Marketline April 2025

Stocks

During early April, we saw the worst of the recent stock decline - which has thus far been no steeper than the declines we've seen in nearly every calendar year since the 1940s, though that could change. Starting in mid-April prices staged a rebound. Stocks remain down on the year, but only marginally. For the month, the Dow sank 3%, the S&P slid less than 1%, and the Nasdaq actually ended up about 1%. No one likes evaporating portfolio values, but our job is to sift the wreckage for assets on sale. Sooner than we thought would be likely, downdrafts in specific stocks gave us opportunities to add to existing positions, but just as quickly on the heels of higher prices that opportunity faded. We're just about back to square one, watching for idiosyncratic situations rather than benefiting from a wholesale sell-off.

Better news lately includes broader participation on the part of non-tech stocks, which have held their own into May. Companies as diverse as Emerson Electric and Boyd Gaming posted strong earnings results, lifting their share prices.

Overseas, results were mixed last month, with Mexico's Bolsa up a strong 7% but Canadian and European stocks seeing small price declines. Note that we report these figures based on native currency; if the dollar declines against foreign currencies, that can turn a small negative number into a positive return.

Despite the improved action in the stock market, we still face two contractionary economic forces, neither of which have manifested in the data yet. These are cuts to federal spending, and the tariff tax. The Fed remains a question mark, having declined to cut rates until the committee sees enough data. It's not clear that a cut to short term interest rates would be helpful anyway, since longer rates dictate most of consumer and commercial borrowing costs – and those rates are up (see below).

The question remains – was that it? Are we all done correcting? Or will poor data in coming months send us back into a tailspin? We're not market timers, but history tells us that sharp declines are most often followed by a "digestion period" of ups and downs. Time will tell whether this correction will follow the historical pattern or throw us another curveball.

Bonds:

While stocks have been gyrating, bonds took a different path. Oh yes, there was a big downdraft in rates at one point in April, but once that passed, the yield curve began to shift. In the short end of the curve – five years and less – rates dropped. The five-year settled at 3.73%, down from 3.95%. Meanwhile, the long bond rose in yield from 4.57% to 4.68%, and now we're sitting even higher. Iron-clad rules barely exist when we're talking about markets, but this does represent a steeper yield curve, which is associated with stronger growth. That prognosis synchs up nicely with the recovery in stocks. Of course at some point, high interest rates suppress economic activity, but rates in the 4s are not historically high.

Regarding sectors. Remember that brief rally in municipals I mentioned last month? That certainly disappeared quickly. By month-end we were back to 4.5% on many tax-free bonds – a level that's attractive in the current market. It's worth mentioning that we've ranged far beyond Oregon even for Oregon residents for some years now, partially to achieve diversification but partly because better rates can be had in other states – even after deducting our state income tax.

Over in the corporate sector, we see the very occasional 6% yield now, relegated thus far to lower-quality, long bonds. But that's the first time we've seen that level on investment grade paper in many years. A routine appearance of 6% would catch our attention, maybe allowing us to upgrade income levels for many clients. Stay tuned.

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