Donaldson CAPITAL MANAGEMENT

The Outlook
DCM Market Brief

Turning Down the Volume | 04.25.2025

After a tumultuous few weeks in the markets, the Trump Administration is trying to turn down the volume. Softer rhetoric around China and the Federal Reserve has been a welcome change. Although the S&P 500 is still about 10% below its all-time high, it has recovered roughly half of its initial decline. While the worst-case scenario now seems less likely, tariffs are higher than they were a month ago, and both business and consumer confidence have been shaken. To keep this rally going, trade deals, tax cuts, or rate cuts would be helpful.

In recent speeches and interviews, senior administration officials have tried to ease investor concerns by adopting a less confrontational tone. President Trump has hinted at progress in trade talks with China, suggesting a deal is possible and perhaps imminent. The shift from earlier threats of escalating tariffs to a more conciliatory tone has helped calm fears of a prolonged trade war—fears that had triggered heavy selling across global equity markets.

This softer stance has also coincided with more measured comments on the Federal Reserve. Previously, Trump had criticized the Fed's focus on inflation and reluctance to lower interest rates. Now, his tone has shifted, and the administration subtly suggests that rate cuts would be beneficial, without directly challenging the Fed's independence. This more tactful approach may be helping to reassure investors.

Despite these changes in tone, the economic challenges remain. Tariffs have already been imposed on a broad range of goods. It is too early to tell how much of these costs have been passed on to consumers, but recent earnings calls suggest that price increases are likely on the way. Consumers and businesses are understandably anxious. Over time, this anxiety could lead to a meaningful slowdown in economic activity.

Investors will need more than words for the market rally to continue. A tangible policy shift—whether through a trade breakthrough, new tax incentives, or a more supportive stance from the Fed—will likely be necessary to maintain momentum. Without that, the current recovery may be short-lived. For now, we continue to believe it is important to lean into companies with pricing power, resilience to tariffs, innovation, strong management, and essential product offerings. These businesses are best positioned for whatever lies ahead.

Thanks,
Preston May, CBE® | Research Analyst

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S&P 500: Standard & Poor's (S&P) 500 Index. The S&P 500 Index is an unmanaged, capitalization-weighted index designed to measure the performance of the broad U.S. economy through changes in the aggregate market value of 500 stocks representing all major industries.

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