The only thing certain in life is uncertainty.

And – now we have uncertainty in spades. For our purposes today, I will stick to our knitting, and focus on what we know and what we think as it pertains to the markets, economy and managing portfolios. The way we manage uncertainty is always framed with risk management and prudent process leading the way.

I have a few things I to talk about this quarter:

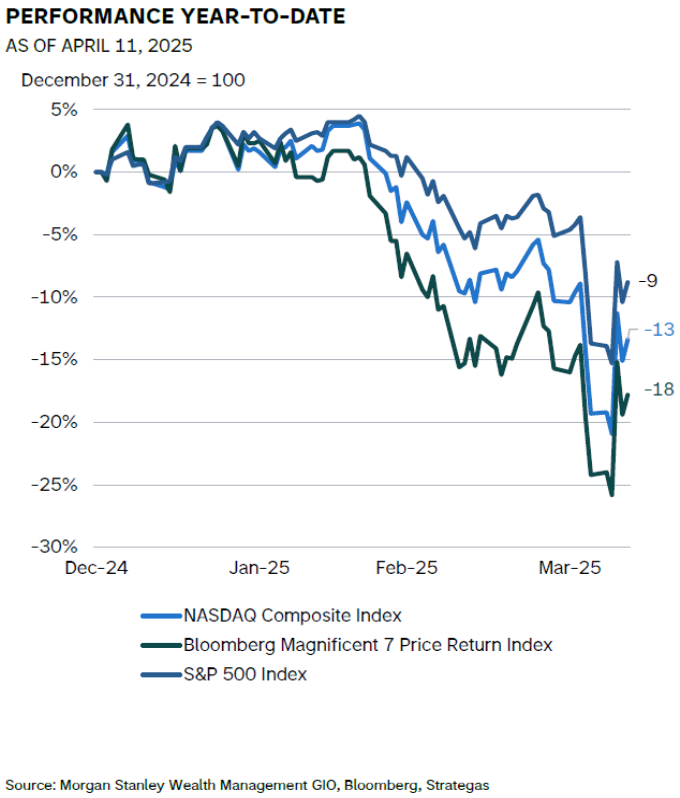
1) The difference in last year's market and the market of today. What a difference 100 days Makes!
2) What are the possibilities we face going forward and what are we doing about it?
3) Tariffs – what they mean for the economy.

1) The difference from 2025 to now:

Remember 2024 when you were perhaps wondering why you weren't making as much as the S & P 500? The 2024 return of the S & P 500 was 24% and was largely driven by 7 companies – the Magnificent 7. In fact, those 7 companies made up 40% of the total

capitalization of the S & P 500. If you didn't own them or an index replicator type of mutual fund your portfolio couldn't look like and perform like the overall market.

We are the "prudent process" people (and while we might practice something that sounds boring, but we are really fun too) so of course you wouldn't have 40% in 7 companies! We practice diversification always as a basic starting point for risk management.



Source: Morgan Stanley Wealth Management GIO, Bloomberg, Strategas

To state the obvious, times have changed in 2025. Just focusing on char above, the Mag 7 – the green line, you can see those 7 magnificent companies were down -18% for the year through 4.11.25. The S & P 500 was down –9% same time frame – and remember those 7 tech heavy companies were 40% of the S & P 500, so you can extrapolate that the remaining 493 companies performed much better. Valuations matter when markets get scared.

It may sound trite, but diversification is back in favor!

2) **What are the possibilities we face from an economic perspective going forward and what are we doing about it?**

Two possibilities that are getting more "real" - neither one we want to see are: 1) Stagflation and 2) Recession. So first – a quick econ 101 review: what is the difference between a recession and stagflation? A recession is two quarters of declining GDP which is a slowing of economic activity. Recessions happen frequently. Stagflation is what I think of when I remember sitting in the gas line with my mother in the late 70s. Picture me in a 1972 Mercury Marquis 4 door (Gold with Landau Trim)! A gas guzzler if there ever was one. That was a time of extreme economic slowdown and runaway inflation. Anyway, stagflation is basically a recession with the added frosting of high inflation and high unemployment. Stagflation is a rarity, and let's hope it stays that way.

Odds of a recession are climbing, but right now US economic numbers are still strong. What is not strong is sentiment. Sentiment shows a dramatic weaking, with downturns in both business and consumer confidence. Sometimes how we feel, which influences behavior becomes a self-fulfilling prophecy.

Chairman Powell almost pulled off a total Unicorn event with a soft landing in our economy, but that doesn't appear to be the case anymore. Unicorns aren't real.

Powell is in between a rock and hard place. It is difficult to lower interest rates unless the indicators of a recession are clear – but by then it will be too late. Worse, if Powell lowers rates, foreign selling of bonds could increase (it already has) which would drive interest rates higher – and then it all gets a bit Sisyphean. On top of that, add together our fiscal deficits, policy uncertainty AND foreign buyer reluctance - and you get even more upward pressure on interest rates and higher inflation.

Powell has been very good at this and will have to continue to walk a very fine line.

3) Tariffs

"True or False: Tariffs are paid by the country exporting goods?*"

A Reuters/Ipsos (a very reputable group) poll asked this question. 68% of Americans answered that question incorrectly! It was not directed towards any political party – so that is not 68% of Republicans or 68% of Democrats. That's 68% of all Americans of any political leaning that got this wrong. It makes me wonder how we as a nation can plan and make decisions without an understanding of what the possible outcomes mean for our own balance sheets -- and the same goes for corporate America.

News accounts say Trump is entrenched in moving forward with Tariffs in some shape or form, and that makes sense if you think about his business experience. He was a Real Estate developer. Real Estate folks typically love leverage - using other people's money.

Tariffs are exactly that. Note what Trump said about tariffs going forward, as it is important to understand the unknowable nature of how this will go. He said in response to forward decisions on upcoming Tariff discussions: *"Instinctively, more than anything else. You almost can't take a pencil to paper; it's really more of an instinct than anything else."*

The uncertainty – the stuff we just can't know results in the inability to plan for business investments, increases time spent on scenario planning for increased costs and availability of goods. Uncertainty in and of itself causes a bit of an economic slowdown.

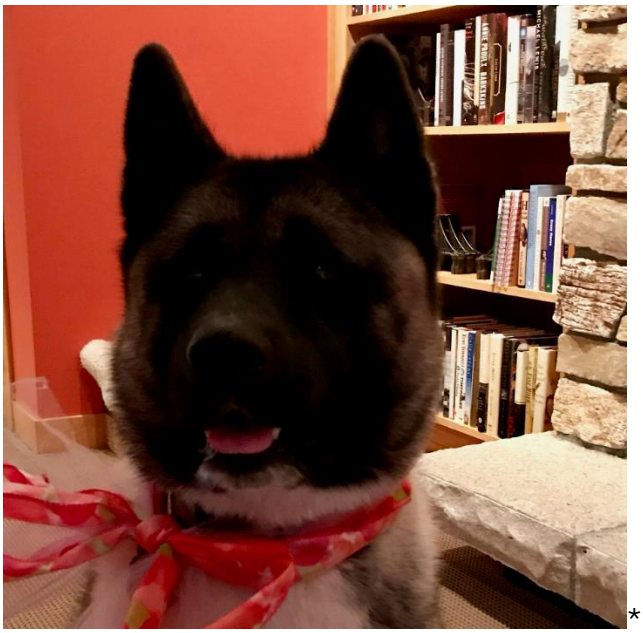
Finally – the standoff between the US and China is bigger than Tariffs. If we break trade, we break money flows. Let's hope that just like President Trump understood the market's reaction to his threats against Powell as Fed Chairman and walked back his comments after the market took a bit of a dive; let's also hope the same applies to trade and that Trump is a pragmatist and understands the pain and fallout to US businesses and consumers from a trade war with China.

Tariffs will make prices rise, inflation rise, interest rates rise. Tariffs in whatever shape they settle on, could keep inflation and interest rates higher and stickier for longer than forecasted. Implementation of Tariffs today is still in its early stages, but the one certainty we have in this crazy time is that there will be Tariffs. Today the baseline 10% tariff remains in place and all its "costs."

PS – the answer to the polling question is that if a product – like a phone – comes from China and its price is hypothetically $1000 with a 40% Tariff, or a $400 Tariff – once it lands here in the US, someone – the IMPORTER – maybe like a Walmart or a Target for example, pays the $400 to get the phone onto their shelves. Then the importer has to decide if it easts the cost of the Tariff or if it passes I the $400 cost on to the consumer. Why wouldn't they pass it on? Now we have a pressure on our personal budget from increased costs like $1400 phone and we have increasing prices - inflation.

This is a moment where we are focusing on what we know, filtering out noise and keeping diligent on processes. Clear minds are how we manage portfolios through times that are uncertain. Our focus is and has always been on risk management. And – that isn't any fun when markets go up every day, but it sure makes sense long term.

As always, please call or email with any questions. And to end with a note of positivity: our Dog Kira remains blissfully happy napping and watching squirrels and deer all day. She says H!

 *

*Know the New America: April 2025 | Ipsos

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