



AOR Insights: What a Difference a Week Makes

May 12, 2025

In our monthly AOR Update last week, we highlighted that “the risk-reward tradeoff facing both the economy and financial markets skews to the downside at present. A positive change in trade policy or a renewed focus from the administration on its supply-side agenda (deregulation, tax cuts/fiscal support) could shift the skew to be more favorable. However, [prompt action is likely needed](#) in order to counteract the negative (and building) effects of elevated uncertainty.”

In the week since, prompt action has been taken with the Trump administration announcing trade truces with the United Kingdom and (more importantly) China, with further deals expected. Simultaneously, details on the budget reconciliation process have begun to come into view as the bill moves into committee markup phase. These catalysts have combined to reduce uncertainty and take many of the worst-case scenarios for the economy and equity markets off the table. As a result, we believe the risk-reward tradeoff is coming back into better balance, prompting us to remove the subjective [“extra” 15% probability we had added](#) on top of the ClearBridge Recession Risk Dashboard’s ~35% chance of a recession over the next 12 months.

ClearBridge Recession Risk Dashboard

	April 30, 2025	March 31	February 28	January 31
Consumer	Housing Permits	↑	↑	↑
	Job Sentiment	×	×	×
	Jobless Claims	↑	↑	↑
	Retail Sales	↑	↑	↑
	Wage Growth	↑	↑	↑
Business Activity	Commodities	↑	↑	↑
	ISM New Orders	×	●	↑
	Profit Margins	●	↑	↑
	Truck Shipments	●	●	●
Financial	Credit Spreads	↑	↑	↑
	Money Supply	↑	↑	↑
	Yield Curve	×	×	●
Overall Signal		↑	↑	↑

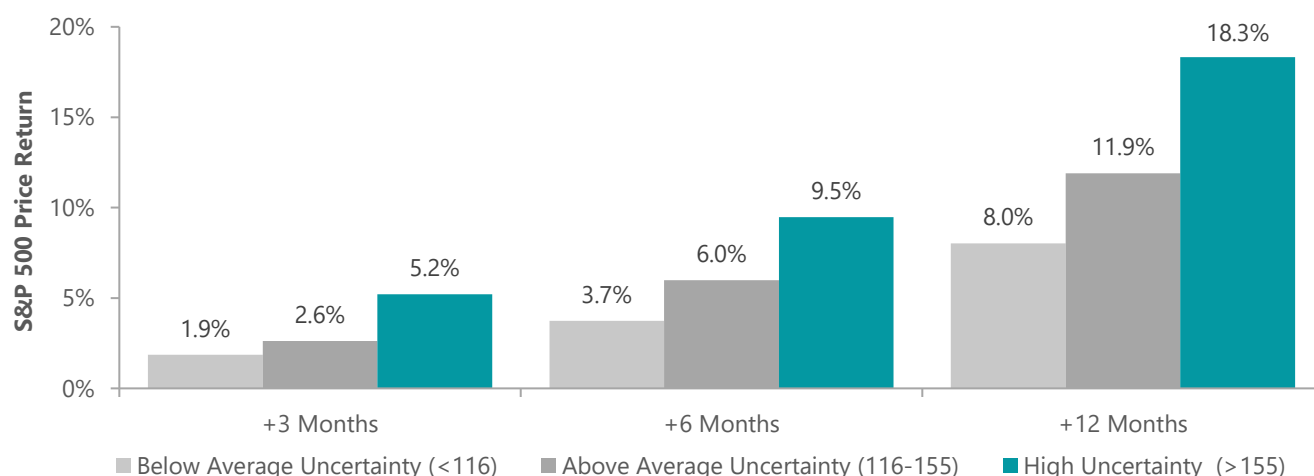
↑ Expansion ● Caution × Recession

Data as of April 30, 2025. Sources: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, Bloomberg, CME, FactSet and Macrobond. The ClearBridge Recession Risk Dashboard was created in January 2016. References to the signals it would have sent in the years prior to January 2016 are based on how the underlying data was reflected in the component indicators at the time.

The reduction in recessionary odds is likely to be a primary driver for equity markets in the near-term, with cyclicals and small caps building upon the relative strength shown over the last two weeks. However, we believe much of the good news has already been priced into equities. As a result, a period of digestion may play out in the coming months as economic growth slows from a still meaningful increase in effective U.S. tariff rates and the risk of higher inflation keeping the Federal Reserve on the sidelines through the summer.

Historically, investors have been rewarded for staying the course during periods of heightened uncertainty. While the recent rally may temper returns vs. historic norms as uncertainty wanes, we believe the direction of travel for U.S. equities over the coming year is higher as greater clarity on both the trade policy and fiscal front continues to emerge.

Certainty in Uncertainty: Average S&P 500 Returns Based on Starting U.S. Policy Uncertainty Index Level



Note: Data shown from 1985 – present. Data as of April 1, 2025. Sources: Macrobond, S&P, FactSet, Economic Policy Uncertainty.

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