



April Tariff Showers

April showers came a month early as stocks fell in March. Tariffs were the primary cause of the market jitters, although that uncertainty became too much for markets to shrug off once economic data started to weaken.

The U.S. economy had been poised to slow from last year's near 3% pace even before the Trump administration announced new tariffs. After the weak retail sales numbers for both January and February, LPL Research reduced its growth estimate from 1.9% to 1.7%, with downside risks from potential trade wars if countries retaliate. Attempting to accurately predict the beginning and end of a recession can be extremely costly. That said, we think the odds of recession over the next year or so are about 30% as tariffs weigh on economic activity.

Companies must pay some of these levies, compressing profit margins. Some of those costs will be passed on to inflation-weary consumers in the form of higher prices. Some consumers may pull purchases forward ahead of tariffs to avoid future price hikes, but others are delaying spending due to the uncertainty, which is weighing on economic growth. Falling stock prices and mounting federal government layoffs are adding to consumers' angst. It is also difficult for companies to commit to capital projects and hiring while they sort through the impact of tariffs.

On a more positive note, consumers have the benefit of healthy savings, years of solid income growth, and accumulated net wealth to keep the economy growing this year. Slower growth is putting downward pressure on inflation, offsetting tariff effects, and paving the way for more rate cuts from the Federal Reserve. That should help keep borrowing rates contained. Corporate America remains in excellent shape and is still positioned for some potential earnings growth, even with a tripling or more of average U.S. tariff rates.

We may be nearing peak trade uncertainty right now. Stocks don't like uncertainty, but they tend to rally once it starts to clear. We saw that during the trade war period of 2019 under Trump 1.0. From August 23, 2019 through the pre-pandemic highs on February 19, 2020, the S&P 500 index rallied 19%. That may be too much to ask over the next six months, but a significant rally from current levels through year-end is possible. The "spinach" of tariffs comes first, but it will be followed by the "candy" of tax cut extensions and deregulation later. If the economy and markets continue to weaken, interest rate cuts are likely.

While the broad U.S. stock market fell during the first quarter, U.S. value stocks rose, and 7 of the 11 S&P equity sectors produced positive returns. Bonds were also higher, reminding us of the benefits of diversification beyond growth stocks.

Volatility will likely be with us for a while as the policy fog continues to clear. We remain confident that our investment process is built to weather this current storm. As long-term investors, we are ready to "be like Buffett" and tactically shift a small

percentage of bond allocations to stocks, while keeping enough in bonds to satisfy your income needs for the next 6 to 8 years.

Attached [here](#) are a set of slides to provide you with perspective on the importance of diversification, the futility and danger of market timing, and keeping the focus on the long-term during market downturns.

We understand how unnerving it can be to see your values decline. We are here to guide you through the calm and stormy seas, and are not overwhelmed with calls from nervous clients, so please don't hesitate to call or email us to have a chat or schedule a review with Bert, Katie or me.

On behalf of the entire crew here at Golden Pond—which is sailing this ship through these stormy seas with 130 years of combined experience, thank you for the opportunity to be of service.

Sincerely,

A handwritten signature in cursive script that reads "Brian Bernatchez".

Brian Bernatchez, CFP®

CIO/Managing Director

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All data is provided as of April 1, 2025.

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All index data from FactSet.

The Standard & Poor's 500 Index (S&P500) is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

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There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. Past performance does not guarantee future results. Asset allocation does not ensure a profit or protect against a loss. This research material was prepared by LPL Financial, LLC.

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