Eideard Group
GUARDIANS OF PROSPERITY

April 28, 2025

A Special Report: On Staying the Course

Following two years of exceptional US stock market performance, investors have since become surprised and shocked by the extreme market volatility that has dominated daily equity trading sessions since mid-February's market peak to this present day! And while I've spoken to many concerned clients over the last several weeks, let there be no doubt, the current market trauma is solely the result of Trump's tariff policies and the economic and financial market uncertainties they have spawned!

Since February 18th when the stock market reached its early year peak, US stock indices have swung wildly to either flirt with or remain entrenched in correction territory. At least at this writing, the YTD return for the S&P 500 has improved to (6.1%) elevated from correction territory, while the tech-heavy Nasdaq still remains on its cusp at (10.0%). Tomorrow, however, those returns could just as easily be different!

Meanwhile, the volatility has not been confined just to stocks. It's notable that the US dollar has also weakened during this period, while yields across the US Treasury curve have generally spiked in response to tariff updates. We've witnessed 10- and 30-year treasury yields rising by as much as 10-30bps from week to week, reflecting troubling news including what some pundits have speculated is a selloff of American assets. This is extraordinarily rare since in uncertain times investors quickly flee to Treasuries as a "safe haven", which in turn drives up demand and drives down yields! Naturally, the angst evident in the Treasury market has also rippled through both US corporate bonds (the taxable market) as credit spreads have widened, and high-quality municipal bonds (the tax-exempt market) which has experienced its fair share of steep selloffs as recently as last week. Thankfully, selloff days are quickly followed by rapid recoveries as prices normalize over subsequent trading sessions.

But as we here in the US continue to witness unpredictable daily swings and current economic uncertainties of pressing for import tariffs, the international markets have remained relatively stable, and continue to deliver generally positive performance especially vis-a-vis US stocks.

Taking a moment to reflect on the emerging tariff policies and the international trade negotiations which underscore them, the President's principal objective is to address the trade imbalances across global markets for American benefit. In the President's own words; "to level the playing field". This marks a seismic shift in US trade perspective going back at least 50 years!

Looking back historically, the forever mantra in US global commerce has been that tariffs are BAD and trade wars are HORRIBLE! The volatility we are witnessing simply underscores that long held belief! And while previous high-profile politicians, economists and academics alike have repeatably scorned our global trade imbalances over these many decades as a significant cost to America, few if any have had the political will or capital to "rock the boat", the result of which has been decades long US trade deficits. It's therefore no stretch of the imagination to understand that this "marked policy shift" and the uncertainty and turmoil that has accompanied it is despised by politicians, Wall Street and the financial markets while patient investors, like you and me, can only standby and watch as their portfolio values fluctuate from day to day. And while public emotion is running at an all-time high for or against the President's intentions, he appears resolute in seeing this through to the end, including the goal of reshoring key industries and manufacturing facilities (especially those tied to national security interests) in order to revitalize the American economy.

Arguably, it's difficult to push back on the President's lofty trade vision, or for that matter not applaud his other strategic initiatives whether it be securing our borders, flushing out the illegal migrant criminal elements or lastly downsizing bloated government agencies to curb wasteful spending. After all, as to this latter objective, America, the world's largest economy, also carries with it a national debt that has pierced $36.2 trillion. It currently stands at 121% of gross domestic product and continues to grow unchecked. Do we really believe this trend is sustainable? By comparison, China's national debt as the world's second largest economy is less than half of America's at $15 Trillion and stands at only 83% of its GDP.

Notwithstanding that many of the administration's strategic initiatives are arguably laudable, the supreme test always lies in tactical execution and success, including the importance of making every effort to avoid the slippery slope of government overreach. This applies across the spectrum of Presidential policy. While most would agree that import trade levies are important to bolstering America's solvency, they should be reasonable and applied with some sense of priority especially as they relate to US national security. These likely would include industries and products such as pharmaceuticals, technology and chips, even precious grade minerals and resources. As to the now emerging controversies between the government and America's most elite universities; freezing public funding of private academic R&D, may be necessary but the crucial question is to what extent and when does government funding in exchange for its demands become draconian overreach? These are real and present questions yet to be resolved.

Then of course by now we've all come to learn how unconventional, or perhaps better put, unpredictable the President can himself be. In forums like geopolitics, presidential unpredictability is likely to have its advantages but in other more sensitive settings, like economics and finance, the opposite is true. And while at this juncture we can only speculate on the success of the various executive mandates including what can go wrong, it's also not particularly helpful that the public be bombarded by what I'd call the Chief Executive's "stream of consciousness". Words do matter especially when they emanate from the Oval Office! To wit, recent spontaneous threats to the Federal Reserve's independence unnecessarily roiled already treacherous markets on that particular Monday. The market tension subsided only after the President affirmed that he really had no intention of firing Jerome Powell.

So where do we go from here as each new trading day unfolds? No one can be sure! Presently, we can only hope that progress in global trade negotiations is real, broadly successful and concluded as swiftly as possible. In the meantime, what we do know is that market volatility is not derived from a failure of economic fundamentals! As Powell squarely put it only a matter of days ago, the overall US economy continues to be remarkably resilient including labor and consumption. Notwithstanding, he is right to be cautious and voice his concern that tariffs could refuel inflation and impede economic growth at least in the near term. For the moment, however, the Central bank is opting for the "wait and see" approach before deciding on further monetary easing. Preserving what little ammunition the FED has left on hand, the plan seems reasonable enough to me!

With all that said, I continue to remain heartened that those of you, our clients, to whom I have spoken continue to display patience and are holding fast and steady, as uncomfortable as it may be on the worst of market days. To the point of the importance of *"Staying the Course",* simply keep in mind what occurred just a couple weeks ago when the President announced his 90-day tariff pause. On the unexpected news, the S&P 500, the tech-heavy Nasdaq and the Dow Jones Industrials all surged in unison to recover remarkably over one-half of their year-to-date losses. It was indeed one of the best, if not *the best*, trading days in stock market history! Such days as this can just as easily happen again when we least expect it!

As we look forward, I am already beginning to sense a modicum of market normalization as swings tighten and positive stock market upside capture appears more frequent, especially over the last couple of weeks. I am also reasonably certain that time itself will help to normalize market behavior now that the Administration's cards are on the table. This also includes a reasonable expectation that Congress will successfully pass the proposed tax legislation effectively extending Trump's own 2016 "Tax Cuts and Jobs Act", which otherwise would sunset at year end. Passage of a new tax bill, even one resulting in an across the aisle compromise, should be a boon to the markets and provide some relief to what we've all had to endure in this first third of the year.

In the meantime, prudence dictates that you, our clients, review your cash needs and ensure there is sufficient liquidity on hand to cover your near-term requirements. If not, let us know. At the same time and equally as important, it's always best to remain resolute in "staying the course". Both are the proven and timeless keys to successfully navigating turbulent markets. One that, like so many before it, will also eventually come to pass!

In closing, should you wish to discuss anything that I have offered above or if you feel the need to discuss your portfolio's current positioning, please don't hesitate to reach out to me. With all best wishes!

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