Nasdaq Dorsey Wright
April 2025 Technical Update

US Equities

US equities continued their slide in March as the S&P 500 finished the month down more than 5.5%. The sell-off accelerated following the announcement of President Trump's long-promised reciprocal tariffs on April 2nd with the S&P dropping 10.5% over the next two sessions, its worst two-day decline since the COVID-19 driven sell-off in March 2020. The Trump administration's tariffs represent the largest shift in global trade policy in the last 100 years and will likely be the most important influence in global financial markets over the short-to-medium term.

Tariffs Background

On April 2nd Trump announced a 10% base tax on all imports and higher tariff rates for dozens of individual countries that have trade surpluses with the US. Among those hit with higher levies were major manufacturing centers like China (34%), South Korea (24%), Vietnam (46%), and the European Union (20%). Canada and Mexico were exempted from the April 2nd announcement but goods from those countries that do not comply with the United States-Mexico-Canada Agreement are subject to a previously announced 25% tax. A previously announced 25% levy on automobile imports also went into effect on April 3rd, with an expansion to auto parts set to follow.

Vietnam sought to reach a compromise with Deputy Prime Minister Bui Thanh Son saying the country was ready to negotiate a deal to lower the tariffs on US goods to 0%. Other countries retaliated with China announcing a 34% tariff of all US goods and additional export controls on rare earth metals. Meanwhile, Prime Minister Mark Carney said Canada will match the 25% auto tariff with a tax on US vehicles, which came in addition to other already-announced retaliatory levies.

Market Reaction

US stocks dropped precipitously after the tariff announcement with the S&P 500 experiencing its sharpest decline since March 2020. The Nasdaq-100 and Nasdaq Composite dropped more than 11%, while the Dow lost 9%. Meanwhile, the S&P 500 Volatility Index (VIX) rose more than 110%, ending the week above 45, its highest close in five years.

Sectors of the market that had held up well through the volatility in February and March were also hit in the sell-off. Energy was the hardest hit as the Energy Select Sector SPDR Fund (XLE), which had been the best performing of the SPDR sector funds through the first quarter, fell more than 16% over two days. The traditionally defensive consumer staples, utilities, and healthcare sectors saw were top relative performers but still saw significant

declines as the consumer staples SPDR fund (XLP) lost more than 3.5%, while the utilities (XLU) and healthcare (XLV) ETFs each fell more than 6%.

Why was there such a dramatic reaction when it was widely known that Trump would announce reciprocal tariffs on April 2nd? The answer likely lies in the expected level of tariffs versus those that were announced. Trump had previously said he would institute reciprocal tariffs that were half of other nations' levies on the US. For example, the World Trade Organization's 2023 estimate (the most recent year available) was that India imposed an average levy of 12% on imported goods and South Korea taxed imports at 8.4%. Based on this, one might assume that US reciprocal tariffs on India and South Korea would be around 6% and 4%, respectively.

However, the Trump administration appears to have based its tariff rates not on levies by other governments, but on the United States' trade deficit with those countries, calculating Indian and South Korean "tariffs" at 52% and 50%, respectively. The resulting "reciprocal tariffs" of 26% and 25% far exceed even the highest figure one might have estimated using government import taxes prior to the April 2nd announcement. The administration calculated similarly disproportionate levies for dozens of other countries, some 10 times higher than would have been estimated by WTO tariff data.

After the selling began, deleveraging likely played a role in the speed and severity of the decline. US banks reported that hedge funds had been hit with the largest margin calls since early 2020, forcing many to sell into an already falling market. Morgan Stanley reported that the selling pushed the net leverage of US long/short equity funds to 42%, its lowest level in about 18 months.

State of US Equities

The S&P has fallen roughly 17.5% from its February peak, while the Nasdaq Composite, Nasdaq-100, and Russell 2000 indices have fallen into bear market territory, each declining more than 20% from their peaks.

The sharp drops on April 3rd and 4th pushed the S&P 500 to its most oversold level since March 2020 with a weekly overbought/oversold (OBOS) reading of -135%. Many other indicators have also reached levels consistent with an oversold market – the bullish percent for the S&P 500 (^BPSPX) (Figure 1.1), which measures the percentage of stocks in the S&P 500 trading on point & figure (P&F) buy signals, has fallen below 30, as has the bullish percent for the NYSE (^BPNYSE). Meanwhile, the percent positive trend for the S&P 500 (SPX) and percent positive trend for the NYSE (^PTNYSE), which are longer-term participation indicators that measure the percentage of stocks in those universes trading in positive trends on their P&F charts have fallen to 38 and 30 respectively, meaning that

about two-third of stocks have fallen to negative trends, also consistent with oversold conditions. With these conditions it is quite possible the market could bounce in the near term.

However, while the market is clearly oversold that does not necessarily mean that we've reached washed out conditions. In March 2020, the S&P reached 185% oversold before finding a bottom. In 2022, BPSPX fell to 10 and PTSPX fell to 22 before the S&P hit its low and in 2020, both indicators went even lower. In 2022, the S&P retraced 50% of the way from its peak its the 2020 low; a similar retracement from its 2025 high to the 2022 low would stop around 4820, about 5% below the April 4th close (Figure 1.2). The upshot is that the market is oversold and, historically, after a drop of this magnitude, the S&P has usually been closer to a bottom than a top, but more downside is still possible.

Upside Risk

As discussed above, US stocks are currently oversold, which could potentially lead to a short-term rally. As for a more sustained rebound, tariffs have been the biggest factor in the market's recent drop. Some of the damage would likely be undone quickly by a policy reversal or easing by the Trump administration. Though so far, Trump has given no sign of any intention to do so as he declared on April 4th on social media "my policies will never change."

There is also the possibility that another branch of government could step in. The Senate has introduced a bill that would allow Congress to vote to end any tariff and require explicit congressional approval of any tariff within 60 days. Nebraska Congressman Don Bacon has said he will introduce a companion bill in the House. But at this point, the passage of any legislation looks like a longshot as it has been reported that the Speaker has no plans to bring any bill limiting Trump's authority to the floor.

Meanwhile, the New Civil Liberties Alliance, representing a retail stationery business in Florida, filed suit in federal court in Florida to block Trump's previous tariffs on China. Congress has authorized the president to impose tariffs of up 15% for as long as 150 days. Trump has gotten around those limits by invoking the International Emergency Economic Powers Act (IEEPA). The suit challenges Trump's use of the IEEPA to impose tariffs. We believe a ruling in favor of the NCLA or progress towards legislation limiting the president's tariff powers could drive a rally in stocks.

The final possibility is that other countries could (as Trump claims to want) agree to eliminate tariffs on US goods. However, as the initial tariffs were not based on actual tariff rates, but trade deficits, it's unclear if eliminating government levies would satisfy the

administration's definition of removing tariffs. But if, Trump begins to feel the heat, it could provide a convenient excuse to change course, while still allowing him to claim victory.

Downside Risk

The downside risk, which the market is now aggressively pricing in, is that the tariffs throw the US economy into recession. The longer the tariffs remain in place, the greater the risk becomes that even if they are lifted, it will be too late to avoid an economic downturn.

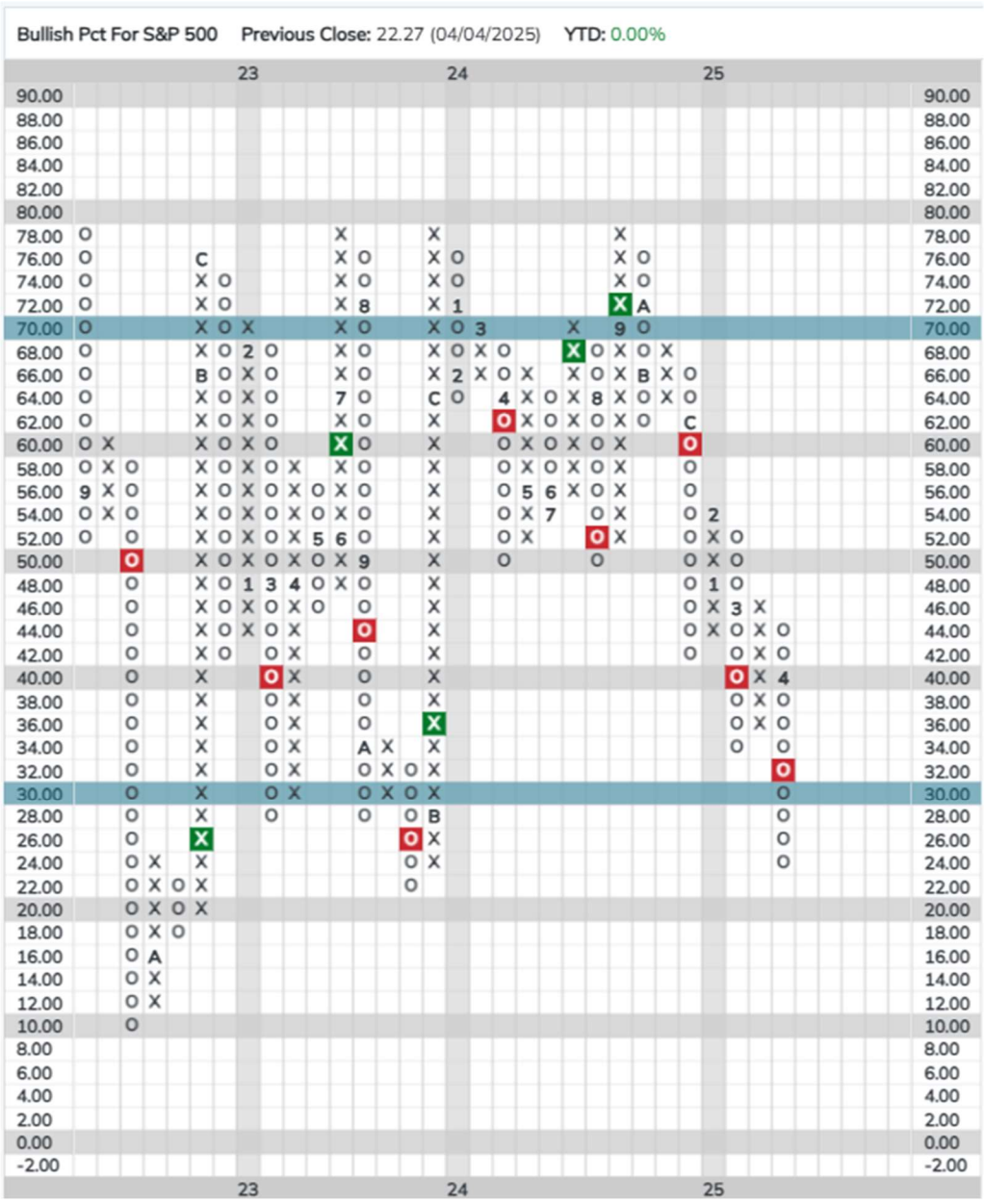


Figure 1.1 The bullish percent for the S&P 500 has fallen below 30%, consistent with an oversold market. However, as the chart shows the indicator has fallen lower during past market downturns.

Returns and other market data as of April 4, 2025.

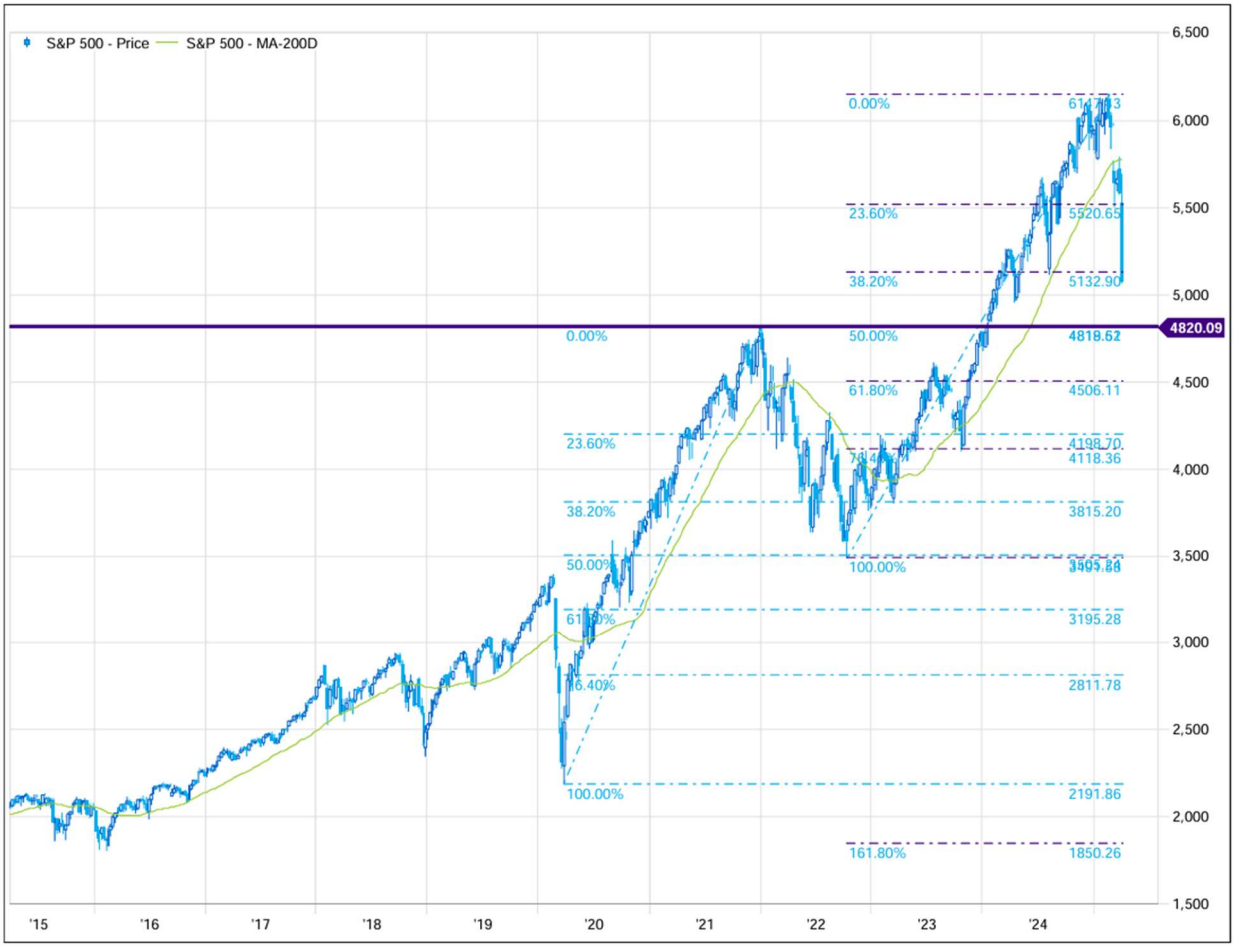


Figure 1.2 In 2022, the S&P retraced 50% of the way from its peak to the 2020 low; a similar retracement from its 2025 high to the 2022 low would stop around 4820, about 5% below the S&P's April 4th close.

International Equities

International equities significantly outpaced US stocks through the first quarter of the year as the iShares MSCI EAFE ETF (EFA) and the iShares MSCI Emerging Markets ETF (EEM) were up 8% and 4.5%, respectively. International stocks also saw significant declines following the tariff announcements but held up better than US stocks as EFA and EEM dropped 8.5% and 7.5% respectively from April 2nd through April 4th.

Historically, international equities have not often outperformed US stocks during downturns and international equities remain in third in the asset class rankings in NDW's Dynamic Asset Level Investing (DALI) tool behind commodities and US equities, indicating these other assets still hold a long-term relative strength advantage.

Returns and other market data as of April 4, 2025.

However, if the US continues to impose tariffs while other nations maintain relatively free trade it could be a tailwind for international stocks.

Fixed Income

Long-term US Treasury yields continued to decline in March and fell further in April as the tariff announcements and fears of an economic slowdown drove a flight to safety. The 10-year US Treasury Yield Index (TNX) took out notable support when it broke a spread triple bottom at 4.15%, dropping to a negative trend on its P&F chart and falling below 4% for the first time since October.

The fed futures market is now pricing in about a 30% chance of two 25 bps cuts by June, up significantly from before the tariff announcement when it was pricing in only about a 13% chance. However, recent comments from Chair Powell make it seem that the Fed may not be in any hurry to ease policy in the face of potential sticky inflation from tariffs and this would not be the first time the market has gotten ahead of the data in pricing in relief from the Fed.

Amid the recent turmoil the market shifted away from credit risk as high yield spreads widened considerably. The ICE BofA High Yield Index Option-adjusted Spread has now risen almost 140 bps from the multi-year low it reached in late 2024 and returned to a buy signal on its P&F chart for the first time since early 2023 (Figure 2.1). While the equity market has aggressively priced in the possibility of a recession, high yield spreads remain well below levels reached during past economic downturns. The disparity could indicate bond investors have been complacent about the risk of a potential downturn or, on the other hand, that the equity market has been overly pessimistic.

The technical picture of the US core fixed income market has improved significantly over the last several weeks. The US Government-Agency group now sits at the top of the Asset Class Group Scores (ACGS) fixed income rankings and ranks fifth out of all 134 groups in the system. Most other core groups – like US Treasuries – have crossed above the 3.0 score threshold. Meanwhile, the non-core groups like convertibles and high yield corporates, which led the ACGS rankings for much of the last year have fallen to the bottom half of the rankings (Figure 2.2)

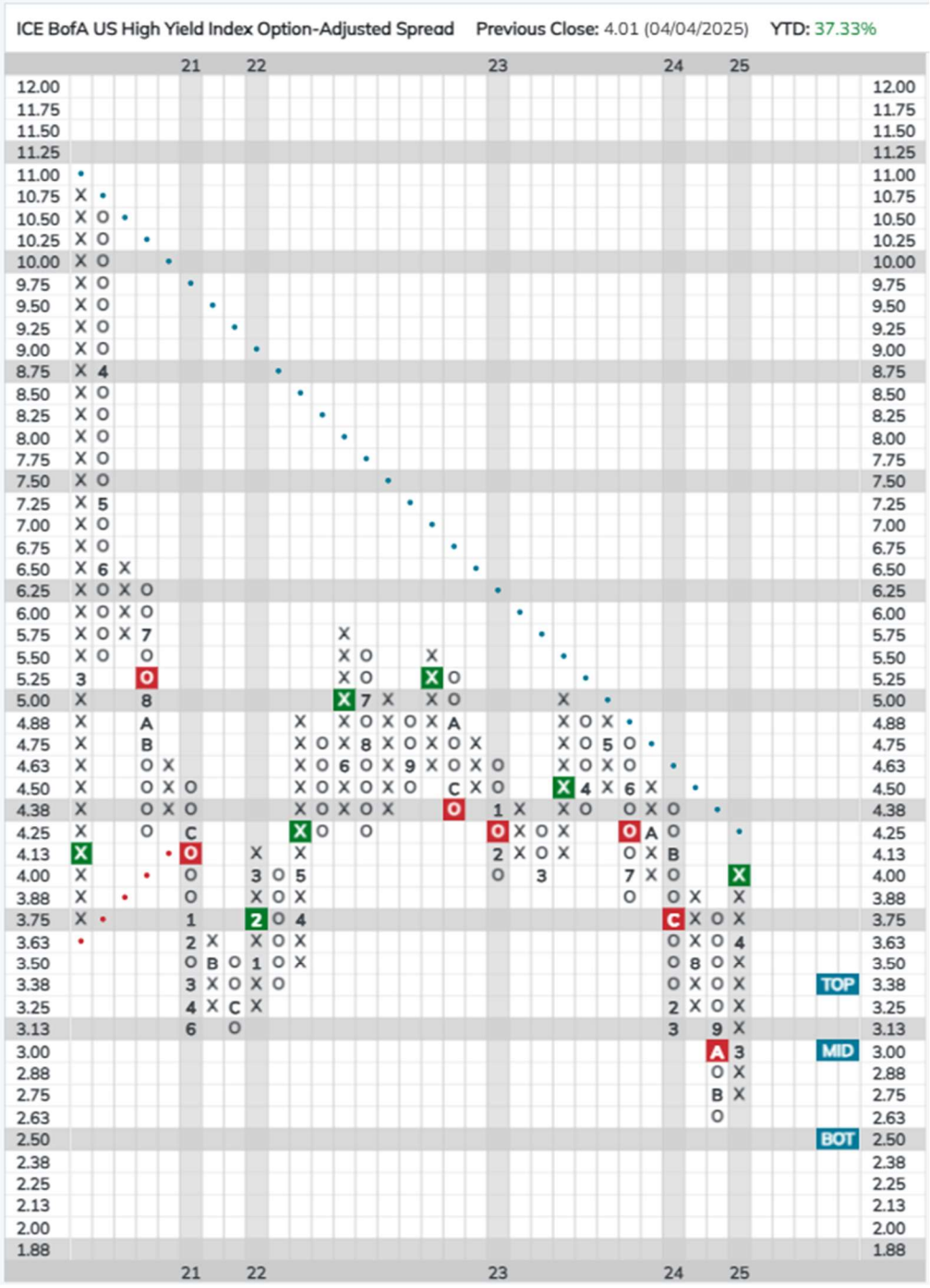


Figure 2.1 High yield spreads have widened materially over the last several weeks but remain well below levels they have reached during past downturns.

Returns and other market data as of April 4, 2025.

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Asset Class Group Scores

04/04/2025

Rank	Ideas	Group	Avg Score	Direction	% OBOS	MomW	rRisk	Combo
5	24	US Government-Agency	4.14	2.13	104.48	2.17	0.45	6.27
10	66	Inflation Protection	3.87	1.85	68.85	8.74	0.40	5.72
11	500+	Low-Beta Fixed Income	3.85	1.32	17.74	0.58	0.40	5.17
13	50	Strategic Income	3.72	1.08	-14.65	1.82	0.42	4.80
14	342	General Bd-Short & Inte	3.71	1.42	78.37	5.41	0.24	5.14
16	150	Multi-Sector Bond	3.68	1.16	-11.89	-2.70	0.34	4.84
17	26	Retirement & Income	3.68	0.97	**-115.47**	5.19	0.48	4.65
18	33	General Mortgage	3.64	1.64	94.72	17.33	0.29	5.28
20	184	US Government-Short & I	3.61	1.63	88.61	8.79	0.63	5.24
21	71	All Global Income Intermediate	3.59	1.54	33.17	1.20	0.39	5.13
22	355	General Bd-Investment G	3.59	1.57	50.02	5.23	0.41	5.17
23	142	All Global Income Long Duration	3.59	1.25	-13.64	-0.42	0.53	4.84
24	258	All Global Income All Regions	3.58	1.38	4.74	-0.66	0.50	4.96
27	81	Credit Bond	3.56	0.97	-24.34	-4.06	0.76	4.53
28	243	US Government	3.54	1.78	86.70	7.51	0.65	5.33
29	31	General Bd-Long	3.53	1.95	45.90	7.06	0.66	5.47
31	500+	Correlated Fixed Income	3.52	1.11	-14.71	0.41	0.43	4.62
32	48	All Global Income Short Duration	3.51	1.46	16.04	-4.10	0.56	4.97
35	111	Emerging Market Income	3.46	1.13	-37.98	-0.12	0.58	4.59
36	68	Municipal-High Yield	3.44	1.48	15.43	-2.31	0.48	4.92
43	85	Floating Rate	3.40	0.75	**-181.68**	-9.87	0.24	4.15
49	311	Muni Bond-Single State	3.36	1.47	29.13	-0.84	0.40	4.83
51	500+	US Fixed Income Short Duration	3.36	1.30	55.42	59.22	0.15	4.65
55	500+	US Fixed Income Intermediate	3.33	1.35	15.19	3.29	0.42	4.68
59	500+	**All Fixed Income**	3.32	1.25	10.29	21.85	0.37	4.56
60	500+	All Municipals	3.32	1.42	28.56	-0.49	0.38	4.73
62	303	Corp Bond-High Yield	3.28	0.44	**-104.07**	-5.36	0.46	3.72
63	300	Municipal-National	3.24	1.35	31.88	-0.12	0.34	4.59
72	143	US Fixed Income Long Duration	3.14	1.72	27.66	2.42	0.63	4.85
74	500+	**All US Fixed Income Quality**	3.13	1.41	34.59	43.55	0.29	4.54
75	60	US Treasury	3.13	1.69	48.98	29.03	0.29	4.82
76	126	Corporate-Investment Gr	3.11	1.28	30.31	-0.44	0.43	4.39
94	34	US Government-Long	2.82	2.38	65.60	4.59	1.01	5.20
101	2	**US Money Market**	2.76	1.12	0.00	0.00	0.01	3.89
103	29	**Global Currency**	2.71	1.35	7.74	58.79	0.34	4.07
105	18	Inverse-Fixed Income	2.70	-0.57	-14.35	-6.94	0.55	2.13
113	27	Convertible Bonds	2.56	-0.94	**-126.84**	-5.56	0.67	1.62
115	39	Preferred Securities	2.50	-0.42	**-108.17**	-0.23	0.70	2.08

Figure 2.2 Groups that comprise the core US fixed income market have climbed the Asset Class Group Scores fixed income rankings in recent weeks, while the previous leadership by non-core groups has faltered.

Returns and other market data as of April 4, 2025.

Commodities

Commodities overtook domestic equities to reach the top of the DALI asset class rankings in early April (Figure 3.1). In 2022, commodities sat atop the DALI rankings for about eight months as the Fed's efforts to rein in inflation resulted in significant weakness in both equities and fixed income. However, this type of sustained leadership from commodities is more the exception than the rule. Historically, when short-term volatility has turned into a sustained downturn fixed income and/or cash have often climbed the rankings. On the other hand, in short-lived pullbacks equities have often reclaimed the mantle. However, if the US economy were to enter a period of stagflation, as many have feared, it could lead to another period of weakness in both stocks and bonds and possibly sustained leadership by commodities.

While energy remains at the top of the DALI commodity rankings, gold, which currently sits at the top of NDW's continuous commodity matrix, has been the most reliable area of relative strength in commodities over the last year. Gold had been in an uptrend prior to the recent volatility and its reputation as a haven asset could be an additional tailwind. One caveat is that if de-risking continues, investors who are forced to sell assets to meet margin calls may look to realize gains instead of losses, making gold a potential target for profit taking.

Crude oil had been consolidating around support in the mid-to-upper $60s for much of March but moved sharply lower in early April following the tariff announcement and news that members of OPEC+ would raise their daily output by more than 400,000 barrels per day. Crude fell more than 13% over two days and now sits at $61 on its P&F chart, its lowest level since 2021 (Figure 3.2). Crude now sits in heavily oversold territory on its 10-week trading band with a weekly overbought/oversold (OBOS) reading of 79%.

Returns and other market data as of April 4, 2025.

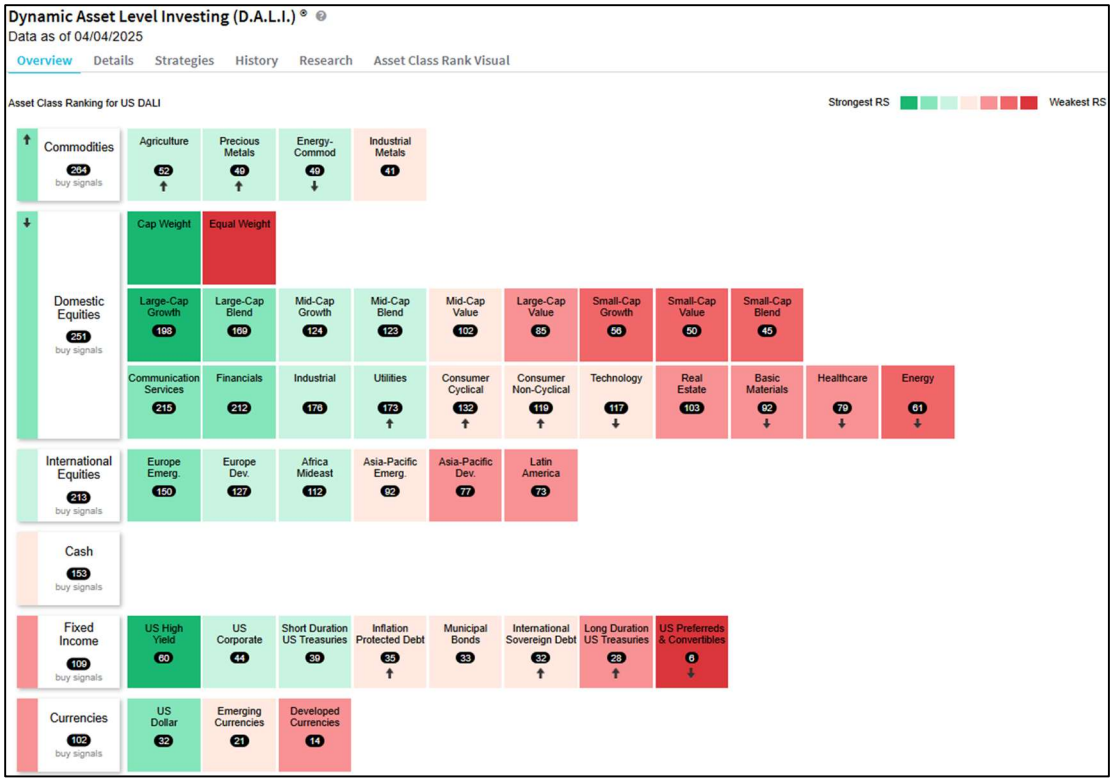


Figure 3.1 Commodities overtook domestic equities in the DALI asset class rankings in early April.

Returns and other market data as of April 4, 2025.

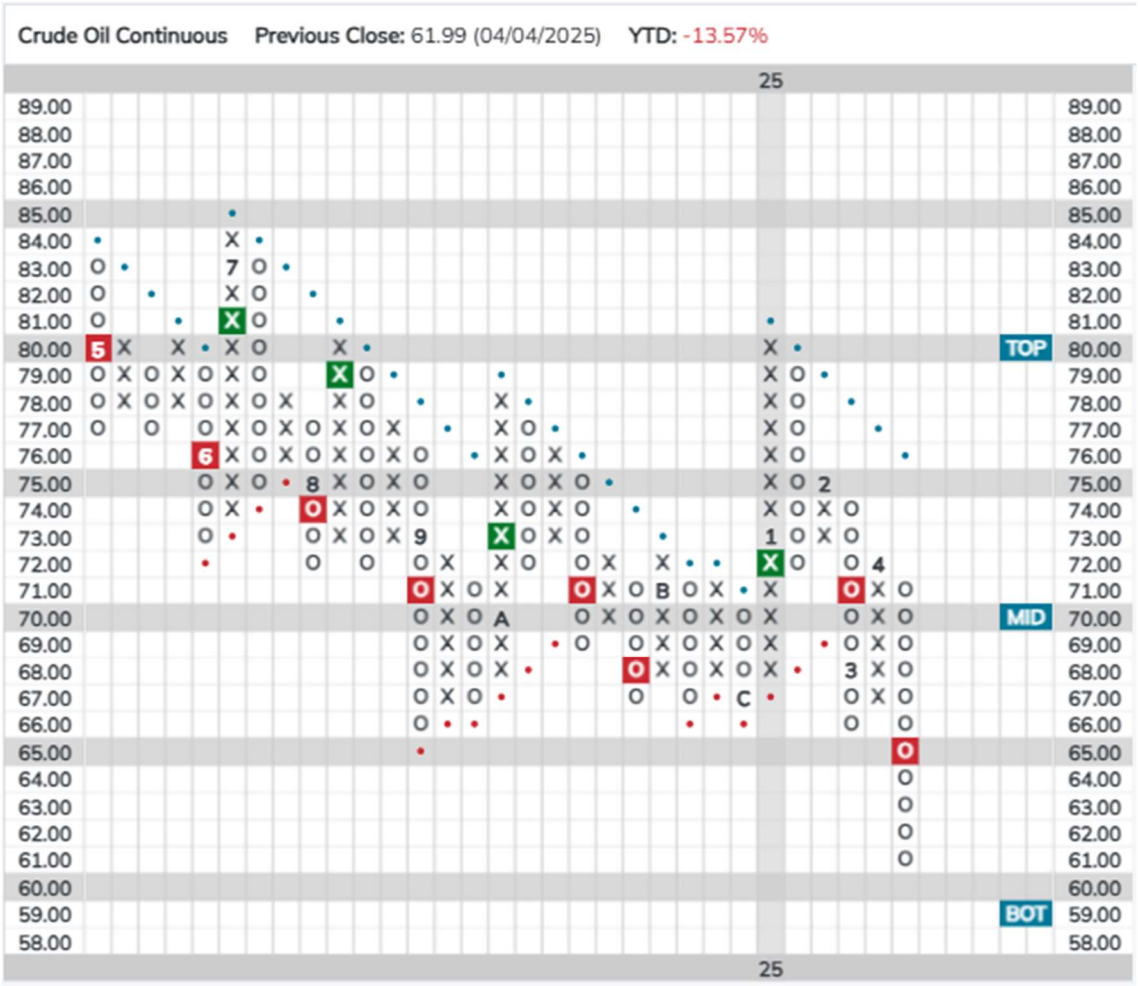


Figure 3.2 Crude oil fell significantly in early April after the announcement of US tariffs and a production increase by OPEC+.

Returns and other market data as of April 4, 2025.

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This strategy uses tactical rotation through Relative Strength. Relative strength attempts to minimize exposure to underperforming positions, while overweighting outperforming positions. The methodology is rules-based and objective, using calculations derived from price data alone. For a description of the model universe, see DorseyWright.com.

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