Chris Hyzy: This is Chris Hyzy, chief investment officer, for the May viewpoint titled Game Time.

In our view, it's game time for the markets in the next couple of months for a few specific reasons. First, after cutting the drawdown in half in the last couple of weeks, the equity markets will need to see positive movement on trade deals to keep volatility from heading higher. Investors will likely applaud what we call letters of understanding or trade memorandum-type frameworks announced in order to begin assessing the most likely path forward. Trade deals take a long time to finalize, but agreements could happen sooner rather than later. This is equally important for the bond market as well, not just equities. Weeks of treasury yields and credit spreads, for that matter, to remain locked in a relatively tight range into the summer months.

Although economic growth is being revised lower by the economics community, the probability of a recession for a majority of economists is still slightly below 40% at present. Now yes, it is up from about 15% to begin the year and prior to so-called tariff liberation day on April 2nd, but it is not yet over 50%. The biggest concern in this regard is the delayed hit from a sharp drop in consumer goods shipping activity between China and the United States. We could begin to see the softness in the next one to two months, absent any change in negotiations between the two countries. This softness is already being picked up, in our opinion, in downward earnings estimate revisions being pulled through in consumer discretionary companies as they announced their first quarter earnings.

Our base case remains very slow real GDP growth in the United States overall with mid- to single-digit earnings growth for the S&P 500, given our view that the growth slump could be balanced out to a certain degree by low oil and gas prices, slightly higher wage growth, and lower debt costs relative to last year. Now this dynamic will be the key for the second quarter through the fourth quarter as it relates to whether recession probabilities rise or fade, as we believe in our base case.

Second, as we approach the summer months, investors will also need to see positive momentum on the extension of the 2017 Tax Cuts and Jobs Act known as TJCA. An important factor here is in addition to the extension, investors will also look for the inclusion of what we call growth tailwind and transparent deregulation initiatives. We believe the inclusion of potential tailwinds that could help cushion and/or boost corporate margins would support a turn in investor sentiment.

Finally, another boost to investor sentiment would be visible evidence that the increased tariffs, if they do remain, are not necessarily medium to long-term inflationary, rather, they generally lead to short-term knee jerk price hikes that may fade in time as demand ultimately wanes.

One point to watch here is the downward adjustment to housing inflation and oil prices in the coming months to balance out some of these price hikes. Rental prices could adjust lower as demand for apartments wanes, given lower immigration, and therefore, the potential for lower demand for multifamily housing. This still remains to be seen, but it could become an important factor, in our opinion.

In summary, it's game time in the coming months on a few important fronts. We expect a sawtooth market price action that includes relief rallies and then exhale to continue in the short term as trade deal headlines combined with concerns over stagflation.

We remain overweight equities relative to fixed income, and continue to be balanced and diversified across all assets. Our base case and slightly bullish scenarios represent around 55% on a combined basis, 45% as our base case, and about 10% is our bull case versus the bear scenarios at about 45% combined. The bear scenario at 35% and the grizzly at 10%, which includes – is not our base case, but a one in 10 possible chance of a deeper than expected recession.

Longer term investors that drift too far from their asset allocation objectives as market volatility picks up from time to time should consider rebalancing. In other words, adding to equities on weakness as we believe ultimately, we resume better growth prospects for the economy and earnings in 2026.

That'll do it for today. Thanks for listening.

Operator: Please see important information provided in this report.

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