"At heart, "uncertainty" and "investing" are synonyms."

Benjamin Graham

In early 2025, we sent out our annual Asset Allocation piece, which discussed the less favorable medium-term outlook for US equities given historically high valuation levels. Less than a month ago we wrote again with comments on the first market correction (a drop of 10% from the market high) since 2022. Today, the S&P 500 briefly hit bear market territory (a 20% drop from its high), fueled by unpopular trade announcements coming from the White House. The level of the tariffs announced by the Trump administration was a shock to the markets, with several economists noting it was "worse than the worst-case scenario." This announcement has also magnified the economic unease investors were already feeling amidst declines in business and consumer sentiment. Expectations for a US economic recession have risen from 20% at the end of 2024, to over 50% today. The stock market's reaction was rapid and decisive, with the index dropping 10.5% over a two-day period.

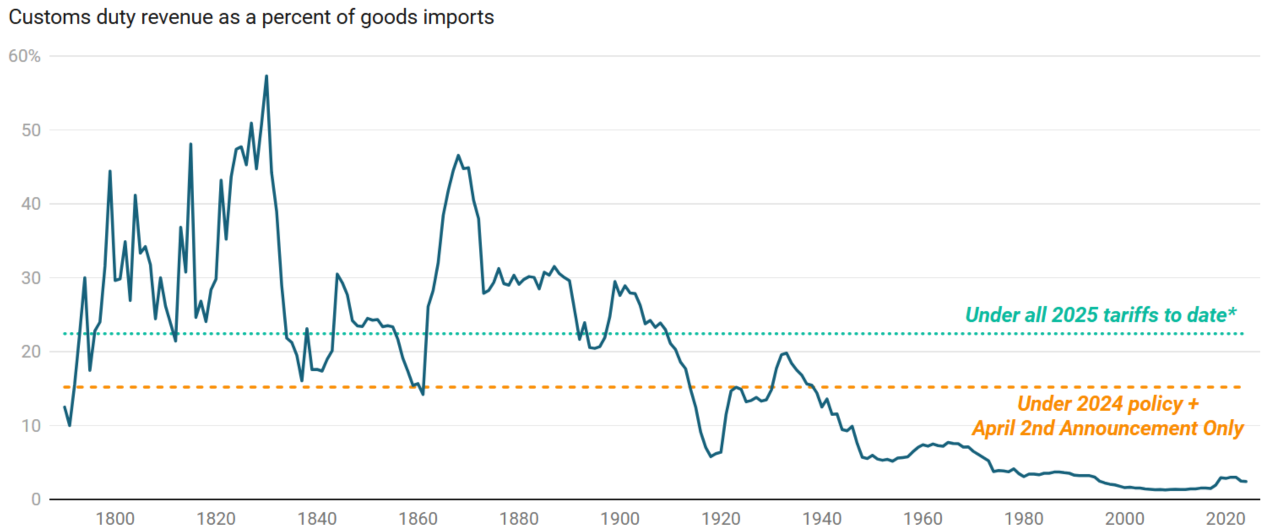
If you are looking for comfort, our March piece provides the longer-term perspective required for investing in the equity markets. Including the current correction, returns for the index over the past 5 years were 16.5% annually, and 10.7% annually for the past 10 years. It is critically important that investors do not make rash decisions based on emotions and instead focus on maintaining a balanced asset allocation and owning a portfolio of high-quality businesses that can help navigate economic uncertainty.

At this point, it is not wholly clear what the Trump administration is trying to achieve. Are they aiming for a fairer global trading system? If so, any indication that Trump is willing to negotiate meaningfully lower tariffs could offer relief to investors and alleviate fears of a recession. If the administration is instead truly trying to reengineer a repatriation of US manufacturing and production, that could mean a more prolonged period of volatility. Our ability to discern the path of these policies going forward is extremely limited, given the almost daily changes to policy coming from the administration. However, we can remain levelheaded and look for investment opportunities that the market's dislocation is creating in exceptional companies for long-term investors.

WHAT ARE POTENTIAL IMPACTS OF TARIFFS +/–

+ In concept, make the home countries' products more price competitive to the end buyer.
+ Raise government revenues.
+ Encourage local/domestic manufacturing.
+ Provide platform for trade and/or foreign policy negotiations.
– Tariffs generally increase the price of goods or services from foreign businesses.
– Higher prices for consumers and businesses.
– Potential for retaliation from other countries, harming exports, and resulting in trade wars.
– Reduced trade may result in slower economic growth.

United States Average Effective Tariff Rate Since 1790



** Through April 2.*

Chart: The Budget Lab • Source: Historical Statistics of the United States Ea424-434, Monthly Treasury Statement, Bureau of Economic Analysis, The Budget Lab analysis. • Created with Datawrapper

Largest Import and Export Countries with the United States

Economy: United States
Trade: Imports
Year: 2024

Rank	Partner	Millions US $	% Share
	World	**3,267,388.71**	**100.00**
1	European Union	605,760.42	18.54
2	Mexico	505,850.60	15.48
3	China	438,947.40	13.43
4	Canada	412,695.72	12.63
5	Japan	148,208.57	4.54
6	Viet Nam	136,561.16	4.18
7	Korea, Republic of	131,549.19	4.03
8	Chinese Taipei	116,264.03	3.56
9	India	87,416.45	2.68
10	United Kingdom	68,084.47	2.08

Economy: United States
Trade: Exports
Year: 2024

Rank	Partner	Millions US $	% Share
	World	**2,064,383.95**	**100.00**
1	European Union	370,199.06	17.93
2	Canada	348,503.42	16.88
3	Mexico	334,041.36	16.18
4	China	143,561.08	6.95
5	United Kingdom	79,897.39	3.87
6	Japan	79,705.33	3.86
7	Korea, Republic of	65,541.79	3.17
8	Brazil	49,666.98	2.41
9	Singapore	46,017.31	2.23
10	Chinese Taipei	42,336.86	2.05

Source: WTO

What Can We Expect In The Coming Months

In short, we can expect continued uncertainty, which should come as no surprise with this administration. Here are a few of the things we may hear from the administration, economists, trading partners, and market pundits.

- Inflation expectations are pushing toward 4% with economic growth projections falling by 0.5%-1.5%, and odds for a recession creeping toward 60%. Loss of tax revenue from a slowing economy will cut meaningfully into the net revenue gains from tariffs. Inflation concerns could be partially mitigated by slower economic growth (demand).

- The word “stagflation” will get more press. Stagflation is a slowing (or stagnant) economy coupled with rising inflation.
- Responses to the tariffs will vary widely by country. Some may hope to negotiate lower tariffs. Others will respond with retaliatory counter measures of higher taxes on US exports. There is a risk of a tit-for-tat trade war that will benefit no one.
- The bond market has responded by lowering interest rates, due to expectations of slower economic growth and a higher likelihood of Fed interest rate cuts. The 1-year Treasury yield fell from 4.04% to 3.84% over the last two days, and the 10-year Treasury yield fell from 4.18% to 4.00%. Given the Fed’s dual mandate of price stability (inflation) and maximum employment (economic growth) – they may find themselves in a difficult position.
- The President fancies himself a shrewd negotiator and the thought of every world leader having to “cut a deal” with him, likely appeals to him. We expect these negotiations will go beyond tariffs/trade and may include immigration, defense spending, and illegal drug trafficking.
- Lastly, Trump could change his mind due to the poor stock market performance, rising recession risk, and challenges to his authority to implement these tariffs under emergency order. He could negotiate with several countries to achieve better trade/tariff deals, declare victory, and soften his stance on the remaining tariffs.

We are planning for the current uncertainty to remain for an extended period. However, we have been through similar periods before. Just five years ago, the first quarter of 2020, the economy and markets faced the uncertainty of a global pandemic. The US economy immediately entered a recession and GDP contracted 5% in Q1 and 28% in Q2. The stock market declined 34% in 30 days from February to March, before finishing up 11% for the year.

While this bout of volatility is clearly different and self-inflicted by the administration, it nonetheless creates uncertainty that businesses and markets do not like. It is difficult to imagine what the next 12 months (or even the next month) will bring. However, as we routinely stress, it is important to maintain perspective and focus on the long term to achieve your investment goals.

We welcome your comments and questions. As your advisor, we're always here to provide support and guidance, especially during volatile markets. This can range from discussing the economic climate further, to outlining our long-term investing thesis, to reviewing your asset allocation framework, and anything else in between. Please don't hesitate to reach out to us if you'd like to schedule time to meet.