Market Commentary – March 2025

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It is often said that "markets hate uncertainty" but what we find more apt is to say that corporations – or rather the CEO's and CFO's that manage those business – hate uncertainty. Corporations exist, primarily, to create value for their shareholders, and successful corporations have demonstrated the ability to do so under several different regulatory, tax, and economic regimes. So long as corporate leadership understands the rules of the road, so to speak, they can work to position their company (and their investors) to be profitable.

Unfortunately for the C-Suite denizens of the world, the current US Administration is using uncertainty as a negotiating tool, a decidedly chaotic "scare tactic" to illicit a variety of concessions domestically as well as from trading partners all over the globe. Swift and dramatic changes to trade policy, immigration policy and the basic functions of government have resulted in a level of alarm across the corporate world that is manifesting in inventory hoarding, downward revisions to earnings expectations and, most significantly for our clients, re-pricing in stocks.

Of the three, the changes to immigration policy have had the least impact thus far on corporate bottom lines. What is unclear is how the current policy will affect immigration through the traditional Visa process. In 2024 roughly 670,000 came to the US on a Visa with 70 % of those individuals of working age. The number of native-born workers has been shrinking as Baby Boomers retire, a phenomenon that accelerated during and post-COVID. A decline in traditional Visa immigration, along with a significant reduction in border crossings, will translate into a much smaller labor pool, particularly within the agricultural and service sectors. Lack of labor is likely to create wage pressure within these industries, which will translate into higher costs for companies.

Tariffs also translate into higher costs for any company that must import goods as either inputs (parts for cars and all manner of electronics) or finished products (such as vegetables and gasoline). Barring some exceptions, that increased cost is passed on by the importer to the customer in a bid to maintain profit margins. But the US economy is consumer driven, and so higher costs across such a wide variety of goods would become a drag on economic growth, as spending power shrinks through a surge of inflation in the near term. Longer-term, if nothing changes, that additive cost would become the "new normal" to which both consumers, and corporations, would need to adjust.

Additionally, tariffs are typically met with retaliatory tariffs and a process of escalation can develop into what is, ultimately, a war of attrition. Even if things do not go so far, retaliatory tariffs would almost surely cut into the earnings for US exporters, leading to a reduction in global trade generally. Corporations may be able to weather the storm for a while, but eventually the demand for profits (expressed most notably as a drop in stock prices) could force company executives to reduce expenses by cutting capital improvements, new product development and, most often, laying off employees.

And layoffs have begun in the auto industry, as well as adjacent industries, but the most notable layoffs to date have been those enacted by the government at the behest of Elon Musk and his team of freshly

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minted bureaucrats. The new "Department of Government Efficiency" has thus far eliminated roughly 75,000 government jobs through layoffs and buyouts. With over 3 million Federal workers, that is less than ½ % of the total – but the manner and messaging surrounding these layoffs, as well as additional proposed cuts, has had a chilling effect on the remaining Federal workers propensity to spend, as well on those employed by government contractors across a variety of industries.

When put together, the actions, reactions and reversals create an atmosphere of doubt for both consumers and corporations, making strategic planning on purchases and capital investments, hiring plans and general budgeting harder to forecast. With stock valuations relatively high, viewed through the lens of price-to-earnings, these policy tactics have prompted a decline in the S&P 500, a correction in the NASDAQ, and a rally in bonds (which have resumed their typical negative correlation to stocks) as the read-through for corporate earnings growth looks less and less stable.

At this point, we feel that even if tariffs are negotiated away, immigration policy shifts to support or expand the Visa process, and the technocrats under Musk run out of things to cut, the doubt that has been cast – and the belt tightening that goes with it – is unlikely to dissipate anytime soon. Economic growth has begun to slow demonstrably, and we feel growth will stay suppressed into the future as the policies mentioned continue to create doubt at the consumer and corporate level.

Whether or not the lack of clarity from this Administration and the daily changes to, or reversals of, policy is enough to push the economy into recession is something we are monitoring closely – but at the moment our feeling is that the current market volatility is more a correctional repricing of risk, as well as a rotation out of higher priced/high valuation growth stocks into fixed income, value stocks, and international stocks.

As our clients are aware from our quarterly reports and communications, we have been concerned about market valuations for a while and have been managing equity exposure in portfolios accordingly. As such, we do not feel any sweeping allocation changes are necessary, but we will be keeping up with economic policy and the reactions, as best we can, to assist in maintaining the portfolio needed for our clients' planning.

In the meantime, as evidenced by nervous conversations with several clients, a large part of our role is to be the proverbial lighthouse when the seas feel rough. So, should you feel any anxiety or concern about the current environment, we encourage you to reach out to us for a one-on-one conversation to discuss all our thoughts, and data, together.

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