Investment Update

April, 2025

2025 First Quarter Update

Review: The S&P 500 started the year in positive territory, returning roughly 3% in January. However, uncertainty regarding tariff policies sparked a selloff in February and March that resulted in a -4.3% decline for the quarter. US uncertainty fueled a rally in international equities, with developed markets leading the way at 7%. In general, bond yields declined during the quarter, leading to positive returns in the US Aggregate Bond Index. The Federal Reserve paused rate cuts, as they wait to see the potential impact of tariffs on inflation and economic growth.

	1Q25	4Q24	2024
S&P 500	-4.3%	2.4%	25.0%
MSCI EAFE[1,2]	7.0%	-8.1%	4.3%
MSCI Emerging Markets[2]	3.0%	-7.8%	8.1%
Bloomberg U.S. Aggregate Bond	2.8%	-3.1%	1.3%
Bloomberg Municipal Bond	-0.2%	-1.2%	1.1%

[1]Europe, Australasia, Far East

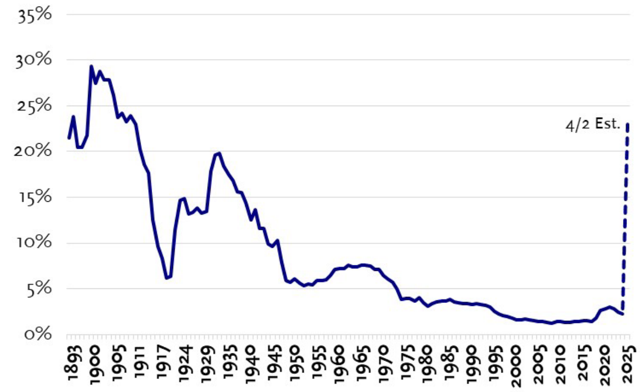
[2]MSCI returns are in U.S. Dollars

Here Be Dragons

If one were to use a single word to summarize Q1 2025, it would likely be "uncertainty." Fed Chairman Jerome Powell used the word six times in his prepared remarks at the recent FOMC meeting on March 19, compared to one time for each of the prior five meetings. One of the primary drivers of increased uncertainty is US tariff policy. Though it has been clear since the campaign trail that the new administration was looking to increase usage of tariffs, it is still unclear whether the goal is to use tariffs solely as tools for negotiation or as an attempt to raise revenues. The April 2 tariff announcement seems to suggest that the ultimate goal may be a combination of the two. For the Fed, this has increased uncertainty around inflation and the potential impact on economic growth and employment. For investors, it has led to uncertainty about corporate earnings growth, valuation multiples, US dollar strength, and portfolio positioning, which sparked the selloff in US equities.

The chart on the next page shows the weighted average US tariff rate on imports since 1891, along with an estimate for 2025 based on the rates announced April 2. While subject to change, the current projections suggest that we could be entering a period where markets have to contend with trade policies not seen in the past 80+ years but with a very different global monetary system—i.e., most major currencies are freely floating. Clarity around tariffs may allow companies to plan and make necessary adjustments, and it is possible that potential economic disruptions will ultimately be less than feared. However, the longer policy uncertainty persists, the more likely it is that recent market volatility continues.

Average US Tariff Rate on Imported Goods, 1892-2025E



Source: Bloomberg; 4/2 estimate from Bloomberg based on announced tariffs and assuming they are additive to existing tariffs

Outlook: Consensus estimates for 2025 US GDP growth are still positive and currently at 2.0%, down only slightly from the 2.1% estimate at the beginning of the year. However, forecasters have not yet incorporated the potential impact of the recently announced tariffs. An area we are watching closely is personal consumption. Recent consumer sentiment survey readings have been at very low levels, but sentiment has historically not been a very good predictive metric, as US consumers typically still spend money even if they say they do not have a very positive outlook. However, if sentiment starts to have an impact on the actual spending data—which could be magnified by potential price shocks—that would be a clear negative for the economic outlook. Another GDP component that could detract from 2025 growth is government spending. Though the net impact of the various policy initiatives of the administration is not yet known, it appears that their preference would be to have a more conservative fiscal policy.

International growth is also subject to significant uncertainty, in part due to potential US policies. That said, the US dollar has weakened against many major currencies to start the year, which could be a tailwind for international equities on a relative basis if it continues. Diverging approaches to monetary and fiscal policy—i.e., more expansionary relative to the U.S.—may also be positive for certain countries.

Strategy: Elevated uncertainty has been negative for valuation multiples, which remain at levels above long-term averages, and it could also be negative for corporate earnings, if it persists. This has increased the relative attractiveness of the risk-reward in fixed income versus equities. However, we also recognize that policy priorities of the administration may quickly change from tariffs to taxes and incentives for business investment, which would likely be viewed positively by the markets. This is a healthy reminder that risk management, rather than risk avoidance, is the prudent way to approach portfolio construction. As such, within equities, we continue to have a bias towards higher quality companies with strong underlying growth trends that are better equipped to weather near-term volatility.