Market Strategy
by STRATEGAS A BAIRD COMPANY

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Market Strategy Weekly

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Nicholas Bohnsack looks at the markets and economy through the lens of the 3 C's (consumer, credit, corporate profits) and makes a few observations about Big Tech and global stocks.

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THE 3 C'S | RECESSION NOT THE BASE CASE | INTERNATIONAL

ROSS MAYFIELD: Can you break down the 3 C's framework you use to assess the current market and economy?

NICHOLAS BOHNSACK: In environments of heightened volatility—and amid some debate as to whether the U.S. might find itself in a recession—we try to focus on first principles that underpin the strength of the economy. And that's the consumer, corporate credit, and corporate profits, or the 3 C's. For the consumer, mercifully, spending has been fairly resilient. We've seen some erosion in sentiment, but consumer spending depends on the labor market and that's remained generally intact. Initial unemployment claims, while volatile week to week, are still low. Things are slightly softer at some of the lower income brackets but are still in decent shape over all.

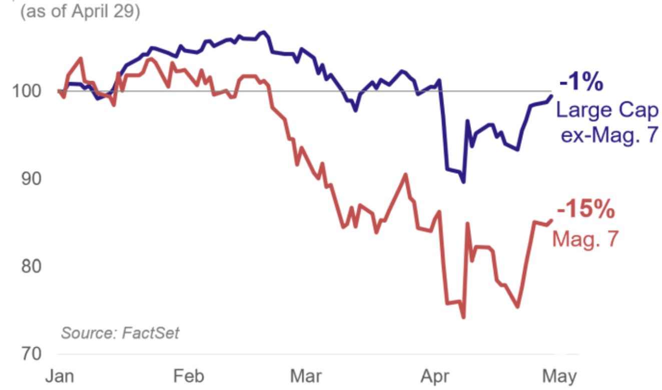
The second C, corporate credit, is particularly important to me. We did see credit spreads start to rise and even break through the widest levels seen during last August's selloff. Spreads have retreated inside that level for now, but will be important to watch to see whether this uncertainty will develop into a financial event. We haven't seen that yet, and that's why recession is still not our base case (even though our odds of recession over the next year have risen to 45%).

And the third C is corporate profits and this one is pretty straightforward. You can have environments where profit growth is negative and not have a recession, but it's very difficult for profits to grow through a recession. And so, for the moment, the outlook on corporate profits remains positive. Expectations have eroded, particularly for Q2 and to a lesser extent for the second half of the year. And we're really paying attention to how the second half of the year shakes out. You're going to see some pull forward of activity in Q2 from importers trying to get ahead of tariffs, and you'll likely see a little bit of pull back in activity as others take a wait-and-see approach. But all in all, corporate profits remain generally healthy.

ROSS: Thinking of the market today, what other things are you watching or considering as an allocator?

NICHOLAS: I think there's two important themes to consider here. Number one, I think there was a pent-up desire to unwind some aggressive Magnificent 7 ownership. I think that had been building over the last couple of years, and a lot of investors didn't want to be the first one to hit the "sell" button. But the noise of the tariff policies allowed the market to flush some of that excess. Because of that, I'm not convinced that all the weakness we saw in early April was the result of tariff policy, and we can take solace that the market may not be as weak as that sell-off suggested it might be. Now, the sector leadership coming out of this phase, whatever this phase ultimately turns out to be, is unlikely to be the Big Tech / Growth names that were formerly leaders. I also think that there's an opportunity here to increase exposure levels to international equities. We've talked a lot about deglobalization in recent years, and I think we'll find over the next 3-5 years that allocators are going to carry a slightly higher share of international equity in portfolios than they have over the last decade.

2025 Year-to-date Return
(as of April 29)



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