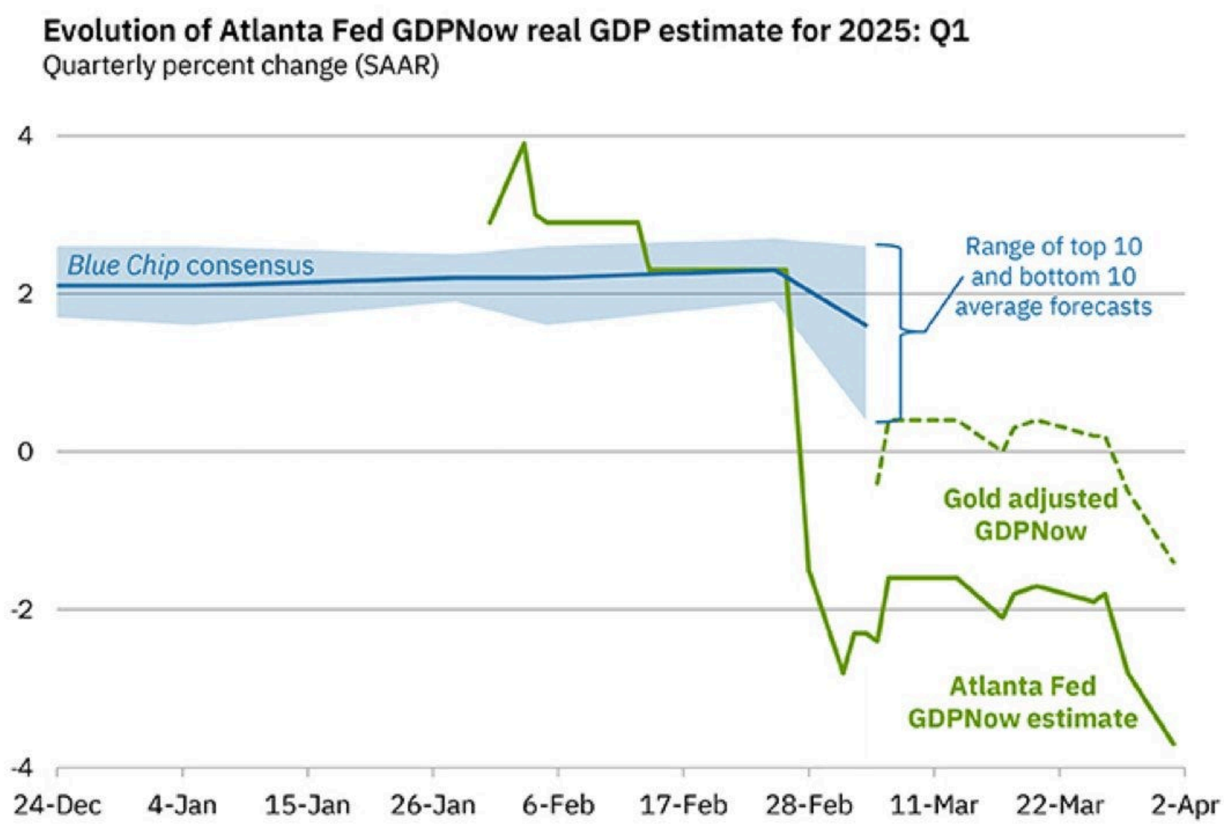
Quick shoutout to you all for being a part of the [Rich Habits Network!]() We appreciate you more than you know :) DM if you have any questions about this stuff.

The key market debate is now “Recession” or “No Recession.” With the S&P 500, at time of writing, trading down -20% from recent all-time highs, and the Nasdaq-100 trading down -23% from recent all-time highs — it’s important to ask ourselves “Where does this contraction, historically speaking, bottom and begin to turn around?”



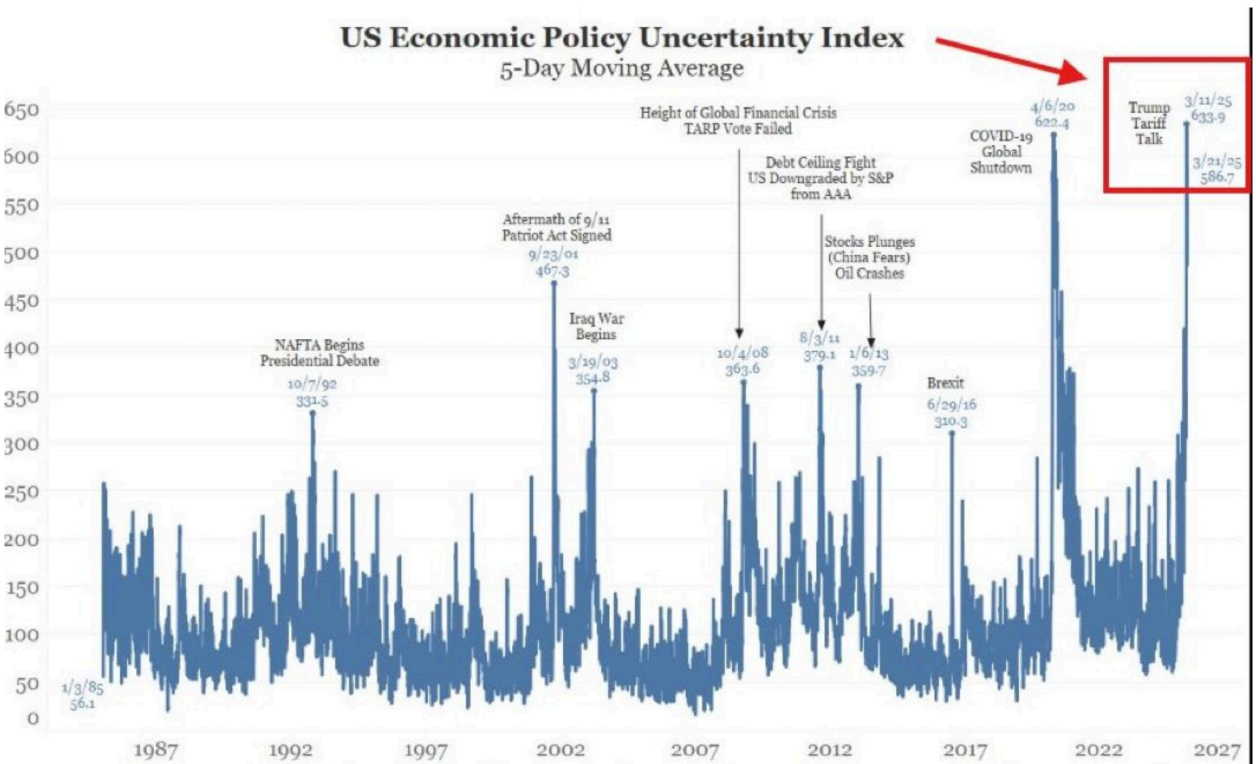
The Atlanta Fed has revised their Q1 GDP reading even lower, now to -3.7%. This is the worst reading since the heart of Covid-19 in 2020. If the reading proves to be accurate, and we are barrelling toward a recession, a -25% to -35% contraction from peak to trough would be warranted.

That would put the S&P 500 between $4000 and $4600 — we’ve swept the lows of $4950 earlier this week, leaving another -10-15% to go from here. As a reminder, we’re talking about the index funds, not your single stocks. As I’m sure you’ve realized by now, single stocks get punished MUCH more than well-diversified index funds like the S&P 500. For example, Nvidia is down -36% already, and very well could contract as much as -50% or more before experiencing a bottom.

As far as my take on “recession vs no recession,” I have been in the “no recession” camp since the start of the year. With that said, I believe the risks are becoming much more elevated now with tariffs. I talked about Goldman assigning a 35% probability of a recession in the next 12 months. For me, it is closer to 50/50.

In the 2022 Bear Market, I was firmly in the recession camp for plenty of different reasons I talked about throughout that year. We did have a technical recession back then, as well as the release of ChatGPT that caused Big Tech to go on a spending spree — as well as the Fed’s intervention during the March 2023 regional banking crisis, which saved what could have been a much deeper recession.

Here in 2025, it is hard for me to get as good a read on the economy. This is because of the current uncertainty on Fiscal Policy from the Trump administration, which is basically at record highs right now.



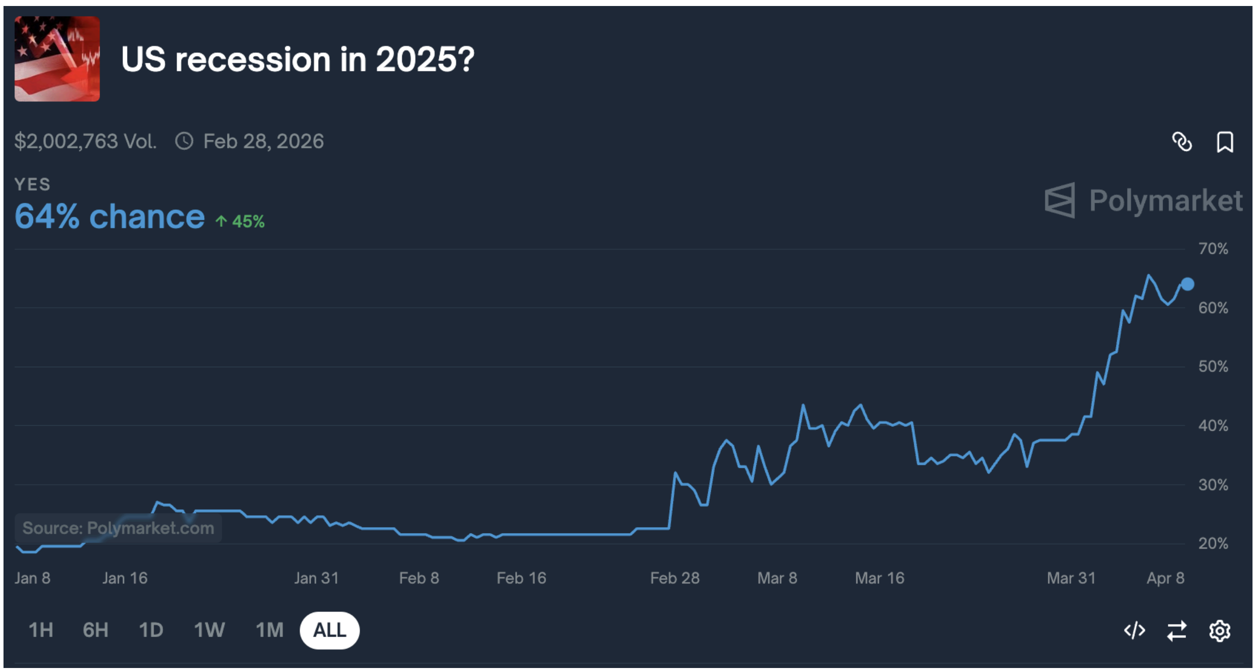
The Baker, Bloom and Davis news-based index of economic policy uncertainty for the US is based on the frequency of newspaper references to policy uncertainty. 10 large newspapers are used: USA Today, the Miami Herald, the Chicago Tribune, the Washington Post, the Los Angeles Times, the Boston Globe, the San Francisco Chronicle, the Dallas Morning News, the New York Times, and the Wall Street Journal.

Some have theorized that the Trump Administration is trying to engineer a recession in order to get the Fed to cut rates. Jerome Powell hates Trump and will not roll over for him just for the sake of doing it. There would need to be an underlying need to cut. Such a move would reset the system with lower rates and much lower inflation — with a goal of creating an economy less reliant on government spending and debt.

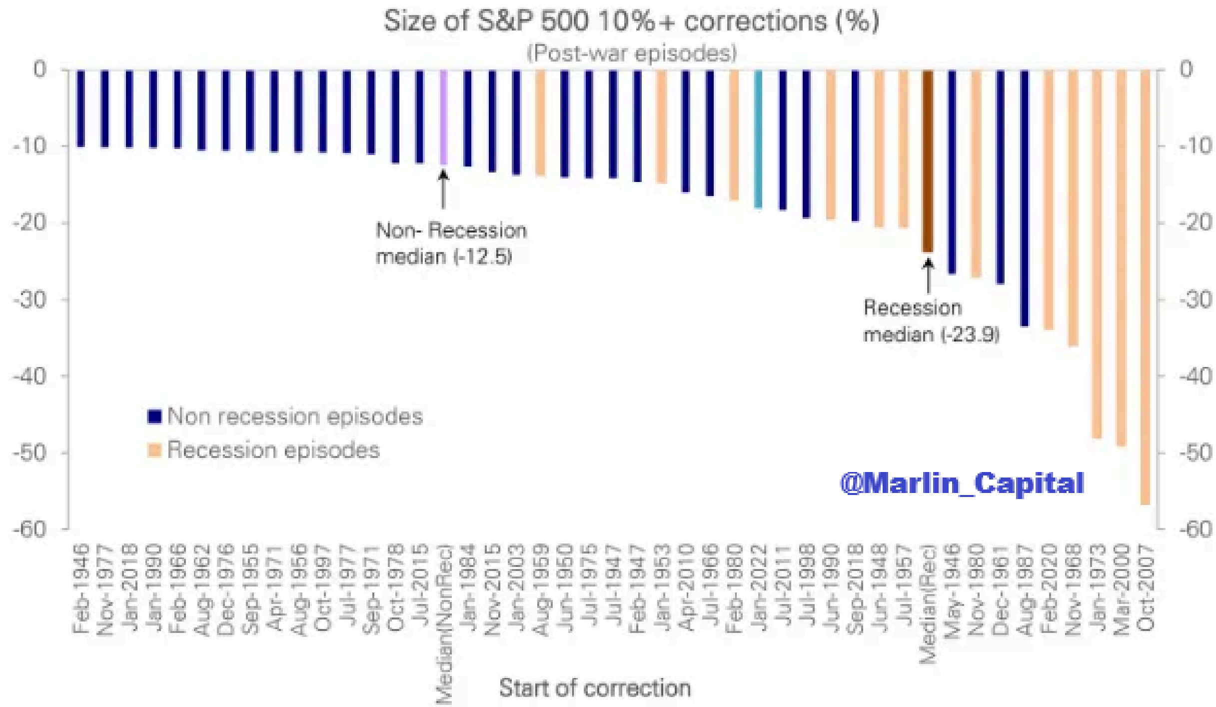
This theory is a possibility, and one that must be taken into account. If the Trump Administration is indeed engineering a recession, these tariffs would certainly be 1 way to do it.

This is why I personally stand at 50/50 on recession vs no recession debate. If the Trump tariffs are indeed a longstanding policy change, we will see a recession. Put in another way … if the President's goal is to engineer a recession, then we will see a recession.

If the 2025 tariffs are simply a negotiating tactic and we make quick progress on trade deals, then I believe we will avoid a recession. I have seen plenty of interesting takes on the debate, but I don't believe anyone outside of Trump's inner circle really has a confident read on this.



Historically, the median recessionary S&P 500 correction is -23% and lasts 6+ months.



To make matters worse, we are also coming from a fundamentally higher P/E ratio in 2025 (highest ever peak outside of the Dot Com Bubble), so I feel fairly confident in saying a recession would bring -25% or more declines during this cycle.

BofA ran a scenario analysis on the Liberation Day tariffs, focusing on (1) the cost increase from incremental tariffs, and (2) the foreign sales impact from retaliatory measures. Their data found that if trading partners respond with equal retaliatory force, reciprocal tariffs could hit current S&P 500 operating income by -32%. Just import cost inflation with no retaliation is estimated to be a -5% hit.

Exhibit 1: We estimate S&P 500 operating income hit from tariffs could be 5%, or 32% under bilateral tariffs

Impact to S&P 500 operating income from incremental 54% tariffs on China, 25% on Canada & Mexico, 20% on Europe, 10% on ROW (upper left box = no retaliation, lower left box = bilateral)

% hit to foreign sales	% passed through pricing: 0%	20%	40%	60%	80%	100%
0%	(5%)	(4%)	(4%)	(3%)	(2%)	(2%)
-4%	(12%)	(11%)	(11%)	(10%)	(9%)	(9%)
-8%	(19%)	(18%)	(17%)	(17%)	(16%)	(16%)
-12%	(25%)	(25%)	(24%)	(24%)	(23%)	(22%)
-16%	(32%)	(32%)	(31%)	(30%)	(30%)	(29%)
-20%	(39%)	(38%)	(38%)	(37%)	(37%)	(36%)

Source: BofA US Equity & Quant Strategy, FactSet, Haver, BEA. See appendix for details.

BofA GLOBAL RESEARCH

BofA estimates that the Russell 2000 Index of Small Caps would see the biggest hit (due to thinner margins), a potential -22% decline in operating margin.

Exhibit 14: We estimate Russell 2000 could see the biggest hit of the three size segments from tariffs amid thinner margins

Impact to Russell 2000 operating income from incremental 54% tariffs on China, 25% on Canada & Mexico, 20% on Europe, 10% on ROW (upper left box = no retaliation, lower left box = bilateral

% hit to foreign	% passed through pricing: 0%	20%	40%	60%	80%	100%
0%	(22%)	(19%)	(16%)	(13%)	(11%)	(8%)
-4%	(44%)	(42%)	(39%)	(36%)	(34%)	(31%)
-8%	(67%)	(64%)	(62%)	(59%)	(56%)	(54%)
-12%	(90%)	(87%)	(85%)	(82%)	(79%)	(76%)
-16%	(113%)	(110%)	(107%)	(105%)	(102%)	(99%)
-20%	(136%)	(133%)	(130%)	(127%)	(125%)	(122%)

Source: BofA US Equity & Quant Strategy, FactSet, Haver, BEA

BofA GLOBAL RESEARCH

Deteriorating operating margins are likely to weigh heavily on corporate earnings. Current data suggest S&P 500 earnings estimates remain overpriced, having only been revised downward by -2% so far YTD.

Exhibit 4: Consensus earnings revisions since Nov. are down 2ppt, but do not likely reflect tariff impact

Revision to bottom-up consensus earnings for S&P 500 sectors since 11/30/24

	Earnings	Sales
Financials	2%	0.4%
Utilities	0%	0.1%
Information Technology	-1%	-0.7%
Health Care	-1%	1.4%
Communication Services	-1%	-0.3%
S&P 500	**-2%**	**-0.3%**
Consumer Discretionary	-3%	-1.2%
Consumer Staples	-4%	-1.2%
Industrials	-4%	-1.9%
Energy	-5%	0.1%
Real Estate	-8%	-0.9%
Materials	-12%	-0.9%

Source: FactSet, BofA US Equity & US Quant Strategy

BofA GLOBAL RESEARCH

Yet consensus still anticipates positive EPS growth in 2025. In fact, consensus is still projecting +11% YoY EPS growth in 2025. This is obviously a scenario that assumes no recession.

Exhibit 3: Consensus expects 11% growth in 2025, but downward revisions are likely without medium-term resolution

Bottom-up EPS (quarterly and annual) and y/y growth, 2023A-2026E

	Bottom-up analysts	YoY
2023	**$221**	**2%**
1Q24	56.56	7%
2Q24	60.40	11%
3Q24	63.21	8%
4Q24	65.00	14%
2024	**$243**	**10%**
1Q25E	60.23	6%
2Q25E	65.57	9%
3Q25E	70.36	11%
4Q25E	72.91	12%
2025E	**$270**	**11%**
2026E	**$308**	**14%**

Source: FactSet, BofA US Equity & US Quant Strategy

BofA GLOBAL RESEARCH

Historically, the average recession leads to a significant decline in earnings — typically around -20% or more — yet almost none of this risk is priced in.

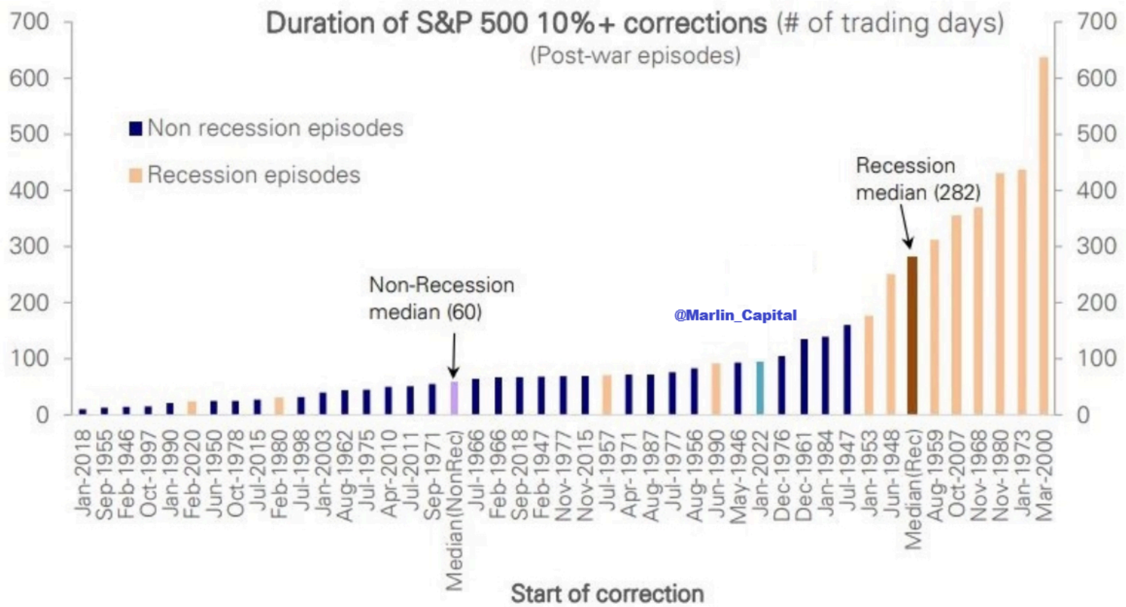
S&P 500 peak-to-trough EPS declines in US recessions

Recession	EPS peak	EPS trough	% Δ EPS
1974	9.4	7.7	-18%
1983	15.3	12.5	-18%
1986	16.9	14.4	-15%
1990	26	15	-42%
2001	56	41	-27%
2008	94	62	-34%
2020	167	140	-16%
Average EPS decline			**-24%**

Source: BofA Global Investment Strategy, Bloomberg

BofA GLOBAL RESEARCH

Recessionary market sell offs also typically coincide with longer bear market cycles (speaking about the duration of the market cycle). The median recessionary correction lasts 282 trading days, while the current S&P 500 correction is just over 30 trading days old.



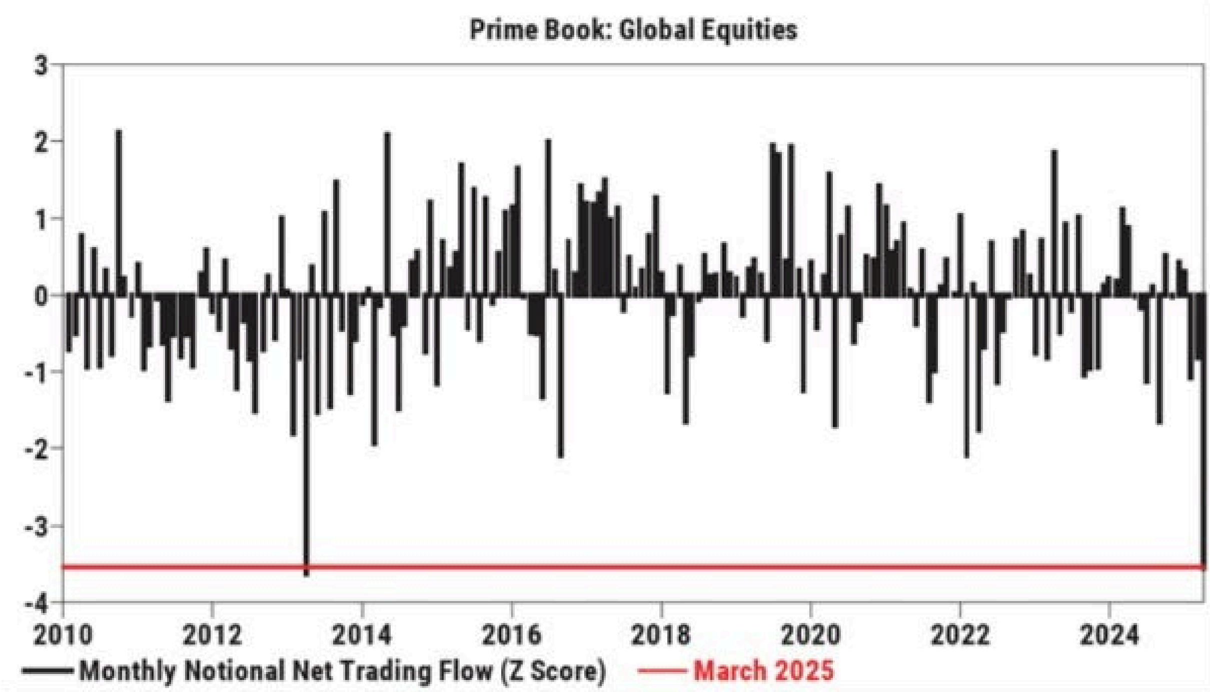
History suggests that markets will face prolonged pressure if economic conditions deteriorate from here.

How soon do equities bottom when the US economy heads into recession?

Recession	Depth into Recession at SPX bottom
Aug 29 - Mar 33	77.3%
May 37 - Jun 38	76.7%
Feb 45 - Oct 45	11.5%
Nov 48 - Oct 49	60.8%
Jul 53 - May 54	14.6%
Aug 57 - Apr 58	21.6%
Apr 60 - Feb 61	59.3%
Dec 69 - Nov 70	43.5%
Nov 73 - Mar 75	63.5%
Jan 80 - Jul 80	31.0%
Jul 81 - Nov 82	77.4%
Jul 90 - Mar 91	30.5%
Mar 01 - Nov 01	70.5%
Dec 07 - Jun 09	79.0%
Feb 20 - Apr 20	56.5%
AVERAGE	51.6%
MEDIAN	59.3%

@Marlin_Capital

New positioning data for March paints a striking picture: Hedge Funds unloaded stocks at a record pace, while Retail Investors bought stocks at an equally unprecedented rate. In March, Hedge Funds Net sold global equities at the fastest pace in 12+ years.

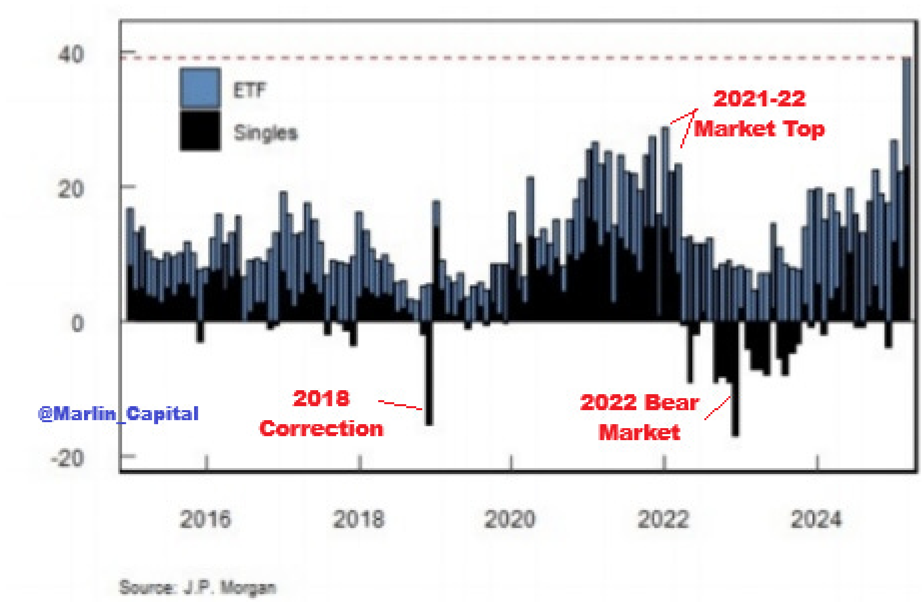


Source = GBM GSPB as of 4/1/2025

All 11 sectors of the stock market were net sold by Hedge Funds in March.

For retail, we talked last week about the dip buying from this investor cohort throughout Q1. In March, retail traders net bought $39B of equities, the largest monthly inflow on record. This is NOT capitulation. These retail investors who are buying the dip are going to get smoked, like always.

Figure 1: Retail monthly net imbalance broke a record in March

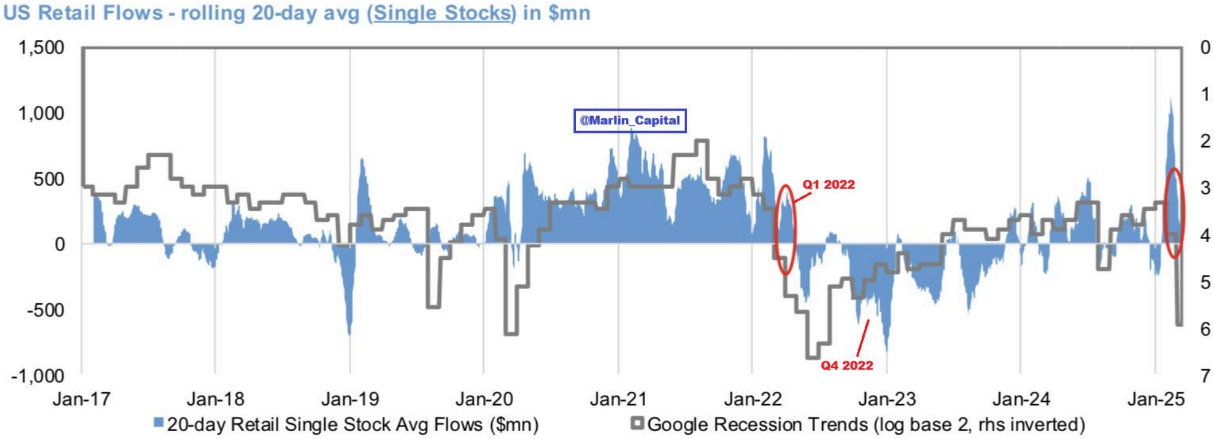


This was led by record monthly retail inflows to single stocks like NVDA, TSLA, AMD, and F.

Despite the record inflows, we saw retail demand start to taper off by the end of the month. The strongest buying was observed at the beginning of March, finally flipping to moderate selling at the end of the month when we began to sell off aggressively.

Overall, this type of retail dip buying behavior is reminiscent of Q1 2022. In Q1 2022, the first downside quarter after a roaring Bull Market was met with heavy retail dip buying.

US Retail Flows - rolling 20-day avg (Single Stocks) in $mn



Source: J.P. Morgan QDS Research, Google

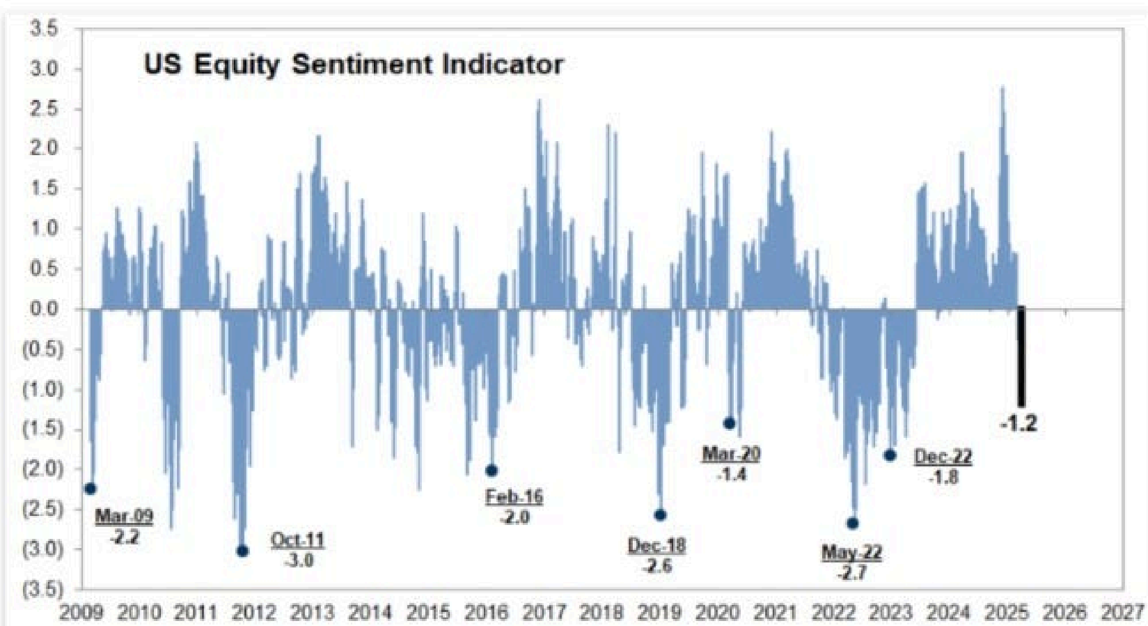
In my view, this dynamic makes us very vulnerable to future capitulation selling, potentially mirroring the sustained lows of 2022 (when retail investors finally turned sellers near the bear market bottom in October 2022).

There is no historical playbook for these tariffs. Markets are navigating uncharted waters now. These tariffs are much more significant and widespread than Trump's 2018 Trade War with China.

Recession probabilities are rising, earnings estimates are likely to remain under pressure, and capital flows have yet to show any signs of capitulation. Patience will be key, as the market has yet to show any signs of bottoming. I will be continuing to monitor capitulation signals, recession indicators, and earnings revisions to help guide me in calling a big picture market bottom.

Looking ahead, it's important to identify what we've experienced thus far. I can identify two key phases of this sell off — the first was the "positioning" cleanse that we've talked about for the last several weeks. These were the hedge funds who went from MAX LONG to LIGHT positioning in record timing. This caused the first -7% or so of a sell off.

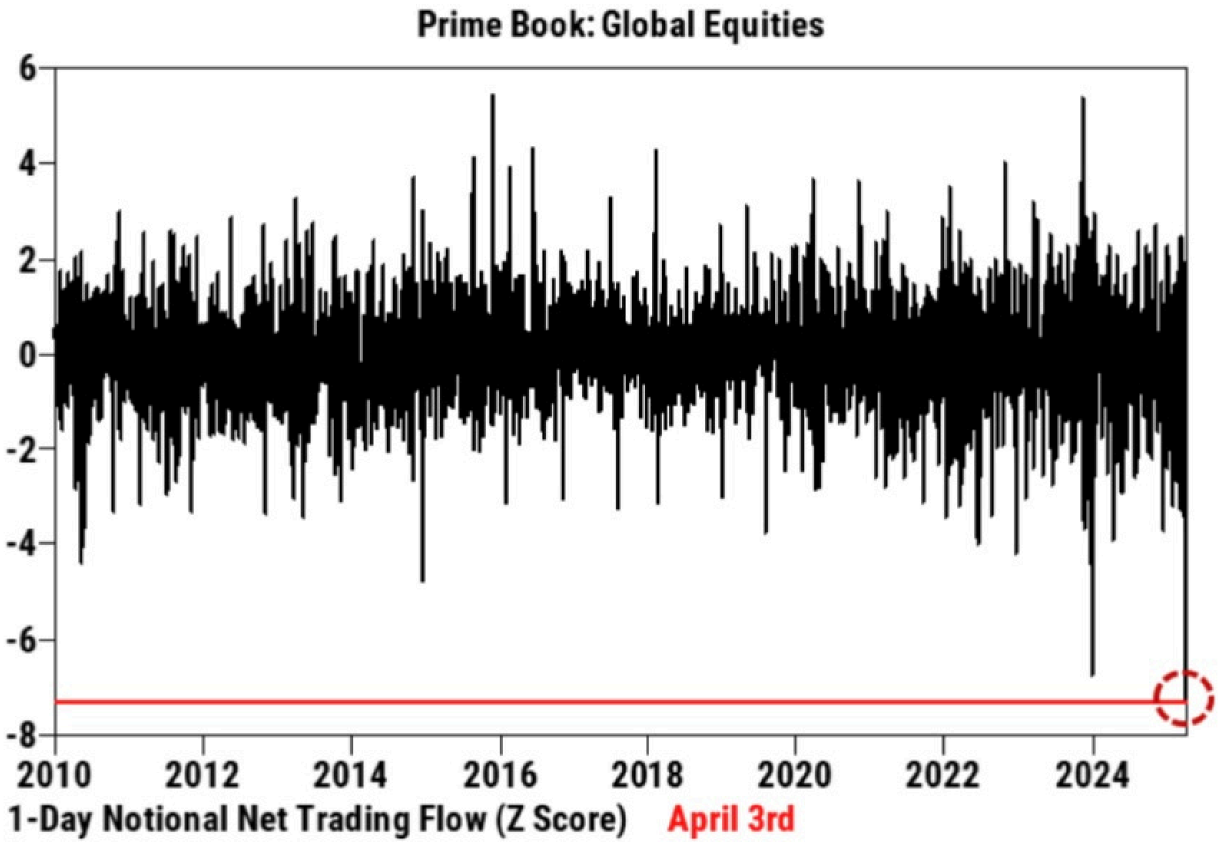
Exhibit 1: The Sentiment Indicator has declined but remains above levels from previous troughs



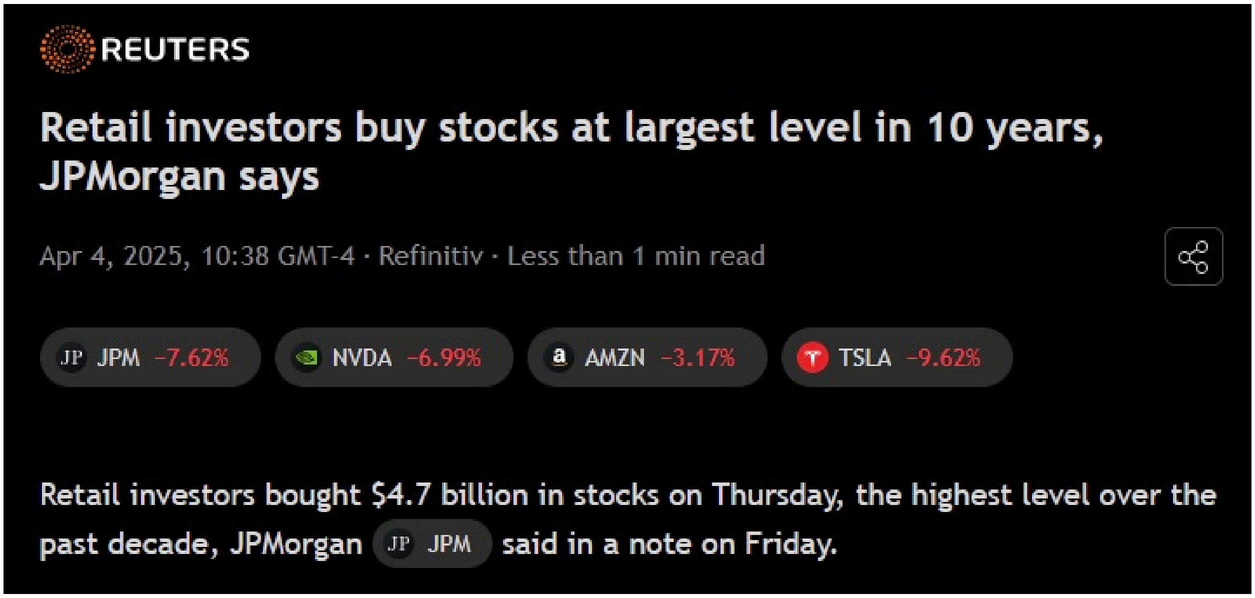
Source: Goldman Sachs Global Investment Research

The second phase of the sell off, the more dramatic one, happened after Liberation Day when Wall Street had to fundamentally re-price their earnings expectations from every single company now that tariffs are truly at play. The post-Liberation Day equity collapse suggests the market is getting ahead of future EPS cuts. In my view, we are seeing stocks preemptively adjust for EPS downgrades that I believe are inevitable.

Hedge Funds net sold the most equities on record last week after Liberation Day, while retail investors “bought the dip.” It’s hard to ignore the “Fear & Greed” index as published online by the likes of CNN, but it’s been in extreme fear for weeks now and things just continue to get worse.



What’s instead more important to focus on is positioning. The stock market is a voting machine in the short-term and we’re seeing people vote with their dollars right now.



REUTERS

Retail investors buy stocks at largest level in 10 years, JPMorgan says

Apr 4, 2025, 10:38 GMT-4 · Refinitiv · Less than 1 min read

JPM -7.62% NVDA -6.99% AMZN -3.17% TSLA -9.62%

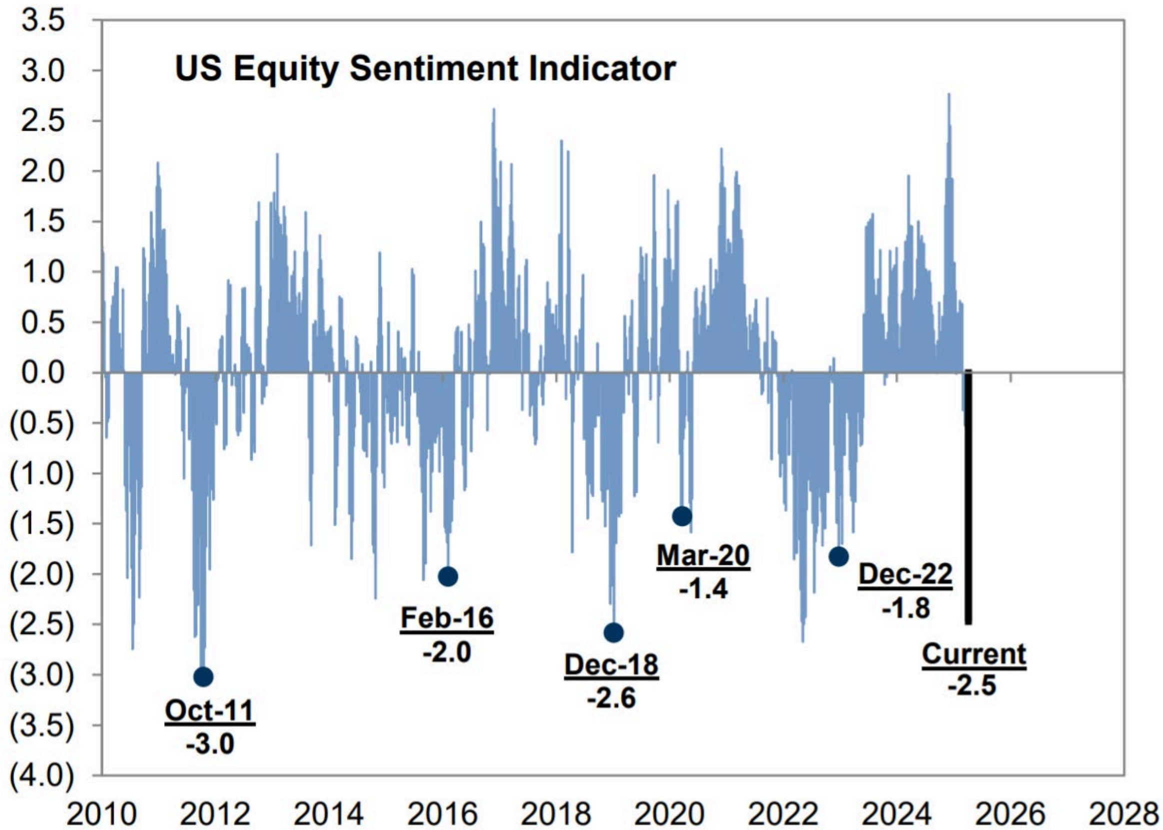
Retail investors bought $4.7 billion in stocks on Thursday, the highest level over the past decade, JPMorgan JPM said in a note on Friday.

Hedge funds are showing signs of panic (HUGE selling & shorting), but retail are not. Extreme fear, in my view, comes with heavy, synchronized selling across the board, not this split-screen dynamic.

Given that Retail has bought on most days YTD, I do not believe the individual investor has even started reducing positions (let alone capitulating). A capitulation of retail bullishness is far away.

This has been a much faster sell off than we saw in 2022. The Nasdaq is already down over -21% now, while 2022 was much more of a slower burn (10+ month Bear Market). Based on the price action, the current correction reminds me more of December 2018 or March 2020 (which were much quicker, sharper selloffs).

Exhibit 1: Equity investor positioning has declined sharply



Source: Goldman Sachs Global Investment Research

Take a moment to notice how quick this positioning unwind has occurred. We have gone from ATH long positioning to severely underweight in ~2 months. This is how you get the type of crashy market environment we have seen.

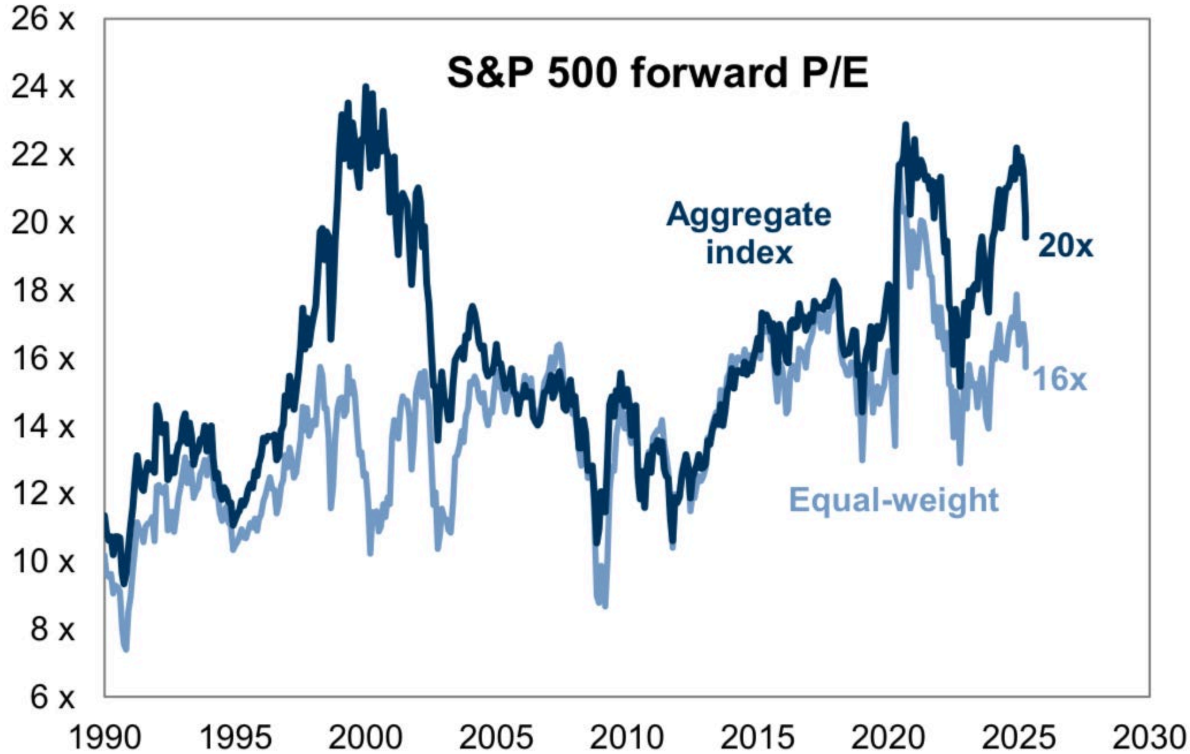
The technicals confirm the panic. The VIX, also known as Wall Street's Fear Gauge, spiked to 45 last week (its highest since the 2020 Covid Pandemic). Last week was nothing short of historic with the 2nd highest weekly VIX spike since the 2008 GFC (only behind the March 2020 Covid Crash).

A 45+ VIX level, throughout history, is tied to strong forward returns (for long term investors). Here's every time this has happened in the past along with what the S&P 500 did over the next 1-5 years.

Highest Weekly $VIX Closes and Forward S&P 500 Total Returns (January 1990 - April 2025)						
Highest Weekly $VIX		Forward S&P 500 Total Returns				
Date	$VIX	1-Year	2-Year	3-Year	4-Year	5-Year
10/24/2008	79.1	26%	41%	51%	79%	122%
11/21/2008	72.7	40%	57%	62%	86%	151%
10/17/2008	70.3	19%	31%	39%	66%	102%
10/10/2008	70.0	22%	36%	37%	78%	110%
11/14/2008	66.3	28%	44%	55%	73%	126%
3/20/2020	66.0	73%	100%	78%	137%	164%
3/27/2020	65.5	59%	84%	64%	120%	141%
12/5/2008	59.9	29%	46%	52%	76%	130%
10/31/2008	59.9	10%	28%	42%	59%	103%
3/13/2020	57.8	48%	60%	49%	101%	130%
11/7/2008	56.1	18%	38%	44%	66%	111%
11/28/2008	55.3	25%	39%	38%	72%	125%
12/12/2008	54.3	29%	47%	52%	76%	129%
3/6/2009	49.3	70%	102%	113%	142%	203%
2/20/2009	49.3	47%	82%	88%	115%	166%
1/23/2009	47.8	34%	61%	69%	95%	146%
4/3/2020	46.8	64%	88%	73%	125%	142%
2/27/2009	46.4	54%	87%	98%	125%	178%
1/16/2009	46.1	37%	59%	62%	89%	142%
3/20/2009	45.9	54%	73%	95%	121%	167%
4/4/2025	**45.3**					
Average (21 Highest $VIX)		39%	60%	63%	95%	139%
Average All Other Periods		12%	21%	31%	42%	53%
Differential		**28%**	**39%**	**32%**	**53%**	**86%**

CREATIVE PLANNING @CharlieBilello

Exhibit 41: S&P 500 consensus forward 12-month P/E



Source: Compustat, FactSet, IBES, Goldman Sachs Global Investment Research

The S&P 500's 12M Forward P/E ratio currently sits at 18.6x, well above historical Bear Market bottoms. In fact, looking at the last 10 times the S&P 500 was down this much (-17.5% +), the highest SPX forward P/E for a bottom was 16x in 1998. The current P/E (18.6x) is still 14% above the priciest P/E bottom, and 30% above the median P/E bottom.

Event	SPX Decline	SPX Fwd P/E Bottom
2025 Tariff Tank	-17.5%	?
2022 Bear Market	-25.4%	15.4x
2020 Covid Crash	-33.9%	13x
2018 Q4 Rate Shock	-19.8%	14x
2011 Eurozone Crisis	-19.4%	12x
2008 GFC	-56.8%	9x
2002 Dot Com Bust	-49.1%	14x
1998 Asian Financial Crisis	-19.3%	16x
1990 Recession	-19.9%	13x
1987 Black Monday	-33.5%	11x
1982 Stagflation	-27.1%	8x
AVERAGE	*-28.3%*	*12.5x*
MEDIAN	*-22.7%*	*13x*

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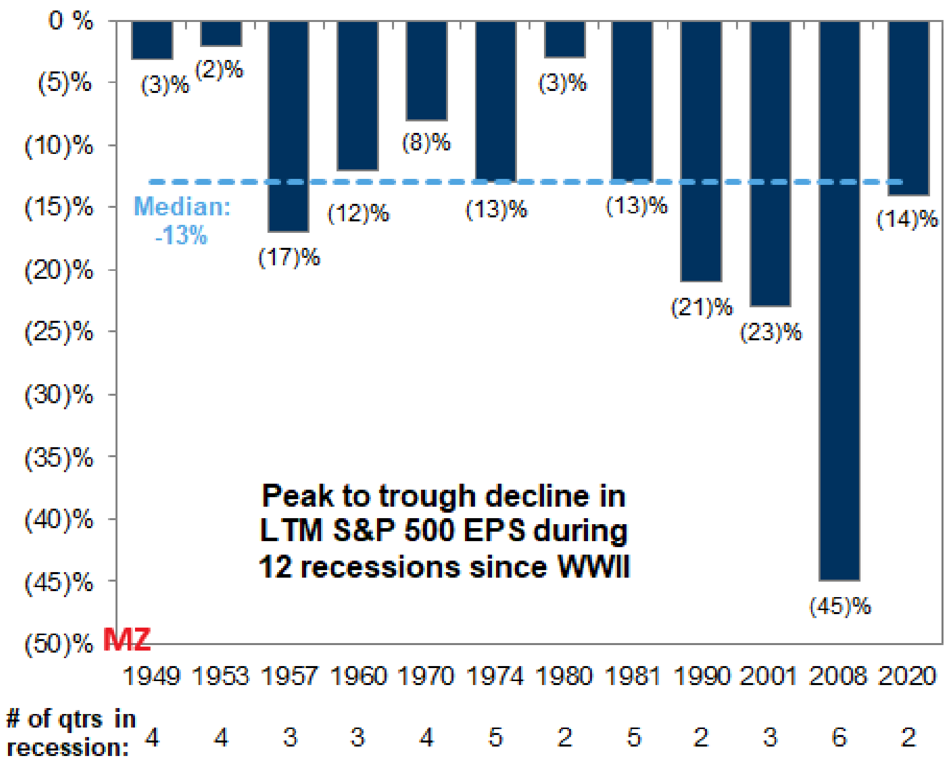
Exhibit 4: S&P 500 EPS have dropped by a median of 13% during recessions since WWII



Source: Goldman Sachs Global Investment Research

Yet, current forecasts show only a -2% revision from highs (and a projected +10% YoY growth rate for EPS in 2025). Even after the 2 day market crash to close last week, the below "EPS vs P/E matrix" from BofA shows that deep cuts are **not** priced in.

Chart 8: $250 x 20x would be 1st "recession floor" for SPX

The S&P 500 EPS vs. P/E 'Matrix'

P/E multiple \ S&P 500 12m fwd EPS	230	250	270	290	310
16.0	3680	4000	4320	4640	4960
18.0	4140	4500	4860	5220	5580
20.0	4600	5000	5400	5800	6200
22.0	5060	5500	5940	6380	6820
24.0	5520	6000	6480	6960	7440

Source: BofA Global Investment Strategy, Bloomberg

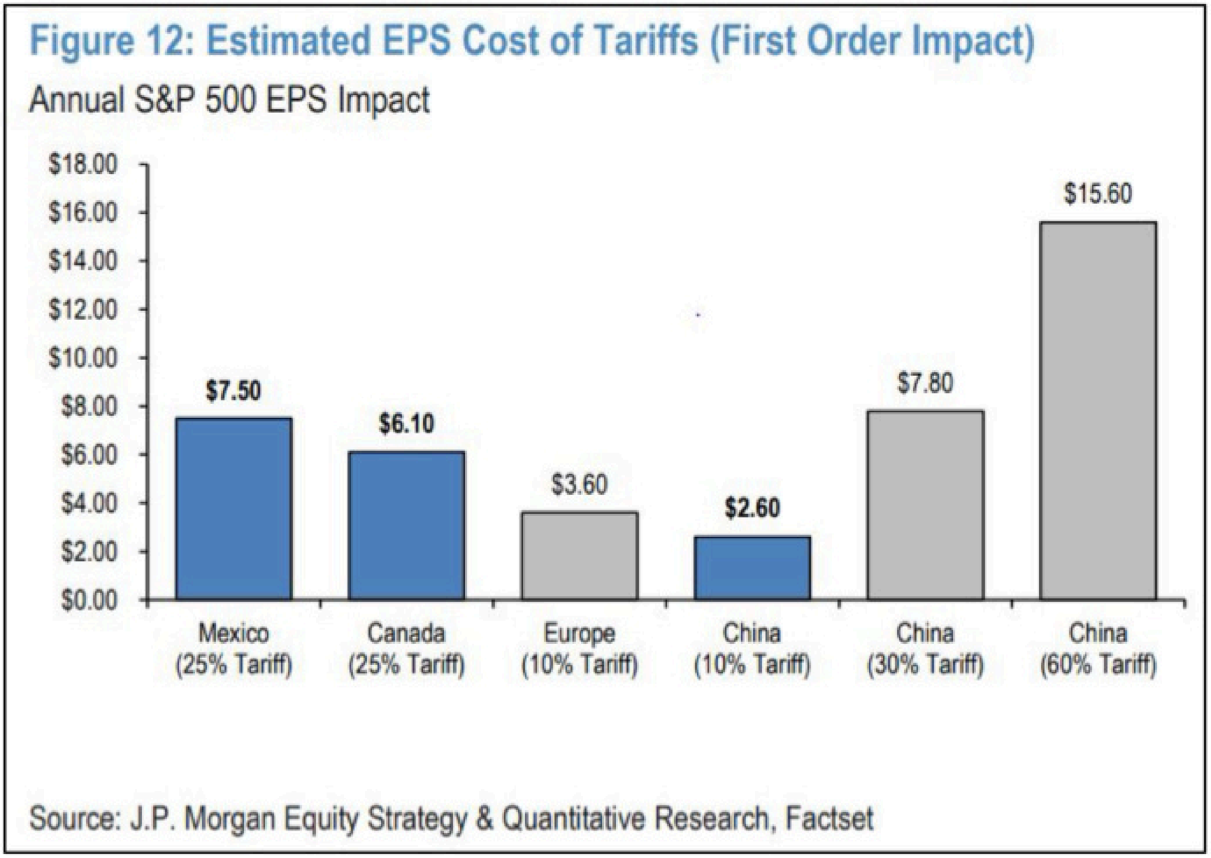
The consensus 12M forward EPS estimate is just below $270 right now, which is calling for +10% EPS growth in 2025.

Let's say EPS estimates get revised down to $250 (a -7.5% negative revision from current expectations), which would still signify positive EPS growth in 2025 (of +3%). At $250 EPS, even an 18x P/E would take the SPX to $4500. As I mentioned before — a Bear Market has never actually bottomed above a 16x P/E (which would take the SPX to $4000). The 2022 Bear Market bottomed closer to 15X P/E ($3750) which is another -25% from here…

Earnings risk is HUGE right now for the stock market.

From JPM yesterday:

"We reduce FY25 SPX consensus by $29.20 given the impact from tariffs on Canada, China, and Mexico. If we include an additional reduction of $20 to include the impact from RoW, we reduce by ~$50. Current consensus for EPS is $268 avg."



Looking at the matrix below, a consensus earnings reduction from $268 average to the $220-$240 region is the big risk now plaguing the market. Even at an 18x P/E (which would be the highest Bear Market bottom P/E ever), we would have downside to the lower $4k area in the SPX.

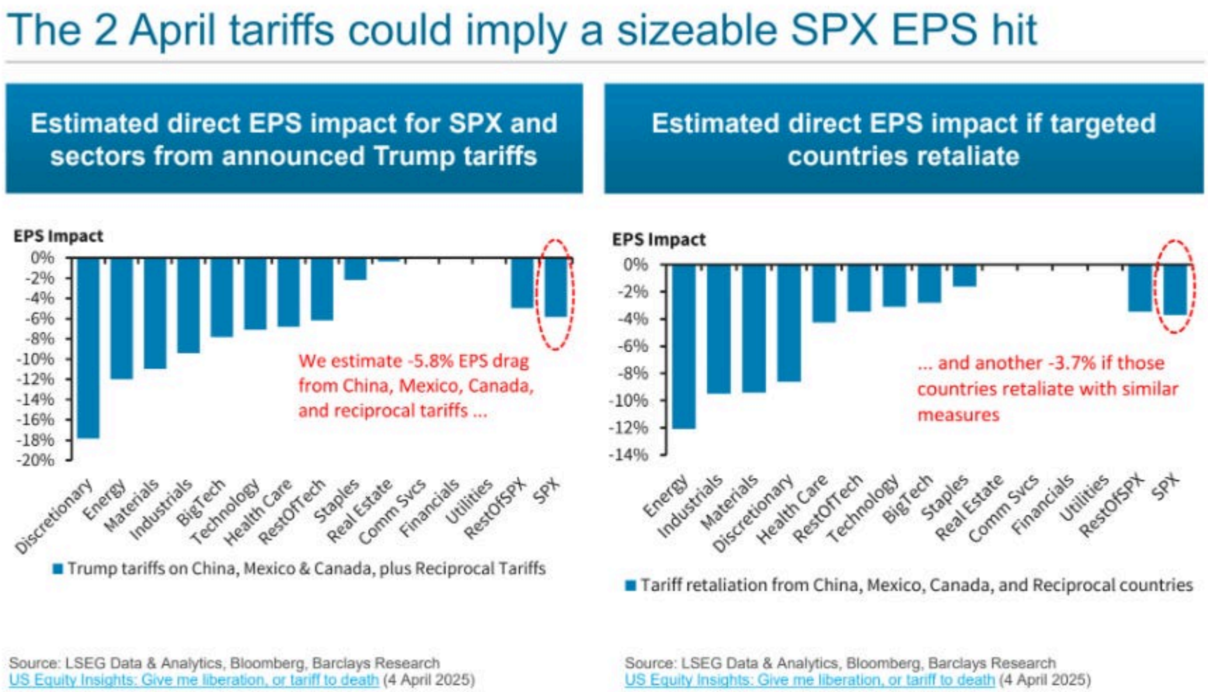
	Consensus FY25 estimates are $266 (t/d) and $270 (b/u)						
SPX	$ 200.00	$ 210.00	$ 220.00	$ 230.00	$ 240.00	$ 250.00	$ 260.00
18.0	3,600	3,780	3,960	4,140	4,320	4,500	4,680
18.5	3,700	3,885	4,070	4,255	4,440	4,625	4,810
19.0	3,800	3,990	4,180	4,370	4,560	4,750	4,940
19.5	3,900	4,095	4,290	4,485	4,680	4,875	5,070
20.0	4,000	4,200	4,400	4,600	4,800	5,000	5,200
20.5	4,100	4,305	4,510	4,715	4,920	5,125	5,330
21.0	4,200	4,410	4,620	4,830	5,040	5,250	5,460
21.5	4,300	4,515	4,730	4,945	5,160	5,375	5,590
22.0	4,400	4,620	4,840	5,060	5,280	5,500	5,720
22.5	4,500	4,725	4,950	5,175	5,400	5,625	5,850
23.0	4,600	4,830	5,060	5,290	5,520	5,750	5,980
23.5	4,700	4,935	5,170	5,405	5,640	5,875	6,110

Source: JPM US Market Intelligence.

Forward P/E		2025 EPS scenario		
		Recession scenario **$220**	GS baseline **$253**	Bottom-up consensus **$269**
	y/y growth	*(-11%)*	*(+3%)*	*(+9%)*
22x	*Jan. 2025*	-13% 4850	-1% 5550	6% 5900
20x	*5-year avg*	-21% 4400	-10% 5050	-3% 5400
18x	10-year avg	-29% 3950	-18% 4550	-13% 4850
16x	30-year avg	-37% 3500	-27% 4050	-23% 4300
14x	*2018 low*	-44% 3100	-36% 3550	-33% 3750

Source: Goldman Sachs Global Investment Research.

Global Investment Research



President Trump raised the China tariff to 104%. This would translate to a $26 EPS hit, bringing consensus SPX EPS down to $242 (just from current China tariffs alone).

Goldman has stated that their “Recession Case” is $220 EPS (as mentioned above), which reflects a -11% YoY decline. Such a drop (-11%) would be in line with historical recessionary norms.

Nomura’s top economist, Charlie McElligott, believes that tariffs will push us into a recession, and that they will be a “substantial growth drag.”

- But all that said, **nothing would really change there in this "Less Bad Tariff Outcome" scenario as it relates to the eventual "knock-on" of Tariffs into a still extremely substantial "Growth Drag":**

    - **Initial price-shock hits consumption, as Consumer spending behavior is hit and they tighten purse strings…which leads to a bad set of options for Corporates, margins compress at risk of lower Earnings,** as they deal with either absorbing some of Tariff cost…or losing sales if they pass through costs…or reducing headcount

      Lower EPS / margins and-or job losses as Corps cut cost then see Growth hit hard, and the Consumer-driven US Econ finally hits the wall and at that point, real delta to enter Recession, even on this "less bad" scenario

It sounds odd to call the market expensive at -20% off highs, but as I mentioned above, valuations got historically elevated this cycle. This elevated P/E was driven by optimism in Big Tech & AI and expectations of double digit EPS growth (+13%) this year. Now, tariff-related growth drags have lowered EPS estimates, and in some cases, flattened them completely.

I think we will continue to see earnings revised down to $240-$250 EPS across the board, which means we are currently trading at around 20x P/E.

The risk: prolonged tariffs, particularly on China, could force earnings all the way down to $220.

Attaching a normal P/E multiple like 18x or 16x on $220 earnings suggests the market would have to see -20% + downside from here.

This is a double whammy, because we still need to see the typical Bear Cycle multiple compression we are already getting, but that could come in addition to falling earnings. This is the Recession Roulette and why I do not believe a recession is currently priced into the market.

With earnings season about to kick off, this will be a pivotal quarter for US stocks. The big concern in Q1 Earnings is that despite last quarter's numbers likely looking completely fine, the worries are about guidance due to the forward visibility concerns from global trade and the impact on consumers. So, if corporations use this environment to guide down or even profit, we are likely looking at a deeper selloff to come.