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Shooting From The Hip?

Investors have been struggling to find clarity in a fickle market that has come down with a stubborn case of Trump induced "tariffitis." Adding to the confusion, there does not seem to be one set of rules governing the process. Each country appears to engage in a workout to achieve specific objectives such as stopping illegal immigration or the flow of illicit drugs. Other considerations evolve around economic interests. Cobbling together this trade mosaic in a mutually acceptable structure is a daunting task. President Trump's senior counselor for trade and manufacturing, Peter Navarro, would undoubtedly agree.

The potential economic impact of these ongoing negotiations is significant for the United States and trading partners alike. Harry Truman once famously asked his aides to find him a one-handed economist. He vented that his economic advisors would say 'on the one hand this could happen, and on the other hand that could happen.' We're hopeful President Trump shares certain aspects of Mr. Truman's legendary "patience" when it comes to getting things done! The financial markets would welcome less uncertainty, which could lift the fog currently clouding investors' optimism thus far in 2025.

Following the Trump administration's tariff announcement, many economists now resemble certain Hindu deities with 4, 6 or even 10 arms in their attempts to forecast potential outcomes. We do not blame our prognosticating peers for their lack of confidence as the tariff announcements on April 2nd were broader and more restrictive than markets anticipated. The S&P 500 fell 10.5% in the biggest two day drop in the last 75 years. The Volatility Index (VIX) jumped to over 52.3, a level rarely seen, and the “r” word was being talked about as likely this year… a recession.

These sudden market moves can test the resolve of even the most seasoned investors. As we have advised clients in the past, it can be best to avoid making investment decisions when emotions or uncertainty are high. Although, opportunities often present themselves in challenging markets.

Thankfully, the administration softened its stance by providing a 90 day “pause” for negotiations. This supported the view that President Trump’s tough line was primarily a negotiating tactic and that he will soften his stance if the market starts to price in dire consequences. This phenomenon is referred to as the “Trump put,” or some market participants’ view that if the market starts to fall too far, he will adjust course as needed.

Quarterly Benchmarks

	1Q 2025 (%)	YTD 2025 (%)
Dow Jones Industrials	-0.87	-0.87
Standard & Poor's 500	-4.27	-4.27
NASDAQ Composite	-10.26	-10.26
Russell 2000	-9.48	-9.48
Russell MidCap	-3.40	-3.40
Russell 1000 Growth	-9.97	-9.97
Russell 1000 Value	2.14	2.14
Barclays Capital Govt./Corp. Bond	2.70	2.70
Barclays Capital 5 Year Municipal Bond	0.91	0.91
MSCI AC World ex US	5.36	5.36

Source: Morningstar

Diversification over speculation

We remind readers that diversification can be your friend. This has been the case so far this year. Tariff fears weighed on stocks with the S&P 500 dipping -4.27% and the Nasdaq Composite falling -10.26% by quarter end. The widely owned Magnificent 7 large cap technology stocks led the declines following strong gains in the past two years as domestic and overseas buyers poured in. The Russell 1000 Value gained 2.14% for the quarter and the broadest international benchmark, the MSCI All Country World ex-US index, rose 5.4%.

In recent letters we have mentioned that certain areas of the market looked attractive given the valuations, or the price you pay, relative to future earnings. International stocks, value stocks and the shares of middle-sized companies have traded for much more appealing prices than large growth stocks. Often the price you pay is the best indicator of future returns.

Outlook

As our CIO (Chief Investment Office) Head of Equities Strategy, David Lefkowitz, wrote in a blog post on April 18th, the clear theme of the first quarter earning's season is *uncertainty.* He includes a chart that shows the number of mentions of "uncertainty" on S&P 500 earnings calls. There were 1,300 mentions at the time of his writing with the most recent peak in 2020 reaching just under 800 mentions.

Lefkowitz lowered his base case S&P 500 forecast to 5,800, positive scenario of 6,500 and downside scenario of 4,500. The S&P 500 is currently trading around 5,569 (as of the close 4/30/25).

The S&P 500 fell to just under 5,000 back on April 7, 2025 and has had a nice recovery. Earnings are expected to somewhat flat to positive this year followed by 10% growth next year. The longer term forecast is 7%.

While the economy is slowing, the odds of a recession are lower than earlier feared. UBS forecasts the US economy to grow 1.5% this year and 0.8% in 2026, down from the earlier estimate of 2% and 1.8%, respectively. The current global GDP growth forecast is for 2.5% in both 2025 and 2026, down from 2.9% and 2.7, respectively.

Reasons for Optimism

What are investors to do?

History shows us that after peak uncertainty, markets often work their way higher over the following 12 months. Lefkowitz wrote that when the volatility index (VIX) has passed 40, the market historically posted 30% gains on average and 95% of the time the one-year return is positive.

Consumer sentiment surveys, such as the University of Michigan's survey, have declined since January. However, the CIO team points out that these sentiment readings are often contrarian indicators.

Mark Haefele, our CIO of Global Wealth Management, notes in the May House View that in March the American Institute of Individual Investors (AIII) weekly survey showed only 22% of investors expect stocks to rise in the coming six months. Historically, the S&P 500 has returned 16% when this reading dips below 25%. Haefele and team write that as trade deals are announced some of the fog around trade uncertainty may lift providing investors the ability to look through to growth prospects to 2026 and beyond.

Longer term, the CIO team believes the US economy's innovation and dynamism will drive growth despite the tariff overhang in the near term. The US also entered the year on a solid footing with low unemployment, high profit margins and declining inflation. The Federal Reserve may also lower interest rates later this year which can add stimulus to a slowing economy.

We reiterate that diversification is your friend especially in times of uncertainty. International and value stocks still look reasonably priced. High quality bonds are attractive. Hedged strategies and alternatives can provide a source of positive returns with low correlation to public markets.

While 2025 is looking like a ho-hummer of a year so far, we have a positive outlook into 2026. There is a better than even chance, in our view, that we will see an extension of the existing tax cuts along with some other tax incentives. One example being talked about in Washington is the ability to fully expense equipment purchases in the year of the purchase. The administration can support growth despite the controversy over tariffs.

Dear friends and clients, we believe we'll see a decent market ahead if not a barn-burner.

Many of you have invested in municipal bonds, which we still see as attractive. There is high-quality municipal paper carrying current yields of about 4 ½ % tax free federally. For those in the higher tax brackets that amounts to a tax-equivalent yield near 7%. For those who may be currently equity averse it's not a bad place to park some capital.

Spring is in full bloom. Even in the Northeast there are the early signs. Time to get the old boats out and ready for the summer ahead. The market will likely be a little bumpy, but we note that our strategists are looking for 5,800 (5% higher) on the S&P 500 by year-end and around 6,400 (+15%) by year-end 2026.

Your team thanks you for entrusting us with the responsibility of caring for many aspects of your financial well- being. We feel very dedicated to you all and hope that you have a wonderful summer enjoyed in good health.

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