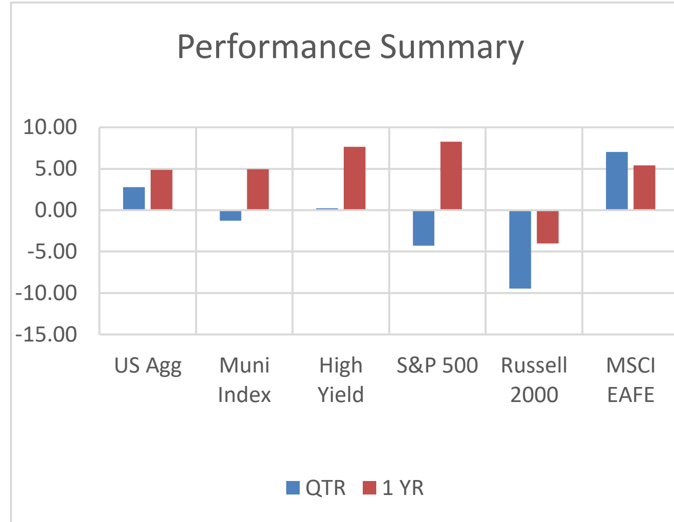
U.S. stocks dropped sharply in March and suffered their worst quarterly returns since 2022. Foreign stocks outperformed their domestic counterparts by a wide margin for both the month and the quarter. Value-oriented stocks in the U.S. outperformed growth stocks by over 10% for the quarter. Bonds returned close to 3% as yields declined during the quarter.



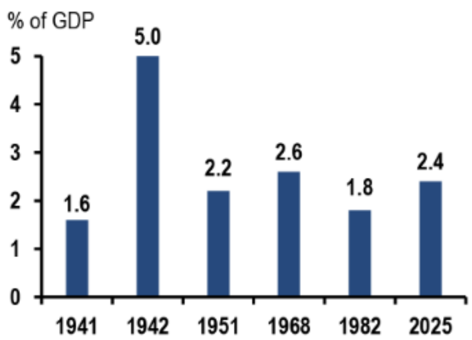

- Concerns about tariff policy, inflation, and economic uncertainty led to a risk-off environment for U.S. stocks. Both large-cap and small-cap stocks declined more than 10% from highs earlier in the year and finished the quarter down 5.6% and 9.5% respectively.
- Energy, healthcare, and utilities were the top-performing sectors for the quarter, with returns in the mid-to-high single digits. Technology and consumer discretionary were both down over 10%. The Magnificent 7 stocks fell over 15%.
- Foreign stocks outperformed with developed market stocks up roughly 7% and emerging market stocks up 3%.
- The annual rate of U.S. headline inflation eased in February to 2.8% from 3% in January. The Federal Reserve remained on hold, favoring a wait-and-see approach regarding economic growth and inflation.
- Treasury yields declined for the quarter and core bonds outperformed stocks and provided ballast to portfolios for the quarter.
- In early April, President Trump's 'Liberation Day' policies sent global risk assets into a tailspin, below we touch on what happened and the implications.

## What Just Happened?

On April 2nd, President Trump announced his "reciprocal" tariff policy which included the following:

- A 10% minimum tariff on all good imports
- On April 9th, tariffs will go up further on countries with which the US has the largest trade deficits. For example, 20% on the European Union, 24% on Japan, and 34% on China.
- For China, this will take the total tariff up to 54%.
- Canada and Mexico are exempt, for now, from any further tariffs than those already put in place by the administration.
- It is estimated that the total cost of the tariffs will be in the 18 to 22% range and will effectively be the largest tax increase (tariffs are a tax) the U.S. has experienced since 1968, see the chart below.

Figure 2: Large US tax hikes




Source: Tax Foundation, J.P. Morgan

The Trump tariff announcements exceeded what the market was expecting and shocked the financial markets. The tariff shock is expected to be magnified by retaliation, supply chain disruptions, and a shock to business and consumer sentiment, increasing the risk of a global recession.

## A Tariff Shock and Increased Global Recession Risks

The financial markets responded to the tariff announcements by quickly pricing in the risk of a global recession. Torston Slok, the Chief Economist at Apollo, summarized the situation effectively in a recent presentation.

Market Expectations Heading into Liberation Day:

- President Trump's reciprocal tariff plan was well-telegraphed ahead of the April 2nd announcement, *but the market was caught off guard by its breadth, timing, and magnitude.*
- Most market participants were expecting a headline increase in the import-weighted tariff rate of roughly 10% and *were shocked by the estimated 18-22% announcement.*
- More problematic was the short timeline for implementation and high individualized tariff rates on Asian countries such as Vietnam (46% tariff cost), which are critical hubs of the U.S. consumer products and retail supply chain.
- While the market expected escalation with China, *the 34% additional tariff on Chinese imports was much higher than anticipated.*

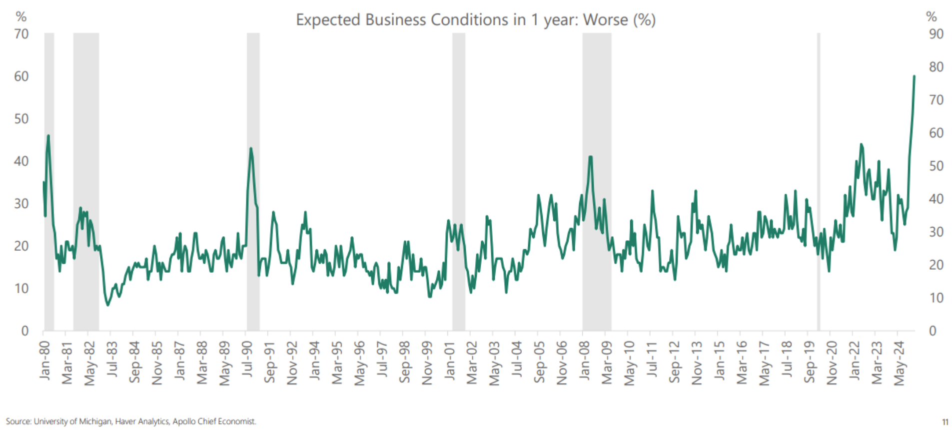
The tariff announcements shocked the financial markets and increased the likelihood of a global recession. Below are some of the areas where downside risks to the economy are intensifying:

- Consumer confidence is deteriorating
- Corporate confidence is deteriorating
- Tariffs will have a negative impact on earnings and economic growth
- Negative impact of retaliation (including less tourism and boycotting of US products)
- Negative wealth effect from a $6 trillion (or more) decline in the S&P 500
- DOGE layoffs: the federal government employs 10 million workers

Below are a couple of charts that illustrate the impact the above policies are having on consumer and business sentiment.

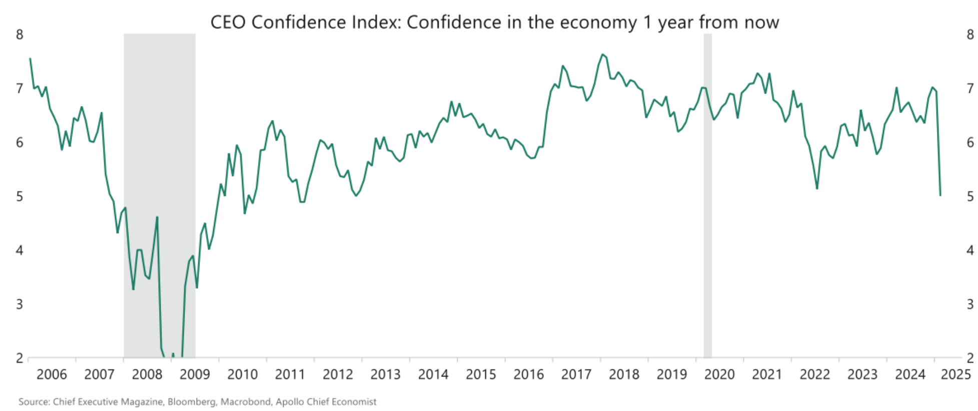
## Consumers are worried- which will way on spending

Record-high share of consumers think business conditions are worsening




## CEOs are worried: which will way on capital expenditures and business spending

CEO confidence declining



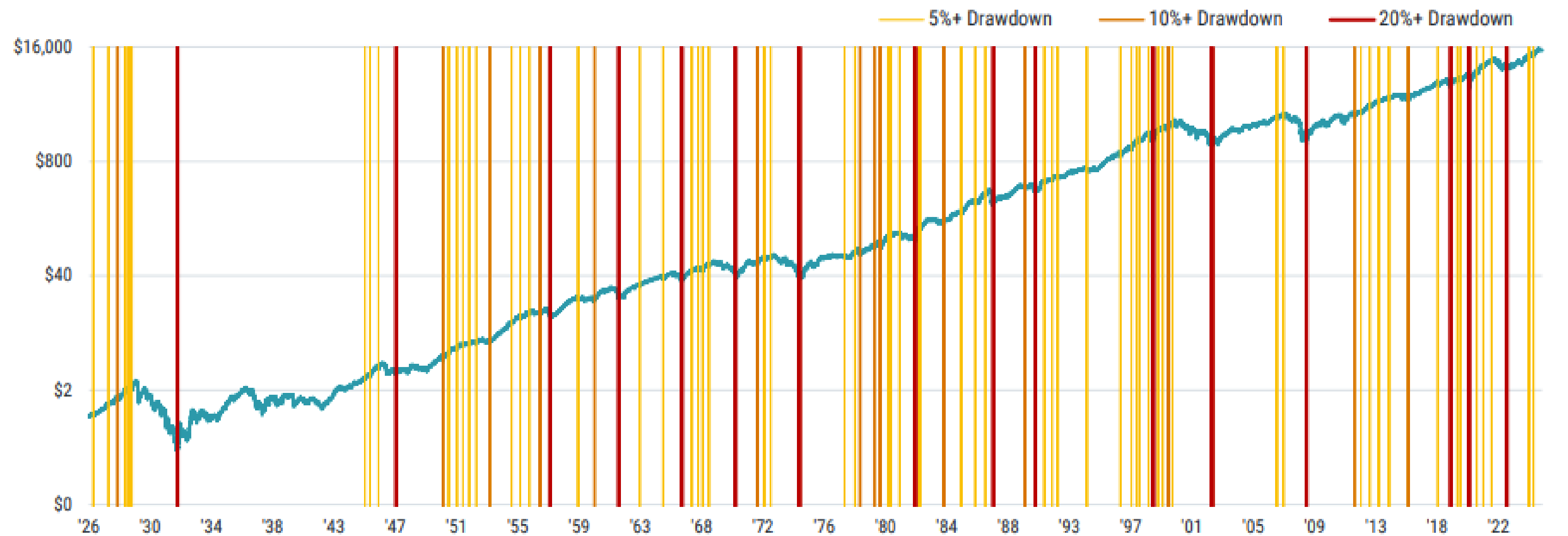
In summary, the outlook for the global economy has worsened and the financial markets are quickly pricing that risk in the markets. A global recession is a real possibility in 2025.

## The First Line of Defense

In a challenging market environment, the first line of defense is having a well-crafted investment strategy that aligns your investment goals with your comfort level of taking risks. Your investment strategy should be documented in an investment policy statement (IPS) and implemented with foresight and discipline that will keep you from making overly emotional decisions that can harm your long-term investment results.  Long-term investors should be prepared for market sell-offs as they happen frequently. The chart below from Avantis provides a nice visual of how frequently drawdowns in the stock market have happened over the past 100 years. This provides a good reminder that these drawdowns should be expected and there are risks that investors must assume to participate in the long-term upside of investing in stocks.

Figure 4 | Expect Bumps in the Road on Your Long-Term Investment Journey

Growth of $1 in U.S. Stocks through Market Drawdowns Since 1926

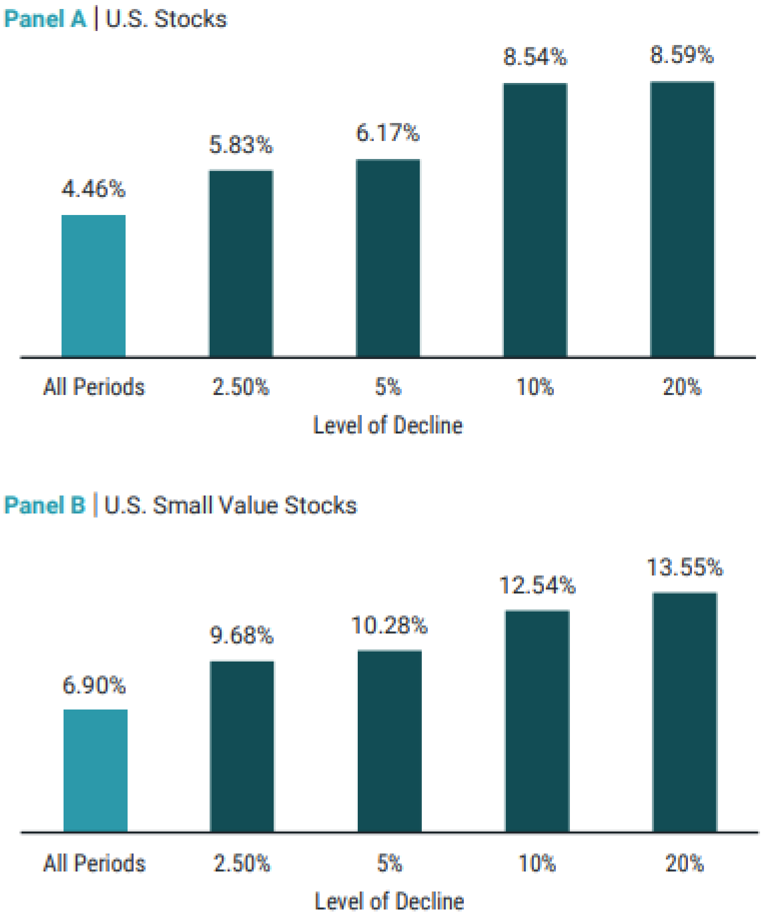



Returns data from 7/1/1926 – 3/6/2025. U.S. stocks sourced from the Center for Research in Security Prices (CRSP) include all firms incorporated in the US and listed on the NYSE, AMEX, or NASDAQ. Drawdowns are calculated from market peaks to subsequent bottoms. **Past performance is no guarantee of future results.** This hypothetical situation contains assumptions that are intended for illustrative purposes only and are not representative of the performance of any security. There is no assurance similar results can be achieved, and this information should not be relied upon as a specific recommendation to buy or sell securities.

A critical point to remember is that when we experience market declines, no one knows exactly when the bottom will occur. However, we do know from history that when a bottom occurs the rally in the stock market can be swift. The chart below shows how U.S. stocks (large and small) have performed on average in the 100 days following a market bottom at varying levels of decline (2.5%, 5%, 10%, and 20%).

Figure 2 | When Markets Recover, It's Often in a Hurry

Average Returns Over 100-Day Periods Following Market Bottoms




One of our goals in managing portfolios is to keep portfolios diversified so we can navigate challenging markets effectively and be in a position to capitalize on the long-term opportunities created during these market sell-offs. In general, that is exactly what we are seeing this year as our investment portfolios are holding up much better than the broad U.S. stock market and are well-positioned to capitalize on opportunities should the sell-off continue.

## Investment Thoughts

The market reaction to the U.S. reciprocal tariff policy was swift. The 2-day drop in the S&P 500 last week was the 5th largest on record going back to the 1920s. The risk-off approach taken by investors has been broad-based and hit almost all asset classes, except for high-quality bonds and cash. Below are some thoughts on the current investment environment:

- The recent sell-off is self-inflicted and the result of an overreaching attempt to impose tariffs on all our global trading partners at once. Keep in mind our trading partners are only having to battle with the U.S. not the rest of the world at the same time. If the trade issues are resolved quickly the damage to the financial markets may be limited.
- Our global trading partners may band together to retaliate on tariffs and increase trade with one another. This could weaken the long-term competitive position of the U.S. We are already seeing a reduction in tourism to the U.S. and a boycott of our products.
- The tariffs imposed by the Trump administration were much higher than the markets anticipated, and investors are in the process of re-pricing global growth. Unless there is a quick resolution with our trading partners, a recession may be more

likely than not in 2025. If a recession occurs, history suggests both earnings and valuation should fall, suggesting there may be further downside to the stock market.

- Tariffs are inflationary and create economic uncertainty which may keep the Federal Reserve on the sidelines until there is more clarity.
- If the tariff negotiations drag on, investors should favor more defensive investments. At the sector level, this would include: healthcare, consumer staples, telecom, and utilities; and underweight more cyclical sectors such as consumer discretion, industrials, financials, and materials.
- Investors should favor high-quality fixed income such as U.S. Treasury bonds and avoid high-yield and low-quality bonds in general.
- Foreign investors have been very overweight on U.S. financial assets. This trend may reverse as foreign investors repatriate assets to bolster their markets and economies.
- The speed of the current sell-off has been historic and a lot of damage has already been done. For example, 82% of the stocks in the Russell 3000 (representing 98% of the investable market in the U.S.) have already fallen by 20% or more and 50% of the index has fallen by 35% or more. There are and will be good investment opportunities ahead!
- Investors that have been well diversified and avoided much of the downside will be in a good position to capitalize on opportunities and redeploy assets back into the stock market at lower prices.
- We will be actively watching valuations and looking for signs of a market bottom to capitalize on opportunities ahead.

Please call if you have any questions about your investment strategy or want to discuss the current market environment.

Best regards,

Steve Giacobbe, CFA, CFP®