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March 12, 2025

Dear Valued Investor,

Market volatility has arrived in force. The slowdown in the economy and more policy-driven volatility was the consensus expectation coming into 2025. What was not expected, however, was how much the Trump administration would lean into tariffs. During President Trump's first term, in most instances, investors observed the administration delaying, reducing, or even removing tariffs when the stock market expressed disapproval. Olive branches from the White House sparked stock rebounds.

It appears this new Trump administration is more committed. The resulting uncertainty in terms of where tariffs will eventually land has caused investors' angst, despite potential long-term benefits such as bringing some production back to onshore, enhancing national security, and raising revenue.

In such an uncertain environment, it is very difficult for economists to forecast economic growth, for analysts to predict profits, and for companies to plan. A massive amount of capital investment in artificial intelligence is still very likely to happen this year, but markets had anticipated changing regulations would spur additional business investment. Well, tariff uncertainty appears to be foiling that plan, at least for now. Add some near-term inflation uncertainty among consumers and a potential negative wealth effect (when stocks go down, consumers spend less), and the economy may slow a bit more than many had anticipated. Conditions look good enough to put recession on the backburner, but there has been enough of a slowdown to raise recession fears.

So how should investors handle this? Our first piece of advice is don't panic. Volatility is normal. It's like a toll investors must pay on the road to attractive long-term returns. The stock market corrects once per year on average (a drop of 10-19%) and has still achieved a 13% annualized return including dividends since 1980.

Here's another way to think about the value of staying invested. If you miss the best day of the year – and that usually comes during volatile market environments when stocks are in a correction – your annualized return takes nearly a 4% hit. Miss the best two days of the year and the hit is nearly 7%.

A recent Dalbar study revealed that investors generate returns about 5% below the overall industry because of excessive trading. Trims and adds with guardrails make sense for active investors. But going all in or all out is a recipe for falling short of your long-term investment goals. Market timing can be costly.

We may be close to putting in a durable low in stocks. More information about which tariffs will stick would help. Expectations for economic growth and corporate profits still need to come down more. And from a technical analysis perspective, we'd like to see more evidence of indiscriminate selling. When the sellers are exhausted, buyers can more easily lift the indexes.

Investors are understandably anxious. We suggest fighting off the temptation to sell and let those long time horizons work for you. As always, please reach out to your financial advisor with questions.

Sincerely,

Jeffrey Buchbinder, CFA
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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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