



APRIL 2025

Capital Markets Commentary

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Tariffs Trigger a Market Selloff

The U.S. announced an extensive list of sweeping new tariffs on April 2, calling it “Liberation Day.” The presidential administration declared this as a national emergency to increase our competitive edge. Investors knew tariffs were coming, but the breadth of countries impacted, and magnitude of tariffs caught investors off guard.

A 10% tariff was imposed broadly, with significantly higher effective rates targeting key trading partners. Analysts estimate that this policy shift will push the U.S. effective tariff rate to 25%, reaching a level not seen since the pre-WWII era. The stock market responded with one of its most severe short-term selloffs over a two-day period in history. From April 2–4, the S&P 500 fell over 10%, joining only three instances of a magnitude this great in just two days since 1952. These occurrences included Black Monday in 1987, the 2008 financial crisis, and the COVID-19 pandemic economic shutdown in 2020.

	1 MONTH	YTD	1 YEAR
Market Indexes	4/1/2025–4/30/2025	1/1/2025–4/30/2025	5/1/2024–4/30/2025
S&P 500 TR USD	-0.68	-4.92	12.10
S&P MidCap 400 TR	-2.25	-8.21	1.19
Russell 2000 TR USD	-2.31	-11.57	0.87
MSCI EM NR USD	1.31	4.28	9.02
MSCI EAFE NR USD	4.58	11.76	12.57
Bloomberg US Agg Bond TR USD	0.39	3.18	8.02

SOURCE: BLOOMBERG

After seeing the market’s extraordinarily negative response, on April 9, the President announced a 90-day pause on most tariffs except for China. This announcement caused the S&P to surge 9.5%, making it the market’s largest single day gain since 2008.

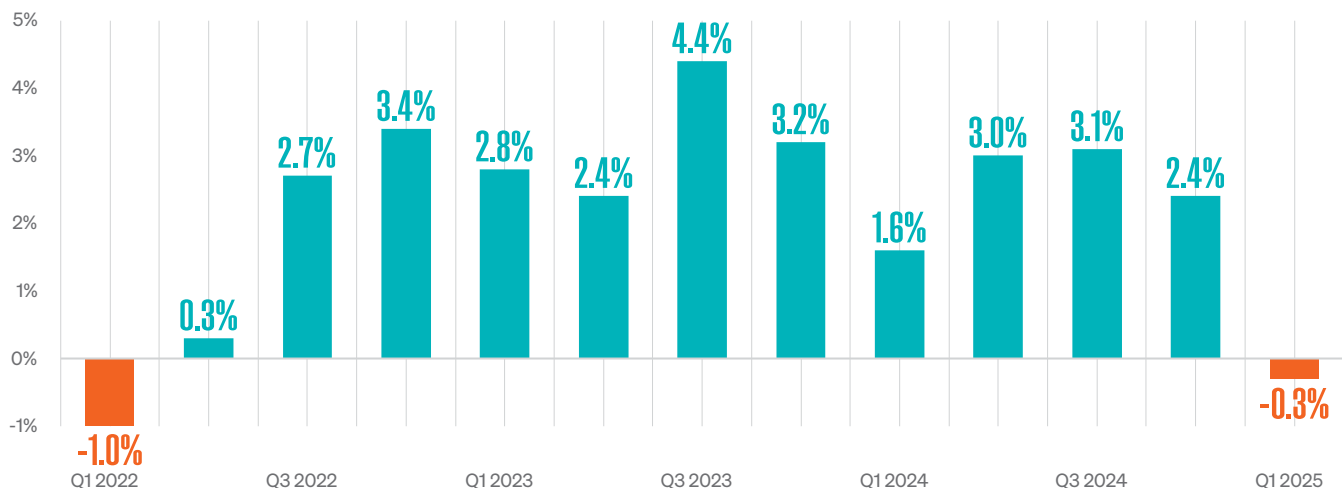
How Will Tariffs Impact the Economy?

Tariffs essentially act as a tax on imported goods, causing businesses to either absorb the cost and reduce profit margins or pass it along to consumers through higher prices. Both scenarios create headwinds for economic growth. Some firms may relocate supply chains to offset this impact, but those shifts are neither quick nor inexpensive. This environment of uncertainty weighs heavily on business investment, consumer confidence, and market expectations.

Inflation surveys conducted before the tariff announcement already hinted at building pressure. The Richmond Fed’s business inflation expectations rose above 7% over the next six months, reaching the highest level in decades. Similarly, the University of Michigan’s one-year consumer inflation outlook climbed to nearly 5%, well above the Federal Reserve’s 2% target.

This is important because perception drives consumer behavior and influences their spending behavior today, and more than two-thirds of the U.S. economy is driven by consumer spending. Therefore, it is not a surprise that GDP growth contracted by an annualized rate of -0.3% in the first quarter. While consumer spending showed no signs of a significant slowdown in the first quarter, U.S. companies sharply increased imports ahead of the expected tariffs and imports detract from the economic growth calculation. It was the first time GDP declined since the first quarter of 2022. On a positive note, domestic demand showed an annualized increase of 3%. These indicators are expected to rise further in the wake of the tariff announcement, complicating the Fed's path forward.

U.S. GDP ANNUALIZED GROWTH RATE



SOURCE: TRADINGECONOMICS

According to FactSet, more than half of the S&P 500 companies have reported their first-quarter results. As of the beginning of May, 76% of those companies beat their earnings estimates, and earnings grew at a rate of 12.9%, exceeding expectations of just 8.9%, despite GDP slipping into negative territory. This performance illustrates that despite the uncertainty regarding tariffs and inflation, corporations are continuing to grow.

Inflation & The Fed

The annual rate of inflation as measured by the PCE Index remained at 2.3% in March, marking no change month-over-month. This level is the lowest annual inflation rate for the Fed's preferred measure of inflation since October 2024. The FOMC left interest rates at 4.25%–4.50% at their May 7th meeting, citing the need to maintain flexibility amid the enormous economic uncertainty. Fed Chair Jerome Powell noted that a key reason U.S. GDP dipped in the first quarter was a result of businesses accelerating their purchase of imports to avoid the price increases that would later come with tariffs. The Fed remains concerned about the potential for higher inflation and slower economic growth if these tariffs remain.

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Investors cannot invest directly in an index. The performance of any index is not indicative of the performance of any investment and does not take into account the effects of inflation and the fees and expenses associated with investing.

INDEX DESCRIPTIONS

S&P 500 Index: The Index tracks the stock performance of 500 of the largest companies listed on stock exchanges in the United States. It is one of the most followed equity indices and includes approximately 80% of the total market capitalization of U.S. public companies.

S&P 400 Index: The S&P MidCap 400® provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment.

Russell 2000 Index: The Index is constructed to provide a comprehensive, unbiased barometer of the small-cap segment of the U.S. equity market. A subset of the Russell 3000 Index, it includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

MSCI EM Index: The Index captures large and mid-cap representation across 24 Emerging Markets (E.M.) countries. With 1,440 constituents, it covers approximately 85% of each country's free float-adjusted market capitalization.

MSCI EAFE Index: The Index is an equity index that captures large and mid-cap representation across 21 Developed Markets countries* worldwide, excluding the U.S. and Canada. With 783 constituents, the index covers approximately 85% of each country's free float-adjusted market capitalization. **MSCI EM Index:** The Index captures large and mid-cap representation across 24 Emerging Markets (E.M.) countries. With 1,440 constituents, it covers approximately 85% of each country's free float-adjusted market capitalization.

Bloomberg U.S. Aggregate Bond Index: The Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, fixed-rate agency MBS, ABS, and CMBS (agency and non-agency). Provided the necessary inclusion rules are met, U.S. Aggregate-eligible securities also contribute to the multi-currency Global Aggregate Index and the U.S. Universal Index. The U.S. Aggregate Index was created in 1986, with history backfilled to January 1, 1976.

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