

'Idea of the Week – A Boring Is Beautiful Week

This week brought relative calm across markets. Stocks remained in a relatively narrow trading range as investors digested recent commentary from companies regarding future guidance and continue to look for tangible progress with our largest trading partners. The Fed meeting on Wednesday didn't provide any fireworks in our view, and the central bank held short term rates steady as expected.

S&P 500: 5/2/25-5/9/25



Source: Yahoo Finance

After the elevated volatility since February, including a 21% peak-to-trough decline between February 19 and April 7, followed by a sharp recovery, the consolidation which occurred this week was a welcome relief. The reassuring guidance provided by many of the largest, most profitable companies has helped soothe investor concerns despite persistent fears regarding the economic implications from a higher tariff regime. Despite downbeat consumer and business sentiment readings, the macroeconomic data regarding employment and spending behavior continues to hold up.

While developments on the trade front will continue to dominate headlines, the recent market behavior suggests that investors are becoming more comfortable with the go-forward earnings prospects for many American companies. Should we see more positive developments on the trade front, including specific deal frameworks with individual countries, this should help support markets over the near term. In the meantime, investors are closely watching economic indicators for signs of a slowdown. Stagflation (higher inflation and slower economic growth) remains a concern as higher tariff duties trickle through the economy, raising costs for companies and disrupting supply chains.

It is our view that investors should remain selective in the current environment, favoring companies with scale, strong free cash flow generation, and low leverage. The market's recent sell-off provided the opportunity to purchase these businesses at meaningfully lower valuation levels. Companies that are able to weather this period of macro uncertainty while still delivering strong earnings growth make attractive targets for investors looking to put cash back to work.

As Yogi Berra once said, "It's tough to make predictions, especially about the future." It's impossible to know for sure whether we are entering a recession or a growth slowdown. However, we have received some valuable clues recently, including earnings commentary from many of the largest American companies, indications of trade deals potentially announced shortly, and fresh economic data. The worst fears, at least so far, have not materialized and markets have responded favorably. As we get additional data regarding the health of the economy, that will be key regarding the direction of the market from here. Bonus points to the upside should some favorable key trading deals get announced over the near term.

Andrew P. Kerai, CFA®

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