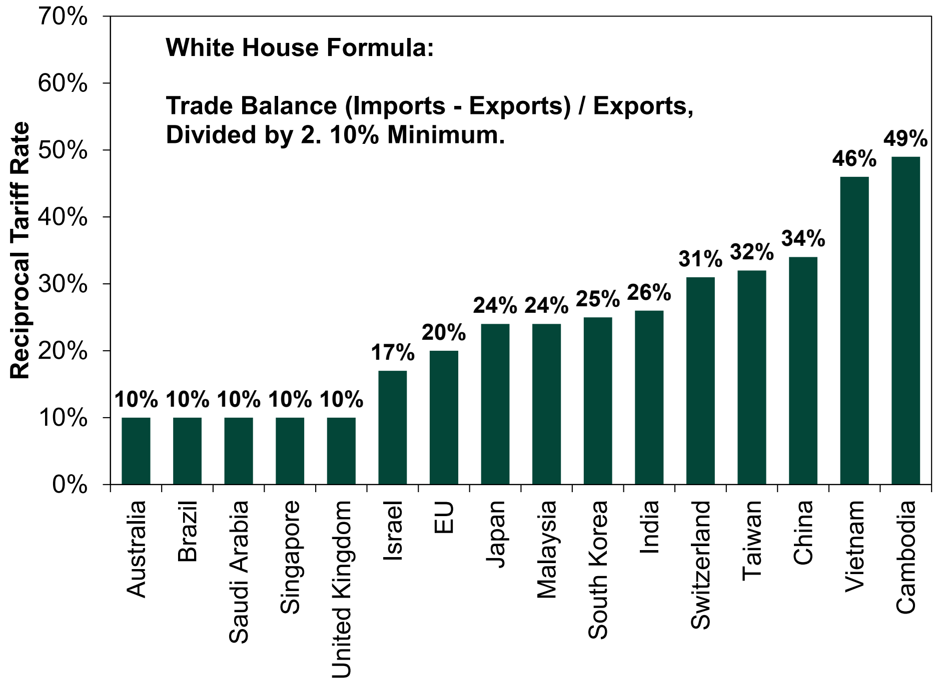
However, the estimates in Exhibit 6 are the maximum, worst-case scenario. They include the now-paused reciprocal tariffs. They presume full and complete payment of all tariffs with zero avoidance or collection issues, which is unlikely. They include the maximum China tariffs, ignoring the fact when tariffs breach 80%, 100%, 120%, the difference will show in the Exhibit's math but likely won't in real life, as such high tariffs would simply mean the goods aren't coming in.

It is cliché but true that businesses and markets hate uncertainty. When the rules change with no warning, it discourages risk taking. No one knows what the final tariff landscape will be. Shifting sand is likely as bad for markets as the actual policies. Simply having clarity would likely bring bullish relief, even if some tariffs remain. Knowing the rules would help everyone move on.

Liberation Day Folly and Fallacies

In our view, these tariffs are wrongheaded—counterproductive and wrongly conceived. Consider "reciprocal" tariffs, a misnomer. The administration pitched these as aligning US tariff rates with trade partners' tariffs plus the costs of alleged currency manipulation and non-tariff barriers. But the methodology disproves this. There was no effort to tabulate tariffs and non-tariff barriers levied against US goods. It was the country's trade balance with the US divided by total exports to the US. Trump then halved the resulting rate but applied a 10% minimum. So the administration took all the countries that have trade deficits with the US, presumed trade barriers are solely responsible, and imputed a tariff rate. But the minimum means even countries America has a trade surplus with got taxed 10%! Exhibit 7 shows the resulting rates.

Exhibit 7: Nothing "Reciprocal" About It



Source: Macrobond and The White House, as of 4/3/2025. Reciprocal tariffs on selected partners.

This wrongly presumes the trade deficit is bad, sucking jobs and dollars out of America. Yet US manufacturing jobs' share of payrolls peaked in the 1940s, falling steadily since. And, as Exhibit 8 shows, US manufacturing production rose, over time, as manufacturing jobs declined.

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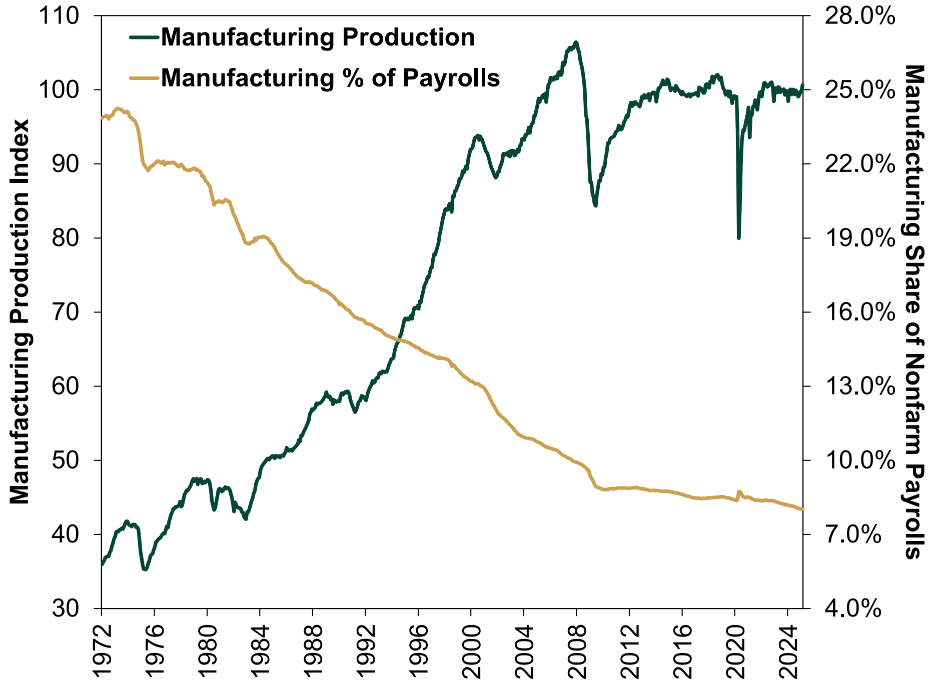
Exhibit 8: US Manufacturing Output and Employment—Doing More With Less



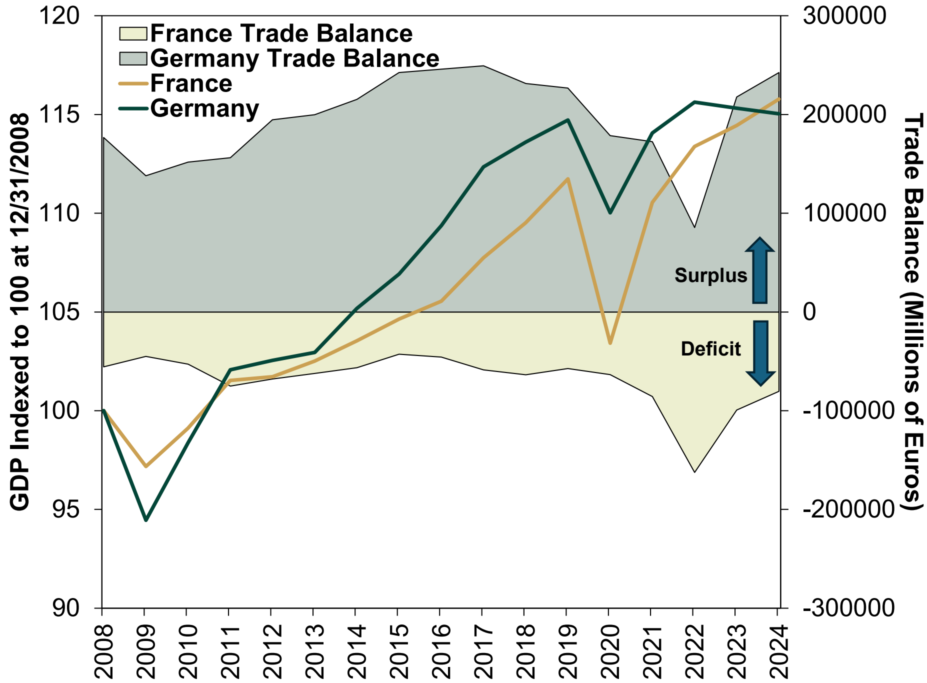
Source: Federal Reserve Bank of St. Louis, as of 4/15/2025.

You may focus on relatively flat production since 2008. But this graph excludes the energy industry, which is the key area of recent US industrial output growth and pushes total US industrial production up to a record high in February.[8] And, of course, trade policy didn't markedly change in the early 2010s or thereabouts.

Some manufacturing has moved overseas, where lower living costs and abundant skilled labor enable businesses to produce at price points Americans demand. But manufacturing is thriving—it just happens to be heavily automated. In a globalized world, each country exports what it excels at and surplus raw materials, in turn importing other nations' specialties and resources. When the US imports more than it exports, we don't bleed dollars—our trade partners invest the proceeds here. (Contrary to some misperceptions, the trade deficit also has no effect on US federal debt.) Our trade deficit is an investment surplus, contributing to long-term growth and prosperity—including job creation.

Yes, there are distortions, including subsidies and intellectual property theft. But perfection doesn't exist, and distortions don't negate trade's benefits. Consider Germany and France, neighboring European economies with matching currencies, monetary policy and trade barriers. Germany targets a trade surplus and has run one since 2008. France has simultaneously run trade deficits. Yet German and French GDP have grown similarly, with France a bit ahead. (Exhibit 9) Both stock markets rose.

Exhibit 9: France and Germany Show Trade Deficits' (Non)Importance



Source: FactSet, as of 4/11/2025.

The administration claims tariffs will help America by encouraging firms—including non-US firms—to manufacture here and avoid tariffs. This is highly unlikely. Building a factory requires navigating the complex web of permitting rules and state regulations. After years of headaches, you would finally break ground—at a high up-front investment that could take years to recoup. Maybe your factory would finally open in 2033 … when another administration could have changed tariffs entirely. Why would businesses take this risk? Especially when US-based operating costs could exceed the tariff?

Even targeted tariffs like those on steel and aluminum won't restore US production. The first Trump administration's tariffs on steel and aluminum didn't. Myriad steel industry tariffs other presidents enacted since LBJ didn't stop the industry's retreat. The expense is too great. Companies will just process the raw materials or manufacture the final good overseas, then export it to the US at the reduced rate.

What Markets Really Care About

Thankfully, markets don't move on whether a policy is objectively good or bad. Over meaningful timeframes, they move most on the gap between reality and expectations. Stocks rapidly priced dismal expectations in early April. Everything we just articulated, stocks chewed over and spat out in a four-day, -12.1% S&P 500 decline.[9] The simple realization things might not go as bad as first feared rocketed the index 9.5% higher on April 9.[10]

So, the question is: Have markets overshot pricing the fear, creating room for positive surprise to rally? We think so, though we are monitoring for potential negative surprise.

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As the Executive Summary highlighted, we narrowed potential outcomes to three scenarios. To refresh:

1. Court challenges and the administrative nightmare of collection make these tariffs go away.
2. Trade partners strike deals to avoid tariffs.
3. Tariffs stick, while trade partners retaliate with meaningful tariffs against the US.

Scenario 3 would be bad and likely cause stocks to decline meaningfully from here. However, it is the least likely of the three, in our opinion. Scenarios 1 and 2, or some combination, are already taking shape.

Scenario 1: Tariffs Prove Illegal and Unenforceable

For tariffs to bite as hard as everyone fears, they must stick *and be enforced*. This looks doubtful.

The blanket 10% tariff is likely illegal—a "major question" exceeding the limited emergency authorization used to enact it. While Congress delegated some trade authority to the executive branch, this applies only to targeted tariffs on national security or similarly narrow grounds. A blanket 10% tariff rate on all imports doesn't fit. Trump tried to justify it by declaring the trade deficit a "national emergency," invoking the International Emergency Economic Powers Act (IEEPA). However, the Supreme Court has ruled repeatedly that while the executive branch can make regulatory tweaks where congressional intent is clear, it can't unilaterally make policy. Issues with "vast economic and political significance" must go to Congress.

Trump's blanket tariffs unilaterally tax commerce—Congress's domain. Court rulings against sweeping invocation of IEEPA to regulate commerce include shooting down the Obama administration's greenhouse gas emissions standards and the Truman administration's seizure of US steel mills. Already, lawsuits have challenged Trump's use of IEEPA to enact tariffs. Expect them to reach the Supreme Court swiftly.

Congress, meanwhile, has passed symbolic, bipartisan bills denouncing the tariffs. While they probably can't override a Trump veto, this shows they won't pass a blanket tariff. Should a legal challenge prove successful, Congress is unlikely to replace it with law.

Some officials paint tariffs as a way to "pay for" broader tax cuts, but this is too easy to cast as regressive income redistribution—taxing cheap imports lower-income households rely on to pay for tax cuts for higher earners. That is a recipe for midterm slaughter. And, here again, broader tax cuts require getting a law through a narrowly divided Congress, which looks hard.

Unenforceable

As for reciprocal tariffs, these are unworkable. Customs and Border Protection's (CBP's), tariff collection arm, is understaffed with only 2,500 employees to enforce tariffs across hundreds of locations. Its technology is old and easy to game. Staffing up to inspect and collect on all inbound shipments would take years—and Trump is trying to shrink the federal workforce! Already, Trump's new tariffs fail to match projections. By early March, Trump had slapped two

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additional 10% tariff rounds on China. But customs revenue for the month fell short of estimates. There is little chance the actual tariff collections ever approach the statutory tariff rate. Consider the process, which we will summarize below—but you needn't take our word for it. The CBP's 19-page manual here covers the process—which reveals how riddled with holes it is. While this document is 21 years old, we have confirmed the processes it outlines are largely unchanged.

Importers pay tariffs at the border when goods enter the US. The importer isn't the retailer—not Amazon or Walmart or whatever store you frequent—but either the manufacturer (for large, self-shipped things like cars) or, much more commonly, a largely unknown freight forwarder (aka, customs broker). The process operates on an honor system of self-declaration, with handlers filing paperwork to declare the products, nation of origin and applicable tariff rate. This is an incredibly complex patchwork of codes and product types, which is why so many overseas firms employ freight forwarders.

Outside those self-shipped items like cars, goods mainly enter the country in huge containers with items from many different manufacturers. The manufacturer(s) declares the country of origin via paperwork. They can cheat or skirt tariffs by relabeling goods without the forwarder ever knowing.

Consider the incentives: As we stand today, the massive China tariffs pale in comparison to the zero percent levied on imports from Canada and Mexico that comply with USMCA. Or even the 10% universal levy that hits the rest of the world. The opportunities for transshipping Chinese goods are limitless. If reciprocal tariffs do come back, goods from highly tariffed nations could easily route through lower before reaching American ports.

Now, CBP does perform checks. But staffing is wholly insufficient to check everything. On average, there are about 50 containers 20 feet long per CBP officer per day at US ports.[11] There is no realistic way a check could square the contents fully against declarations. And that is just seaborne goods. Over a billion small packages arrived in the US via airports last year under the *de minimis* exemption now closed to Chinese goods. All this, too, is before the recent round of tariffs and closure of the *de minimis* window with China ramped up complexity even more.

Once products clear customs, there is no enforcement mechanism. Retailers would likely not know of nor have any requirement to report underpaid tariffs.

Business complaints could also erode tariffs. Trump now talks of watering down the auto tariffs, which idled some North American plants as parts became more difficult to import. Businesses, like trade partners, know how to cut deals. Expect armies of lobbyists and businesses to court the White House seeking favorable terms or carveouts.

Scenario 2: Prelude to a Deal

If there is one thing Trump loves more than a tariff, it is a deal! On Liberation Day, he told the world they could make tariffs go away by improving market access for US goods. He then credited dealmaking for the 90-day pause, claiming 75 nations rushed to offer concessions. Already, offers are coming in. Some are symbolic, like the counteroffer to drop tariffs on EU

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imports if the EU buys more US energy. The EU already upped its US energy imports as it switched from Russian supply in 2022, and Brussels itself has little control here. Others, like the UK's consideration of dropping or slashing its digital services tax, which targets big US Tech companies, are more meaningful. If talks go well, it wouldn't just end some of these tariffs—it would reduce trade barriers overall, a very pleasant surprise.

Scenario 3: Trade War, What Is It Good For?

While a full-blown global trade war is the least likely scenario, we are always aware we could be wrong. So we are watching closely.

So far, there is little retaliation outside China, not enough to sink global commerce beyond what markets already priced in. The EU and Canada briefly retaliated but paused when Trump did. Brazil has authorized but not enacted countermeasures, preferring negotiations.

The elephant in the room is China. Tariffs on both sides now top 100%, sparking concerns about a trade war between the world's two biggest economies upending global growth. High bilateral tariffs amount to both countries effectively sanctioning themselves for no good reason. However, the world re-learned in 2022 that sanctions don't stop commerce. The fear looks disproportionate to reality. We are already effectively at the worst-case scenario here. Tariffs could get higher on paper, but the law of diminishing returns implies even a 1,000% tariff wouldn't be functionally different from 145%. Both outright discourage commerce.

Yet markets indicate this isn't a recession-inducing nightmare. The S&P 500 continued wobbling after Trump and China jacked up tariffs but didn't retrace April 8's low. Chinese stocks hit their low on April 7, when Trump threatened major retaliation, then rose six straight days—a cumulative 8.3% rise—throughout the rapid tariff escalation.[12] If these tariffs were a massive problem, Chinese stocks should tell us. They aren't.

Like sanctions, tariffs likely re-route rather than erase trade. Trump's first-term tariffs, which President Joe Biden retained and added to, prompted firms to "nearshore" production in lower-tariffed nations like Mexico or transship through Vietnam and other neighbors. Other nations have a 90-day reciprocal tariff reprieve and may be negotiating with Trump. As noted, for now, Chinese firms can transship through such nations with just a 10% tariff, not the 145% levy Chinese shipments face. It could export components elsewhere for final assembly and shipment, as facilities in Mexico do. Or China could ship finished goods, where they are unpacked, relabeled and repacked for export to the US. Capitalism, like water, always finds a way.

Exhibit 10 rounds up major developments—not rumor, actual developments—on each scenario since April 2. If an action was rescinded, like the EU's retaliatory tariffs, we have eliminated it.

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Exhibit 10: Summary of Actions on Each Scenario

Date	Development
Scenario 1: Pushback From Courts/Congress Mitigates Tariffs	
Date	Development
April 2	Senate passes symbolic rebuke to Canada tariffs
April 3	First court challenge to tariffs filed in Florida (spec. China tariffs)
April 14	Second court challenge filed against all tariffs
April 16	California sues over tariffs
Scenario 2: Countries Negotiate / Moves Toward Freer Trade	
Date	Development
April 4	UK to meet with allies, offers digital service tax relief to US Tech
April 8	S. Korea talks with Trump
April 8	Indonesia says high-level delegation to travel to Washington on 4/17
April 9	Taiwan floats zero tariffs on US goods
April 11	Vietnam to crackdown on trade fraud
April 11	Trump team reportedly in talks with 70 nations on deals
April 14	EU chief trade negotiator arrives in DC; Talks begin
April 14	UK unilaterally cuts tariffs to zero on 89 product lines for two years
April 15	Canada pauses tariffs for six months, scraps auto tariff
April 16	Japanese negotiators to meet with Trump
Scenario 3: Countries Retaliate	
Date	Development
April 4 - 16	China retaliates, raising tariffs on US to 125%; US broad China tariff at 145%
April 13	China suspends rare earth minerals exports to US
April 15	China bars purchase of Boeing aircraft
April 16	More US high-tech chip export restrictions (extends yearslong trend)

Source: Fisher Investments Research, as of 4/16/2025.

Other Avenues of Market Relief

Beyond Scenarios 1 and 2, we see other opportunities for markets to rally as this proves less bad than feared, with tariffs' actual economic effects much less than anticipated.

As Exhibit 6 showed, the maximum potential tariff payment is just over $1 trillion. This is big, but it is just 3.5% of US GDP. This money doesn't just enter a black hole. Like all tax revenue, it recirculates via government spending or, maybe, tax cuts. We don't think this is an optimal direction of resources. Economies generally do best when more money is with households and businesses to spend and invest as they see fit, without government picking winners and losers.

But even a drunken sailor's spending contributes to the economy. He pays the tavern, which gets money to hire a new bar matron. With her new wages, she rents a better apartment and buys new furniture. Her new landlord invests in property improvements, while the carpenter now makes enough to take on a new apprentice. Round and round the money recirculates, making everyone it touches a little better off. The initial spend may look questionable, but the money flowed to many productive ends. So it is with tax revenue. Quibble all you want with governments picking winners and losers, but the money doesn't vanish or subtract from GDP.

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Then, too, these numbers reflect the maximum potential payment—tariff rates on each country applied to all imports from that country, presuming full collection. Customs understaffing is one reason this won't happen. Avoidance is another.

Companies are adept at skirting tariffs. Again, when Trump slapped tariffs on China in his first term, US imports from China initially fell … but imports from Vietnam rose. Chinese businesses transshipped goods through Vietnam, relabeling and shipping them to America at much lower tariff rates. Inflation didn't soar. Total trade didn't cease. We didn't have a recession. And actual tariffs collected were about 25% of the maximum estimated payment.

Blanket and reciprocal tariffs complicate but don't negate this. If reciprocal rates stick, the EU would face a 20% US tariff. But Brexited Britain faces only 10%. Might the UK become Europe's trade stopover? Vietnam may eventually face a 46% tariff, but free-trade bastion and shipping hub Singapore is in the 10% club. Might Chinese shipments layover there instead?

So while we expect the flowthrough rate to be higher this time around, simply because the net is tighter, it almost surely won't be 100%. Companies are too good at finding workarounds. They have done it for decades. Perhaps you remember the Subaru BRAT, a funky compact pickup sold here from 1978 – 1984. To skirt the infamous "chicken tax" on imported light-duty trucks, Subaru installed two rear-facing passenger seats in the flatbed, magically morphing it to a passenger vehicle at a mere 2.5% tariff.

More recently, Delta avoided tariffs on new airplanes from Europe's Airbus by using them abroad before repurposing them for domestic flights. Outdoor apparel brand Columbia added a thin fabric layer to shoes to qualify them as "fabric soled" at a 12.5% tariff instead of "rubber soled" at 37.5%. Nike added a felt layer to turn athletic shoes into slippers—and magic the tariff from 48% to 6%. Echoing Subaru, Ford imported cargo vans with full seating as passenger vehicles, then removed the rear seats, seatbelts and windows to restore the cargo bed. Now, universal tariffs and those targeting all products from a specific country mean such product-line moves won't work. But with more exemptions emerging by the day, holes are appearing.

Even accounting trickery can play a role. Tariff splitting—the process of dividing a good's import value into smaller components, some of which may not be subject to tariffs (*e.g.,* services or intellectual property)—is already gaining prominence.

If companies can tweak products to find a more optimal tariff category, they can do the same with trade routes. They have motive, means and opportunity—likely rendering a far smaller earnings hit than feared.

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Appendix III: Growth in a Tariffying World

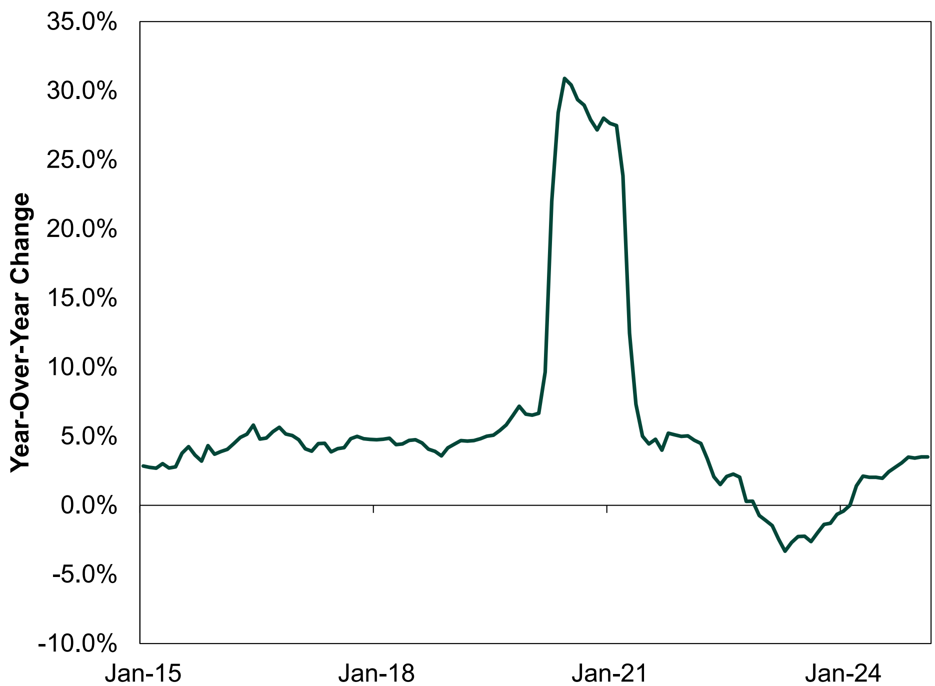
Stagflation and recession talk swirled in Q1 as economists weighed tariff fallout, hitting fever pitch amid early April's sharp market swings. Slashed forecasts reflect and amplify negative sentiment. But the global economy entered the tariff fracas in better shape than most realize, and it won't take much for reality to top expectations from here.

Will Tariffs Resurrect Hot Inflation?

Given investors always fight the last bear market's war, inflation was naturally the first tariff-related fear. Although tariffs are bad economic policy, they aren't inflationary. They channel demand more than constrict supply. While they could boost prices for essentials that can't be swapped, substitution is much more common. That keeps broad prices largely in check.

Inflation is always and everywhere a monetary phenomenon—too much money chasing too few goods and services, driving prices higher economywide. For inflation to gallop like 2021 and 2022, money supply must soar alongside tariffs, just as the Fed spiked money supply in reaction to 2020's COVID chaos. Today, money supply grows at prepandemic rates. (Exhibit 11) Absent a surge, you don't get the consumer firepower needed for broad tariff-related price hikes. Some companies, including Walmart, already signaled they won't pass tariffs to customers. Honda is moving economy Civic production to Indiana to keep prices low. Firms may sacrifice a few percentage points in profit margin for market share—or use their heft to negotiate lower supplier costs, aiming to win on both sides.

Exhibit 11: M4 Money Supply



Source: Center for Financial Stability, as of 4/7/2025. US M4, year-over-year change, January 2015 – February 2025.

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Consider: Tariffs affect imported goods only. Goods imports represent just 13% of GDP and 19% of consumer spending.[13] Meanwhile, 66% of consumer spending and nearly 70% of the PCE price index is services, largely untouched by tariffs.[14] Goods account for just 31%, not all of which is touched by tariffs.[15] Inflation doesn't refer to specific prices going up—it is an economywide rise. In a services-rich country like the US, tariffs generally won't accomplish that.

A Growth Check-In Around the World

Slower 2025 GDP growth is now the baseline projection thanks to tariff talk. Recession forecasts are also on the rise. But the global economy entered Q2 in a better place than headlines indicate.

US

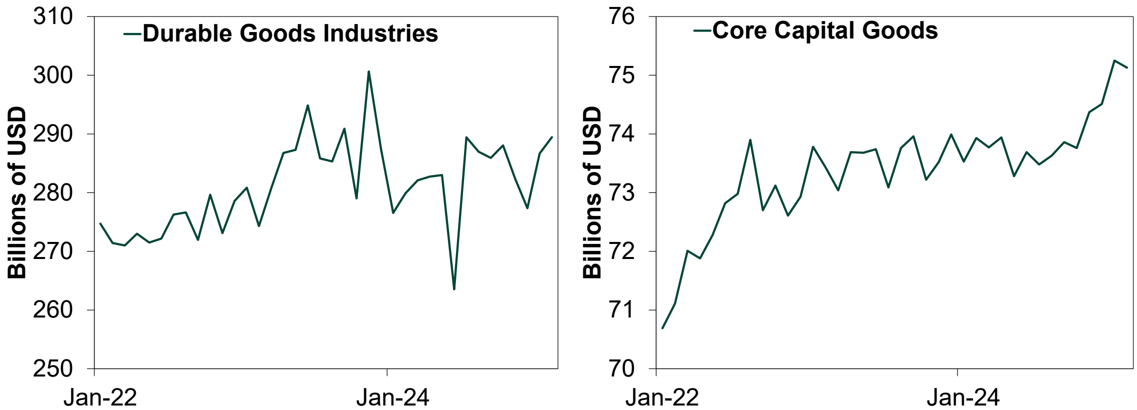
Q1 US GDP, released April 30, clearly showed the influence of tariff fears. Headline growth ticked down -0.3% annualized—widely expected as analysts and economists poured over real time indicators like the Atlanta Fed's GDPNow model.[16] Under the hood, growth wasn't as weak as the small headline contraction suggests. Personal consumption expenditures grew 1.8% annualized, non-residential fixed investment (a proxy for business investment) rose 7.8% and residential real estate investment grew 1.3%, with these three gauges summing to add 2.6 percentage points (ppt) to headline growth.[17] The contraction is largely a function of GDP's mathematics that detach it from the real economy. In an effort to limit the calculation to single-country production, GDP subtracts imports from exports—aiming to offset consumers' and businesses' spending on imported goods and services. An import surge in Q1 as businesses front ran tariffs meant this calculation detracted -4.8 ppt from headline growth in Q1. The import surge—and a corresponding jump in inventories—suggests businesses are trying to mitigate tariffs' potential bite.

But beware drawing large conclusions from these data. For one, not every drop is a recession. GDP fell -1.0% annualized in Q1 2022, then expanded 11 straight quarters.[18] One-off drops also struck in Q1 2011, Q3 2011 and Q1 2014. Moreover, the Bureau of Economic Analysis has long copped to seasonal adjustment methodology difficulties marring Q1 data—more reason not to leap to conclusions.

Much of the attention today surrounds the rather tepid, 1.8% annualized consumer spending growth—which many tie to tariff fears and weak sentiment. We suggest looking elsewhere. While consumer spending is the bulk of GDP, it isn't usually a swing factor. Most spending goes to essential goods and services (*e.g.,* medicine and utilities) people buy regardless of economic swings. Weak spending is usually a symptom of broader economic troubles, not a cause.

Business investment is more of a swing factor, and durable and core capital goods orders hint at Q1 health. While there is some skew from companies frontrunning tariffs, these measures have trended positively, boding well for near-term future production. (Exhibit 12) Now, this is a factor we will be watching in the coming months, as there is talk of companies pausing plans amid tariff uncertainty. But we suspect markets have pre-priced this already.

Exhibit 12: Improving New Orders



Source: FactSet, as of 4/7/2025. Durable goods industries and total nondefense (excluding aircraft & parts) new orders, January 2022 – February 2025.

Manufacturing's green shoots are also evident in the sector's four-month positive streak through February.[19] And while tariffs affect manufacturing, the bulk of US GDP is, again, services. Demand looks solid, considering services spending grew 36 months until February's -0.1% m/m dip.[20] Services purchasing managers' indexes (PMIs) have also expanded since February 2023, suggesting the lion's share of US GDP is growing.[21]

UK

Moods have been gloomier for longer across the pond. In the UK, many presume Chancellor Rachel Reeves's payroll tax hikes and supposed austerity will hinder an already flagging economy. The Office for Budget Responsibility's (OBR's) downwardly revised 2025 GDP forecast further fueled concerns.

But the UK has a long history of GDP growing amid payroll tax hikes. Businesses generally adapt and move on. Meanwhile, economic data also aren't too shabby. Monthly GDP has been choppy, and January's initially reported -0.1% m/m dip stole headlines. But output jumped 0.5% m/m in February and January's decline was revised to flat, lifting the three-month rate to 0.6%.[22] While tariff frontrunning likely played a role here, too, services reaccelerated to 0.3% m/m, with consumer-facing services plenty strong.[23] Outside retail, this is highly unlikely to have any tie to tariffs. Retail sales rose 1.0% m/m in February, besting expectations for a -0.4% contraction and defying dreary consumer sentiment surveys.[24] The UK services PMI has a double-digit growth streak (17 months through March), indicating the vast majority of GDP is chugging along.[25] Growth isn't gangbusters, but it isn't in the doldrums.

Furthermore, the British government announced it would suspend tariffs on 89 products ranging from food items to construction products in a move designed to help businesses cope with US tariffs. While the move isn't huge, it is an interesting response worth noting.

Eurozone

On the Continent, sentiment remains bogged down in Germany. Many deem big fiscal stimulus necessary to juice economic growth, warning incoming Chancellor Friedrich Merz's spending

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package is only a fraction of what is needed. But this vastly overrates public investment's effects. Government spending funnels capital to select industries and companies—picking winners and losers. It eventually gets to productive uses, as Appendix II showed, but it can take time as permitting and selecting projects is painstaking. Calling public spending "stimulus" ignores the counterfactual, that money might be better spent and aid faster growth if it was in private hands to direct.

Germany also doesn't *need* stimulus. Real GDP has slipped the past two years—not great.[26] But like the UK, German quarterly GDP flipped between growth and contraction as weak heavy industry and resilient consumer spending played tug of war. With global manufacturing appearing to emerge from a recent soft patch, Germany's export-driven businesses likely benefit. February exports rose 1.8% m/m, and while tariff frontrunning contributed (exports to the US rose 8.5% m/m), demand was up within the EU (0.5%) and China (0.6%), too.[27] This matters, as America's tariffs don't affect trade among the rest of the world—which could actually pick up as companies seek new outlets.

While most focus on Germany, the rest of the eurozone is faring better than portrayed—especially Southern Europe. Eurozone GDP grew 0.4% in Q1 2025, extending the steady streak since Q3 2023's tiny contraction. Q1's preliminary release lacks much country detail, but heading into it, Spain, Portugal, Italy and even much-maligned Greece powered growth.[28] And as Q1 business surveys show, while eurozone manufacturing remained soft (albeit, showing improvement), services—which makes up the bulk of eurozone GDP—mostly grew. (Exhibit 13)

Exhibit 13: Q1 Eurozone PMIs

Services					
	Eurozone	Germany	France	Italy	Spain
January	51.3	52.5	48.2	50.4	54.9
February	50.6	51.1	45.3	53.0	56.2
March	51.0	50.9	47.9	52.0	54.7

Manufacturing					
	Eurozone	Germany	France	Italy	Spain
January	46.6	45.0	45.0	46.3	50.9
February	47.6	46.5	45.8	47.4	49.7
March	48.6	48.3	48.5	46.6	49.5

Source: FactSet, as of 4/8/2025.

Japan

Since a late-2023 – early 2024 slump, Japanese GDP has grown, thanks in part to household spending—a sign domestic demand is coping.[29] Other indicators are more mixed: Private non-residential investment wobbled throughout 2024 while manufacturing resumed growing in February after three consecutive monthly dips.[30] Machine tool orders also picked up in January, with domestic and international demand contributing. Considering many worry tariffs will roil Japan, Inc.—especially its mighty auto industry—tepid growth or even mild weakness may be enough to positively surprise.

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An Unseen Positive: The Steepening Global Yield Curve

While the above looks mostly backward, showing the backdrop as tariffs tightened, there is an unseen forward-looking positive: the global yield curve's *steepening*.

In 2022, pundits worried an inverted yield curve meant looming recession—understandable since inversion typically precedes tight credit. Banks' core business is borrowing at short rates, lending at long rates and profiting off the spread. When the curve inverts and short rates exceed long, lending tends to fall as profits evaporate, starving the economy of fuel. But inversion then wasn't automatically problematic since banks could lend profitably thanks to a pandemic-driven deposit glut. Their cost of funding was well below the fed-funds target range and 3-month T-bill yield, the traditional short-term rate benchmarks.

This is a big reason recession didn't occur in 2022, a false signal in the yield curve's history as a leading recession indicator. Some experts scratched their heads. Few accepted or explored why they were wrong. Most just moved on.

Today, nobody talks about the yield curve's *improvement*. As Exhibit 14 shows, the global yield curve (excluding Emerging Markets) is now slightly positive, led by steepening outside the US—another factor supporting developed Europe and Asia.

Exhibit 14: Developed Nation 10-Year Minus 3-Month Spreads (in Basis Points)

Region	Current Spread	Spread 3M Ago	Spread 6M Ago	Spread 1Y Ago
Global ex. EM	52	46	-28	-59
US	14	41	-65	-81
Europe ex. UK	85	43	-22	-75
UK	50	9	-45	-93
Japan	99	94	93	86

Source: FactSet, as of 4/14/2025. A basis point is one hundredth of a percentage point.

This should also help value stocks. Ken explained why in *The Only Three Questions That Count*:

> Value companies raise capital, by and large, through the use of debt. They leverage themselves to acquire other companies, build a plant, expand their product line, increase their marketing reach or what-have-you. When the yield curve is steep and banks have an additional incentive to lend, they're more prone to lend to value companies, and value companies and their stockholders typically benefit.

Given the inverted yield curve didn't have a big effect on lending, re-steepening isn't a massive tailwind. But a modest tailwind that gets no love can be quite bullish.

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Appendix IV: Correct Correction Behavior

As Appendix I noted, corrections are a regular, if difficult, feature of markets. These short, sharp, sentiment-driven drops are common, occurring even in some of history's best bull market years. Because they come suddenly, with steep slides and scary stories, they trigger humans' innate fight-or-flight reaction, or lead many to think avoiding stocks and waiting for "calm" is wise. But when it comes to markets, letting emotional responses rule your actions is likely to prove counterproductive. Reacting to recent volatility is a huge risk to your long-term financial health and wealth if you need equity-like longer-term growth.

Any investor with stock market exposure is highly likely to endure multiple corrections throughout their lives. Even experienced investors' fortitude can crumble when the going gets tough and fearful headlines abound. The best defense: Having proper expectations. Understanding corrections' ins and outs can help you avoid rash decisions that may hinder your long-term financial well-being.

Bull Market Correction or Bear Market?

A risk of decline is inherent in any equity investment. There is no product, no service, no expert and no professional who can credibly claim otherwise. A lack of downside risk, or "capital preservation," *requires* limiting or capping upside. There is no alternative or product brokers can peddle that doesn't fit this reality. We aren't typing this as a disclosure. It is, simply, a fact—and one the investing industry, to its great detriment, doesn't say plainly enough.

As we often say, not all market negativity is the same. Corrections and similarly sentiment-driven slides are part and parcel of markets. Trying to avoid or mitigate them is folly. No one has a proven history of doing so repeatedly. Why? It requires timing investors' short-term emotional swings, which are fickle and shift without warning.

Bear markets are different. While we haven't avoided all of them—and don't believe that is possible—we think it is possible to identify them early enough to mitigate some of the decline, allowing you to re-enter markets lower, later. How?

Bear markets are typically lengthy, *fundamentally driven* declines exceeding -20%. They often precede recession and start without a huge sentiment swing. We employ a set of rules to help delineate corrections or short-term swings from bear markets—a framework designed to mitigate the risk of being fooled out of stocks errantly amid a broader bull market. The two most pertinent early on? The 2% and Three-Month Rules.

- **2% Rule:** Bear markets usually begin with prolonged rolling tops. They decline gradually, averaging about -2% a month—usually with very little overall movement early. Sharp dives aren't customary in bear markets until the end. 1987's and 2020's brief but steep bear markets are the exception.

- **Three-Month Rule:** Never get defensive within three months of a market high. Because bear markets tend to start slowly, there is no need to react suddenly. Instead, use the time to seek a fundamental cause few others see. This is also a window to see if a rolling top is forming.

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Ultimately, if we don't have a sound, fundamental reason others don't see, we think it is the height of folly to act. In our view, the longer-term asset allocation (the mix of stocks, bonds, cash and other securities) you employ should focus on your goals and needs, with return and risk characteristics that *raise the likelihood you successfully finance them.*

Deviating from such an allocation can make it less likely you reach your goals. Reducing stock exposure and entering a much lower-returning asset class probably *won't* finance the same long-term goals and needs. This is, in our view, the biggest risk any investor faces. And it is why we have rules aiming to prevent us getting head faked by corrections.

Anatomy of a Correction

Volatility can be gut wrenching and bigger corrections more so—even though they pale in comparison to most bear markets. To defang them further, investors should know their typical look and behavior. As Appendix I explained, corrections are short, sharp, sentiment-driven -10% to -20% pullbacks that begin—and end—without warning.

And as Appendix I also noted, -20% isn't a magic level. Functionally, there isn't much difference between -19% and -23%. Often, it may boil down to a day or two's swings. Media may label one a correction and the other a bear market, but this is largely semantics.

Crucially, corrections occur routinely, if unpredictably, within bull markets. They are normal ... even healthy. Fast-moving corrections, usually driven by a widely touted fear, reset sentiment lower swiftly, often helping *prolong* a broader upturn. Why? Consider Sir John Templeton's famous adage: "Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria." Corrections are a "bang"—a fast move with a widely touted scare as the "cause." As such, they breed dour attitudes lowering expectations—making positive surprise easier to achieve. Thus, they can keep euphoria at bay.

Take the bull market from March 2009 to February 2020. Exhibit 15 shows its corrections in yellow. Early on, there was a cluster coming out of 2007 – 2009's deep bear market. From early 2010 to early summer 2012, we saw one mini-correction and four full-fledged ones. Three more followed later. All these proved false fears. But they kept sentiment bleak, helping queue up great returns in this span and beyond.

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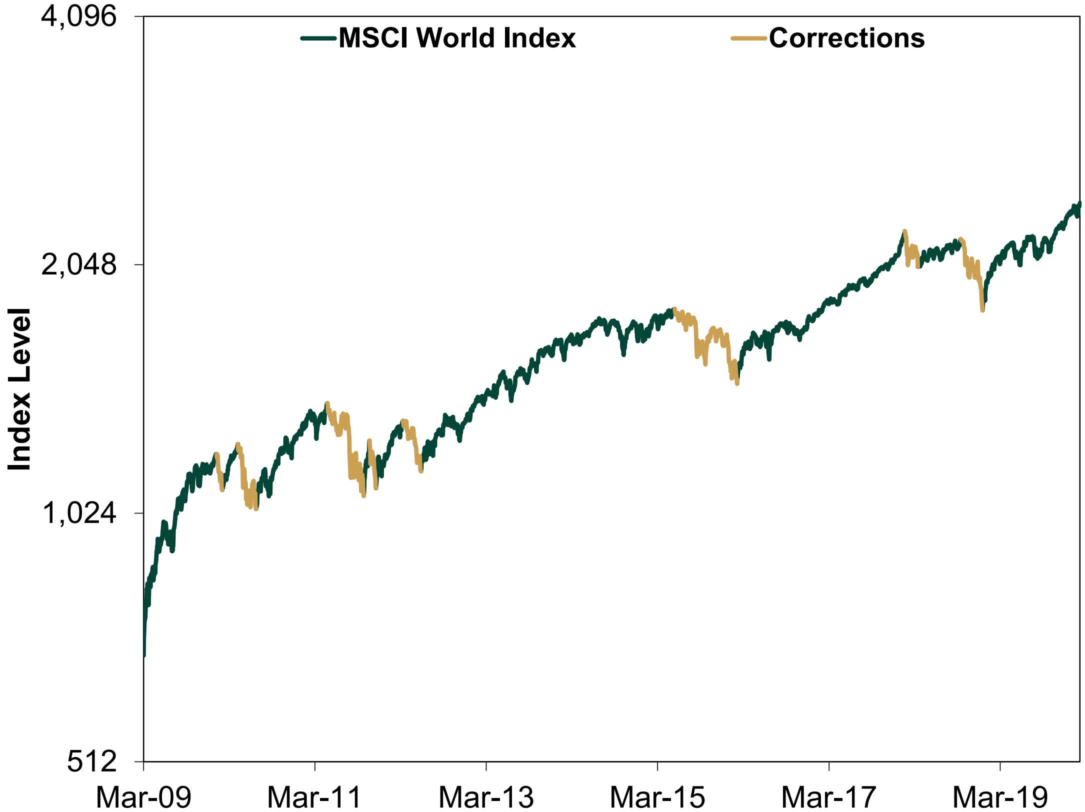
Exhibit 15: Corrections During the 2009 – 2020 Bull Market



Source: FactSet, as of 4/14/2025. MSCI World Price Return Level, 3/9/2009 – 2/12/2020. Y-axis in logarithmic scale, which plots the same-sized percentage moves in equal increments graphically.

All these corrections featured big scare stories. The first was Greece's debt bailout and the dawn of the eurozone's sovereign debt crisis. 2011's retreaded the eurozone debt crisis alongside the US debt ceiling fight and Standard & Poor's subsequent US credit-rating downgrade. 2015's was largely about fears over a Chinese "hard landing" and alleged devaluation. And so on. All these "causes" and volatility spurred everything from recession fear to worries over the dollar's reserve currency status and much more. But none killed the bull market, which ran on to become history's longest.

Corrections by the Numbers

That is just one cycle. Exhibit 16 shows bull markets over the last 100 years. Corrections feature in all of them save the shortest (2020 – 2022's). There isn't a pattern. No rhythm or clue from the length between or anything to that effect. But long bull markets tend to have more corrections and lesser pullbacks. This may be because corrections reset sentiment and prolong the rise.

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Exhibit 16: Corrections Are Normal

Trough	Peak	Duration (Months)	Annualized Return	Cumulative Return	# of Corrections (-10% to -20%)
6/1/1932	3/10/1937	57	35%	324%	5
4/28/1942	5/29/1946	49	26%	158%	2
6/13/1949	8/2/1956	86	20%	267%	3
10/22/1957	12/12/1961	50	16%	86%	1
6/26/1962	2/9/1966	43	18%	80%	1
10/7/1966	11/29/1968	26	20%	48%	1
5/26/1970	1/11/1973	32	23%	74%	1
10/3/1974	11/28/1980	74	14%	126%	6
8/12/1982	8/25/1987	60	27%	229%	1
12/4/1987	7/16/1990	31	21%	65%	1
10/11/1990	3/24/2000	113	19%	417%	3
10/9/2002	10/9/2007	60	15%	101%	1
3/9/2009	2/19/2020	131	16%	401%	5
3/23/2020	1/3/2022	21	54%	114%	0
10/13/2022	???	30*	17%*	47%*	2*
Average Bull Market		**60**	**23%**	**178%**	**2**

Source: Finaeon, Inc., as of 4/4/2025. S&P 500 price level returns, 12/31/1929 – 4/3/2025. *Current bull market not included in average calculations.

The point to investing in stocks is to capture the compound growth they deliver over time. To do that, you must be invested during bull markets, which are far more common than bear markets. Seen this way, reacting to volatility is riskier than simply enduring it.

Exiting stocks or avoiding them raises another major problem: What if you miss the rebound? Correctly timing reentry isn't assured and recouping forgone gains is difficult.

Consider this hypothetical scenario using actual index returns from the current bull market's first correction in 2023. Exhibit 17 shows two hypothetical investors—one (Investor A) who stayed in throughout that stretch, the other (Investor B) who sold at the low and waited just 15 trading days to re-enter. Missing the often huge gains off corrections' troughs can set you back considerably—more than the correction itself. For a million-dollar portfolio, sitting out 15 trading days after its end would have been costly, missing about $100,000 in less than a year. And, that gap is likely to grow over time as compounding does its work.

Beyond this, there is a psychological risk or challenge those who try timing face. When do you get in? Sitting on the sidelines is no solace when the market is running away from you. Do you wait for another pullback that might never come? Or, consider a scenario where you got out and markets fell further. Are you likely to be more or less fearful when headlines are even more alarming and volatility remains high? There won't be an all-clear signal, and if you need growth and don't get in at a lower level, avoiding stocks was an error.

Thankfully, you don't have to attempt timing markets. If you need equity-like longer-term growth, stocks are the default position—not cash. Said differently, since stocks are up far more often than not, without a good reason to be bearish, be bullish. Always remember: The biggest risk an investor who needs growth faces isn't a decline—it is missing gains that compound throughout time and help finance your goals and needs.

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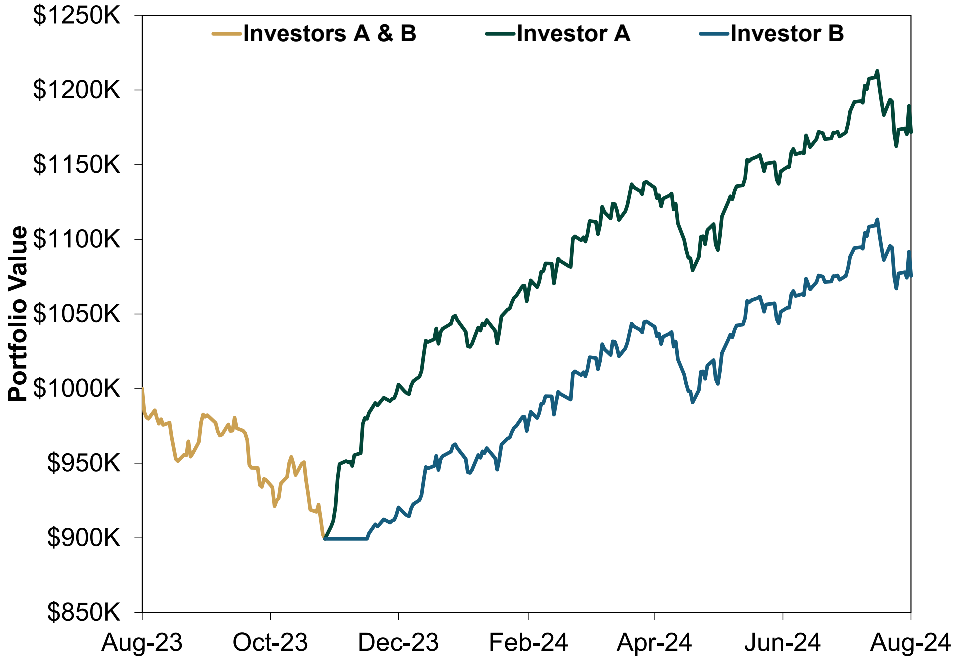
Exhibit 17: Don't Just Do Something, Stand There, a Hypothetical Illustration



Source: FactSet, as of 4/10/2025. Hypothetical portfolio values based on starting value of $1 million invested in the MSCI World Index with net dividends, 8/1/2023 – 8/1/2024. Investor B liquidates the portfolio on 10/27/2023 and reenters the market on 11/16/2023. Investor A maintains full market exposure.

We hope you have found this information helpful. Please contact Fisher Investments at 800-568-5082 for more information on our outlook and services, or to arrange an appointment with one of our representatives for a complimentary review of your portfolio. To follow our ongoing commentary on market and economic events, please visit our *MarketMinder* blog on Fisher Investments' corporate website: https://www.fisherinvestments.com/en-us/marketminder. Alternatively, you can sign up here for *MarketMinder's* weekly newsletter.

The Investment Policy Committee
Aaron Anderson, Ken Fisher, Bill Glaser, Michael Hanson and Jeff Silk

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[1] Source: FactSet, as of 4/1/2025. MSCI World Index return with net dividends, 12/31/2024 – 3/31/2025.
[2] Source: FactSet, as of 4/14/2025. S&P 500 index price return on 4/9/2025.
[3] Source: FactSet, as of 4/14/2025. S&P 500 total return, 2/19/2025 – 4/8/2025.
[4] Ibid. 2/19/2025 – 4/11/2025.
[5] Ibid. MSCI World index return with net dividends, 2/18/2025 – 4/8/2025 and 2/18/2025 – 4/11/2025.
[6] Source: FactSet, as of 4/14/2025. S&P 500 total return, 2/19/2020 – 3/23/2020.
[7] "Goldman Sachs Raises Odds of US Recession to 45%, Second Hike in a Week," Staff, *Reuters*, 4/6/2025.
[8] Source: Federal Reserve Bank of St. Louis, as of 4/15/2025.
[9] Source: FactSet, as of 4/14/2025. S&P 500 total return, 4/2/2025 – 4/8/2025.
[10] Ibid. S&P 500 index price return on 4/9/2025.
[11] "The World's Biggest Black Market," Thomas Gatley, *GaveKal*, 4/11/2025.
[12] Source: FactSet, as of 4/17/2025. MSCI China return with net dividends, 4/7/2025 – 4/15/2025.
[13] Source: Bureau of Economic Analysis, as of 4/16/2025. Statement based on goods imports' share of US GDP.
[14] Ibid.
[15] Ibid. Statement based on goods as a percentage of Q4 2024 Personal Consumption Expenditures by Product.
[16] Source: Federal Reserve Bank of Atlanta, as of 4/3/2025.
[17] Ibid.
[18] Source: FactSet, as of 4/7/2025.
[19] Source: FactSet, as of 4/7/2025. Monthly change in manufacturing production, November 2024 – February 2025.
[20] Ibid. Statement based on PCE – Services, monthly change, January 2022 – February 2025.
[21] Ibid. Statement based on S&P Global US Services PMI, February 2023 – March 2025.
[22] Source: FactSet, as of 4/11/2025.
[23] Ibid.
[24] Source: FactSet, as of 4/7/2025.
[25] Ibid.
[26] Source: FactSet, as of 4/7/2025.
[27] Source: Destatis, as of 4/8/2025.
[28] Source: FactSet, as of 4/7/2025.
[29] Ibid.
[30] Ibid.

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