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# Weekly Market Flash

## Yoga Pants Blues

*March 28, 2025*

As the current corporate earnings season winds down, the last companies to report are giving us a preview of what to expect when the Q1 numbers start coming out next month; notably, that consumers are increasingly unhappy with the current state of things and even less happy with what they imagine the state of things will be later on this year. The less happy the consumer is, the less likely she will be to shell out $100 for a pair of yoga pants, a message delivered loud and clear by upscale athleisure wear maker Lululemon in the company's Q4 earnings report yesterday.

### Sour Lemons

Lululemon joins a bevy of consumer-facing companies that have been guiding future sales and earnings lower amid the never-ending uncertainty around tariffs and prices. Nike, one of its main rivals in the athletic wear segment, saw its share price hit a five-year low last week as the company forecast an unexpectedly large drop in revenue, citing tariffs and the potential for a global trade war as distinctly unhelpful to efforts to increase sales. FedEx, widely seen as a proxy for consumer activity (those goods have to get to your house somehow), also flagged consumer caution and general macro uncertainty in its most recent earnings release. Macy's, Kohl's and other brick-and-mortar department stores are closing hundreds of locations while others, including of late Party City and fabric & crafts emporium Joann's have called it quits for good.

Consumer sentiment surveys validate this recent stream of dour reports. The University of Michigan Consumer Sentiment index was revised lower in its final version today, the third monthly decline in a row and the lowest since July 2022, roughly the time when inflation hit a high of nine percent. Of perhaps greater concern is the rise in long-run inflation expectations, which jumped to 4.1 percent in the revised report. Meanwhile, the Conference Board's Consumer Confidence index, released earlier this week, touched its lowest level in 12 years for the expectations category. Say what you will about how well-informed the average American consumer is, but he or she appears to have a clear understanding about the relationship between tariffs and consumer prices.

### Parsing the 4/2 Tea Leaves

At this point, all that chronically confused investors are hoping for next week is some clarity. April 2 is supposed to be the day when all the tariff pieces fall into place; the reality is likely to be far different. Tariffs on automotive vehicles and component parts appear to be the category on which analysts can most confidently hang their hats – 2.5 percent initially then increasing to 25 percent, supposedly with no exceptions (but there is almost never an instance where "no exceptions" apply, so…). Mexico, the EU and Japan top the list of countries most affected by this measure, each with more than $40 billion in completed vehicle exports to the US annually, and another $50-odd billion in components from Mexico alone. But then there are the broad-based reciprocal tariffs, which will vary by country and product type, and probably a separate tariff regime for lumber and pharmaceutical products, and maybe copper, and possibly some kind of a break for China if something good happens with the TikTok situation, whatever that means. So yes, the "fog of war" continues to apply to the trade war.

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We expect the growth environment is going to be challenged for some time to come. There are still pockets of relative attractiveness among certain defensive sectors in the market, and prudent diversification among appropriate asset class exposures remains, in our opinion, a better strategy than a knee-jerk retreat into cash. But there is no doubt that these are trying times, for investors, consumers and businesses alike – and they could be so much less trying with just a little more thoughtfulness and discretion from our government policymakers.

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