This past week, President Trump exemplified the quote by John Maynard Keynes: "When the facts change, I change my mind. What do you do, sir?"

During the recent sell-off, 65% of the technical 17 metrics I cared about the most signaled oversold. Historically about 48% is what is needed to be near a tradeable short-term bottom in the stock market. It is important to note that this is not the absolute bottom for stock prices necessarily during a bear market.

I also thought volatility would decline from the Vix index hitting 50 on Monday April 7th which implies over a 3% daily move per day for the next 30 days. Following the 6% bludgeoning on Friday April 4th, the market saw more downside on Monday and Tuesday (1.8% further losses combined over those two days at the close and even more violent intra-day.)

Given the turmoil in global markets, President Trump on Wednesday April 9th acted like Keynes and pushed back tariffs by 90 days sparking a 9.5% rally in the S&P. This was one of the ten best daily rallies since 1930. This change was due to a rapid deterioration in equity markets, bond-markets, credit markets, the US dollar and comments made by Jaime Dimon in an interview with Maria Bartiromo. Dimon, the CEO of $JPM which has $4 trillion in assets and is one of the best CEO's in the world, stated that he expected a recession. This is something no President wants.

The most violent rallies historically have occurred during bear markets and I believe the current rally should technically have more room to go given the tariff exemptions announced on late Friday 4/11. The current S&P rally is "only" 7.6% following a 18.9% drawdown (2/19 to 4/8/25.) During the GFC, the S&P rallied eleven times by 10% on average while losing 57% over one and half years. During the Tech Bubble bursting in 2000, the S&P rallied seven times by 14% on average while losing 49% over two and half years.

But as James Carville famously said in 1994, "I used to think that if there was reincarnation, I wanted to come back as the president or the pope or as a 400 baseball hitter. But now I would like to come back as the bond market. You can intimidate everybody."
1) 10/30yr bond yields spiked about ~50 bps last week akin to the speed reached during the GFC. The bond market is 20-30% larger than the stock market. As the saying goes, "credit is the lifeblood of the economy."
2) Also the US dollar was down from $110 in January to $100. $7.5 trillion trades daily in currency markets. Losses in the dollar magnify the losses for foreign investors in US markets.
The above occurred despite a 5.7% rally in the S&P over the past week.

I believe the key to the equity markets in the short-term will be tied to moves in the 10 yr, USD$ and credit spreads. I would reduce risk aggressively when
1) the VIX volatility index gets back into the mid-20s or
2) the S&P approaches the level it was at before "Liberation Day."

Over the longer-term, the direction of the S&P should go back to the direction of earnings & PE multiples:
1) How much do earnings estimates need to be cut for FY25 that are currently forecast to be up over 10%? I believe closer to flattish growth makes more sense.
2) What multiple do you want to put on those lower earnings estimates? During recessions the S&P PE on a trailing basis has been at a mid-teens level and during times with CPI between 2.5-3.0% it has been 19x. Today it is 23x.
Given the probable direction of earnings and multiples from here, the stock market may not have seen the lows for this selloff yet.

The next big fundamental test for the market after this significant rally will be Q1 earnings season. Everyone expects estimates to go lower and a significant number of companies to pull yearly guidance. The S&P financial sector rallying by 1.7% on Friday following the earnings that morning by $JPM, $WFC, $BLK and $MS is certainly encouraging in the near-term.

When I gave my Top5 Picks to start the year, I led with cash invested in money market funds yielding over 4% and had no Magnificent 7 stocks on that list for the first time in years. The last time I had cash as a Top Pick was 2022 and the S&P closed down 19% that year. I still believe cash is a good pick from here. On a stock basis, I believe in companies that provide networking equipment and getting access to the data that has been created by AI investments over the past two years. But this should be combined with selling 10-14% rallies in the market and buying selloffs that go back to technically oversold levels. This is a good way to control risk for the rest of the year.

I expect Q3 or Q4 to have negative GDP growth given the current pull forward in demand to get in front of tariffs and potential export controls in future months. China's exports came in at 12.4% y/y for March versus expectations of 4.6% while imports came in at -4.3% y/y versus expectations of -2.1%.

Recent comments on Sunday seem to indicate that export control on semiconductors and more tariffs is still likely in the next one to two months despite the tariff relief announced on late Friday. The exemptions from tariffs announced should spark a strong rally in the markets today, but I would be wary of chasing that strength given high market multiples and declining earnings expectations.

In summary, I believe Charles Darwin had the right advice for investors today: "It is not the strongest nor the most intelligent of species that survives, but the one that is most adaptable to change." With all the rapid changes in government policy driven by the facts changing, these words have never been truer.