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Financial Partners

Weekly Focus – Think About It

"When I hear somebody sigh, 'Life is hard,' I am always tempted to ask, 'Compared to what?'"

– *Sydney J. Harris, Journalist*

"IF YOU CAN KEEP YOUR HEAD WHEN ALL ABOUT YOU ARE LOSING THEIRS…"

The advice offered by Rudyard Kipling's poem "If—" resonated last week. A sharp escalation in trade tensions sparked a stock market downturn despite news that the United States economy created far more jobs in March than economists had expected, reported Lucia Mutikani of Reuters.

Late Wednesday, President Trump announced tariffs on countries around the world. The tariffs were significantly larger than anticipated, and stock markets immediately moved lower. Over two days, the Standard & Poor's (S&P) 500 Index lost about $5 trillion in market capitalization, reported Lynn Thomasson of Bloomberg.

It was the "largest decline for stocks listed on major U.S. exchanges since March 16, 2020, when $3.5 trillion in value was wiped out, according to Dow Jones Market Data," reported Connor Smith of Barron's. (March 2020 was when the COVID-19 outbreak officially became a pandemic.)

In contrast, government bonds rallied as yields fell. Investors preference for lower risk assets "resulted in rising demand for government debt in the U.S., U.K., Germany, Japan and Australia — which sent yields down across all those countries," reported Vivien Lou Chen of MarketWatch.

Three reasons for the stock market downturn

While tariffs were the catalyst for the market downturn, they weren't the only reason for the decline. Other contributing factors included:

1. **A tsunami of uncertainty**. You've heard it before: Markets hate uncertainty. The new administration's tariffs brought a tsunami of uncertainty. Some investors opted for safe havens as they awaited greater clarity around key questions, including:
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   - Are the tariffs a negotiating tool or a permanent tax?
   - How will tariffs effect the outlook for economic growth?
   - How will tariffs effect corporate profitability?
   - How will other countries respond?

"The scope, speed and magnitude of the Trump administration's tariff blitz left investors with a lot of questions. But one point came through crystal clear: The post–World War II global world economic order is no longer. That is forcing a reassessment by countries on how to respond and pushing investors to reassess long-held assumptions about profit margins, investments, and inflation, reported Reshma Kapadia of Barron's."

2. **High market valuations**. Over the past two-plus years, excitement about artificial intelligence, an economic soft landing, pro-business policies, and other factors have helped lift stock prices to extraordinary levels. By many measures, U.S. stocks were expensive, which made them vulnerable to decline, reported Jacob Sonenshine of Barron's. The imposition of extraordinary tariffs forced investors to reassess expectations for U.S. economic growth, corporate earnings, inflation, and share prices.

   "Over the medium to longer term, Trump's tariff and trade policy will likely accelerate the move to diversify supply chains, emphasize regionalization over globalization, and invest in becoming more self-reliant… But given the uncertainty and increasing costs of inputs, companies may rethink where they allocate long-term capital," wrote Kapadia. "…'tariffs plus associated uncertainties provide more incentives to build around the U.S., not in the U.S.,'" stated to a source cited by Kapadia.

3. **The tariff narrative**. Narrative economics is a theory developed by Nobel-prize winning economist Robert Shiller. Its premise is that viral stories influence economic behavior. As a result, viral narratives can influence markets. Shiller explained, "…whether it's the belief that tech stocks can only go up, that housing prices never fall, or that some firms are too big to fail. Whether true or false, stories like these—transmitted by word of mouth, by the news media, and increasingly by social media—drive the economy by driving our decisions about how and where to invest, how much to spend and save, and more."

   Last week, a dominant narrative was that tariffs may cause a trade war, which could have unfavorable and long-lasting effects on the U.S. economy. "While trade wars don't involve armies and bloodshed, some of the same rules apply—especially when it's a war of choice. Strengths need to be assessed, allies cajoled, goals set, and preparations made. When done right, victory can be reached with relative ease and result in an increase in standing. When poorly planned, strengths turn into weakness, quick victories become battles of attrition, and unintended consequences can last for years," reported Ben Levisohn of Barron's.

By the end of the week, the technology-heavy Nasdaq Composite Index was in bear market territory, down more than 20 percent from its previous high. The Dow Jones Industrial Average had moved into correction territory, and the S&P 500 Index had experienced its worst week since 2020, reported Amalya Dubrovsky, Karen Friar, and Ines Ferré of Yahoo! Finance. Yields on longer maturities of U.S. Treasuries moved lower, pushing the value of previously issued Treasuries higher.

Stock market volatility is likely to continue as the tariff story plays out. While the tariff story plays out, it's a good idea to stay calm and focus on your plan. Your portfolio allocation and diversification strategies were put in place to help you achieve your financial goals. Taking drastic action in response to a short-term market upheaval could affect your ability to reach those goals. If you have questions or would like to discuss recent events, please get in touch.

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Data as of 4-4-25	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-9.1%	-13.7%	-1.4%	3.5%	13.8%	9.3%
Dow Jones Global ex-U.S.	-5.6	-0.2	-1.0	0.0	7.6	1.9
10-year Treasury Note (Yield Only)	4.0	N/A	4.3	2.4	0.7	1.9
Gold (per ounce)	-0.6	17.0	33.2	16.5	13.1	9.7
Bloomberg Commodity Index	-5.8	0.9	-2.5	-7.4	9.7	-0.1

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods. *Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.*

FIRST QUARTER REVIEW: CHANGING EXPECTATIONS

In late January, as the new administration took office, markets anticipated that proposed tariffs would create economic headwinds that could be offset by the positive effects of deregulation (a productivity boost) and tax cuts (economic stimulus), reported Ben Levisohn of Barron's. By the end of the quarter, market expectations had changed dramatically.

"The highest-conviction trades coming into 2025 – buy U.S. exceptionalism and the Magnificent 7, avoid the rest of the world, sell bonds – have been turned on their head. Chinese and German stocks are up by double digits since Jan. 20, while the U.S. – and notably information tech and consumer-discretionary stocks – is down since then," reported Randall Forsyth of Barron's.

A market rotation

Financial markets experienced a rotation during the first quarter as market expectations shifted. Rotations occur when a dominant trend fades. Typically, investors sell investments that were in favor and buy assets that they believe are better opportunities, reported Sarah Hansen of Morningstar. During the first quarter of 2025, we saw sector, style, and regional rotations.

U.S. technology stocks lost their luster. In the United States, the information technology, communication services, and consumer discretionary sectors – home to the Magnificent Seven – delivered stellar total returns in 2023 and 2024. However, their dominance faded in the first quarter of 2025, while more defensive sectors of the market delivered positive returns.

Value stocks came into favor. “Worries over historically elevated tech stock valuations, combined with a tariff-induced bout of risk avoidance, have driven the recent rotation from growth into value,” reported Esha Dey of Bloomberg. The S&P 500 Value Index was up 0.28 percent during the first quarter, while the S&P 500 Growth Index dropped 8.47 percent.

International stocks outperformed. “As the US stock market lost ground in the quarter, international markets surged amid a global shift. Chinese markets gained 14.17 [percent], while eurozone markets rose 12.24 [percent], thanks in part to major fiscal initiatives designed to stimulate growth and enhance the region’s defense capabilities amid the ongoing conflict between Russia and Ukraine,” reported Sarah Hansen of Morningstar.

Rotations can be healthy. The key is “to focus on emerging leadership in other sectors demonstrating relative strength,” stated a source cited by Levisohn.

Best regards,

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Sources:

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* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.

* All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client’s portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. You cannot invest directly in an index.

* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.

* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

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* Gold represents the 3:00 p.m. (London time) gold price as reported by the London Bullion Market Association and is expressed in U.S. Dollars per fine troy ounce. The source for gold data is Federal Reserve Bank of St. Louis (FRED), https://fred.stlouisfed.org/series/GOLDPMGBD228NLBM.

* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.

* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.

* The Dow Jones Industrial Average (DJIA), commonly known as “The Dow,” is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.

* The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.

* International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

* The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage is often obtainable in commodity trading and can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

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* The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee it is accurate or complete.

* There is no guarantee a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

* Asset allocation does not ensure a profit or protect against a loss.

* Consult your financial professional before making any investment decision.

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