WHAT RECENT NEWS COULD MEAN FOR THE MARKET AND INVESTORS

Key Takeaways

Market Uncertainty
Markets struggle with ongoing changes to the US policy approach, despite the positive setup coming into 2025.

New Tariffs
US President Donald Trump announces new tariffs in his "Liberation Day" address on April 2.

Near-term Forecast
We anticipate heightened volatility and downside pressure on risk assets in the near term.

Long-term Outlook
Markets have seen sharp selloffs throughout history, but stocks have historically trended upward over time.

Markets Under Pressure

Following President Trump's "Liberation Day" announcement, Wall Street slipped back into correction territory, with major indexes falling over 4.8% to approach six-month lows. The broad tariff package includes a blanket 10% levy on imports, with rates exceeding 50% for certain countries such as China. This triggered a spike in market volatility, renewed concerns over a potential recession, and a sharp drop in Treasury yields as investors shifted toward safer assets.

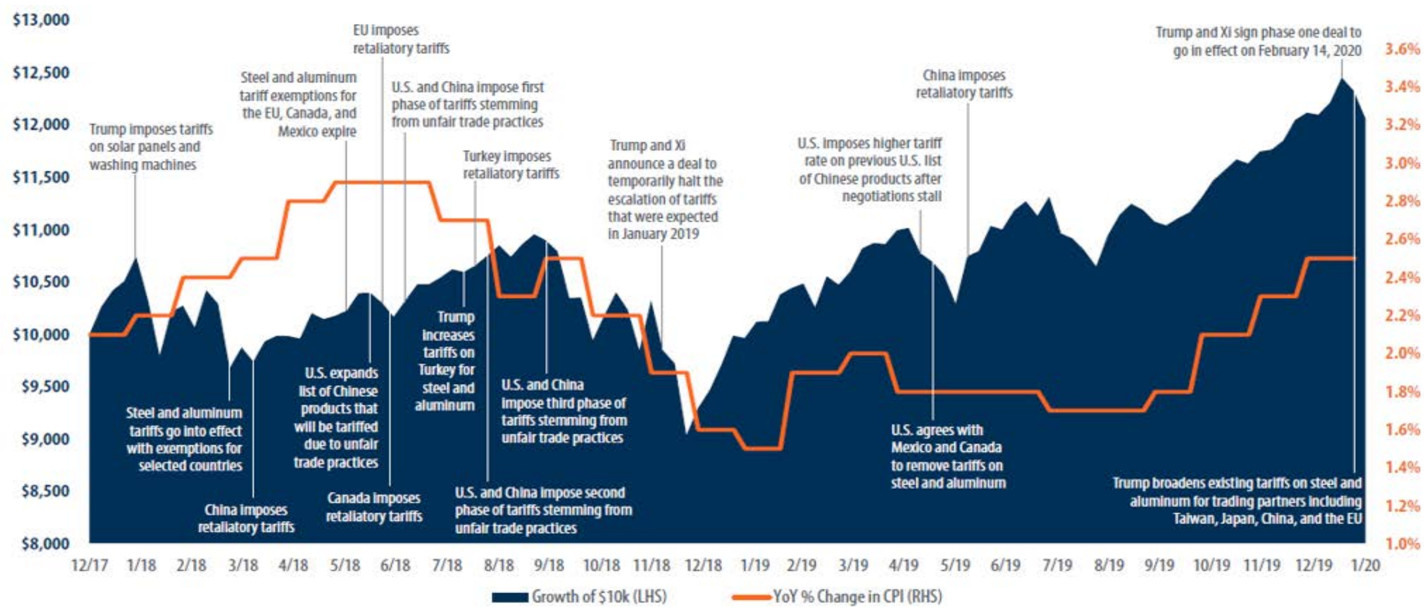
Sectors most affected were large multinational companies heavily reliant on global trade—particularly apparel brands, major retailers, and technology firms. Interestingly, the U.S. dollar declined to a five-month low, which was unexpected, as tariffs typically strengthen the currency. Since tariffs act as a tax on U.S. businesses, part of that burden will likely shift to consumers. As a result, household spending—which makes up 70% of U.S. economic activity—could decline, raising the risk of slower growth or even a recession.

Analyzing the April 2 Tariffs Announcement

It remains unclear whether the use of reciprocal tariffs is intended as a short-term bargaining strategy or a lasting policy approach. The unexpectedly wide scope of the tariffs introduces immediate risks to both economic growth and inflation. In our view, tariffs could trigger a swift, one-time rise in inflation. However, the effect on growth—fueled in part by increased uncertainty—may take longer to unfold and could prove more persistent.

What Happened with Tariffs during Trump's First Term

S&P 500 Index Growth of $10k and YOY% Change in CPI Tariffs dominated U.S. headlines during Trump's first term which brought with it some market volatility, but it did not bring about rampant inflation and markets ultimately moved higher.



Source: First Trust, Peterson Institute for International Economics, Bloomberg. Data from 12/29/2017 – 1/31/2020. **Past performance is no guarantee of future results**. For illustrative purposes only and not indicative of any investment. The S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. Consumer Price Index (CPI) measures Inflation - the average change in prices over time that consumers pay for a basket of goods and services.

Staying the Course

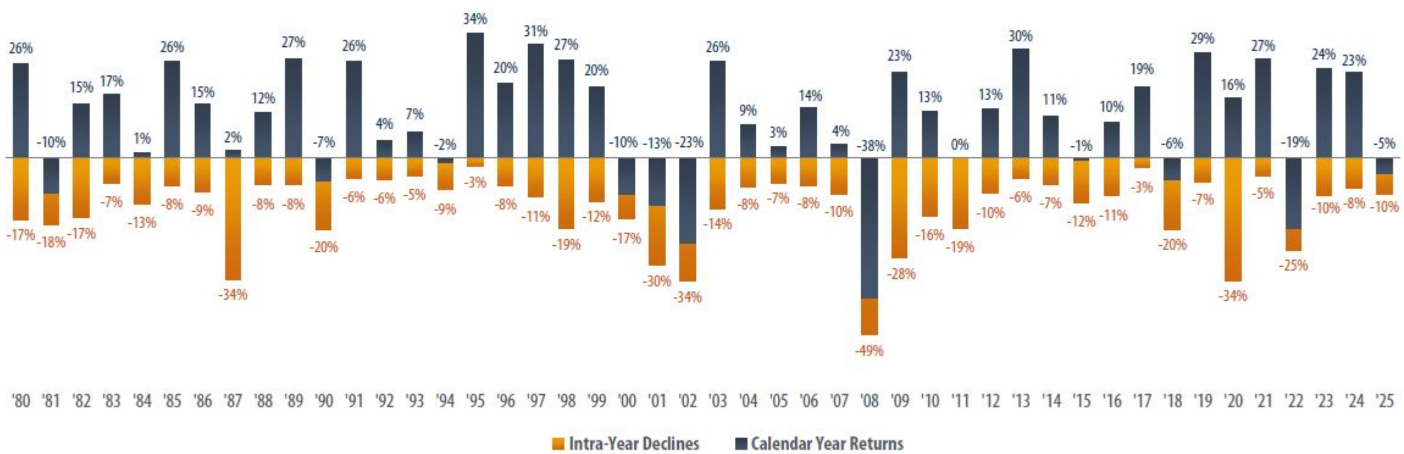
Investors tend to see short-term volatility as the enemy. Volatility may lead many investors to move money out of the market and "sit on the sidelines" until things "calm down." Although this approach may appear to solve one problem, it creates others:

1. When do you get back in? You must make two correct decisions back-to-back; when to get out and when to get back in.

2. By going to the sidelines, you could be not only missing a potential rebound, but all the potential growth on that money going forward.

Intra-Year Declines vs. Calendar Year Returns

Volatility is not a recent phenomenon. Each year, there is the potential for the market to experience a significant correction, which for the S&P 500 has averaged approximately 14% since 1980. History has shown that those who chose to stay the course were rewarded for their patience more often than not.



Source: First Trust, Bloomberg. As of 3/31/2025. **Past performance is no guarantee of future results.** The benchmark used for the above chart is the S&P 500 Index. The S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. Returns are based on price only and do not include dividends. This chart is for illustrative purposes only and not indicative of any actual investment. These returns were the result of certain market factors and events which may not be repeated in the future.

The positive news for investors with well-balanced and diversified portfolios is that they have navigated the recent market pullback more effectively than those with concentrated holdings in U.S. large-cap stocks. International stocks have posted gains for the year, U.S. mid-cap stocks have outperformed, and bond prices have strengthened, helping to mitigate equity market fluctuations. On a sector basis, industries such as technology, industrials, and consumer discretionary may face more exposure to tariffs due to their greater dependence on imports, while sectors like financials, utilities, and real estate are better shielded from the impact of a trade conflict.

While the recent stock market decline may feel unsettling, we encourage investors to stay focused on their long-term investment strategy, prioritizing diversification and high-quality assets. It's important to avoid reacting impulsively to market movements and remember that remaining invested over time has consistently proven to be more successful than trying to time the market.

We are always here to support you and provide the best financial advice tailored to your unique needs. Should you have any questions or concerns, please reach out to your Wealth Advisor.