GWM GREENE WEALTH MANAGEMENT

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Market Update (March 2025) -
Navigating Tariffs and Market Uncertainty

We understand that recent market volatility has been a source of concern for many investors. The ongoing uncertainty surrounding trade policies, particularly the evolving tariff landscape under the Trump administration, has introduced new complexities into the financial markets. As the administration continues to renegotiate trade agreements and impose tariffs on key global partners, businesses and investors alike are working hard to assess implications for the economy and markets.

These uncertainties have led to recent market volatility, as investors react to developments in trade negotiations, potential retaliatory measures from other nations, and broader economic implications. The Trump administration is committed to using tariffs as a key policy tool to raise revenue and as a source of leverage in negotiations that go beyond trade and investment. The impact of tariff policies will vary by industry and depend on the scope, implementation and duration of the policies.

At the current inflection point in the market, we are now seeing more developed policy and actions of the Trump administration impacting market pricing and outlook. Tailwinds that spurred initial market gains after the election and continue to support equities include a positive outlook towards tax reform policies and deregulation aimed to stimulate economic growth. However, potential headwinds abound with uncertainty around unorthodox approaches to addressing national debt, the chance of higher rates and persistent inflationary pressure, geopolitical risks, and the aforementioned dynamics presented by the evolving tariffs landscape.

While volatility can be unsettling, it is important to remain focused on long-term financial goals rather than short-term market fluctuations. Our team is continuously monitoring these developments and assessing their potential impact on client outcomes.

Tariff Policy Dynamics

This week markets showed signs of instability as investors grappled with fears of a global trade war and potential economic repercussions.

- **Recent Tariff Policy in Action (a majority of tariffs impacting Mexico and Canada are now delayed a month)** – Put into effect this week was 25% tariffs on imports from Mexico and Canada (10% for Canadian energy) and a cumulative tariff increase to 20% on imports from China. The moves as they stand will affect trillions of dollars in trade and strain relationships with key US trading partners.

- **Tariff Fallout** – Mexico, Canada, and China have all signaled tariff and non-tariff retaliation. As of this note, there is progress towards a one-month pause on tariffs that fall under the United States-Mexico-Canada Agreement (USMCA) - this comes a day after pausing auto tariffs.

- **What's Next for Tariffs?** – The expectation from economists is that the President will be willing to work toward trade compromises with Canada and Mexico, with China trade relations far more uncertain. With Trump's tariff threats becoming reality, the potential for policy directed towards European countries is now probable. Trump has also signed a measure that could lead to the implementation of reciprocal tariffs on US trading partners in the future.

- **Impact on the Economy/Markets** – Now that tariffs have run the course from threats to action, actual economic impact is a reality. In the short-term the impact of tariffs would be expected to decrease growth and increase prices; the magnitude of impact is less clear. Variables that will drive the extent of economic impact include duration, implementation, additional tariffs, exemptions, retaliatory measures, etc. There is a lot to unpack, and economists/investors continue to take a wait-and-see approach - as we have already seen this week, the landscape is evolving very quickly, and nothing is taking place in a straight-line.

It is yet to be seen how effective tariff implementation and negotiation proves to be in achieving administrative goals. The economic consensus is that tariffs historically are a net negative to economic growth, which means the magnitude and duration of tariff policy will be important in navigating the impact to the economy/markets.

Economists generally agree free trade increases the level of economic output and income, while conversely, trade barriers reduce economic output and income. The consensus baseline for current policy is that tariffs would result in moderately higher prices and elevated uncertainty that might weigh on household and business spending - considered within a broader policy landscape, tax cuts and deregulation could help offset economic weakness caused by tariffs and boost domestic growth.

Tariff policy has now been elevated to the top level of priority as Fed policy in navigating the current economic landscape. One potential contagion risk of increased tariffs is an environment with higher costs and slower growth, would put the Fed in a complicated position with rates - and rate policy in addressing a slowing economy. Increased tariffs alone do not suggest an economic recession is imminent, but risks do become elevated when paired with a slowing economy. We will be watching closely to evaluate how things evolve.

Markets in 2025

Recent headlines have been fraught with concern, assessing potential fallout from tariffs and broader government policy. However, it is important to recognize that financial markets and portfolio impact cannot be viewed in a vortex. While US stocks are most commonly used as a proxy for "the market," portfolio construction is done through a much broader lens. In fact, through the first 2 months of the year it has been diversification in areas such as Developed International Stocks, Bonds and Real Estate that have outpaced US Stocks and supported positive portfolio returns.

Despite recent downside volatility and drawdowns, US Stocks (S&P 500) are just slightly lower at (0.5%) for the year. Alternatively, Developed International Stocks (MSCI EAFE) are up 10.4%, Global Real Estate (FTSE/EPRA NAREIT Index) is up 4.7%, and bonds are up 2.3%.

Diversification across asset classes and the world is a key tenet of GWM portfolio construction, it is encouraging to see the positive impacts of multiple portfolio exposures, as US Stocks are being most impacted by market uncertainty.

Navigating Uncertainty in Action

In our belief, long-term strategic portfolio management continues to offer the best path to success for client outcomes - not trying to thread-the-needle of market timing. However, we always want to be sensitive and responsive along the way. Here are a few practical things to consider as we continue to navigate the evolving policy landscape and uncertain market:

- **Strategic Liquidity** – Amidst any period of volatility, managing liquidity becomes paramount. It is important to make strategic planning decisions around any major liquidity needs to assure a liquidity event does not interrupt long-term strategy. Let us know if you have personal liquidity needs or anticipations to incorporate into strategic thought.

- **Bonds are Back** – We have held many recent conversations around the growing value of bonds in client portfolios. Bonds experienced tremendous turmoil during the aggressive rate hikes starting in 2022 and into 2023, the silver-lining is yields are now in the 4.5% to 6.0% range for funds clients hold (from around 2.0% just 3 years ago). Bond yields will play a much more meaningful role in client returns going forward, something we haven't been able to say since the Great Financial Crisis. We expect a strong decade ahead for bondholders.

- **Traditional Market Mechanics Should Prevail** – 2022 was an extraordinary interruption to traditional market diversification dynamics with both stocks and bonds down double-digits. With rates now much higher, we are confident that traditional asset class correlations will prevail in the years ahead. In theory, bonds have regained status as a diversifier to stocks and should provide stability in the next period of meaningful downside for stocks.

- **Risk Reset?** With bonds reset at higher levels of interest, a conversation around risk/return might be worthwhile. Based on your personal needs and appetite towards risk, there is a chance that long-term goals might become aligned with a more balanced stock-bond mix and increased exposure to bonds. This might be especially true if concern elevates in response to tariff policy or otherwise.

Our approach remains rooted in a long-term perspective and a commitment to prudent risk management. While market volatility can be unsettling, it also presents opportunities for those who remain focused on their financial goals. Our mission as your Advisor is to provide you with the confidence and clarity you need during uncertain and volatile times and to ensure your investments remain aligned with your vision for the future.

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