LMA
WEALTH MANAGEMENT

Review.- Quarter Update

Dear LMA Clients,

Uncertainty Rules the Day

In the first days of the Trump administration, optimism about the new leadership and anticipation of policies favoring deregulation and tax reform led the major market indices to record highs. However, optimism was replaced by concern as the market digested the possibility of negative global trade implications as tariff policies were announced and trading partners responded with reciprocal tariffs. Volatility increased as the market grew concerned about the threat to economic growth (i.e., rising odds of a recession) and the possibility of a resurgence of inflation due to trade policy.

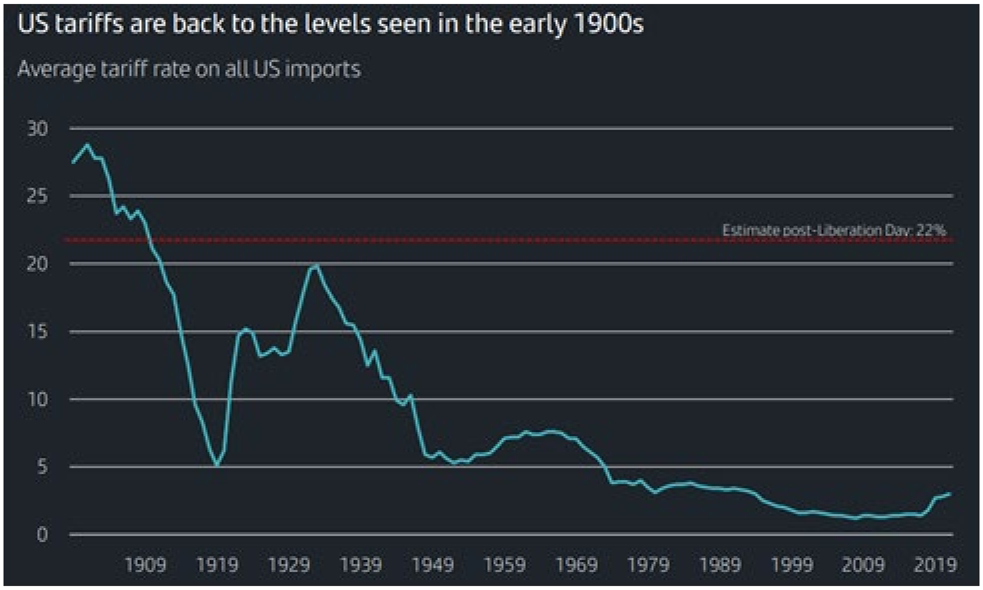
In early April the market experienced the sharpest decline since March 2020 in response to trade war fears and as some of the new tariffs went into effect. Market volatility escalated significantly following China's announcement of a reciprocal 34% tariff on all imports from the U.S., as well as suspension of imports of certain U.S. agricultural products and increased export controls on rare earth minerals. The declines have pushed the S&P 500 and Dow Jones Industrial Average into correction territory (down more than 10%) and both the Russell 2000 small-cap index and tech-heavy NASDAQ Composite are in bear market (down more than 20%).

Undeniably we are experiencing unprecedented levels of uncertainty with potential geopolitical and economic implications. In times like these, we are reminded that maintaining diversified portfolios, staying disciplined and patient, and avoiding impulsive reactions are the best tools to navigating this storm.

Tariff Implications for Markets and the Economy

In early April 2025, the United States announced a sweeping set of tariffs aimed at reducing the country's longstanding trade imbalances. The new measures include a minimum 10% tariff on all imports and additional duties on approximately 60 countries with significant surpluses against the U.S. While Canada and Mexico—key trading partners—are exempt under existing terms for USMCA compliant goods but not exempt from steel, aluminum and automobiles, the move signals a shift toward more protectionist trade policy.

The level of tariffs is now at a level not seen since the early 1900s as the Trump administration attempts to reset global trade imbalances and position the U.S. to benefit economically.



These tariffs, which raise the average effective tariff rate from 5% to 25%, are broader and more aggressive than many market participants had anticipated. As a result, investors are grappling with the implications for inflation, growth, monetary policy, and global trade dynamics.

With its aggressive tariff policies, the Trump administration is attempting to reset global trade imbalances in favor of the U.S. and eliminate what it sees as unfair trade policy in the form of tariffs on U.S. goods that have existed for decades. Indeed, there is already some early success in that more than 50 countries, including Taiwan, Indonesia, Switzerland, and the European Union have contacted the U.S. administration seeking to negotiate zero-tariff agreements.

- **Slower Growth Outlook**
  - Tariffs increase input costs for U.S. businesses and reduce profit margins, potentially slowing capital investment and hiring. Supply chains are likely heavily impacted.
  - Export-oriented sectors may suffer from retaliatory measures, leading to reduced external demand for U.S. goods and services.
  - Risk assets have already reacted: Markets were down aggressively in the following two days after the announcement, reflecting expectations of decelerating growth.
- **Rising Inflationary Pressures**
  - Higher import costs are likely to be passed on to consumers, especially for goods where substitutes are unavailable domestically.
  - While the inflation spike may be temporary, it complicates the Federal Reserve's ability to manage rates—balancing between supporting growth and controlling prices.
- **Increased Risk of Recession**

- A potential decline in U.S. exports, increased costs to consumers, global supply chain disruption, and cutbacks on business spending and hiring due to economic uncertainty increase the odds that a recession will occur.

- **Impact on Federal Reserve Policy**
  - The inflationary impulse could delay or deter rate cuts in the near term, even as the Fed faces increasing evidence of a slowdown.
  - Fed path is highly uncertain though we expect they will be ready to act as support should a pronounced economic slowdown occur.
- **Uneven Impact on U.S. Businesses**
  - Middle market and domestic-focused companies could benefit as tariff protection reduces competition from imports, allowing for pricing power and potential market share gains.
  - Multinational U.S. corporations, especially those with global supply chains or large international sales exposure, are likely to suffer from higher input costs and retaliatory barriers—pressuring margins and revenue.
  - Sectors like industrial manufacturing, technology hardware, and automotive could see the most disruption.
- **Market Volatility and Investment Strategy**
  - Equity markets have turned defensive, with volatility increasing amid policy uncertainty.
  - Safe-haven assets are gaining traction: Treasuries yields have fallen dramatically, and gold has also seen inflows.
- **Global Trade Risks Escalate**
  - China has responded with its own tariffs, introducing a 34% tax on all U.S. imports—heightening the risk of a broader trade war.
  - Other affected nations could follow, triggering a chain of retaliatory measures that undermine global trade flows and multinational earnings.
  - Impact of component imports on inflation
  - Death of globalization in an environment of renegotiated trade agreements

No doubt tariff policy and uncertainty regarding US-foreign relations, in particular the abrupt shift in policy towards our neighbors to the north and south as well as trading partners around the globe, has caused levels of anxiety to spike. The stock market does not like uncertainty and risk-off trades can cause dramatic downturns. However, we remind our clients that we are invested for the long term and that temporary sell-offs create buying opportunities for those willing to look past the headlines.

First Quarter Update

The first quarter proved to be a volatile environment for both stocks and bonds. After posting solid gains last year, rising 25%, stocks were relatively stable as the Trump administration took office and began quickly implementing its agenda. However, in March the market began to weaken as investors became concerned about the persistence of inflation and a potential weakening in the economy, and growing unease about a potential trade war as tariffs are widely implemented. For the quarter the S&P 500 was down -4.59% .

Treasury yields were up in the quarter. The Fed held rates steady 25 bps in the quarter even after it revised downward its expectations of economic growth to just 1.7% in 2025, due to concerns of the impact of tariffs on economic growth, and a possible resurgence in inflation. While rates are currently on hold, the Fed continues to expect two rate cuts this year bringing the fed funds rate down to a range of 3.75 – 4%. The Fed also revised its quantitative tightening program and expects to slow the pace of reducing the bonds held on its balance sheet. The 10-year Treasury rate declined to 4.23% during the quarter, down from 4.57% at the end of 2024. The US Aggregate bond index gained 2.78% during the quarter, after declining 3% in the 4th quarter.

The February CPI report indicated a continuation of inflationary pressures. After rising 0.5% (seasonally adjusted) in January, the CPI (all items) rose another 0.2% in February. On a year-over-year basis, prices were up 2.8%. Stripping out volatile food and energy prices, Core CPI was 3.1% year-over-year, indicating the Fed still has work to do in its efforts to tame inflation. Meanwhile, in a fresh sign of a potential economic slowdown, consumer confidence fell by 7.2 points in March and the Expectations Index dropped to 65.2, well below the threshold level of 80 that has historically signaled past recessions.[1]

1. S*ource: The Conference Board, Press Release March 25, 2025*

In the March jobs report, payrolls were up 228,000 vs expectations of 140,000. This follows a revised 117,000 gain in February. While these numbers are indicative of a healthy job market, the unemployment rate did tick up to 4.2% following a 4.1% level posted in February. Meanwhile, labor force participation held steady at 62.5%.

An indicator of continued global economic growth, the global manufacturing PMI increased in March to 52.1 from 51.5 in February. While this is a positive indication, it signals a potential of weaker economic growth relative to pre-pandemic levels.

The market's short-term performance and volatility are currently dominated by tariff policy and concerns over reciprocal tariffs, which has caused sharp declines in the stock market in the first few days of April. Interest rates, while expected to decline, could stay high for longer if inflation spikes up, leading some market commentators to speculate about the potential for "stagflation" in 2025. Other headwinds include concerns about a cooling labor market, rising credit card delinquencies, and increased asset write-downs at banks due to Commercial Real Estate exposure. Combined with global geopolitical uncertainty, these factors could continue to put pressure on markets in the coming months.

Equity Market View (As of 3/31/2025)

Index Name	Level	YTD %
S&P 500	5,612	-4.27%
Dow Jones Industrial Average	42,002	-0.87%
NASDAQ Composite	17,299	-10.26%
MSCI EAFE	2,401	6.86%

The S&P 500 index posted a decline of -4.27% in the quarter.

The table below shows S&P 500 year-to-date performance by sectors as of March 31, 2025.

	Trailing Returns As Of 3/31/2025	
S&P 500 Sector	Index Weight	Year-To-Date
Communications	9.20%	-6.41%
Technology	29.60%	-12.79%
Financials	14.70%	3.11%
Consumer Discretionary	10.30%	-13.97%
Utilities	2.50%	4.12%
Industrials	8.50%	-0.53%
Consumer Staples	6.10%	4.58%
Energy	3.70%	9.30%
Real Estate	2.30%	2.72%
Health Care	11.20%	6.08%
Materials	2.00%	2.30%

(Source: Standard & Poor's)

The heavy weighting in information technology and financials, among other sectors, continue to have the largest impact on performance for the S&P 500. Technology and Consumer Discretionary were the worst performing sectors in the first quarter, while Energy, Healthcare and consumer Staples produced positive results. Investors took profits and adjusted portfolios to expectations of slower growth and declining consumer sentiment.

Market Turbulence and Rotation: A Closer Look at the Magnificent Seven and Global Equity Trends

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The past two trading sessions (April 3–4, 2025) have seen dramatic volatility across equity markets, triggered by newly announced U.S. tariffs and rising global trade tensions. The "Magnificent Seven" tech giants—once the core drivers of U.S. market gains—have sharply underperformed both the broader S&P 500 and international markets. Meanwhile, capital appears to be rotating toward more insulated sectors and geographies as investors reassess risk.

2-Day Market Performance Summary

Index / Stock	April 3 Price Change	April 4 Price Change	2-Day Total Change
Apple (AAPL)	-9.3%	-7.3%	**-15.9%**
Microsoft (MSFT)	-2.4%	-3.6%	**-5.8%**
Amazon (AMZN)	-9.0%	-4.1%	**-12.8%**
Alphabet (GOOGL)	-4.0%	-3.4%	**-7.3%**
Meta (META)	-9.0%	-5.0%	**-13.6%**
Tesla (TSLA)	-5.5%	-10.4%	**-15.3%**
NVIDIA (NVDA)	-7.8%	-7.4%	**-14.6%**

Index / Stock	April 3 Change	April 4 Change	2-Day Total Change
S&P 500	-4.8%	-6.0%	**-10.4%**
Nasdaq Composite	-6.0%	-5.8%	**-11.4%**
Dow Jones	-4.0%	-5.5%	**-9.3%**
STOXX Europe 600	-2.6%	-5.1%	**-7.6%**
FTSE 100 (UK)	-1.6%	-5.0%	**-6.4%**
DAX (Germany)	-3.7%	-5.0%	**-8.4%**
Nikkei 225 (Japan)	-2.8%	-2.8%	**-5.5%**
Hang Seng* (Hong Kong)	-1.5%	--	**-1.5%**

** The Hong Kong Stock Exchange was closed on April 4*

Key Observations and Implications

- **Rotation Underway:** The sell-off in the Magnificent Seven is outpacing the broader market, signaling a shift away from high-growth tech and toward more defensive sectors and international equities.
- **U.S. vs. International Divergence:**

  - While U.S. indices dropped 9–11% over two days, European and emerging market equities showed more stability, reflecting less direct exposure to U.S. tariff policy.
  - Early signs of capital flows into Brazil, India, and Southeast Asia hint at global repositioning.
  - Global Market Declines: The implementation of new U.S. tariffs and subsequent retaliatory measures have led to significant downturns across major global indices.
  - European Markets: The STOXX Europe 600 experienced a cumulative 7.6% decline over the two days, with the FTSE 100 and Germany's DAX facing losses of 6.4% and 8.4%, respectively.
  - Asian Markets: Japan's Nikkei 225 saw a total drop of 5.5%.

- **Policy Pressure and Risk Repricing:**
  - The sudden imposition of tariffs by the U.S., followed by Chinese retaliation, has increased uncertainty and inflation risks.
  - Federal Reserve Chair Powell cautioned that these dynamics could stall growth and delay rate cuts previously expected in mid-2025.
- **Tech Sector Sensitivity:**
  - Mega-cap tech companies with global supply chains and heavy international revenue exposure are facing sharper drawdowns.
  - Domestic-focused or middle-market companies may be more insulated or even benefit from tariff-induced re-shoring trends.

Implications for Investors:

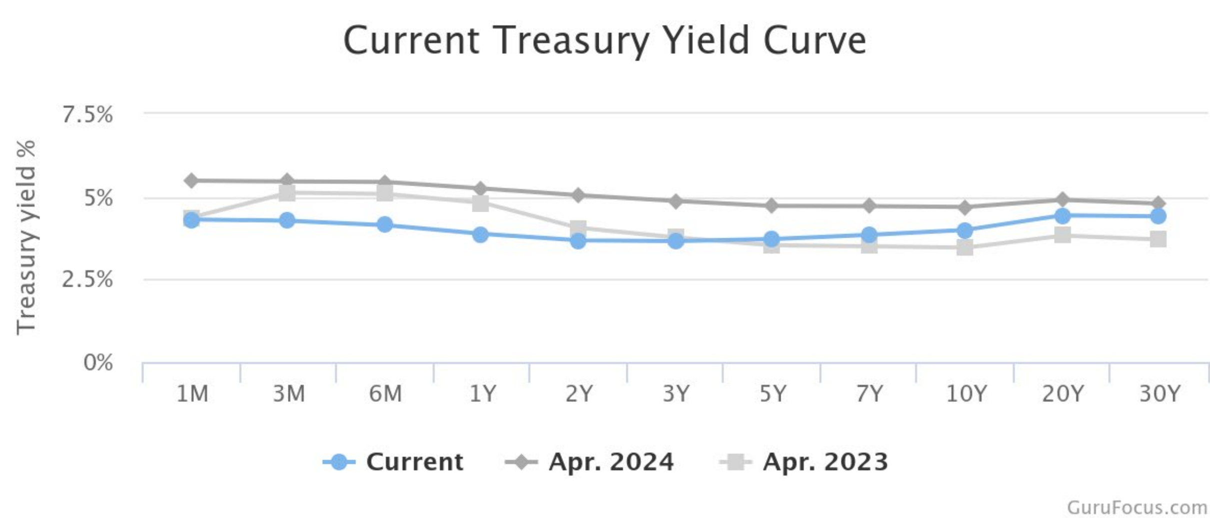
- **Increased Volatility:** The recent market movements underscore heightened volatility, emphasizing the importance of diversification across sectors and geographies.
- **Monitoring Trade Developments:** Ongoing trade tensions are significantly impacting global markets, necessitating close attention to international relations and policy changes.

Bond Market

Fixed Income Market View (As of 3/31/2025)

Domestic Fixed Income	YTD %
BBG Barc US Aggregate Bond Index	2.78%
ICE BofA US Corporates	2.36%
ICE BofA US High Yield	0.94%
Global Fixed Income	**YTD %**
BBGBarc Global Aggregate	2.63%
BBGBarc Global High Yield	1.85%
Preferred Stock Indexes	**YTD %**
S&P Preferred Stock Total Return	-1.57%
S&P Floating Rate Preferred Stock	-1.81%
S&P Fixed Rate Preferred Stock	-2.35%

The chart below illustrates the current Treasury Yield Curve. The yield range goes from 1 month of maturity to 30 years of maturity.



It is noteworthy that the yield curve has steepened and was not inverted through mid-February, in contrast to 2024 when it was inverted throughout most of the year. In the second half of the quarter, short term rates rose and in recent days the curve has been flat to slightly inverted. Generally, an inverted curve is considered a leading indicator of recession, however an actual recession has not yet occurred. The Fed until recently expected to achieve a 'soft landing', however with the tariffs going into effect their outlook has become more uncertain due to inflation risks and headwinds to economic growth.

Some current headwinds to keep in mind:

- Tariffs and reciprocal tariffs
- Inflation resurgence
- Cautious Fed policy
- Geopolitical uncertainty
- Continuation of tighter lending standards due to a reduced availability of credit
- Increasing levels of consumer debt and increased credit card and auto loan delinquencies
- Widening credit spreads, liquidity drying up

What This Means for Your Portfolio

We are closely monitoring the current market turbulence and the headlines coming from Washington assessing the potential implications for both markets and the economy.

The recent market correction has taken the froth out of stock valuations but we cannot call stocks as cheap yet, especially given the uncertainty on earnings revisions going forward in a slowing economy.

Although long-term interest rates have declined in recent days and are currently are closer to 4%, investment grade bonds continue to offer compelling yields and are functioning adequately as a source of diversification.

Generally speaking, we are taking the following actions:

- Continue to rotate portfolios to increase equity diversification across geographies and types of equities
- Actively taking advantage of this period of high volatility through our options program
- Within Alternatives, we prefer infrastructure in 2025 which we believe can sustain economic uncertainty, protect against inflation, and participate in the global need to add data centers as the adoption of AI continues to take place.
- Monitoring trends in credit, especially within lower rating positions

Each portfolio is based on the individual needs to each LMA client. Please contact your financial advisor to discuss in detail the specific implications for your portfolio and if any adjustments are required.

We sincerely thank you for the trust you place in us. We appreciate it and take it with the outmost sense of responsibility.

Sincerely,
LMA Team

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