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Dear Valued Investor,

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 pace near 3% 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. The odds of recession over the next year or so are probably 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 price hikes, but others are delaying spending due to the uncertainty, weighing on the economic growth. Falling stock prices and mounting federal government layoffs are adding to consumers' angst. It's also difficult for companies to commit to capital projects and hiring while they sort through tariff effects.

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 positioned for solid earnings growth even with a tripling or more of average U.S. tariff rates.

We may be at 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 prepandemic 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 double-digit rally from current levels through yearend seems attainable. The "spinach" of tariffs comes first, but it will be followed by the "candy" of tax cut extensions and deregulation later. A positive year for stocks remains well within reach.

While the broad U.S. stock market may have fallen during the first quarter, U.S. value and broad international stocks rose based on Russell and MSCI benchmarks. Seven of the 11 S&P equity sectors produced positive returns. And bonds were higher, reminding investors of the benefits of diversification.

Volatility may stay with us for a while as the policy fog continues to clear. Annual returns have historically been muted after first quarter losses. But negative sentiment suggests a durable low may be close. Expect more ups than downs for stocks in the months ahead.

Please contact your financial advisor with questions.

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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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