ACCESS FINANCIAL SERVICES, INC.

Quarterly Review and Outlook

April 13, 2025

First Quarter, 2025

Index Returns as of Mar. 31, 2025	3 Mo.	6 Mo.	12 Mo.
US STOCKS			
S&P 500 Index TR (large-cap stocks)	(4.27)	(1.97)	8.25
S&P 500 Equal Weight TR	(0.61)	(2.46)	7.73
Dow Jones Select Dividend Index TR	3.25	1.34	13.49
NASDAQ 100 Index TR	(8.13)	(3.65)	6.19
Russell 2000 Index TR (small-cap stocks)	(9.48)	(9.18)	(4.01)
FOREIGN STOCKS			
MSCI EAFE Net Total Return Index (US$)	6.86	(1.81)	4.88
S&P Europe 350 Index Net TR Index (US$)	10.48	(0.04)	7.05
MSCI Japan Net Total Return Index (US$)	0.34	(3.27)	(2.10)
MSCI Emerging Markets Net TR Index (US$)	2.93	(5.31)	8.09
COMMODITIES & CURRENCIES			
US Dollar	(0.77)	3.40	(3.94)
Euro	4.46	(2.86)	0.68
Gold	39.74	18.56	19.02
Oil (West Texas Intermediate)	1.04	8.22	(6.60)
CME CF Bitcoin Reference Rate	(11.47)	30.87	16.93
BONDS			
Bloomberg US Aggregate Bond (inv. grade)	2.78	(0.37)	4.88
Bloomberg US Treasury 20+ Year	4.59	(5.25)	0.08
Bloomberg US Treasury Inflation Notes	7.46	2.19	4.00
Bloomberg Municipal Bond	(0.22)	(1.44)	1.22
Bloomberg US Corporate	2.36	(0.75)	4.87
Bloomberg US Corp. High Yield Bond	1.00	1.18	7.69
S&P International Sov Ex-US Bond TR USD	2.62	(5.77)	(0.21)

Source: Bloomberg & Morningstar

Note: I usually start writing these reports a day or two before the end of each quarter (which I did). But, the economic and investment climate has been changing rapidly. Below is a blend of what I thought was going to be this quarter's commentary and commentary on what has unfolded in the two weeks since then.

A lot has changed from an economic and geopolitical perspective since election day last year as the president and his cabinet pursue a strategy of 'mess around and find out.' The US financial markets had begun to reflect some discontent over the potential implications of Trump's policies in mid to late February (Chart 1) as elevated policy uncertainty (Chart 2 and 3) was reflected in US risk asset prices and both consumer and business confidence (Chart 4, 5, 6) even before "Liberation Day".

On April 4, Donald Trump produced a table illustrating the US government's assessment of each country's average tariff charged on imports from the United States along with the new US "reciprocal tariff." The method used to calculate each country's tariffs on the US is absurd. The "calculus" according to the Trump Administration is shown in Figure 1 (shown in black) along with an explanation of the components of the formula (shown in blue).

Chart 1: S&P 500 Index

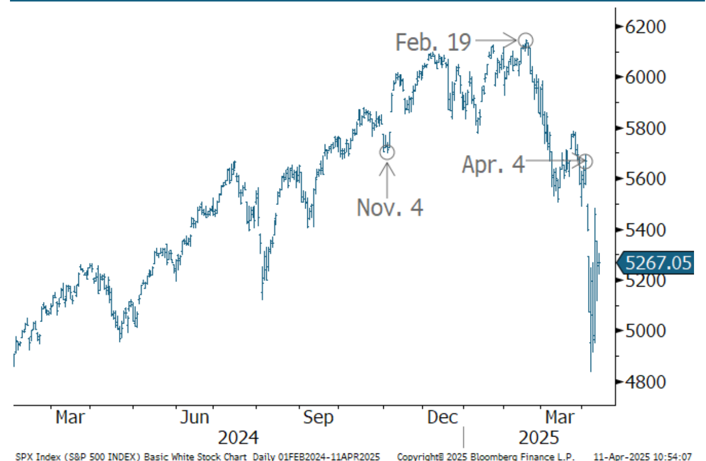


Chart source: Access Financial Services using Bloomberg Software & Data

Chart 2: US Economic Policy Uncertainty Index

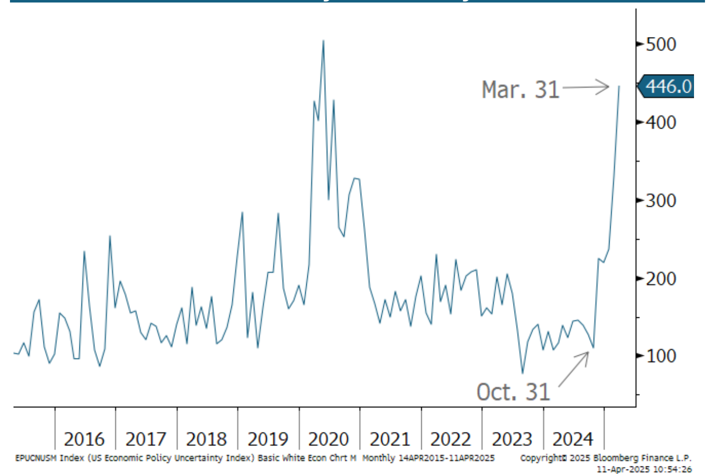


Chart source: Access Financial Services using Bloomberg Software & Data

Chart 3: Global Trade Policy Uncertainty

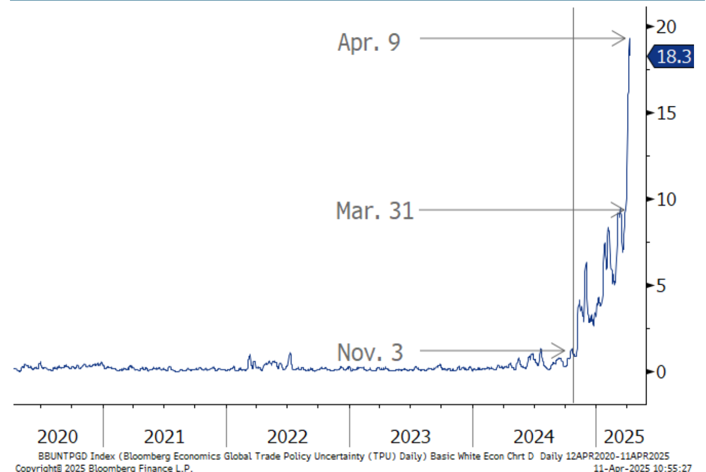


Chart source: Access Financial Services using Bloomberg Software & Data

Chart 4: University of Michigan Consumer Sentiment Index

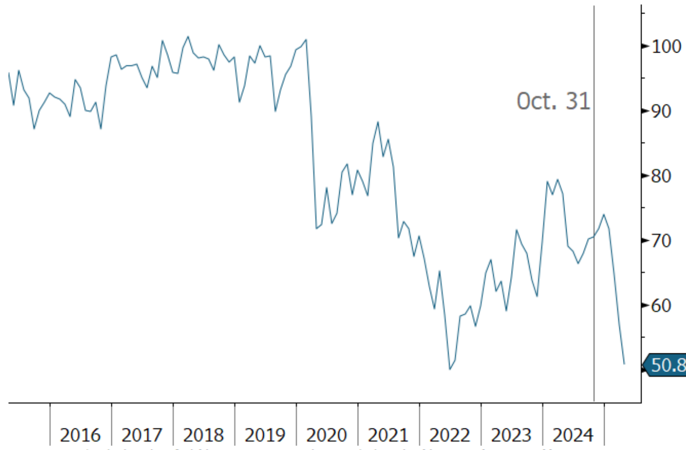


Chart source: Access Financial Services using Bloomberg Software & Data

Chart 5: University of Michigan Expected Change in Prices During the Next Year as of March 31

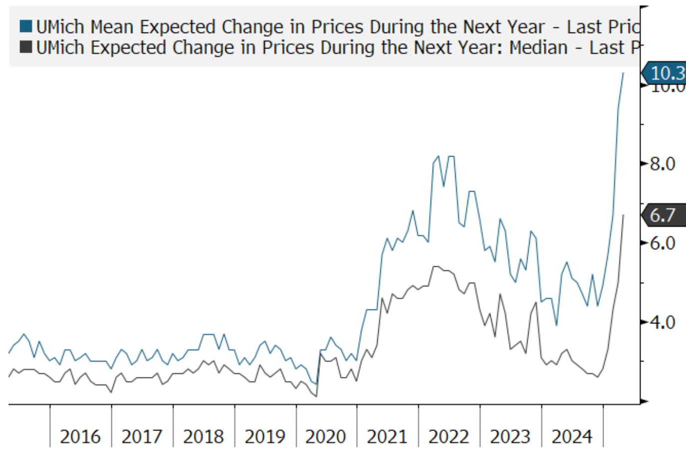


Chart source: Access Financial Services using Bloomberg Software & Data

Chart 6: CEO Confidence Index (Measures CEO Confidence in The Economy 1 Year from Now)

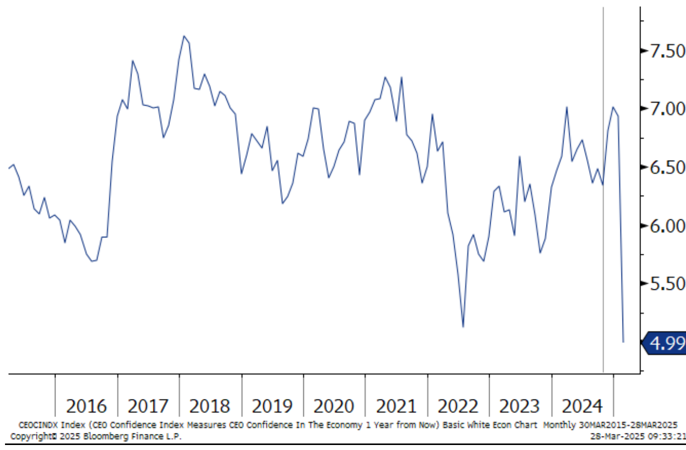


Chart source: Access Financial Services using Bloomberg Software & Data

I am in favor of actual reciprocal tariffs, but trade deficits are not tariffs imposed on the US by our trading partners.

Figure 1: Reciprocal Tariff Formula

$$\Delta\tau_i = \frac{x_i - m_i}{\varepsilon * \varphi * m_i}.$$

Change in Tariffs ($\Delta\tau_i$); Trade Deficit ($x_i - m_i$); Price Elasticity (ε); Share of Tariff Born By Foreign Exporter (φ); Import Value (m_i)

Here is the China example shown in $ billion:

Reciprocal Tariff Example - China ($ billion)	
US Total Goods Trade with China	$582.4
US Goods Exports to China	$143.5
US Goods Imports from China	$438.9
US Trade Deficit with China	$295.4
Trade Deficit / US Imports = China's Tariffs on US Goods According to Trump	67%
"US Discounted Reciprocal Tariffs"	34%

As of Liberation Day, tariffs on China were set to rise to 64%, while those on Japan would rise to 24%, the European Union 20%, and the UK 10%. Mexico and Canada were notably absent, although they face the onset of 25% tariffs charged under a different emergency decree relating to border security. A few more examples are shown in Table 1.

Table 1: Tariff Rates as of April 4

Country	Tariffs Charged to the US	US Discounted Reciprocal Tariffs
Vietnam	90%	46%
Taiwan	64%	32%
India	52%	26%
South Korea	50%	25%
Thailand	72%	36%
Switzerland	61%	31%
Indonesia	64%	32%
Malaysia	47%	24%
Cambodia	97%	49%
United Kingdom	10%	10%
South Africa	60%	30%
Brazil	10%	10%
Bangladesh	74%	37%
Singapore	10%	10%
Israel	33%	17%
Philippines	34%	17%
Chile	10%	10%
Australia	10%	10%
Pakistan	58%	29%
Türkiye	10%	10%
Sri Lanka	88%	44%

This effective tariff rate would be the highest in over a century, even exceeding the 20% rate that followed the Smoot-Hawley Tariff Act of the early 1930s. From a fiscal standpoint, the move confirms President Trump's goal of relying on custom duties as a major source of revenue.

The announcement was a hugely negative surprise for financial markets which expected a continuation of piecemeal tariffs, delays, exceptions, and exemptions. With the retaliatory tariff on China, and at current import shares, these protectionist actions were set to raise the effective tariff rate to 29% in the US. This is the highest rate since 1901, and nine points higher than the effective rate following Smoot-Hawley.

Along with US risk assets, the dollar also sold off in the second half of February and again on April 2 (Chart 7). This trend will aggravate the impact of the levies on US consumers if it persists. The currency will be a key level to watch to gauge the extent of economic discomfort the US can withstand before it potentially decides to soften its approach. Historically, when the dollar falls, it precedes rising import prices about three months.

Chart 7: US Dollar

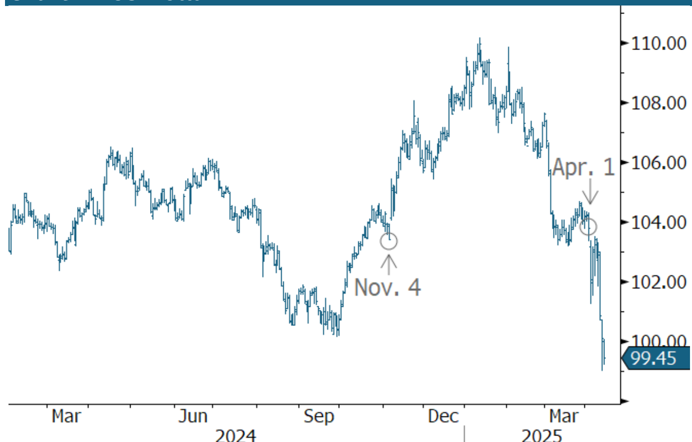


Chart source: Access Financial Services using Bloomberg Software & Data

Then, on April 9 (after repeatedly saying he had no intention of postponing tariffs) Trump told the world that the new tariff regime would be delayed by 90 days (except for China, which, as of today – April 11 – are set at 145%) while keeping the across the board 10% tariffs and 25% tariffs on steel, aluminum, autos and key auto parts, leaving the effective tariff rate of all imports at around 20% (Chart 8). True, the tariffs on Chinese imports will probably come down. On the flipside, Trump has pledged to roll out additional sector specific tariffs on agricultural products, lumber, copper, pharmaceuticals, and semiconductors. Nevertheless, US stocks rallied by around 10% on the day of the news.

A few days later Trump announced a temporary exemption on consumer electronics from goods subject to reciprocal tariffs. This is an important win for big tech, which heavily outsources production to China. However, President Trump and Secretary Lutnick then pared back the enthusiasm by announcing these products will soon be subject to sectoral tariffs.

Chart 8: Effective US Tariff Rate

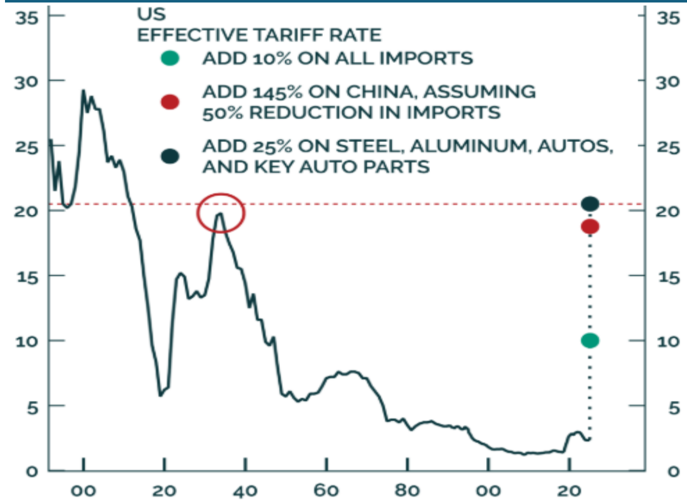


Chart source: BCA Research

Last year, China made up 27% of US imports of consumer electronics. At current import levels, the prohibitive 145% duty on Chinese goods therefore implied an average tariff rate on these products of around 47%, 20 points higher than for all US imports.

The notion that every country should have balanced trade with the US is like arguing that every company's supplier should also be its customer. Even the idea that the US should have balanced trade, in aggregate, with the rest of the world is weak. Reducing the trade deficit would end up shifting workers from high productivity sectors to low productivity sectors, the production of which is currently largely performed abroad. Table 2 summarizes the US's trade deficits with our largest trading partners.

Table 2: Trade Data ($ Billion)

Trading Partner	Total Trade	US Imports	US Exports	(Deficit)/ Surplus	(Deficit)/ Surplus %
Mexico	$786.13	$519.38	$266.76	-$252.62	-32.1%
Canada	$702.84	$413.88	$288.96	-$124.91	-17.8%
China	$664.11	$495.05	$169.06	-$325.99	-49.1%
Germany	$240.01	$163.57	$76.44	-$87.13	-36.3%
Japan	$230.75	$145.93	$84.83	-$61.10	-26.5%
South Korea	$209.90	$130.98	$78.92	-$52.07	-24.8%
Vietnam	$166.71	$151.74	$14.97	-$136.77	-82.0%
Ireland	$139.12	$113.04	$26.08	-$86.96	-62.5%
United Kingdom	$136.14	$68.13	$68.01	-$0.12	-0.1%
India	$128.03	$81.60	$46.43	-$35.17	-27.5%
France	$106.39	$59.53	$46.86	-$12.68	-11.9%
Netherlands	$105.98	$36.19	$69.79	$33.60	31.7%
Singapore	$104.70	$60.70	$44.00	$16.70	16.0%
Italy	$99.39	$73.82	$25.57	-$48.25	-48.5%
Malaysia	$92.50	$56.05	$36.45	-$19.60	-21.2%

Table Source: Access Financial Services using data from Bloomberg

Stepping back, tariffs negatively affect the economy by raising import prices (at least temporarily), reducing

the Federal Reserve's ability to cut policy rates, reducing corporate profits and investment, driving up economic uncertainty, tightening financial conditions, and forcing other countries to retaliate or at least reduce the level of US goods they import.

While Trump is starting a trade war with the rest of the world, the rest of the world really is not fighting with other nations economically speaking. The worst thing for America is not retaliation. It would be if everyone else approaches our new trade policy with an "ok, we get it and we will move on. Yes, we lost a friend, but we'll go find another one". There are, after all, alternatives to US aerospace products, defense platforms, automobiles, electrical machinery and equipment, etc. Other than some electronics, a large amount of what we export is expensive and sophisticated capex goods that are often procured by the rest of the world by either state owned enterprises (SOEs) or SOE adjacent customers.

Assuming all of this continues, domestic political pressure will rise meaningfully on President Trump. At least four Republican senators have agreed to vote with Democrats on a symbolic resolution to deny the president of the emergency power to impose tariffs on Canada over the state of emergency on the border. While that will not prevent Trump from implementing tariffs, it will implicitly threaten to deny the GOP majority in the Senate.

The problem for the GOP is that they cannot refuse to pass Trump's signature legislation – the forthcoming budget reconciliation bill – because they cannot afford to let old tax cuts expire, and they now need new tax cuts all the more to help shield consumers from higher prices due to tariffs and foreign retaliation.

The Republican Party will increasingly pressure Trump to backpedal, conclude trade deals, and offer exemptions to reduce the pressure on financial markets and the global economy[1]. GOP lawmakers will fear getting wiped out in the midterm elections. The president will need to adjust his stance. However, it will take time to negotiate new trade deals with numerous countries. Even the quickest trade deals negotiated in the past took more than one year. Businesses will need to cope with higher tariff levels in the meantime.

While small countries will capitulate quickly to reduce tariffs, large countries like China and the EU will be forced to retaliate, if not fully proportionately, to deter Trump or future presidents from using punitive trade measures. Fiscal stimulus – other than in the US (this gravy train has left the station) – will also increase to counteract the trade shock (already happening in Europe and China). Global growth will still weaken since the first effect is a drop in US imports.

The result of the massive US fiscal stimulus during and after the pandemic has been what is described and "US exceptionalism". US financial markets have outperformed foreign markets as US consumption has been the key factor propelling the US economy over the past five years, with personal consumption accounting for more than 80% of all GDP growth since 2020. US consumers have also supported global growth. This can be seen in the fact that US import volumes have grown rapidly since 2022, whereas non-US imports growth has stagnated (Chart 9).

Chart 9: Percent Change in Import Volumes

Chart source: BCA Research

Contrary to popular perception, the US economy was on shaky ground even before Liberation Day. Even without the tariff shock, consumer spending was set to slow. Credit card and auto loan delinquencies reached a 14-year high earlier this year and nearly 10 million Americans are delinquent on their student loans. After exceeding $2 trillion in early 2022, excess pandemic savings have been depleted.

Meanwhile, the manufacturing ISM survey released on April 1 was a bit weaker than expected on a headline basis, but with some ugly details (Chart 10). Prices paid rose to the highest level since June 2022. Over the past two months, this gauge of prices paid for materials has increased 14.5 points, the most over a comparable period in four years as companies have rushed to secure goods and materials from outside the country in front of anticipated tariffs. New orders and employment were both lower than expected (and both lower than 50 – the number that separates expansion and contraction). The orders figure was the lowest since May 2023. The spread to inventories is now the largest since May of 2020 (-8.2), suggesting a significant risk

[1] If/when that happens, Trump will surely declare to America and the world that he has negotiated the greatest deals for the US in the history of the universe!

of slowing production to work off unsold goods which is a pretty growth unfriendly outcome.

Chart 10: Institute for Supply Management Surveys

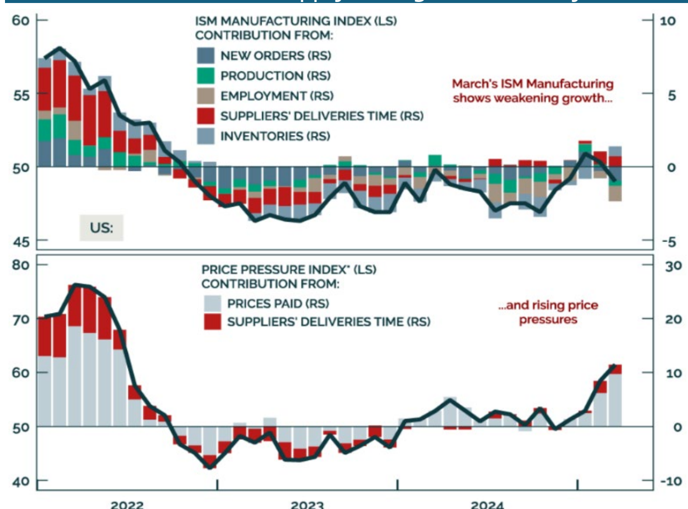


Chart source: BCA Research

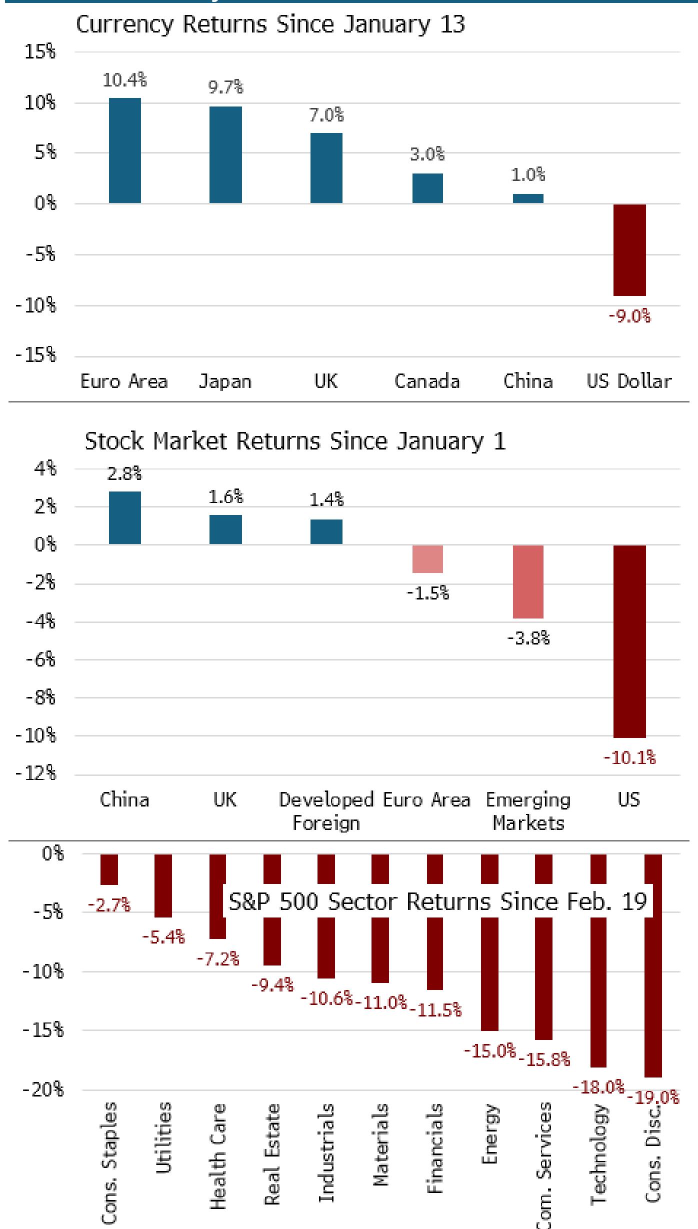
After years of outsized returns from the US stock market driven by large capitalization technology related stocks on the back of tons of liquidity in the system and fiscal largesse, the US stock market (as measured by the S&P 500) really just needed a catalyst for a pullback – and it definitely got one.

It is interesting that during this selloff that while tariffs have taken center stage in the media, markets so far have traded in a way that suggests that Trump's aggressive trade policy has indeed been the catalyst, rather than a fundamental cause, behind the weakness in equities. Consider the following:

> The US dollar, which usually benefits from a decline in global trade, has depreciated about 9% this year between January 13 and April 10 (Chart 11, Panel 1).
> The US stock market, which is more insulated from trade shocks than other countries, has underperformed during the selloff this year (Chart 11, Panel 2)
> US technology related sectors (communication services, technology and consumer discretionary), which mainly deal with services rather than goods, and thus should not be affected by tariffs, have seen the largest declines in the S&P 500 since reaching an all-time high on February 19 (Chart 11, Panel 3)
> Longer term interest rates, which typically decline during periods of risk aversion, have gone up, not down since April 1

Capital outflows, which have already begun, have the potential to accelerate. Not only is Europe the largest foreign holder of US stocks, it is likely these investors have been buying US stocks all the way up, leaving them more sensitive to further declines in US indexes. That is creating the foundation for a secular rise in the euro versus the previously dominant dollar, as well as other currencies.

Chart 11: Currency and Stock Market Returns



Source: Access Financial Services using data from Bloomberg

Europe versus US equity outperformance began last November but has picked up speed this year. Since then, the Euro Stoxx 50 has topped the S&P 500 by more than 20 percentage points. That's the fastest relative increase in 25 years.

US stocks are in the midst of a correction. How healthy the correction ends up being will influence the behavior of European investors in the US market. The group, which includes the UK, owns about half of the total foreign holdings of US stocks. Moreover, about half of the increase in foreign ownership since the market's bottom in October 2022 came from Europe.

Since Europe has been the largest net buyer of US stocks, and because its total holdings are so large (Chart 12), it has the greatest capacity to provoke more US stock downside, and euro upside. Equity holdings tend to be unhedged, which means as capital is taken out of the US and into other markets it will have a currency impact.

Chart 12: Total Holdings US Stock Ownership

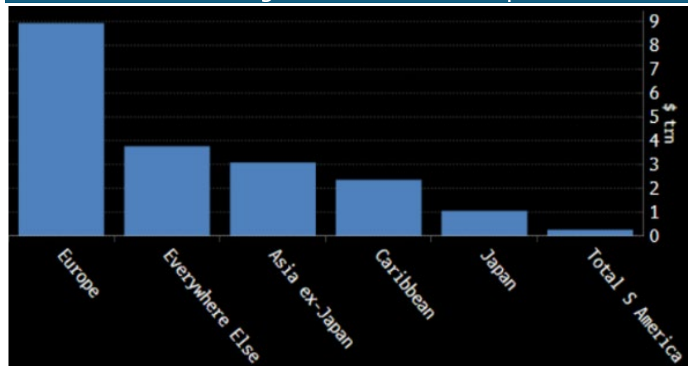


Chart source: Bloomberg

While there may be some further disagreement over how much is raised and channeled into defense-led spending in Europe, it is clear the shift in global policy is profound enough that Europe is not going back to the pre-Trump status quo. Europe will continue to be a magnet for equity inflows.

What is true for stocks is also true for credit (corporate fixed income securities). Europe is again the largest foreign holder of US corporate bonds, owning more than half the total held abroad. The region has also been the largest overseas buyer since October 2022 (net purchases account for the bulk of the value of holdings of corporate debt, in contrast to equities).

Credit is the key vector between the market and the real economy. If selling in credit from foreign holders such as Europe picks up, there is a greater chance of a recession inducing feedback loop. Things would then become reflexive as stocks fall further, triggering another wave of selling. Large increases in the European currency have also tended to coincide with increased flows into EM stocks.

Even in the event of a grueling trade war, European stocks could still outperform the US on the way down, and cause the euro to rally further as capital leaving the US overwhelms the flight-to-safety bid. It wouldn't be the first time in markets that a new structural trend develops right under everyone's nose.

Sticking with Europe, the response to Russia's invasion of Ukraine over three years ago led many in corporate boardrooms and the investment community to conclude there would be dire consequences for Europe's energy markets. One of the most frequently quoted adages was that Europe's economic model – based on cheap Russian gas and access to Chinese markets – was broken. Further, Europe will have to de-industrialize en masse.

The maxim that investors know to be true is that the solution to high energy prices is... well, high energy prices.

In 2022, Europe experienced a perfect storm of factors that set off an extraordinary surge in the regional gas and electricity prices and tested the resilience of Europe's economy. In August 2022, the Dutch TTF natural gas benchmark spiked over 300% from the day of Russia's invasion on February 24, 2022, and over 15x from its long-run average of around 20 euros/MWh (Chart 13).

Chart 13: Dutch TTF Natural Gas Price (log scale)

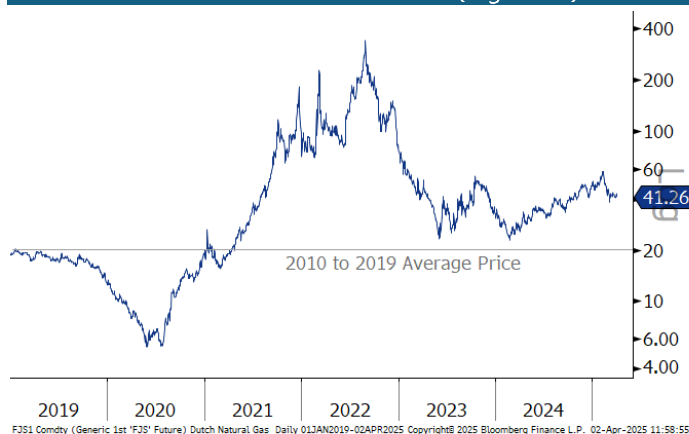


Chart source: Access Financial Services using Bloomberg Software & Data

Gas and electricity prices have since corrected lower but have settled somewhere 50-100% above their long-term average. This has led many to conclude that European industry is no longer sustainable based on the belief that Europe – and particularly its premier industrial powerhouse Germany – owes much of its industrial prowess to the cheap gas supplied through an extensive pipeline network stemming out of Russia.

While Russian gas might have been cheap to produce and its supply was widely available, there is not much evidence to suggest that this translated to cheaper prices for the end users in Europe. By the time the Nord Stream 1 pipeline was operational in 2012, most gas in Northern Europe moved from being priced through long-term oil price escalation contracts to a gas-on-gas mechanism based on open market trading in gas hubs. Wholesale prices for German pipeline gas imports moved in line with the European TTF benchmark throughout most of the 2010s and at times even exceeded it. At the same time, European gas prices had a significant premium to the Henry Hub benchmark in the US and were generally closer to the imported liquid natural gas (LNG) prices for economies in Asia.

High prices drove innovation which made German industry consistently rank as one of the most energy

efficient in the world. More importantly, the role of energy was likely overstated in the performance of the industrial sector. While energy is a vital part of any production process, German industry specializes in high-value-added manufacturing, where energy costs make up a minor share of the input costs.

This supply-induced natural gas price shock caused total EU gas demand to fall 25% from 2021, to levels last seen in the mid-1990s. The European energy system proved to be adaptable, with countries rapidly deploying infrastructure and pivoting towards LNG markets. The LNG imports effectively replaced most of Russian pipeline gas volumes. The narrative that Europe would just lay down and de-industrialize was proven wrong precisely because of the continent's advanced industrialization.

The natural gas market is undergoing a transformation from a localized, grid-bound, and fragmented structure to a global, liquid, and diversified marketplace. This marks a significant development, as historically natural gas was limited by regional infrastructure, limiting its responsiveness to the global supply and demand forces. Today, it is becoming more fungible like oil and other commodities. The volume of traded LNG already exceeds pipeline natural gas exports and there is a renewed political push globally to bring more projects online.

The US and Qatar, while major players of this oncoming wave of LNG supply, are not the only actors involved. Projects from British Columbia to Mozambique are also part of the global story. Russia, ironically, is also increasingly an LNG player because most of its natural gas is stranded in the Arctic Yamal peninsula – the wrong side of the Urals when it comes to exporting to Asia. As such, Russia is likely to increasingly turn to LNG to export the stranded Yamal gas via ships to... Europe – as long as that option is available – while also expanding the use of the Northern Sea Route to access Asian markets. In either case this will just pile on to the already oversupplied future.

This is a huge benefit for Europe and other consumers as LNG evolves into a "buyer's market." Furthermore, if the Russia-Ukraine conflict ends and Russian natural gas begins to flow again via the available pipeline infrastructure, Europe will be able to press suppliers – both Russia and LNG exporters – by pitting them against each other in a bidding war. Maybe at that point, the adage that Europe's industrial prowess is based on "cheap Russian natural gas" will actually be true.

The key takeaway is that after a period of shock therapy, energy is set to become a tailwind for European industry and its broader economy, aligning with already building trends of higher fiscal expenditure and increasing integration overall within Europe.

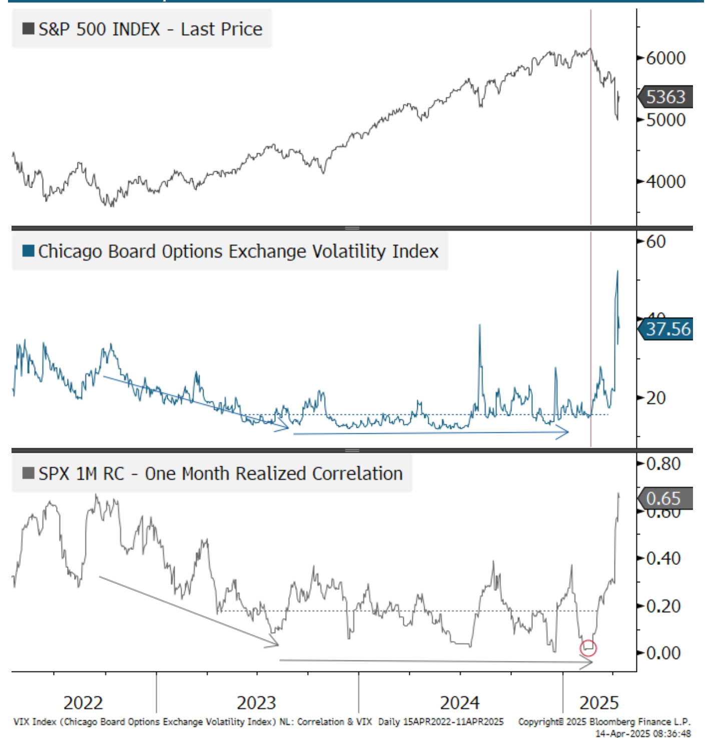
The main beneficiaries of cheaper gas supply will likely be European industrials and the energy-intensive chemicals sector, which use gas as an energy source and as an input in manufacturing processes. European chemical stocks should benefit while energy companies may struggle from falling revenues. German chemical production typically involves higher gas intensity, positioning it to gain disproportionately from lower gas prices.

A wave of new export projects in the US should create opportunities for manufacturers and operators of pipelines and related equipment, as well as service providers, at the expense of gas producers.

Prior to this year's stock market selloff, many market indicators I have discussed before were sending signals that caution was warranted.

One in particular – the correlation between individual S&P 500 Index member stocks – measuring the degree to which they move in tandem – stood near the lowest level in 25 years. This environment led to the "dispersion trade" - a levered trade where institutional investors buy individual stock volatility and sell broad market volatility – to become increasingly popular. It was a great trade when overall market volatility was low and individual stock volatility was high. However, the recent sharp rise in stock correlations and broad based volatility pushed investors to unwind the trade which further increased volatility (Chart 14).

Chart 14: Dispersion Trade

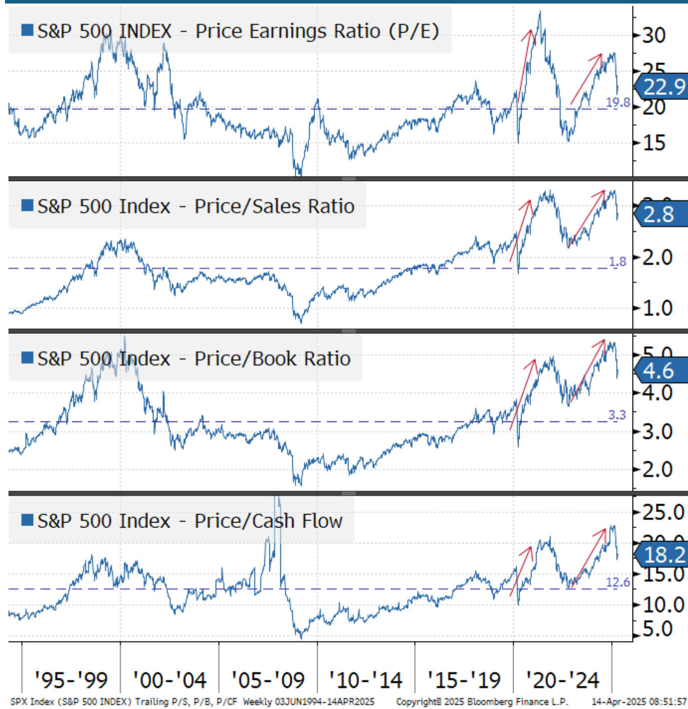


Dotted lines are the average for the timeframe
Chart source: Access Financial Services using Bloomberg Software & Data

The silver lining here is that forward looking returns for the S&P 500 have been nearly three times greater when the gauge measuring stock correlations is in its top quartile compared to when it is in the bottom one according to independent strategist Jim Paulsen.

Whereas three months ago investor sentiment (both individual and institutional) was extremely bullish and stock valuations were very extended to the upside, today sentiment is bearish and valuations have improved to a degree (Chart 15). In isolation this, along with high stock correlations, receding volatility and washed out market breadth, would imply that most of the risk asset selloff over the last two months is behind us.

Chart 15: S&P 500 Valuation Measures



Dotted lines are the average for the timeframe
Chart source: Access Financial Services using Bloomberg Software & Data

Unfortunately, while valuations have improved (stocks are still selling at a premium relative to earnings, sales, book value and cash flows), they are not nearly low enough to make the case that the market is attractively valued. This is especially true if one believes that the Trump administration's tariff policy will lower corporate sales, cash flow and earnings, all of which would be guaranteed in a recession scenario – the odds of which have increased significantly.

The excessive gap between stock prices and earnings expectations suggests mega caps remain at considerable risk. Even though the largest technology related sector losses have doubled the S&P 500's this year, downside risk remains for these names with downward earnings estimate revisions, elevated valuations and trade uncertainty. These stocks still make up eight of the top ten stocks in the S&P 500 and, therefore, have an outsized impact on the performance of the Index (Chart 16).

Chart 16: S&P 500 Dominated by Largest Stocks (as of 3/22/25)

Source: Goldman Sachs

Stocks and other risk assets have sold off over the last few months to a greater degree than we have experienced since 2022 (Chart 17). While it feels like the bottom has fallen out this year, the retreat is still less than it was during 2022 and, given the valuation and momentum excesses over the last two years, seems reasonable from my perspective.

Chart 17: S&P 500 with Drawdowns and Regression

Chart source: Access Financial Services using Bloomberg Software & Data

As of today, April 14, the S&P 500 has declined 12.5% from its all time high on February 19 and is trading roughly in line with its average level since mid-2020 – not exactly an extraordinary move in this environment. As a reminder, asset prices are always down unless they are at an all time high. I think we have just become too accustomed to the frequency of the media reporting new all time highs over the last few years.

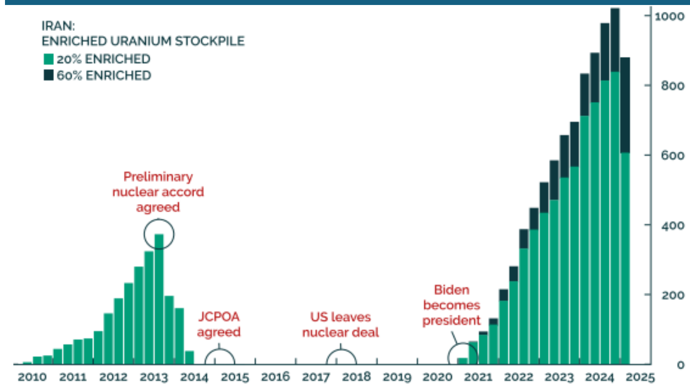
This may be just another "buy the dip" opportunity in US risk assets. I doubt it though as corporate earnings have yet to reflect the impact of the Trump

Administration's policies (which change almost daily it seems).

Elevated uncertainty and lower asset values can freeze spending plans at both the corporate and individual levels until uncertainty retreats. Granted, uncertainty is so elevated at this point that it is hard to imagine it getting much worse from here. Even so, it has a long way to go before it is back to where it has been over the last five or so years.

Further, there is the underrated geopolitical risk surrounding Iran as the US will have to deal with Chart 18 below.

Chart 18: Iran's Enriched Uranium



Source: BCA Research using data from IAEA as of February 26, 2025

Iran has continued to enrich uranium, now increasing its stockpile of highly enriched uranium at 60% – only useful for military purposes – to 275kg. With the US now taking aggressive military action against the Houthis in Yemen – and bringing in a second aircraft carrier group to the region – the stage is set for potential kinetic action against Iran.

A US-Iran geopolitical crisis would have the benefit of distracting media and voters from the short term pain and volatility of DOGE, aggressive trade negotiations, and relatively trivial fiscal package snaking its way through Congress. While we are not suggesting that President Trump is that simplistic, the fact of the matter is that history is full of examples of presidents who managed to avoid a decline of popularity even amidst a recession thanks to a geopolitical calamity (the two Bushes being cases in point).

For now, it is positive that Trump has swerved from the worst case threat for the US and global economy: a neo-McKinleyist mandate to break the US economy from the rest of the world. He *is* negotiating and investors should not become overly bearish as trade negotiations evolve.

Can President Trump conclude 90 trade deals in 90 days? No. The consensus is correct that this goal is clearly ridiculous. But that makes the deals more likely to happen, not less. They just will not be comprehensive deals that change the significance of global trade.

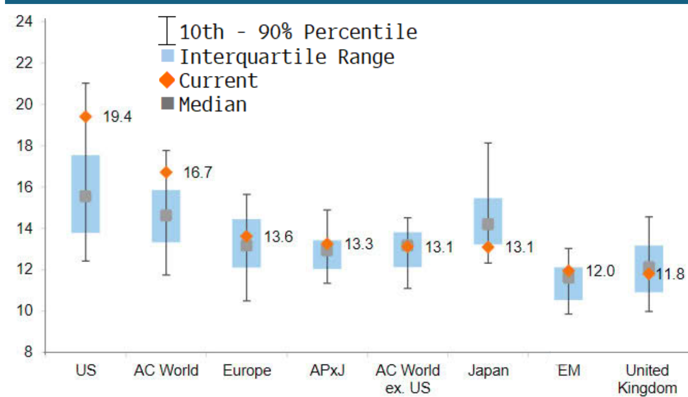
I agree with those who think the tariff uncertainty is likely to cause a recession. However, in a policy induced recession, it is the second derivative of policy that leads markets. During the pandemic-induced recession, it was fiscal stimulus and easing of lockdowns that mattered more than macroeconomics. In a tariff-induced recession, massive fiscal stimulus will not be needed. Instead, it will be the delta on tariffs and negotiations that will allow markets to look ahead of the curve of declining corporate earnings revisions.

The year 2025 will be remembered for the trade war that President Trump launched against everyone (including the Penguin Master Race of Heard Island). The de-globalization trend should lead to an exodus out of US assets (it is already underway). This dynamic is a combination of the end of the fiscal gravy train – the principal macro factor of the past five years started by Trump in 2017 – the growing doubts over the Mag 7's ability to monetize artificial intelligence, and highly erratic policy out of the Trump administration.

Are tariffs a tool of negotiations or an end in themselves? They can be both. It is the mix between the two outcomes that will matter. Eventually, President Trump will succumb to his constraints. The problem is that it is increasingly likely to require a recession.

I believe the end of US financial market exceptionalism is behind us and that a rotation into non-US assets will be a long term theme as most foreign stock markets sell at a significant discount to the US (Chart 19), have a far lower weighting in technology related stocks and stand to benefit from increased global trade with the non-US rest of the world.

Chart 19: Global Stock Market Valuations



Source: Goldman Sachs

I do not believe that the recent risk asset drawdown has run its course and that this is a huge opportunity to "buy the dip!". Yes, there will be strong knee-jerk rallies like we witnessed on April 8. There will also be periods where a more sober view of the outlook weighs

on risk assets like the more orderly decline between February 19 and April 2.

The conservative positioning of our clients' portfolios has paid off (finally!) this year. We are glad about that, but successful investing is as much about participating in recoveries as it is about protection against drawdowns.

If there is a recession, risk assets will decline further. Since the odds of a recession have risen, we are unlikely to start getting more aggressive for the time being. When we do, we expect to increase our clients' allocation to foreign stocks.

We thank you for the confidence you have placed in us. Please do not hesitate to contact me if you would like to discuss any of this in more detail.

Brant Kairies
952-885-2732