ICR® 1st Quarter Newsletter – April 2025

The first quarter proved to be a rocky one, with the S&P 500 losing 4.6%, as markets digested a barrage of trade policy news that changed by the day. Sectors most impacted by the prospect of slowing global growth like technology (-12.7%) and consumer discretionary (-13.8%) declined the most, while investors bought traditionally defensive sectors like energy (+10.2%) and health care (+6.5%). Growth stocks (-10.0%) and small caps (-9.5%) moved lower, while value stocks managed a slight gain of 1.6%.

Yields generally moved lower during the first quarter, with the 10-year U.S. Treasury bond going from a 4.57% rate to 4.21%. The Federal Reserve chose to pause their interest rate lowering campaign amid inflation numbers that remained above the Fed's targeted levels. The U.S. dollar depreciated almost 4% versus a basket of foreign currencies against a backdrop of global trade uncertainty. Foreign stocks capitalized on that weak dollar tailwind, gaining over 6% as measured by the MSCI EAFE index, while emerging markets rose 2.4%. Gold continued to bolster its reputation as a safe haven in uncertain times by gaining over 19% in the first quarter.

Shortly after the quarter ended, President Trump held "Liberation Day," in which he announced tariffs that exceeded even the most pessimistic expectations. That quickly liberated investors of $6.6 trillion of stock market value in just two days – the largest two-day loss of value ever. If history hadn't already made it clear, it should be obvious now: the stock market hates tariffs. Another thing the market struggles with is uncertainty and the on-again, off-again nature of these tariffs has added tremendous uncertainty.

The initial figures labeled by the Trump administration as tariffs charged by foreign countries on the U.S. was confusing at first as it didn't align with known tariffs. Eventually, it was revealed that the equation being used to make that calculation was: (U.S. Exports – U.S. Imports) divided by U.S. Imports. That's an equation that has absolutely nothing to do with tariffs. It is nothing more than the trade deficit with a country divided by that country's exports to the U.S. From there, the idea was to charge the other country half of this calculated amount as a "reciprocal tariff." Because the figures that were used didn't pertain to actual tariffs, it resulted in unreasonably high tariffs against some countries who happened to be running large trade surpluses with the U.S.

What is the goal of all of this? In the fact sheet that accompanied the announcement, one argument espoused is that the U.S. trade deficit is "an unsustainable crisis." But we've been running a trade deficit for almost 50 years and during that time, we've only further established our economic hegemony. The U.S. currently brings in about $30 trillion in annual domestic income, our private sector net worth is about $190 trillion, and the country's trade deficit is about $1 trillion per year. Imagine an individual making $300,000 per year, having a $1.9 million net worth, but having to pay $10,000 in taxes each year. That person is in pretty good shape financially, right? That's – very simplistically – the state of the balance sheet and income statement for America. The outflow of dollars each year is relatively small compared to our annual income and total wealth.

Another argument made in the fact sheet is for "reprioritizing U.S. manufacturing." Unfortunately, that ship has sailed and the rise of artificial intelligence and robotics will just make it sail faster. Transitioning from an agricultural and manufacturing economy to a service-oriented one is the goal of most emerging economies and exactly what the U.S. has accomplished over time. To voluntarily regress away from that maturity – especially against a backdrop of rising automation – is perplexing.

It's likely that some countries – most, maybe – will negotiate with the U.S. and come to some sort of agreement on trade which, in a vacuum, would be good. But, even if this is just an inefficient way of negotiating lower tariffs against American companies, it's possible that permanent damage has already been done. It's not just the stock market that hates uncertainty. How is a business supposed to decide whether to open a new factory or where they're going to source their parts from given the ambiguity of the situation? Plus, foreign countries would be smart to re-examine their dependence on trade with the U.S. and work to build alternative strategic alliances going forward.

The amount of damage done to the markets and the economy will depend on the scale and duration of the tariffs. A prolonged trade war with our three largest trade partners (China, Canada, and Mexico) would dramatically increase the odds of a recession. If a resolution is reached relatively quickly, given the strong state of the economy entering this year, the effects might be minor enough to avoid a recession. If we've learned anything, it's that nothing related to this tariff policy is predictable. By the time you read this, things could have changed dramatically – for better or worse.

As always, we appreciate the privilege of working with you and if you have questions, thoughts, or if anything has changed in your financial situation, please reach out to us.

Sincerely,

James A. Heine

James L. Cobb

Market Report (as of 3/31/25)

Index	2025 (%)	3-Year Annualized (%)	5-Year Annualized (%)
S&P 500	-4.6	7.4	16.8
Dow Jones Industrial Average	-1.3	3.6	13.9
U.S. Aggregate Bond Index	2.8	0.5	-0.4
MSCI EAFE (Foreign Index)	6.2	3.2	9.0