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Another Wild Ride in the Markets

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Market Volatility

Coming into 2025, I predicted that we would see heightened stock market volatility as we prepared for Trump's second term in the White House. I think I may have gotten that prediction right. Similar to his first term, Trump prefers to negotiate with tariff threats in public, and the markets can quickly react. However, this time it's a bit different. During Trump's first term, the high majority of those trade negotiations were focused on China. So far into his second term, Trump has decided to negotiate with all the US's major trading partners at the same time. It reminds me of the title of 2023's Best Picture Academy Award Winner – "Everything Everywhere All at Once".

The stock market does not react positively to uncertainty, and that has been the case as the S&P 500 was on the verge of a bear market (a drop of 20% or more from a recent high) entering April 9. Investors feared Trump's large tariffs on the US's major trading partners may reignite inflation and cause an economic downturn. The momentum dramatically shifted later that day when Trump declared a 90-day pause on the reciprocal tariffs from April 2, leaving a 10% blanket tariff on trade partners in the interim. The exception was China whose good tariffs have been raised to 125%. The S&P 500 blasted off with a sigh of relief closing 9.5% higher.

However, the S&P 500 gave back some of that sharp rebound the next day, on April 10, as it closed down -3.46%. Some investors feared that the 90-day pause may be nothing more than "kicking the can down the road" and we may find ourselves in the same position three months from now. Also the 90-day pause does not remove any of the uncertainty of what the final tariff policy will be. This uncertainty has caused many companies to delay capital expenditures and/or hiring plans, which amplified concerns of an economic slowdown.

No one knows what the final tariff policy will be, but I remain "bullish at this moment". I believe all these tariff threats have been just high stake negotiations. Yes, I believe tariffs will be put in place, but much lower than the Liberation Day announced rates. If I'm right, then we can refocus on fundamentals such as,

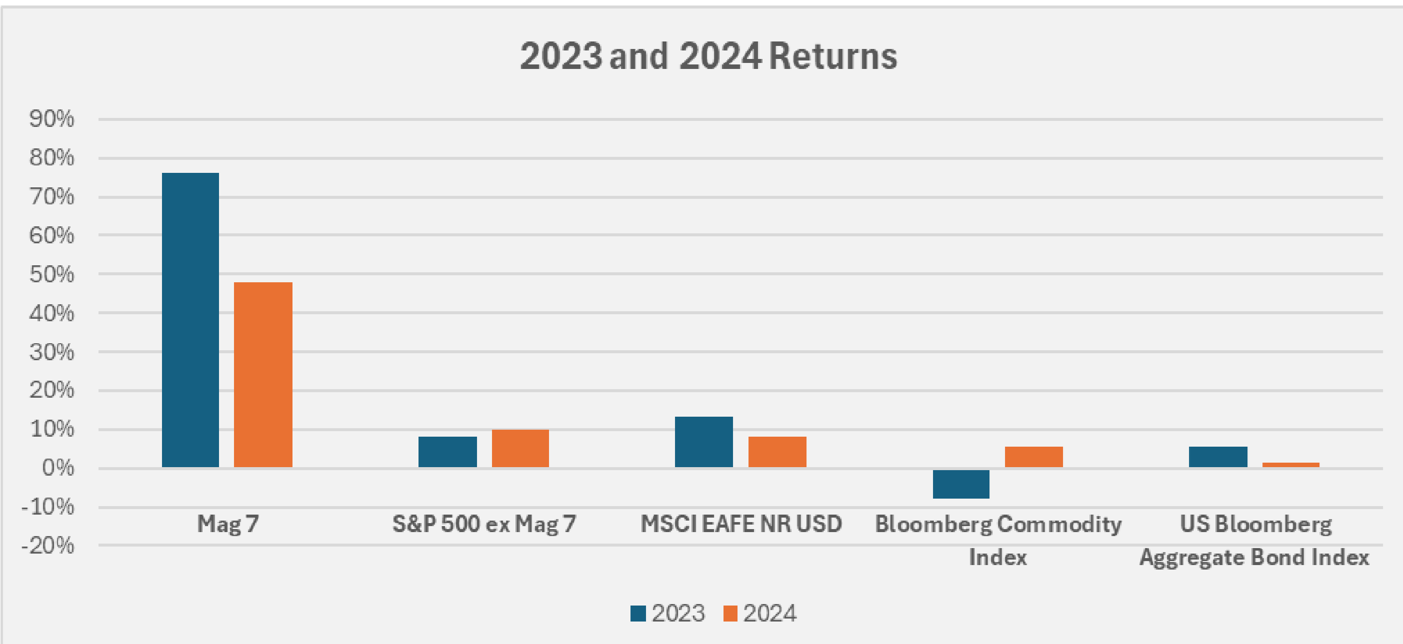
- The strength of the US Labor Market with a historically low unemployment rate of 4.2% (50-year unemployment rate average is 6.1%*)
- Corporate profit margins above their 5-year average
- The financially strong US Consumer
- Corporate projected earnings growth across all sectors in 2025

Of course, when I said "bullish at this moment", I'm reserving my right to change that view if tariffs are implemented in three months close to the Liberation Day rates. I have a lower probability outcome for this scenario. My bullish outlook could get more bearish on that hypothetical day.

Investment Outlook

So what does a Portfolio Manager do in a macroeconomic environment with so many open questions? We build portfolios based upon our base case, but also account for the lower probability outcomes. I advocate for staying fully invested in the markets with my bullish view, but tilt the portfolio towards high quality companies, which have strong balance sheets and track records of strong cash flows and earnings. High quality companies are in better positions to withstand any possible economic downturn.

More importantly, we stress diversification, especially during periods of high volatility and uncertainty. Diversification means always maintaining an allocation to an asset class that you may not love at the moment. Over the past two years, many investors had incredible love for the Magnificent 7, and may not have shared that love with other asset classes or sectors. Look at these returns



Source: FactSet, Morningstar. Mag 7 includes AAPL, AMZN, GOOG, META, MSFT, NVDA, and TSLA.

As of 4/9/25, the story has dramatically shifted.

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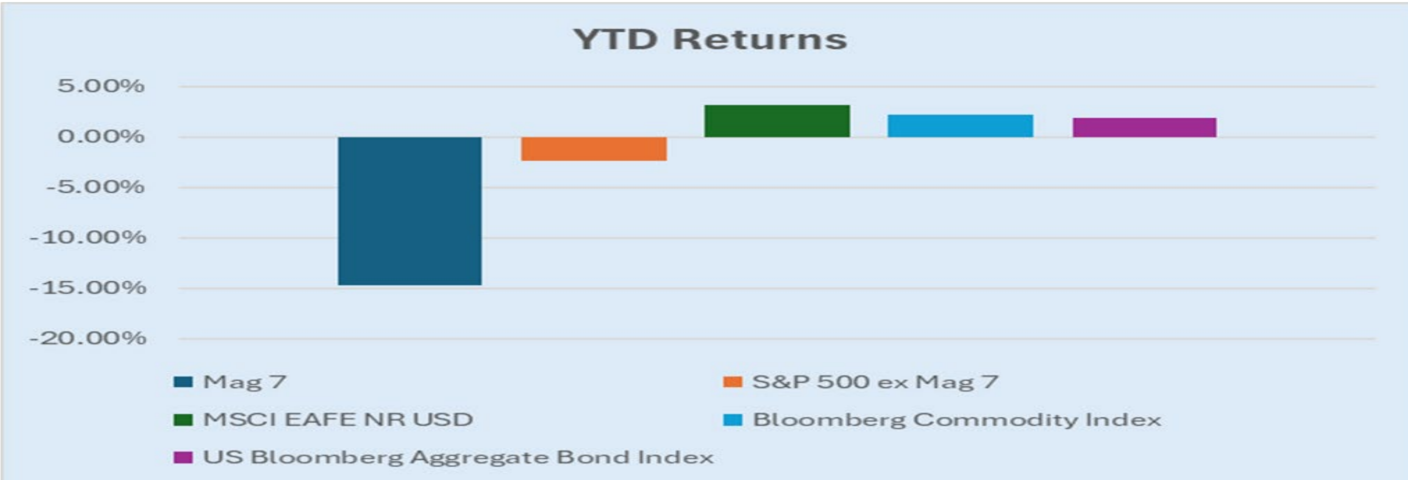
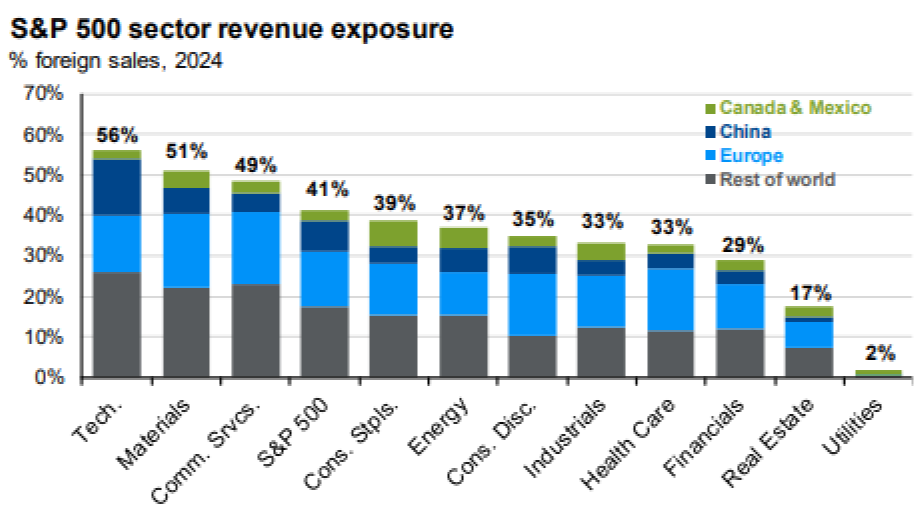


Source: FactSet, Morningstar. Returns as of 4/9/25

So what's the moral of this story? Diversification is a client's best plan at all times, but especially during periods of volatility and uncertainty. You may not love every holding at any given time in a diversified portfolio, but staying disciplined to your strategy will best serve you in the long-term. For the past two years, the "other 493" of the S&P 500 struggled to keep up with the Mag 7, but those stocks have performed relatively better than the Mega Tech's during this market correction. The Mag 7 entered this year with higher valuations, which have been under pressure. The Tech sector also has the highest percentage of revenue exposure to foreign sales as highlighted in the chart below, so that sector is very sensitive to any possible trade war.



Source: FactSet, JP Morgan Asset Management

On the other hand, international stocks have rallied so far this year due to their more attractive valuations, easing central banks, and improved earnings projections. Bonds have produced positive returns year-to-date (as of 4/9/25) as falling interest rates have provided tailwinds. Commodities have also generated positive returns year-to-date (as of 4/9/25) led by gold and cooper. Stay Diversified and Stay Invested.

S&P 500 TR USD	*The index measures the performance of 500 widely held stocks in US equity market. Standard and Poor's chooses member companies for the index based on market size, liquidity and industry group representation.*
MSCI EAFE NR USD	*The index measures the performance of the large and mid-cap segments of developed markets, excluding the US & Canada equity securities. It is free float-adjusted market-capitalization weighted.*
Bloomberg US Agg Bond TR USD	*The index measures the performance of investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS. It rolls up into other Bloomberg flagship indices, such as the multi-currency Global Aggregate Index and the U.S. Universal Index, which includes high yield and emerging markets debt.*
Bloomberg Commodity TR USD	*The index measures the performance of future contracts on physical commodities which are traded on US exchanges and the London Metal Exchange. The commodity weightings are based on production and liquidity, subject to weighting restrictions applied annually.*