



Market Gauge

April 2025

GAUGE REMAINS IN FAVORABLE TERRITORY

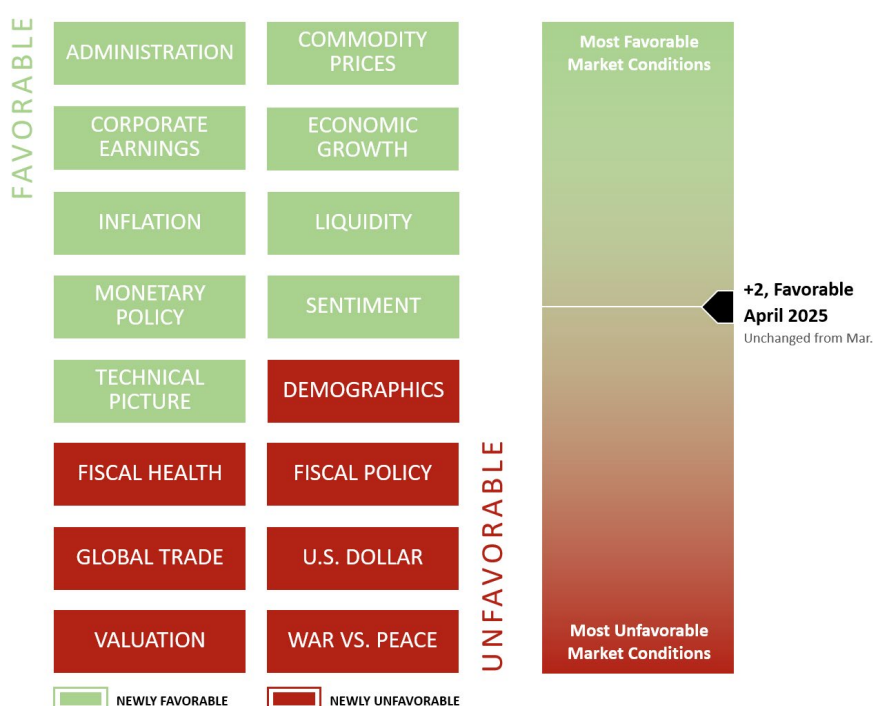
The Market Gauge remains in Favorable territory this edition, with a flush liquidity backdrop, solid economic data, and resilient earnings estimates countering Washington uncertainty. Recent market weakness reflects concerns about growth and policy, but we remain optimistic on the fundamentals.

Political opinion remains sharply divided. While investors generally look positively on the Trump administration's pro-growth policy initiatives, the rollout of tariff policies has been no less than chaotic and slipshod. In the absence of a plan, the market will continue to apply pressure. As we wrote in January, greater clarification on trade policy, DOGE initiatives, and better framing (size and timing) for tax policy is needed.

On the economic front, the Fed looks justified in holding the line on rates as the U.S. shows little evidence of entering the "pre-recession" slide. It is important to keep in context that the U.S. economy is coming off a string of +2-3% real growth quarters—a tough pace to maintain. We would characterize the economy as "late-cycle." While the consumer has shown pockets of weakening, there appears sufficient cushion to absorb dislocation in the short-term, particularly among lower earning cohorts. At the same time, credit spreads—while off their tightest levels—remain in relatively good shape given softer economic data.

Corporate profits also remain in good shape; 4Q24 was strong and 1Q25 estimates (excluding Energy) have held up despite uncertainty on trade. Consensus next-12-month estimates remain above 11%, higher than our 7-8% forecast and above the rate of nominal GDP growth (a pre-recession gauge).

Near-term, investors should continue to watch liquidity. The 1Q25 Treasury General Account release provided a \$400 billion cushion for the economy. With tax season nearing, there will likely be less cushion in April and May, putting upward pressure on yields.



FAVORABLE or UNFAVORABLE?

This table shows the 16 factors we monitor to understand the current environment for U.S. stocks. Eight factors in each group represents a neutral market environment. Our latest count puts the Gauge at **Favorable, or +2** (the sum of **+9** and **-7**, as seen in the table above). Positives include more favorable monetary policy and a flush liquidity environment. Negative factors include valuation and U.S. fiscal health.

The Strategas Market Gauge is meant to be a snapshot of a moment in time, and not a predictive tool. See page two for more on our 16 building blocks, and what we look for to label each one "Favorable" or "Unfavorable." This assessment is as of March 27, 2025.

HOW DO WE CATEGORIZE EACH COMPONENT OF MARKET HEALTH?

Administration: Are White House and Congressional priorities market-friendly? How do they view taxes, regulation, trade, etc.?

Commodity Prices: Do commodity prices (e.g., gold, copper, oil) reflect economic growth or contraction?

Corporate Earnings: Are the earnings of U.S. companies growing or falling? Are profit margins expanding or contracting?

Demographics: Is the demographic trend (population growth, average citizen age, worker-to-retiree ratio) positive or negative?

Economic Growth: What is the recent trend in GDP growth? Are leading indicators rising or falling?

Fiscal Health: Is the budget deficit growing or shrinking? Is federal spending commensurate with long-run economic growth?

Fiscal Policy: Are the major policy initiatives from the White House and Congress pro-growth and market-friendly?

Global Trade: Are current attitudes pro-globalization and free trade or pro-nationalism and protectionism?

Inflation: Is there price stability around the Fed's target? What are the drivers of inflation? How are consumer expectations?

Liquidity: How are measures of money stock growth? What do real rates, credit spreads, and broader financial conditions look like?

Monetary Policy: Are interest rates accommodative or restrictive? Are other central bank programs market-friendly?

Sentiment: Are investors broadly optimistic (a negative) or pessimistic (a positive) about the market?

Technical Picture: What is current price action telling us? What do market breadth, trend, and momentum look like?

U.S. Dollar: Is the dollar strengthening or weakening versus other world currencies? What are the factors causing the move?

Valuation: Do stocks look expensive or cheap vs. historical averages given the current environment?

War vs. Peace: What do the world's geopolitical tensions look like? Are they inhibiting global economic growth?

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