Dudack Research Group
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Direct from Dudack

Retaliation

The early morning news that China is retaliating with 34% tariffs on all imported US goods starting on April 10th is feeding fears of a recession and a global trade war. China is perhaps in the best position of all countries to retaliate, but equally important, it poses the possibility that other countries will follow suit. This would, of course, be the worst-case scenario for the Trump administration. China's move has also been the catalyst for several Wall Street firms raising the odds of a recession in the US to more than 50%. Likewise, the high yield corporate bond yield spread soared to 401 basis points, its widest since November 2023.

Today is also employment day, but since the federal employee cutbacks are unlikely to have an impact on the numbers yet, we expect this report will be benign and show slow steady growth in jobs.

There are many possibilities regarding tariffs at this juncture. The Trump administration could announce a number of carve-outs, along with successful negotiations with countries where tariffs have been lowered or totally eliminated and call on China to come to the negotiating table. This would be an opportunity for further negotiations that would lower tariffs and trade barriers across the board and help define an end game for the administration. Or, since nearly all of President Trump's actions have been challenged by various groups and district attorney generals in the court system, tariffs could follow suit. If so, the court system could stall and potentially block the administration's entire tariff regime. Or the worst case would be a full-blown tariff war, triggering fears of a global recession.

Today is the last day of the week, a lot of news could unfold over the weekend, and this makes it unlikely that traders will be willing to take a major stand on stocks today. Not surprisingly, markets look like they will open substantially lower. This reminds us of other major panic lows, such as in 1987, in which sequential downdrafts on Thursday and Friday were followed by a huge selloff on Monday morning, until the market reverses on Monday afternoon. Many major bear markets have ended in a similar pattern.

However, what is still missing in our technical indicators is extreme panic, which is identified when 90% of the daily volume is in declining stocks. Yesterday's session was an 87% down day but it fell short of 90%. These 90% down days are helpful in a bear market because they usually materialize in a series, and the appearance of a 90% up day helps to identify the low – it indicates that the worst of the decline is over. In sum, a 90% up day denotes buyers have returned to the market with conviction. (Our indicators use NYSE volume only in order to eliminate the noise of program/algorithmic/day trading which does not reflect a market stance.) Since we are yet to see a 90% down day, and panic is clearly in the air, investors should be cautious in the very near term since one is apt to appear.

The news surrounding the announcement of "Liberation Day" tariffs is purely negative, and though we have a difficult time finding a positive side, we cannot help but think of the Chinese word for "crisis" which is the combination of the characters for "danger" plus "opportunity/inflection point." For long term investors remember that even though earnings forecasts will also be in flux, falling prices are finally generating value in the equity market.

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