

MARKETS

# Why the stock market's precipitous decline may have a long way to go

By [William Edwards](#)



Reuters / Lucas Jackson

Apr 12, 2025, 1:05 AM PT

➞ Share    📌 Save

Consumer sentiment has plummeted amid Trump's tariffs, signaling a potential economic downturn.

Unemployment and inflation expectations are rising, echoing past economic crises.

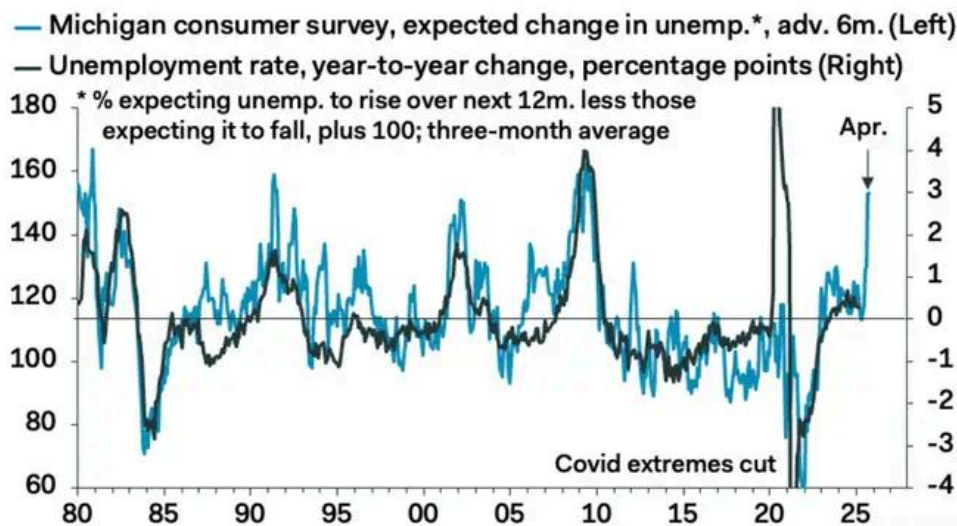
Experts warn of potential further stock declines amid high valuations and looming recession risks.

Stocks aren't the only thing that have collapsed in short order over since Trump's tariffs have taken effect.

The University of Michigan's Consumer Sentiment preliminary April data released on Friday revealed astounding declines in how consumers feel about the economy.

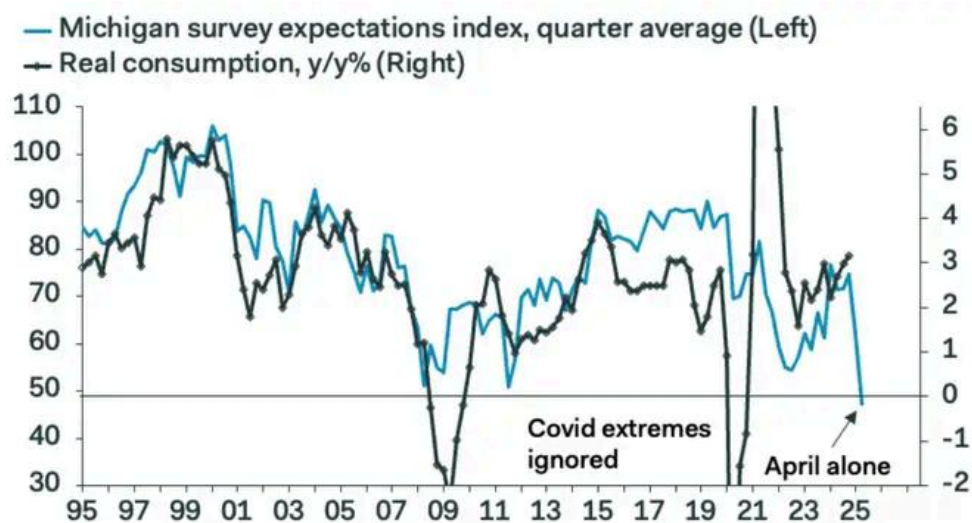
Many of the gauges in the survey have seen sentiment deteriorate to levels seen in prior economic fiascos.

Consumers' unemployment expectations for the next 12 months have spiked. Actual year-over-year change in unemployment usually follows suit.



Pantheon Macroeconomics

Consumer expectations about the economy in the short- and long-terms, as well as about their own situations, have also fallen off a cliff to a lower degree than was seen during the Global Financial Crisis. Historically, such a drop has been bad news for consumption.

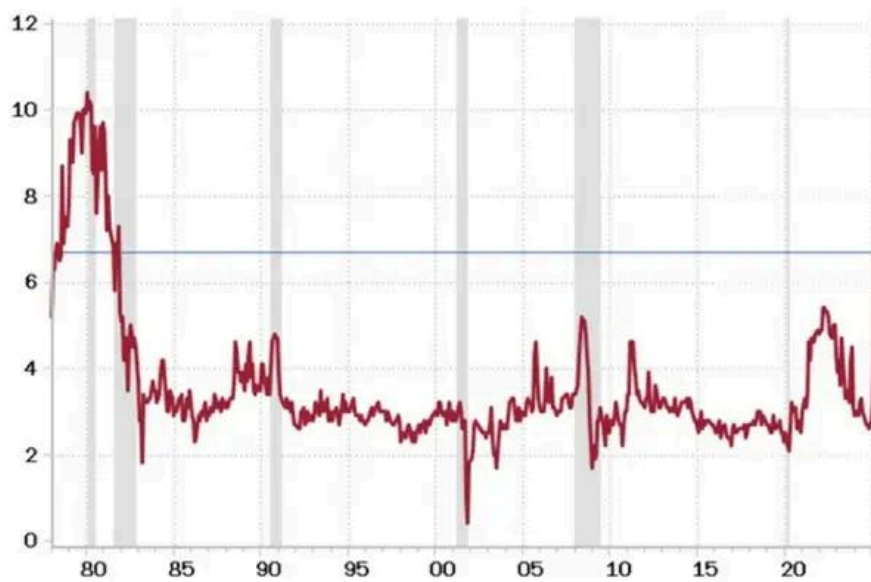


Pantheon Macroeconomics

Inflation expectations for the next year have also soared to the highest levels since 1981. Expectations for the next 5-10 years also jumped to the highest since the 1990s.

### 12-Month Inflation Expectations

United States: University of Michigan Survey of Consumers  
(percent)



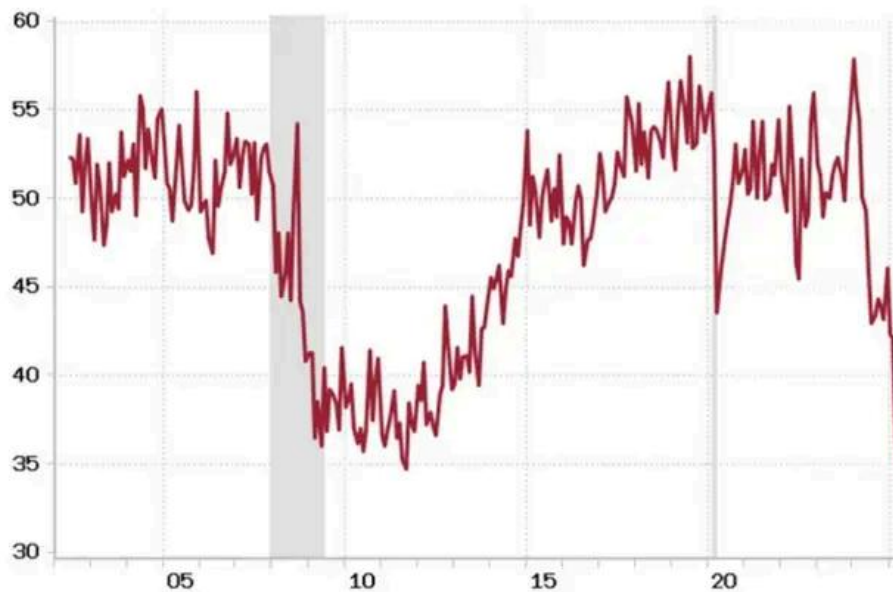
Shading indicates recession  
Source: Haver Analytics, University of Michigan, Rosenberg Research

Rosenberg Research

Consumers place the probability of their personal income increasing over the next 12 months at 35%, the lowest since 2011.

#### Probability of Personal Income Increasing in 1 Year

United States: University of Michigan Survey of Consumers  
(percent)



Shading indicates recession

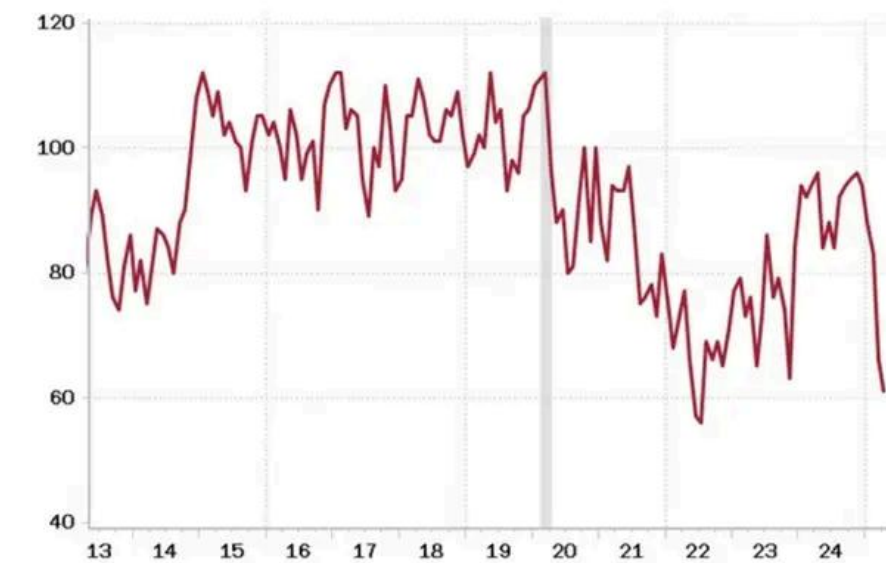
Source: Haver Analytics, University of Michigan, Rosenberg Research

Rosenberg Research

Consumers' outlooks about the business environment for the next half-decade also steeply dropped off to 2022 levels, when inflation was at its highest and the Fed was aggressively hiking interest rates.

### 5-Year Business Conditions Expectations

United States: *University of Michigan Survey of Consumers*  
(index)



Shading indicates recession

Source: Haver Analytics, University of Michigan, Rosenberg Research

Rosenberg Research

It's important to note that Trump's April 9 removal of his excess "reciprocal" tariffs on most countries was not taken into account, as survey collection stopped on April 8. But 10% baseline tariffs remain for most of the world, and 125% tariffs remain for China, a major trading partner for the US.

## More trouble ahead for stocks?

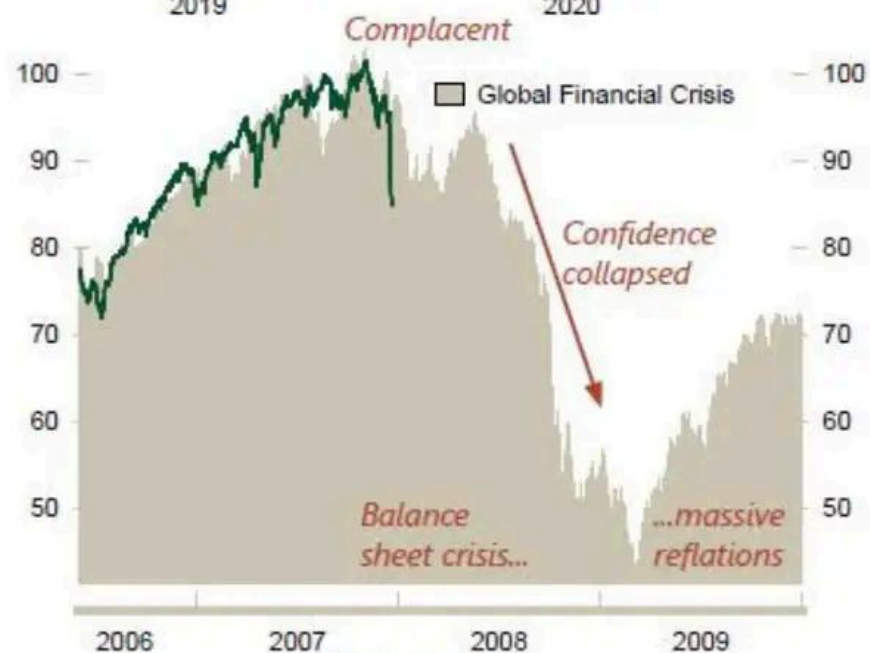
Given the rapid contraction in sentiment, a recession could be around the corner as consumers worry about rising prices and perhaps start to reduce spending. And despite the 12% decline already in the S&P 500 since mid-February, it also could signal further trouble for stocks, some Wall Street experts are warning.

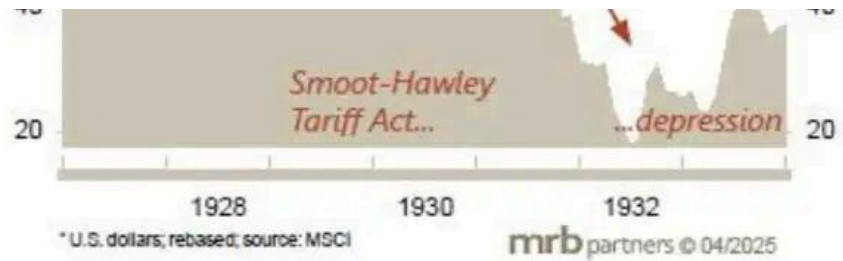
Phillip Colmar, managing partner and global strategist at MRB Partners, said in a client note on Thursday that prior instances where confidence has dropped so rapidly have meant steep bear markets for stocks. For example, during the pandemic, in the Global Financial Crisis, and during the 1929 crash caused in part by the Smoot-Hawley tariffs.

"Pushing forward with the trade war threatens to trigger a full-blown 'crisis of confidence' among consumers, businesses and investors that will be hard to reverse, as almost occurred over the past week," Colmar wrote. "Investors should continue to bet on an ongoing rotation away from the U.S. exceptionalism theme, and a narrowing of the valuation gap between U.S. and non-U.S. risk asset values."



Chart 10 Past "Crises Of Confidence"  
Provide An Ominous Warning





room for potential as market ahead.

"Even though they have corrected from their peak, it is important to remember that domestic large cap stocks started the year with historically high valuations and are still slightly more expensive than their long-term average," Atanasiu wrote in an email on Friday, adding that "the price to book ratio for U.S. large cap stocks was in the 82<sup>nd</sup> percentile of the 20 year historical range as of March 31."

In a recessionary scenario, UBS Wealth Management told clients on Friday that the S&P 500 could fall to 4,500 — meaning another 16% from current levels around 5,363, and a total peak-to-tough decline of almost 27%.

Tom Essaye, founder of Sevens Report Research, said he sees 4,680 as a reasonable worst-case scenario for the index assuming tariff uncertainty drags out and Trump's "reciprocal" tariffs are not reapplied.