

Q1 2025 Edition
5 April 2025

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Market Outlook – Q1

From The Aurora Project

The first Quarter of 2025 delivered no shortage of complexity across global markets. The transition to a new U.S. administration has brought not just a shift in tone, but a fundamental redirection of economic and geopolitical priorities. Unlike most transitions, this policy trajectory appears to challenge core elements of the past 80 years of U.S. domestic and foreign strategy—from global trade liberalization to long-standing diplomatic and military alliances.

The administration's agenda represents a pivot away from asset-holder-centric policymaking toward a reindustrialization mandate aimed at addressing trade imbalances, domestic inequality, and supply chain dependence. While these issues merit attention, we believe the chosen approach—particularly the aggressive use of tariffs—is misguided. Tariffs are not a magic wand, and history has shown that protectionist overreach can do more harm than good. A return to trade dynamics resembling the Smoot-Hawley^[1] era risks introducing a global slowdown, or worse, a deflationary spiral that could tip parts of the world into recession or even depression.

Globalization remains a foundational element of international markets. U.S. allies will not passively absorb punitive trade measures and are likely to defend their economic interests in kind. The resulting frictions risk raising costs for American consumers in the near term—undermining the very goals the policy aims to achieve. This uncertainty, if prolonged, could suppress investor confidence and extend the current market correction well beyond its natural course.

If tariffs ultimately become more targeted and strategic—applied at the industry level rather than broadly across trading partners—there is a path for this policy shift to evolve into a reorientation of global trade, rather than an outright reversal. This could, over time, support the development of domestic industries that do not currently exist and act as a catalyst for innovation in high-value sectors. Regardless, an outright retreat from globalization would come at a high cost—to U.S. consumers, investors, and multinational enterprises. A measured recalibration, rather than a wholesale rejection, could yield a more balanced outcome over the long term. The speed, clarity, and coordination with which these new trade policies and negotiations are executed will ultimately determine whether this period becomes a short-term adjustment or a prolonged economic drag—both for the U.S. and the global economy.

[\[1\] The Senate Passes the Smoot-Hawley Tariff.](#)

Fundamental:

Entering 2025, equity valuations were stretched in many aspects:

- Equities vs. Bonds appeared historically overvalued
- The S&P 500 dividend yield vs. 10-year Treasury was expensive
- P/E ratios and profit margins hovered near all-time highs, even as real GDP growth had already decelerated and was projected at just 2.1% for the year

Against this backdrop, a market correction was already overdue. The introduction of trade barriers and more adversarial global policy raises the risk that a typical correction evolves into a broader bear market, particularly as margin compression takes hold.

A key offset to current macro pressures may come from AI-driven productivity gains. While the AI trade has been crowded, the underlying technology is real and potentially transformative. U.S. productivity has recently risen above 2% from a stagnant 1.5% annual growth rate, and a sustained move toward 3% per year could provide meaningful support as the economy adjusts to a more protectionist and fiscally constrained regime. We will be watching closely for corporate value-delivery to backfill the AI-bubble or any slowing in the innovation space that could indicate a temporary plateau in the technology.

In the near term, recent declines in the U.S. dollar (DXY), crude oil (WTI), and the 10-year Treasury yield (TNX) offer potential relief. These shifts can serve as tailwinds for corporate earnings, helping to mitigate the downside risk from a softening global trade environment.

Technical:

From a technical perspective, major U.S. indices have broken decisively below their 200-day moving averages since early March, reflecting a clear loss of intermediate trend strength. The S&P 500 is currently into a critical support zone of 4900 – 5100, with potential to retest the April 2024 low of 4954 if selling pressure persists.

Meanwhile, volatility (VIX) surged sharply, closing at 45 on April 4th—a level that historically signals capitulation and has often preceded short-term market bottoms. While this type of volatility spike reflects fear, it can also serve as a contrarian indicator for tactical re-entry.

Despite the negative headlines and macro uncertainty, we remain constructively positioned but tactically cautious. U.S. equity markets have a long-term upward bias, and while policy-driven volatility may persist, we see opportunity in maintaining targeted long exposure.



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