Market Update

APRIL 2025

Tariffs: Inevitable Recession?

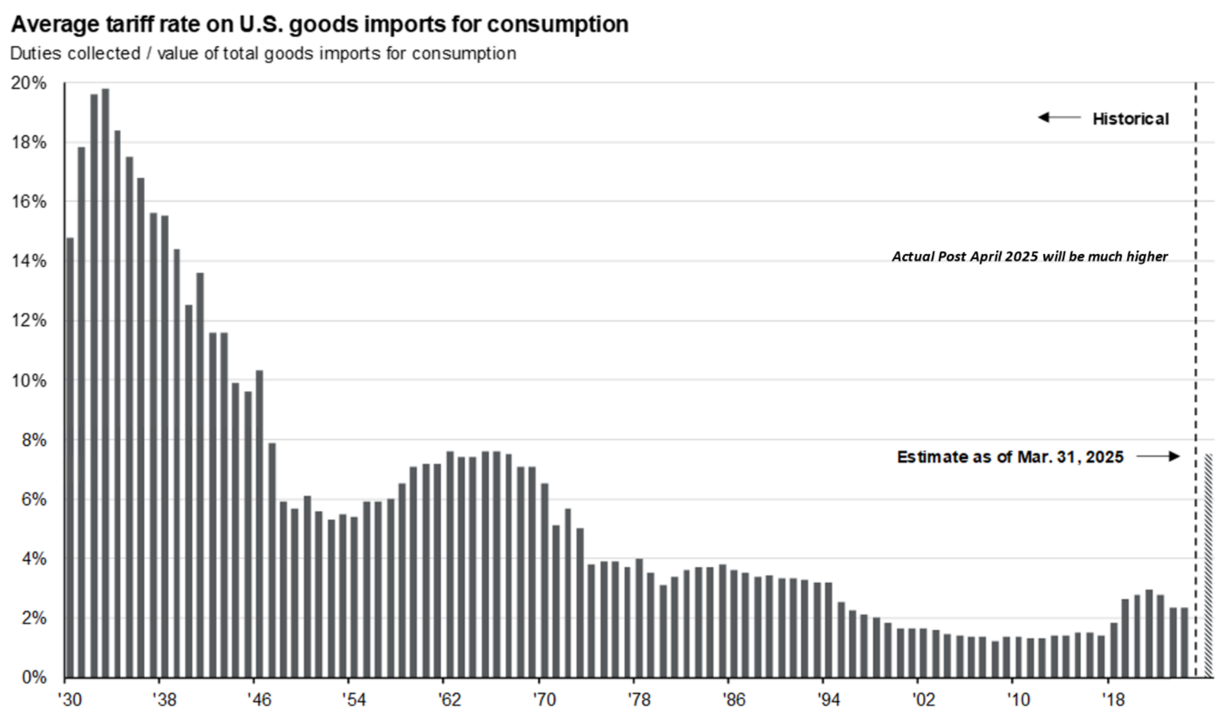
Index	March 2025*	YTD 2025*
S&P 500	-5.6%	-4.3%
Russell 2000	-6.8%	-9.5%
MSCI World, Ex-US	-1.8%	2.8%
Bloomberg AGG Bond	0.0%	2.7%

*Total Returns Source: Factset Data

Markets abhor uncertainty and stock prices reflected as much in March. It's also notable that despite perceived inflationary pressures from tariffs, bond prices appreciated in a clear sign that economic risks for the U.S. have now squarely turned towards recession.

April 2025 Tariffs-Worse than expected

ECONOMIC



Source: Goldman Sachs Investment Research, United States International Trade Commission, J.P. Morgan Asset Management. For illustrative purposes only. The estimated weighted average U.S. tariff rate includes the latest tariff announcements (25% tariffs on steel and aluminum imports, an additional 20% tariff on Chinese imports, and a 25% tariff on non-compliant Mexican and Canadian imports.) Estimates about which goods are USMCA compliant come from Goldman Sachs Investment Research. Imports for consumption goods brought into a country for direct use or sale in the domestic market. The estimate does not consider non-tariff barriers, such as value added taxes. Figures are based on 2024 import levels and assume no change in demand due to tariff increases. Forecasts are based on current data and assumptions about future economic conditions. Actual results may differ materially due to changes in economic, market, and other conditions.
Guide to the Markets – U.S. Data are as of March 31, 2025.

Source: Board of Governors of the Federal Reserve System (U.S.)

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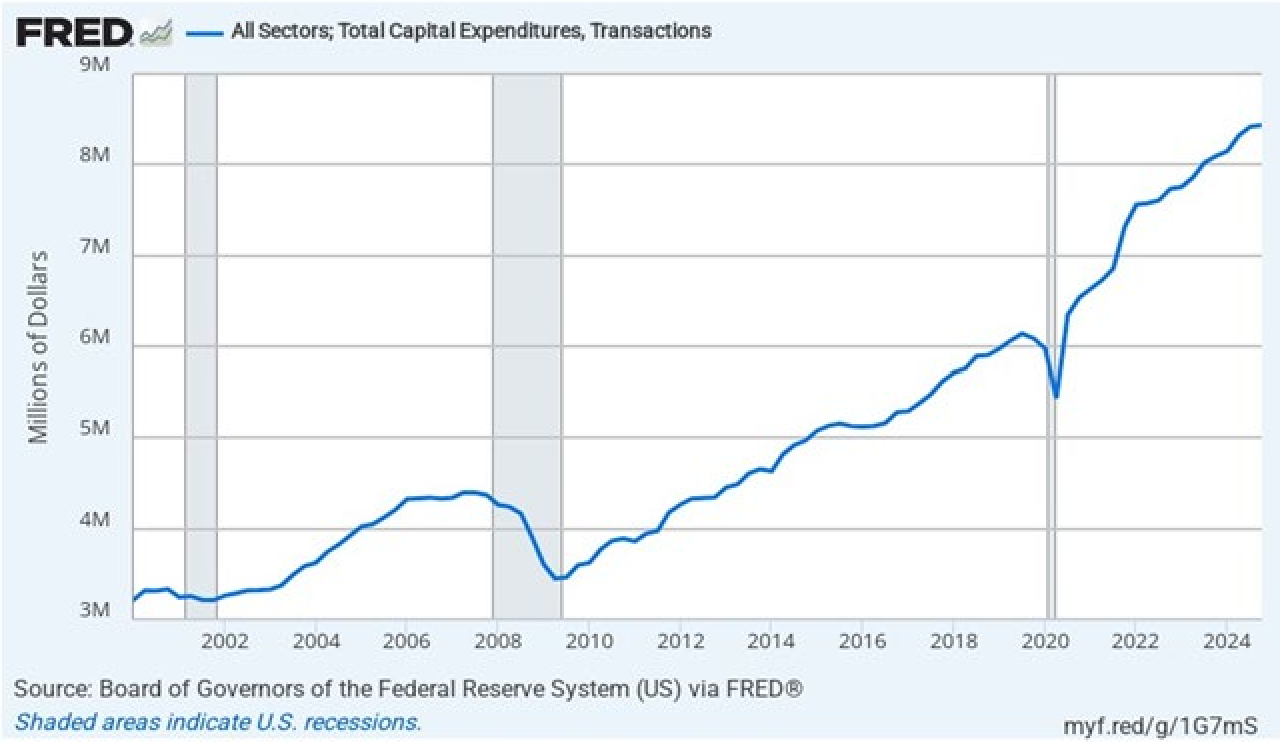
s the chart above illustrates, the most recent tariff announcements were more draconian than expected, somewhat of a worst-case scenario. What is left uncertain is how much of these newest tariffs will be permanent versus flexible in negotiations with global trading partners, and how much will those trading partners retaliate?

Parallel with tariff worries were concerns about AI-related capital spending after a Chinese firm known as DeepSeek suggested their AI training models were developed using only a fraction of the compute power and energy previously assumed necessary. Technology and communication services were two of the three worst performing sectors, along with consumer discretionary, for both March and year-to-date. Rumors of hyper-scale cloud providers cutting back on data center investment plans have been refuted by market participants. However, in a risk-off environment, and with valuation multiples still elevated, the stock prices reacted negatively.



History is not much of a guide currently as the structure of US and global economies is vastly different when compared to the last time tariff rates were this high. Rather than making economic predictions, we try to understand how much of the potential negative economic impact is already reflected in current prices. To that end, we have scrubbed our equity investments and believe less than 10% of our holdings have meaningful tariff exposures. Those companies have strong managements with track records of mitigating tariff impacts from the 2017/2018 period and we will be evaluating them closely as they report first quarter 2025 earnings results over the coming weeks. Conversely, at least 25% of equity investments should see little to no impact to their businesses from tariffs. Moreover, fixed income investments are up in price and have provided meaningful capital preservation. Our investment process is designed to withstand environments like today. We will continue to look for situations where market reactions are overdone and stay focused on longer-term fundamentals.

As always, we appreciate the opportunity to work with you, and if you have any questions, please do not hesitate to reach out to your Seacoast Wealth Management Associate.

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