



Market Update

First Quarter 2025

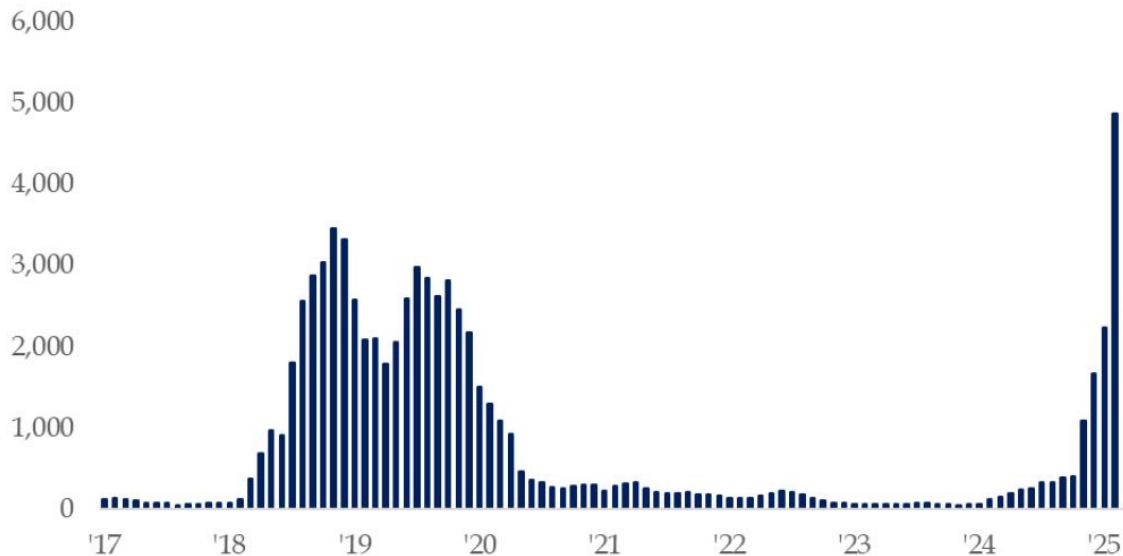
The Only Certainty is Uncertainty

After two consecutive years of exceptional returns, US equity markets took a step back with the S&P 500 Index falling 4.6% in the first quarter of 2025. As we discussed in our [previous update](#), this should not come as surprise as uncertainties had already begun to appear late last year and have only increased in the new year. Financial markets and economic indicators have flashed increasingly mixed signals, leaving many investors, business owners, and consumers concerned about where the global economy may be headed. Factors such as rising tariffs, potential shifts in international trade policies, slower economic growth, unemployment and fears of a looming recession have combined to create an environment of rising uncertainty. The notion that the only constant is uncertainty seems apropos in the current environment and is likely to persist until we get more clarity regarding the ultimate intent of evolving fiscal policies.

The primary source of this economic anxiety is ongoing trade tension, particularly the pending increase of tariffs imposed by the US on major trading partners like Canada, Mexico, Europe, and China. Initially believed to be a short-term negotiating tactic, intensifying hostility on the matter has changed perceptions and caused fear to swell. Such measures have the potential to boost US tariff revenues but also risk slowing economic growth by increasing costs for both consumers and businesses.

Approximating the impact of tariffs remains a moving target but current estimates range from a 1.5% negative impact to earnings growth with only reciprocal tariffs to a potential 6.0% impact under a full implementation scenario. For reference, S&P 500 earnings are expected to grow 10% in 2025. As long as the playing field remains unclear, investors and companies will worry as evidenced in the chart below which shows the number of times the word 'tariffs' was mentioned on corporate conference calls during this most recent earnings season.

Mentions of Tariffs On Company Transcripts (3mo avg.) (Source: Bloomberg)



What is clear in the near-term, is the impact the current wave of uncertainty is having on confidence. Consumer confidence has taken a hit, with the University of Michigan's consumer sentiment index falling to a two-year low in March. Consumer confidence is vital because personal consumption expenditures constitute a significant proportion of GDP. When consumers feel uncertain about the economy's trajectory or face higher prices due to tariffs, they are likely to curtail discretionary spending. Likewise, business confidence has also waned, driven by the challenges of navigating potential impacts to production costs, order demand, and Department of Government Efficiency (DOGE) cuts. This lack of confidence could lead to reduced capital expenditures and hiring, further exacerbating economic challenges. These lingering issues are likely to continue to affect both consumer sentiment and corporate planning without further lucidity.

The prospects of a potential recession also weigh heavily on market sentiments. Much like the mention of tariffs on earnings calls, searches on google for the term 'recession' have risen exponentially. While cracks have appeared, the impact should tariffs be implemented for an extended period, are not for declines in output but rather a slowdown in the rate of growth. As evidence, the Fed lowered their projection for GDP growth in 2025 from 2.1% to 1.7% at their meeting in mid-March.

A more cautious growth outlook has been a primary factor behind the recent decline in equity prices. It is important to maintain perspective during periods of volatility and unease. Investors started the year with high expectations which drove markets to an all-time high on the back of strong earnings, an easing Fed and prospects of all the things

Artificial Intelligence (AI) could do for us. Instead, we have gotten an array of increased risks to that rosy viewpoint and as a result some air has come out of the balloon. That said, let us not forget that while the stock market is around 9% off its February high, this kind of pullback is normal even in years without heightened insecurity. As the chart below illustrates, since 1990 the average intra-year drawdown (fall from a peak to valley) is 14.7%.



Within this pullback, the Technology sector has been hit the hardest as the momentum of AI has cooled as investors debate via stock prices the appropriate levels of capital spending required to capture the opportunity. While the stocks in this area of the market got ahead of themselves, margins and cash flows have remained extremely strong and those companies spending the most have proven adept in recent years at allocating capital. We believe that in the long-run AI will unlock productivity and efficiency gains in the same way the Internet did at the turn of the century. Today, the primary benefits are certainly going towards technology companies but as new products and uses are introduced and costs continue to fall, the advancements will expand to other industries as well. Markets tend to overshoot these types of leaps in technology in the near-term and undershoot them over the long-term.

Overall, the interconnected nature of tariffs, slowing economic growth, recession fears, inflation, interest rates, consumer, and business confidence creates a complex and challenging economic landscape. The stock market's recent volatility reflects these concerns, swinging between optimism fueled by corporate resilience and pessimism stoked by fears of an economic downturn. We continue to believe that the economy and markets are on sound footing and the impact of tariffs are more likely to slow the rate of growth rather than remove it altogether. Ultimately, it will take transparency around these issues to move forward which will come in early April and as we move through the year. Until then, the only certainty is uncertainty.

As always, thank you for reading and please reach out to us if we can assist you with achieving your investment goals.

Kindest Regards,



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