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Morning Briefing

CEOs On Tariffs, Health Care & 3D-Printed Skin

Check out the accompanying [chart collection](#).

Executive Summary: The best laid plans of many a CEO have been blown asunder by Trump's Tariff Turmoil. Jackie reports on what corporate leaders are saying about the tariffs' potential impacts and the strategies they're considering to keep earnings aloft—and to keep smaller firms afloat. ... Also: Investors taking cover in the S&P 500 Health Care sector need to be selective: All of its industries don't offer the same degree of shelter from the tariffs storm. ... And: 3D printing isn't just for inanimate objects anymore. Scientists are developing ways to 3D-print human organs using live cells.

Strategy: CEOs Talk Tariffs. Just when CEOs finally started talking about the tangible impacts they believe Trump's Tariff Turmoil (TTT) was having on business, President Trump did an about-face and authorized a 90-day pause on reciprocal tariffs and lowered them to 10%. This applies to all US trading partners except China, which continues to face a 125% tariff.

The S&P 500 rose 9.5% on the news Wednesday but remains 7.2% lower ytd. Prior to Trump's about-face, CEOs were a very cautious bunch. Some predicted a US recession; some trimmed the 2025 forecasts for their companies; some noted that every conceivable countermeasure to mitigate tariff impacts, from cost cutting to raising prices, was on the table. Smaller companies, with less negotiating leverage, also faced tough times.

Here is what executives from Levi Strauss, Greenbrier, JPMorgan, Walmart, Delta, and some small companies said just prior to the great Trump about-face (perhaps Trump listened to what they were saying?):

(1) *Early summer inventory on hand.* Levi Strauss has time before tariffs start affecting the bottom line. The Q2 impact will be minimal because most spring and summer product is already in the US, said CFO Harmit Singh on Monday's earnings [conference call](#).

Tariffs pose a “significant challenge,” and Levi has a team assessing how to mitigate the impact. Potential moves include cutting costs, working with customers and vendors, and raising prices “surgically.” Levi sources products from over 28 countries, and almost 60% of its revenue is generated outside the US.

Levi forecasted Q2 revenue that’s flat to up slightly y/y and EPS of \$0.11-\$0.13, down from \$0.16 in Q2-2024. The company’s forecast jibes with analysts’ consensus estimate of \$0.13, but that was \$0.19 three months ago.

(2) *Forecast trimmed.* Greenbrier Companies, which manufactures and leases railcars, isn’t subject to tariffs because it’s USMCA compliant, but tariffs may affect its customers and freight traffic patterns. “[T]ariffs are impacting the cost of our inputs, predominantly steel, and constructional changes in how our customers operate,” said CEO Lorie Tekorius on Monday’s earnings [conference call](#). “For now, railcar utilization remains steady,” she added.

Customers are holding onto leased railcars, and lease renewals and rate increases are strong. About 10% of the company’s leases are up for renewal this fiscal year, and more than half have been renewed through the end of FQ2. Lease rates have plateaued at very high levels.

“Our pipeline [of new railcar orders] remains robust, but inquiries have been slow to translate into orders as customers have been waiting clarity on U.S. trade policy. With some clarity now established, we are talking with customers about the rail equipment needs in this environment. Railcar users and owners are experiencing a range of impacts from negligible to significant,” said EVP Brian Comstock. Demand from Brazil, an expected beneficiary of US tariffs, has increased.

Fiscal 2025 revenue is expected to be between \$3.15-\$3.35 billion, down from \$3.35-\$3.65 billion expected in January. Guidance on fiscal 2025 railcar deliveries was lowered to 21,500-23,500 from 22,500-25,000. That said, gross margin and operating margin targets were increased, as was the quarterly dividend, by nearly 7% to \$0.32 a share.

(3) *Watching for recession.* JPMorgan CEO Jamie Dimon landed in the headlines yesterday after warning that tariffs will probably cause a recession and an increase in defaults. He suggested that the markets might calm down if Trump moved quickly on trade negotiations.

Beyond the market turmoil, the most immediate impact on financial firms is the cancellation and delay of IPOs as well as “hung” high-yield and bridge loan deals, he said according to

an April 9 Reuters [article](#). Dimon also noted that some international borrowers have opted to use local banks instead of JPM on bond deals.

(4) *Pulling forecasts*. Walmart announced on Wednesday that it's maintaining its Q1 sales growth forecast of 3%-4%, but it pulled its Q1 operating income forecast due to tariff uncertainty and the decline in consumer sentiment. About a third of what the company sells is imported. That said, the company maintained its fiscal-2025 guidance of 3.0%-4.0% sales growth and operating income growth of 3.5%-5.5%.

(5) *Bookings slide*. Delta CEO Ed Bastian started the year expecting it would be the "best financial year" in the company's history. But in February, demand "really started to slow" for seats in the main cabin, while international travel and demand for premium seats have been relatively resilient, he [told](#) CNBC Wednesday. Companies are rethinking business trips, the federal government is cutting jobs, and stock markets are declining, all of which weighs on demand.

"With broad economic uncertainty around global trade, growth has largely stalled," Bastian said in Wednesday's earnings [press release](#). "In this slower-growth environment, we are protecting margins and cash flow by focusing on what we can control." Delta has scrapped plans to expand its capacity by 3%-4% in 2H-2025.

(6) *Small shops hurt, too*. Several small companies that sell foreign-manufactured products in US will need to slash costs and may have to close their doors if the tariff situation isn't resolved soon, an April 8 *New York Post* [article](#) reported. They lack the leverage of larger companies to negotiate better terms with suppliers.

One company that sells pricey backpacks manufactured in Vietnam paused future orders and has enough inventory on hand for a month. Another clothing merchant says he'll lose money on most of the one million garments being produced in China now.

Wonderstate Coffee, a Wisconsin-based coffee roaster and importer, is facing a \$100,000 tariff bill within weeks for the coffee beans worth about \$800,000 that are being shipped to the US from Brazil, Columbia, Guatemala, and Ethiopia, the article states. The \$300,000 tariff bill this year will mean the company can't buy new equipment or open a fourth café, as it had planned.

Health Care: Trump Risks & Rewards. The S&P 500 Health Care sector has lived up to its defensive reputation as a place to hide during a storm. We're certainly living through one

heck of a storm, and the S&P 500 Health Care sector has fallen only 3.3% ytd through Tuesday's close, outperforming the S&P 500's 15.3% decline. But when things quiet down on the tariff front, investors may start to distinguish between Health Care industries that stand to benefit from Trump's expected policies and those that won't.

The Trump administration announced higher-than-expected reimbursement rates for Medicare insurers and a pause in the Federal Trade Commission's (FTC) lawsuit against pharmacy benefit managers (PBMs), which investors liked. However, the administration is also expected to close a tax loophole that allows drug companies to lower their income-tax rate, introduce pharma-specific tariffs, and cut research funding.

Here's what investors may be ignoring about health care:

(1) *A place to hide.* The S&P 500 Health Care sector is the second-best performing sector in the S&P 500 ytd. Here's the performance derby for the S&P 500 and its 11 sectors ytd through Tuesday's close: Consumer Staples (-1.9%), Health Care (-3.3), Utilities (-3.5), Real Estate (-9.0), Financials (-9.1), Energy (-10.3), Materials (-11.4), Industrials (-11.7), Communication Services (-14.7), S&P 500 (-15.3), Consumer Discretionary (-23.1), and Information Technology (-24.2) ([Fig. 1](#)).

Half of the industry indexes in the S&P 500 Health Care sector are up ytd, and the other half are down: Health Care Services (22.1%), Managed Health Care (10.2), Biotechnology (1.1), Health Care sector (-3.3), Health Care Equipment (-4.6), and Pharmaceuticals (-7.9) ([Fig. 2](#)).

(2) *Medicare insurers benefit.* The Trump administration announced this week that its reimbursement rates for Medicare insurers will be far higher next year than expected—jumping 5.06% versus the 2.23% proposed by the Biden administration.

“The Medicare agency said the increase in the planned payment rate reflected rising medical costs, and that more recent data had led to the steeper final rise,” an April 8 [WSJ article](#) reported. The news was well received by the industry, which has struggled as seniors used more medical care than expected and costs were higher than anticipated.

Shares of UnitedHealth Group, the largest company in the Managed Health Care industry, jumped 5.4% on Tuesday, while the S&P 500 declined 1.6%. UNH shares are up 9.3% ytd despite investors' concern earlier this year about an investigation into the company's pricing practices.

The S&P 500 Managed Health Care industry has reasonable earnings growth prospects and a reasonable forward multiple. Earnings are expected to grow 5.8% this year and 11.6% in 2026 ([Fig. 3](#)). At 15.8, its forward P/E is about five points below its previous peaks and below the broader market's earnings multiple ([Fig. 4](#)).

(3) *PBMs benefit*. The FTC's lawsuit against PBMs is on pause because the FTC has no commissioners to bring the case after recent resignations and firings. The two remaining commissioners had recused themselves from the PBM case, an April 3 [article](#) in FirstWord PHARMA reported. The FTC filed for and was granted a 105-day stay due to the lack of commissioners, and an evidentiary hearing will be scheduled for 225 days after the pause is lifted.

The Biden administration filed the case last September against CVS Health's Caremark, Cigna's Express Scripts, and UnitedHealth's OptumRX, alleging that they artificially inflated insulin prices, driving up the cost for payers and patients. Observers aren't sure whether the Trump administration will go forward with the case.

As a result, the shares of CVS, which had better-than-expected Q4 earnings, have jumped 50.7% ytd, while shares of Cigna and UNH have climbed 13.7% and 9.3% ytd. CVS shares also benefitted on Tuesday from the naming of a new CFO and the company's assurance that it would meet or exceed the full-year earnings guidance it gave in February.

CVS and Cigna are members of the S&P 500 Health Care Services industry, up 22.1% ytd ([Fig. 5](#)). The industry's earnings are bouncing back from declines in 2024, with 8.9% earnings growth expected this year and 12.9% next ([Fig. 6](#)). The Health Care Services industry has a historically low forward P/E of 11.1 ([Fig. 7](#)).

(4) *Pharma tax loophole closing?* It's not drug manufacturing that US pharmaceutical companies do in Ireland; it's storing the intellectual property for drugs in divisions there. As a result, the profits on drug sales that occur in the US can show up as profits in the Irish divisions thanks to tax rules. Companies benefit because Ireland's corporate tax rate is only 15%, below the US tax rate of 21%.

An Irish fiscal agency estimates that 75% of the country's corporate tax is paid by large US multinationals, a March 13 [article](#) in *The Guardian* reported. President Trump has accused Ireland of stealing the US pharmaceutical industry, most recently in a meeting with the Irish Premier Micheál Martin on St Patrick's Day.

Trump could repatriate those profits in one of two ways: 1) by lowering the US corporate income tax rate to 15%, as he has promised to do, which would remove the incentive to have operations in Ireland; or 2) via tariff schemes; Trump said on Tuesday that tariffs on imported pharmaceuticals will be coming “shortly.”

Tariffs also could hurt medical device companies, particularly those that manufacture their products in Mexico, such as Masimo, which makes devices to monitor patients, and Align Technology, which makes the orthodonture system Invisalign.

The S&P 500 Pharmaceutical industry’s earnings growth is expected to decelerate from 28.7% this year to 8.2% in 2026 ([Fig. 8](#)). But that’s still not bad considering that the industry’s forward P/E is only 13.7 ([Fig. 9](#)).

(5) *Funding cuts threaten research.* The Trump administration has attempted to cut the National Institutes of Health (NIH) funding to institutions for scientific research. When the NIH grants research funds, the administration would like 85% of the dollars to pay for research and 15% to pay for indirect costs. Previously, about 27% of the funds paid for indirect costs and represented about \$9 billion of the \$32 billion in NIH grants issued in fiscal 2024.

On Monday, Judge Angel Kelley of the Federal District Court in Massachusetts ruled that the NIH could not make the change, but her decision is expected to be appealed.

Industry players worry that universities will reduce the number of post-doctoral researchers and graduate students they admit if the NIH proposal goes through. If the changes occur, it may reduce the number of companies spun out of university labs that become tomorrow’s biotechnology winners. Ironically, the US would be reducing research funding just as China has prioritized the development of its biotech industry.

“Scientific, long-term drug development requires government support of basic science,” Chris Bardon, co-managing partner at investment firm MPM BioImpact, said in a February 25 BioPharma Dive [article](#). “That’s an absolute requirement. Nobody else can step in to fill that void if the federal government steps out.”

Disruptive Technologies: Skin in the 3-D Printing Game. We’ve written about the benefits of 3-D printed parts in factories and 3-D printed homes, but 3-D printed skin? That’s a thing? Apparently so.

Researchers at the Graz University of Technology and the Vellore Institute of Technology in India are hoping to use 3-D printed skin to test the safety of cosmetics instead of testing them on animals. It's made of 3-D printed hydrogel layers held together by living human cells, an April 3 [article](#) in *Popular Science* reported. If successful, they hope the 3-D printed skin could also be used for drug testing and wound healing.

But scientists aren't stopping at skin. Some have also used 3-D printing to create livers that they hope to implant into humans. A South Korean woman received a 3-D printed windpipe needed because she suffered from thyroid cancer. Harvard researchers have developed 3-D printed blood vessels.

A Stanford University researcher hopes to have a 3-D printed heart implanted inside a pig and then ultimately inside a human. If the heart can be made with the cells from its human recipient, then maybe the patient won't need as many immunosuppression drugs to ensure that the body doesn't reject the heart, noted an April 3 [article](#) in the *Stanford Report*.

Calendars

US: Thurs: Headline & Core CPI 0.1%/m/m, 2.6%/y/y & 0.3%/m/m, 3.0%/y/y; Initial Jobless Claims 223k; Federal Budget Balance -\$126.5b; Bowman; Harker; Logan; Goolsbee. **Fri:** Headline & Core PPI 0.2%/m/m, 3.3%/y/y & 0.3%/m/m, 3.6%/y/y; University of Michigan Consumer Sentiment Preliminary Headline, Current Conditions & Expectations 54.5, 61.5 & 50.8; Williams; Musalem. (FXStreet estimates)

Global: Thurs: Italy Industrial Production -1.0%; Buch; Tuominen; Bullock. **Fri:** Germany CPI 0.3%/m/m, 2.2%/y/y; Spain CPI 0.1%/m/m, 2.3%/y/y; UK GDP 0.1%/m/m, 0.4% 3-month avg, 0.9%/y/y; UK Headline & Manufacturing Production 0.0% & 0.2%; Lagarde. (FXStreet estimates)

Strategy Indicators

S&P 500 Earnings, Revenues, Valuation & Margins ([link](#)): The S&P 500's forward revenues and earnings rose to record highs during the April 3 week, their first in four weeks. The forward profit margin remained steady at a record high of 13.6% for a fifth week. It is now 3.3ppts above its seven-year low of 10.3% during April 2020. The consensus

expectations for forward revenues growth rose 0.1ppt w/w to 5.6%, just 0.2ppt below its 23-month high of 5.8% during the August 1 week. It has gained 3.3ppts from its 33-month low of 2.3% during the February 23, 2023 week. That's down from a record high of 9.6% growth at the end of May 2021 and compares to 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. The forward earnings growth forecast rose 0.2pt w/w to a six-week high of 12.4%, and is now 0.3ppt above its 43-week low of 12.1% during the February 27 week. From a longer-term perspective, it remains near its 38-month high of 14.3% during the December 12 week. That's down from its 23.9% reading at the end of April 2021, which was boosted by the recovery from the pandemic to its highest reading since June 2010 and up substantially from its record low of -5.6% at the end of April 2020. Analysts expect revenues to rise 5.1% in 2025 (unchanged w/w) and 6.3% in 2026 (unchanged w/w), an acceleration from 4.9% in 2024. They expect an earnings gain of 11.2% in 2025 (down 0.2ppt w/w) and a 14.4% rise in 2025 (unchanged w/w) compared to 2024's earnings gain of 11.3%. Analysts expect the profit margin to rise 0.8ppt y/y to 13.2% in 2025 (unchanged w/w) and 1.1ppt y/y in 2026 to 14.3% (unchanged w/w), compared to 2024's 12.5%. Looking at valuation data as of April 3, the S&P 500's weekly forward P/E of 20.4 was barely above its 31-week low of 20.2 during the March 13 week, and 2.0pts below its four-year high of 22.4 during the February 20 week. It's just 0.7pt above its 14-week low of 19.7 during the August 8 week and 5.1pts from a 30-month low of 15.3 in October of 2022. It also compares to 23.1 in early September 2020, which was the highest level since July 2000, and to a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio of 2.78 was just 0.03 above its 31-week low of 2.75 during the March 13 week, and down 0.25pt from a record-high 3.03 during the February 20 week. That's up from a six-month low of 2.22 during the October 26, 2023 week and compares to a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Revenues, Earnings, & Margins ([link](#)): During the April 3 week, forward revenues rose for all 11 S&P 500 sectors. Forward earnings and forward profit margins also rose w/w for all 11 sectors. These four sectors posted post-pandemic or record-high forward revenues this week: Communication Services, Financials, Health Care, and Information Technology. These two are less than 0.1% from their record highs: Consumer Staples and Utilities. Among the remaining five sectors, Consumer Discretionary and Real Estate have dropped 1.1% from their mid-March record-high forward revenues, Industrials' is 2.2% below its early September record, and both Materials and Energy are the biggest laggards seeming to bottom now at 7.4% and 14.5% below, respectively. Looking at forward earnings, these six sectors are at record highs: Communication Services, Financials, Health Care, Industrials, Information Technology, and Utilities. Consumer Discretionary and Consumer Staples are just 1.3% below their early 2025 record highs, and Real Estate has

improved to 4.4% below its record high in August 2022. Forward earnings remains depressed, but beginning to improve for the last two sectors, Energy and Materials, which are 33.9% and 26.8% below their respective highs during 2022. Looking at the forward profit margin, these three sectors moved back into the record high club this week after dropping out a tad a week earlier: Communication Services, Financials, and Information Technology. During late 2024, the Industrials and Information Technology sectors were also in that club, but they remain close. These four sectors are struggling, with their forward profit margins at or barely above cyclical lows: Consumer Staples, Energy, Health Care, and Materials. Here's how the S&P 500 and its 11 sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (27.3%, up 0.2ppt w/w and down from its 27.6% record high in September prior to low-margin Dell's index addition, which lowered the margin 1.3ppts then to 26.3%), Financials (20.2, up 0.1ppt w/w to a record high), Communication Services (18.7, up 0.1ppt to a record high), Real Estate (16.6, up 0.1ppt w/w and down from its 19.2 record high in 2016), Utilities (14.5, down from its 14.8 record high in April 2021), S&P 500 (13.6, a record high), Materials (10.7, up 0.2ppt w/w from a four-year low 10.5 and down from a 20-month high of 11.6 in July 2023 and a 13.6 record high in June 2022), Energy (9.3, up 0.1ppt w/w from a 38-month-low 9.2 and down from its 12.8 record high in November 2022), Industrials (11.2, up 0.1ppt w/w and down from its 11.3 record high in early January), Consumer Discretionary (9.4, up 0.1ppt to a record high), Health Care (8.6, only 0.1ppt above its 8.5 record low at the end of April and down from its 11.5 record high in February 2022), and Consumer Staples (6.8, up 0.1ppt from a 20-month-low 6.7 and from its 7.7 record high in June 2020).

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