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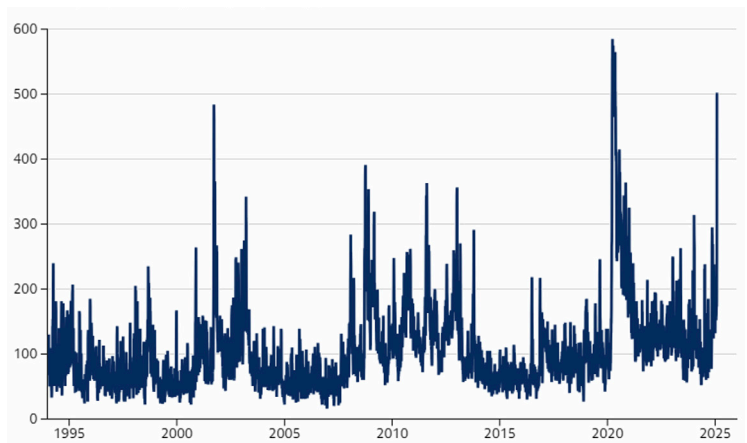
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IT'S RAINING UNCERTAINTY

Markets have been quiet up until the last two weeks, maybe too quiet. As public policy uncertainty, particularly around tariffs, has spiked recently, equities have begun to wobble. The S&P 500 Index at this writing sits at 5861, hitting its all-time closing high of 6144 on February 19th. Supporting equities have been Q4 earnings that have come in well above expectations. With almost all names reporting at this point, earnings growth for the S&P looks to be over 17%. That is the strongest growth since the last quarter of 2021 and several percent above earlier estimates. Estimates for 2025's earnings growth also look stout, with the S&P up 12 to 13%. Notably, earnings growth is finally improving overseas as well, and developed markets especially have seen increased expectations for 2025. Rising earnings expectations are the strongest fundamental input supporting stocks.

The greatest challenge to stock prices is policy uncertainty around tariffs. Should the US impose widespread tariffs on significant trading partners, markets will have to contend with a quick revision down in earnings expectations. The drag on S&P earnings looks to be about 1 to 2% for every 5% tariff increase. Additionally, tariffs have stagflationary implications (lower growth and higher inflation) that potentially impact markets in other ways, such as yields. A cut in the corporate tax rate would offset tariffs from an earnings perspective. Any such tax cut would likely come later in the year as part of a complicated budget process.

Economic Policy Uncertainty Index - 5-Day Average



Source: PolicyUncertainty.com, Goldman Sachs Research

Economic policy uncertainty has soared

Within equity markets, earnings growth and performance are broadening beyond the [Magnificent Seven](#). The group is down about 8% YTD versus the S&P 500, which is essentially flat. Equal weight S&P is up about 1.7%. Additionally, equal weight S&P

on a sector basis (as opposed to companies) is up even more, about 3%. While earnings growth in the Magnificent Seven remains above the broader market, it has slowed, whereas earnings growth among the remaining 493 S&P constituents has picked up. This shift highlights broadening market performance, favoring an equal-weight approach.

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