LORD ABBETT®

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Investment Perspectives

A Bull Market in Uncertainty

Equity markets have historically shown resilience, recovering well after periods of volatility and uncertainty.

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Key Takeaways

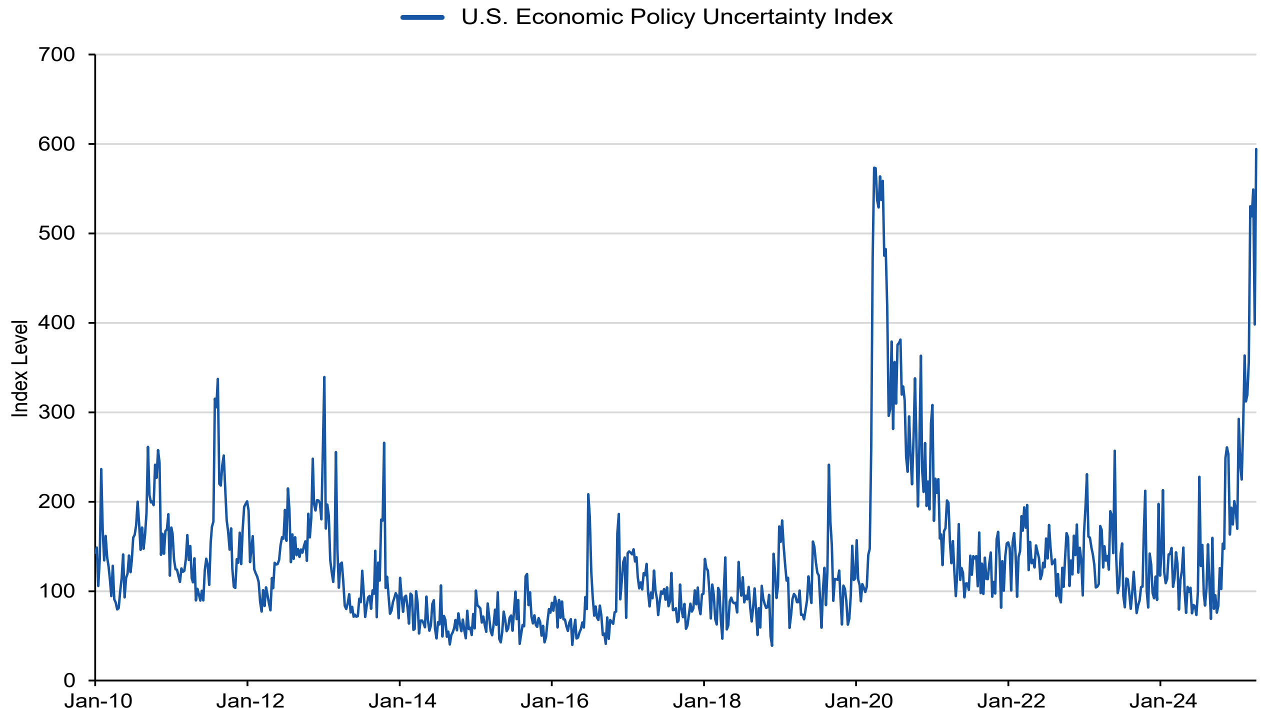
- Tariffs have introduced an unexpected fiscal shock that could be a drag on GDP growth and earnings.
- Several important indicators show a surge in uncertainty and bearishness—historically these periods are followed by resilient recoveries over time.
- We believe active management and a focus on high-quality companies with durable competitive advantages are a prudent approach in this environment.

The bull market in "animal spirits" has given way to a bull market in uncertainty after worse-than-expected tariff announcements. This new unexpected potential fiscal drag is causing Wall Street economists to raise the probability of a recession, which pressures the forecast earnings growth that fueled the bull market that began in 2023. Here are a few things investors should consider in light of the recent market volatility.

The new administration's actions have created a surge in policy and economic uncertainty as measured by the Baker, Bloom, and Davis uncertainty index.[1] This index has been in production for 40 years and last reached such heights during March 2020. Following periods of elevated levels of policy uncertainty, the U.S. equity market, represented by the S&P 500 Index®, has provided above-average forward returns, shown in Figure 1.

Figure 1. S&P 500 Index Forward Returns Following Periods of Elevated Uncertainty

U.S. Economic Policy Uncertainty Index level, January 2, 2010–April 6, 2025, (top panel) and S&P 500 Index forward returns following the Economic Policy Uncertainty Index high in each calendar year shown



Year	Policy Uncertainty Index High (date)	Policy Uncertainty Index High (level)	S&P 500 Index 6-Month Forward Return	S&P 500 Index 12-Month Forward Return	S&P 500 Index 24-Month Forward Return
2024	January 9, 2024	1,026.4	18.1%	26.1%	N/A
2023	December 19, 2023	632.4	15.9%	24.7%	N/A
2022	January 16, 2022	507.7	-16.5%	-12.8%	5.6%
2021	January 1, 2021	429.5	15.9%	28.7%	5.4%
2020	May 17, 2020	861.1	27.2%	47.4%	47.1%
2019	August 24, 2019	386.1	14.4%	22.9%	63.1%
2018	April 9, 2018	275.1	11.3%	12.4%	11.1%
2017	July 24, 2017	306.0	16.0%	16.4%	27.2%
2016	June 25, 2016	586.6	12.3%	22.2%	38.8%
2015	July 19, 2015	338.3	-10.6%	4.0%	21.4%
2014	March 23, 2014	259.9	7.3%	15.1%	13.8%
2013	January 1, 2013	548.5	14.4%	32.4%	50.5%
2012	January 1, 2012	419.0	9.5%	16.0%	53.5%
2011	September 3, 2011	570.1	18.0%	22.5%	46.0%
2010	October 14, 2010	402.9	13.1%	6.5%	27.0%
			Average 6-Month Forward Return	**Average 12-Month Forward Return**	**Average 24-Month Forward Return**
			11.1%	19.0%	31.6%

Source: Bloomberg and the Federal Reserve Bank of St. Louis. Data as of April 7, 2025. The Economic Policy Uncertainty Index for the United States is based on daily news coverage and is not seasonally adjusted. It was developed by Scott R. Baker, Nicholas Bloom, and Steven J. Davis. The index measures uncertainty by analyzing the frequency of media articles that discuss economic policy uncertainty. Returns shown are not annualized. The historical data are for illustrative purposes only, do not represent the performance of any specific portfolio managed by Lord Abbett or any particular investment, and are not intended to predict or depict future results. Investors may experience different results. Double-digit returns were achieved by the index primarily during favorable market conditions and may not be sustainable over time. No investor achieved these returns. Due to market volatility, the market may not perform in a similar manner in the future. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment. **Past performance is no indication or guarantee of future performance.**

Policy uncertainty has translated into pervasive bearishness. There are many surveys that measure investor sentiment, but the preeminent measure is the Investors Intelligence Bull/Bear Ratio, a survey that has been conducted with a consistent methodology since its inception in 1964. It is unusual for bears to outnumber bulls in this survey: Bears have outnumbered bulls only eight times in the last 15 years.[2] History shows that whenever bears outnumber bulls, investors have been rewarded with above-average returns over the next six and 12 months. The last two times this threshold was breached was in late 2022, which marked the end of the inflation-induced bear market, and the COVID-induced lows of March 2020.

Figure 2. S&P 500 Index Forward Returns as Sentiment Turns Bearish

S&P 500 Index forward returns in each period when bears have outnumbered bulls

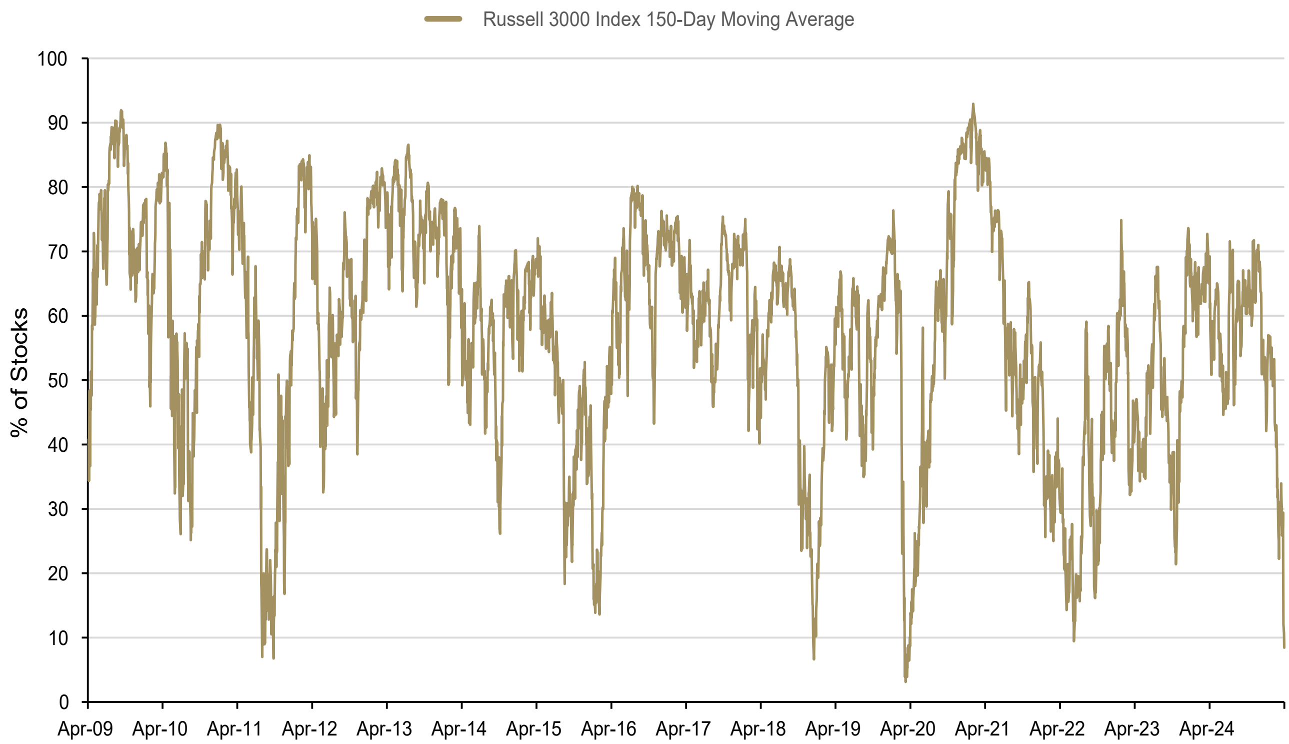
Bears Outnumber Bulls	S&P 500 Index 6-Month Forward Return	S&P 500 Index 12-Month Forward Return	S&P 500 Index 24-Month Forward Return
July 15, 2010	19.1%	22.4%	29.0%
September 15, 2011	17.3%	23.9%	45.9%
September 10, 2015	3.1%	11.4%	31.5%
January 14, 2016	13.9%	21.0%	51.1%
January 3, 2019	23.6%	34.8%	59.4%
March 26, 2020	26.6%	53.7%	78.1%
March 3, 2022	-9.3%	-5.7%	21.6%
September 22, 2022	5.7%	16.9%	56.5%
	Average 6-Month Forward Return	**Average 12-Month Forward Return**	**Average 24-Month Forward Return**
	12.5%	22.3%	46.6%
	% Positive	**% Positive**	**% Positive**
	87%	87%	100%

Source: Bloomberg. Data as of April 3, 2025. Returns shown are not annualized. The historical data are for illustrative purposes only, do not represent the performance of any specific portfolio managed by Lord Abbett or any particular investment, and are not intended to predict or depict future results. Investors may experience different results. Double-digit returns were achieved by the index primarily during favorable market conditions and may not be sustainable over time. No investor achieved these returns. Due to market volatility, the market may not perform in a similar manner in the future. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment. **Past performance is no indication or guarantee of future performance.**

Finally, what investors are feeling (uncertainty), and what they are saying (sentiment surveys) is showing up in what they are doing. Specifically, the number of stocks trading above their 150-day moving averages has reached extreme levels, shown in Figure 3. When investors are selling indiscriminately, as these measures imply, investors' returns over the next six and 12 months have been above average.

Figure 3. Percent of Stocks Trading Above 150-Day Moving Average at Extreme Lows

Percent of stocks in the Russell 3000 Index® trading above 150-day moving average prices, April 9, 2009-April 8, 2025 (top panel), and S&P 500 Index average forward returns when stocks trading above 150-day moving average is below 10% (bottom panel)



% of stocks trading above 150-day moving average	S&P 500 Index 6-Month Forward Return	S&P 500 Index 12-Month Forward Return	S&P 500 Index 24-Month Forward Return
Below 10%	30.3%	51.2%	75.1%

Source: Bloomberg. Data as of April 8, 2025. Returns shown are not annualized. A moving average calculates the average price of an asset over a specified time period. The historical data are for illustrative purposes only, do not represent the performance of any specific portfolio managed by Lord Abbett or any particular investment, and are not intended to predict or depict future results. Investors may experience different results. Double-digit returns were achieved by the index primarily during favorable market conditions and may not be sustainable over time. No investor achieved these returns. Due to market volatility, the market may not perform in a similar manner in the future. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment. **Past performance is no indication or guarantee of future performance.**

Putting it all together, history has shown that equity market volatility has often been followed by resilient recoveries. These periods of anxiety don't resolve immediately, but the patient, opportunistic investor has historically reaped the benefits over the next six months, 12 months, and 24 months.

We believe Lord Abbett's active investment portfolios are well positioned for the current environment. A unifying principle for our equity strategies is the emphasis on high-quality companies with durable competitive advantages, led by skilled management teams. This approach spans both growth and value stocks in U.S. and non-U.S. markets.

We have a differentiated approach to identify what we believe are quality investments in that the quantitative metrics we use to define quality are not static. What works to identify quality in a value universe is not the same set of metrics that one should use in a growth universe. Furthermore, the set of metrics in a global or emerging markets universe cannot be the same as what one uses for a U.S.-focused portfolio. Our portfolio teams work closely with our quantitative experts in an effort to make sure that our expression of quality is consistent with the universe that we are interrogating and aligns with our investment philosophies. This is just one of the many ways our investment teams seek to deliver excess returns on behalf of our clients.

[1]Baker, Scott R., Bloom, Nick and Davis, Stephen J., Economic Policy Uncertainty Index for United States [USEPUINDXD], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/USEPUINDXD, April 8, 2025.

[2]deGraaf's Daily, Renaissance Macro Research, LLC, March 13, 2025.

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Bullish refers to an optimistic outlook and to a belief that certain investments may potentially increase in value in the future. Bearish refers to a pessimistic outlook and generally refers to a belief that certain investment prices may fall in the future.

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