



Wealth Advisory Market Update

April 7, 2025



Market Update

Equity Markets

Market volatility remained a dominant theme throughout March, driven by a confluence of macroeconomic and geopolitical uncertainties. Escalating tariff concerns, deteriorating consumer sentiment, and a higher-than-anticipated Personal Consumption Expenditures (PCE) report contributed to a 5.8% decline in the S&P 500 for the month—the sharpest monthly loss since the 2022 selloff. As a result, the index ended Q1 2025 down 4.6%.

This downward momentum accelerated into April following the unexpected announcement of broad-based tariffs on April 2nd, which triggered a sharp market response. Over the subsequent two trading days, the S&P 500 declined by 10.53%, marking the fifth-largest two-day selloff since World War II. Major indices—including the S&P 500, Nasdaq, and Russell 2000—have now officially entered bear market territory, each down over 20% from recent highs.

The velocity of the decline has been amplified by thin liquidity, widespread margin calls, and the blackout period for corporate share buybacks. Given the elevated valuations and underlying fragility, we had observed in the markets, we believed a significant dislocation was increasingly likely.

Global Market Reaction

The ripple effects of the tariff announcement were felt globally. Asian markets experienced substantial drawdowns, with Hong Kong's Hang Seng Index plunging 13.22%—its second-worst day since 1987, eclipsed only by the Global Financial Crisis. Taiwan's benchmark posted a record single-day drop of 9.72%, and Japan officially entered bear market territory.

Credit markets also signaled stress, as high-yield spreads widened by 93 basis points in just two days—an expansion not seen since the onset of the COVID-19 pandemic. Despite this turmoil, our defensive equity positioning has provided relative outperformance. We remain confident that our portfolio structure is well-equipped to navigate ongoing volatility.

Economic Indicators and Fed Policy

The Federal Open Market Committee (FOMC) met as scheduled in March, opting to leave interest rates unchanged—a widely anticipated decision. Attention instead focused on the Summary of Economic Projections (SEP), which reflected a more cautious outlook: 2025 GDP forecasts were revised down from 2.1% to 1.7%, while core PCE inflation expectations rose to 2.8% from 2.5%. Unemployment projections increased modestly to 4.4%.

The Fed still projects two rate cuts for the year, although we maintain a view that additional policy easing may be warranted. Additionally, the Fed announced a deceleration in the pace of balance sheet runoff, which should provide modest support to market liquidity.

Chair Jerome Powell's subsequent press conference reinforced a steady narrative. While acknowledging concerns reflected in softer sentiment data, Powell emphasized that hard economic data remains solid. Consumer spending has

moderated, yet employment metrics—including hiring and layoff activity—remain stable, and the labor market continues to show resilience.

Tariffs and Geopolitical Risk

The newly implemented tariff regime affects 185 countries, with a baseline rate of 10% and significantly higher rates for nations with large U.S. trade deficits. China, for instance, now faces a combined 54% tariff (inclusive of the existing 20%), while Japan, Vietnam, and the European Union face rates of 24%, 46%, and 20%, respectively. These measures are not reciprocal and are instead structured around trade imbalances—a departure from traditional trade policy frameworks.

The scale and abruptness of these tariffs have introduced substantial uncertainty into global markets. Until a clearer policy path emerges—and until key trading partners indicate whether they intend to negotiate or retaliate—we expect heightened volatility to persist. The FOMC has scheduled an unscheduled closed-door meeting for April 7th, underscoring the seriousness of current developments.

In response, several economic institutions have revised their recession risk estimates upward. Goldman Sachs now places the probability of recession at 45%, while JPMorgan has increased its estimate to 60%. Ongoing diplomatic discussions are underway, but no resolutions have yet been reached. As new information surfaces, markets are likely to remain highly reactive in both directions.

Strategy

Amid the current turbulence, we continue to adhere to a disciplined investment approach, emphasizing high-quality companies with strong balance sheets, robust pricing power, and consistent cash flow generation. These attributes are particularly important in navigating economic slowdowns and periods of financial stress.

The recent selloff has also created opportunities. We are actively evaluating companies that now trade at attractive valuations and are positioned to outperform in a recovery scenario.

On the fixed income side, the sharp decline in the 10-year Treasury yield—now below the critical 4% threshold—has benefited our longer-duration positioning. Having extended duration during the higher-rate environment, we have captured both yield and price appreciation. Despite wider credit spreads, we remain cautious on lower-quality issuers, which we believe do not adequately compensate for elevated credit risk. Our preference remains in high-grade credit, which is likely to demonstrate relative resilience if economic conditions deteriorate further.

Outlook

We remain committed to active and risk-aware portfolio management in the face of a rapidly evolving macroeconomic environment. While the current landscape is undeniably complex, we continue to seek opportunities that align with our long-term investment philosophy. We appreciate your trust and partnership during these challenging times.

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