BULLS&BEARS

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Global Uncertainty

The Trump administration has taken aggressive early measures to address trade deficits and shrink the size of government. It remains unclear whether the current policy volatility will evolve into a more stable U.S. strategy. As tariff barriers rise, global uncertainty is increasing, particularly for export-dependent economies. Overall, these strategies are likely to slow the U.S. economy more than previously expected and hurt the labor market, regardless of whether government spending cuts are codified into law. Current administration officials have argued that some near-term pain is acceptable in pursuit of longer-term goals, suggesting the tolerance for economic and market volatility is higher than previously thought. Eventually, higher prices, especially for food and energy, and lower equity values are likely to be a political constraint.

. While the ultimate implementation remains uncertain, disruptive U.S. policy announcements have already damped U.S. consumer and business sentiment and will likely weigh on investment and hiring decisions. Globally, if businesses face tariff-related risks that are close to impossible to calibrate, then the likely result is delayed decisions on investment and expansion. In other words, tariff uncertainty is proving to be a headwind to growth, even if tariffs fail to materialize. We see a risk that U.S. growth and labor market momentum downshift more decisively. After U.S. real GDP grew 2.5% to 3% annually over the past few years, we expect a below-trend pace in 2025 and 2026.

More Complicated

The Federal Reserve's job is complicated. They have focused much more on their mandate to contain inflation while employment has been at or near "full employment" for a few years. The Fed's job just got a whole lot more challenging. Given their dual mandate, Fed officials will need to decide whether to lower interest rates to support the economy as businesses and consumers navigate the uncertainty of this aggressive policy action or keep rates elevated (or dare I say raise them) to tamp down inflation.

While Chair Powell indicated that policymakers could look through any inflationary boost caused by tariffs during last month's press conference, it does not appear that all Fed officials are on board with this view. However, we suspect that growth concerns will dominate, particularly if the labor market starts to crack in a meaningful way. And with the Fed's monetary policy stance still restrictive, policymakers have ample room to cut rates to respond to any weakness.

Market Volatility

Market corrections have historically been a normal part of investing. Since 1980, the S&P 500 index has experienced a decline of about -14% on average in any given calendar year. Yet stocks have normally recovered and finished with average gains of about 13% in any given calendar year, including dividends. So, a market decline of -10 or -15% isn't unusual, nor necessarily a sign that stocks will continue to decline. Market volatility can feel unsettling, but it is normal.

Some investors may nevertheless be worried that "this time is different." In the midst of uncertainty, it's natural to fear the worst. Yet investors should remember that historically the US economy and stock market have again and again surmounted steep obstacles, including pandemics, recessions, market bubbles, and even a depression, and eventually gone on to thrive.

While it can take nerves of steel not to react when stocks are falling, this has often been the best course of action. Investors who sell, in an attempt to head-off further losses, risk locking in potential losses and often miss out on the market's subsequent recovery.

While we don't know if any pullback will be short-lived or the beginning of a bigger downturn, history shows that the stock market recovers from downturns, and most sound investment strategies are built to withstand volatility, even sharp pullbacks.

Please contact us at 1-855-829-7192 if we may be of assistance.

Market Indicators

3/31/25	Year-to-Date Change
S&P 500	-4.27%
NASDAQ	-10.26%
Russell 2000	-9.48%

Interest Rates	9/30/24	3/31/25
10-Year Treasury Note	3.73%	4.16%
3-Month Treasury Bill	4.62%	4.31%

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