J.W. Burns & Company
Investment Counsel
Quarterly Update - April 2025

Don’t Be Tariff-ied

“Keep your head when all about you are losing theirs.” - Rudyard Kipling

Dear Clients and Friends,

The S&P 500 Index was down -4.27% in the first quarter of 2025, which as you know by now is very old news. Since President Trump’s tariffs announcement on April 2, stocks were down at one point around 15% – over the span of four days – marking one of the fastest broad market declines in history.

Currently, markets are experiencing a solid rally on Trump’s announcement that he is suspending reciprocal tariffs for 90 days on most countries and is lowering the amount to 10% on all countries except for China. Furthermore, this past weekend the Trump administration granted a temporary exemption for most smartphones, electronics, and chips. However, as this is a fluid and unpredictable situation, we will nevertheless address the tariff issues as well as your portfolio and investments in this letter.

As we mentioned in our volatility communique on April 4, stocks had been selling off due to the significantly higher than expected tariffs imposed by the Trump Administration. Simply put, markets – under Trump’s April 2 tariff plan – had been anticipating materially negative economic impacts including higher inflation, lower profit margins, and dampened consumer confidence.

Unfortunately, the chances of a recession, despite the recent tariff delay, have nevertheless increased and earnings expectations – the mother’s milk of stock price appreciation – have also come down. In fact, at one point, analysts’ forecasts for 2025 S&P 500 earnings results pointed to a fall between 8 and 15%.[1]

> **“The powerful swings in stock prices - up and down - provides a real-time reminder of the dangers of trying to time the markets.”**

On the surface, the market made it clear its negative view of President Trump’s original tariff plan, and the market also made it clear its relief with the rollback of the plans most aggressive elements. The powerful swings in stock prices – up and down – provides a real-time reminder of the dangers of trying to time markets and the uber-important need for our clients to maintain a long-term orientation, as we have frequently stated in our client letters.

Please note, as always, our commentary and analysis are apolitical and focused squarely on our interpretation of what is happening in the markets, the economy, and the outlook for your portfolio.

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Let's get right into your questions.

Q: Now that President Trump has somewhat softened his stance on tariffs, do you believe the worst of the market volatility is behind us?

A: Possibly.

I think we can all agree that having our trade and fiscal situation in a better balance is a necessary and admirable goal. ***However, it has been the size and intensity of the tariff implementation that has really rattled the financial markets.*** So, President Trump's April 9 announcement of a 90-day pause on reciprocal tariffs for most countries and a lowering of the tariff rate to 10% for all countries except for China, was more in line with what the market was expecting and welcomed by investors.

"Expect higher volatility in 2025, uncertainty with Trump 2.0, and remember to keep focused on your long-term investment plan."

So, uncertainty has been reduced to a degree. President Trump has shown a willingness to negotiate and work towards a better trade outcome for the United States. ***This should allow corporations, consumers, and investors to have at least a somewhat clearer framework on which they can operate***. If ongoing trade negotiations are productive, this will also be constructive for markets and dampen volatility.

However, even at the 10% level, these tariffs are still big, and the announced delay was only for 90 days. According to CNBC, these tariffs are at a cost of roughly $300 billion to the U.S. economy, which will be passed on to corporations and ultimately consumers.

Obviously, the issue is not put to bed and will likely be a source of angst for the markets, for at least the next few months. Additionally, if there are further trade escalations with China, or indications that ongoing negotiations with other trading partners are unsuccessful, the market will likely react negatively. So, we must stay tuned.

Q: Has your base case scenario for the stock market in 2025 changed because of recent events and tariff announcements?

A: Not much. As you may recall, in January we summarized our outlook for the year in several key points, which I have added here for your review.

1) There is risk in the high concentration of the ten largest stocks in the S&P 500. A top-heavy market could exacerbate any market correction.

- *Check. The Magnificent Seven technology stocks have been hit especially hard during this period of volatility, with the Nasdaq Composite falling into a bear market.*

2) The U.S. economy is strong and expected robust earnings growth can drive stock prices higher in 2025.

- *Half check. The March jobs report came in better than expected along with showing continued solid wage growth for the average worker. Earnings estimates, however, are understandably coming down as is consumer confidence.*

3) A resurgence of inflation, and ultimately interest rates, is the biggest risk to markets in our view.

- *Check. Tariffs are undoubtedly inflationary for our economy and could put a delay on interest rate cuts from the Federal Reserve.*

4) Expect higher market volatility in 2025, uncertainty with Trump 2.0, and remember to keep focused on your long-term investment plan.

- *Speaks for itself.*

All four of these points remain salient to the performance of the market for the rest of 2025.

Frankly, sometimes we must all accept that the only certainty we have is uncertainty. Trying to time the markets, tariff policy, or economic news will almost assuredly lead you to selling stocks near their lows and buying back in after a steep recovery; or in Wall Street vernacular "getting whipsawed." To quote Fisher Investments, behaving this way "…is a very, very hard thing to come back from" and "Staying patient to reach your longer-term goals and focused on that longer term isn't easy at all, but it is the wisest move."[2]

Another quote I like comes from Michael Farr who this past week wrote: "I again remind everyone – and most certainly remind myself – that emotion is the foe of the long-term investor…. Yes, this time is different, but again, EVERY time is different. The disciplined, dispassionate investor endures the differences and remains focused on their long-term goals."[3]

Keep in mind, since 1990 when the CBOE Volatility (VIX) index spikes above 40%, as it did earlier this month, stocks have historically bounced back strongly. In fact, the average return

Biggest Weekly $VIX Spikes and Forward S&P 500 Total Returns (January 1990 - April 2025)

Biggest 1-Week $VIX Spikes				Forward S&P 500 Total Returns				
End Week	Start $VIX	End $VIX	$VIX Spike	1-Year	2-Year	3-Year	4-Year	5-Year
2/28/2020	17.08	40.11	135%	31.3%	53.2%	41.0%	83.7%	120.0%
8/21/2015	12.83	28.03	118%	13.3%	28.4%	53.8%	59.1%	89.4%
4/4/2025	21.65	45.31	109%					
5/7/2010	22.05	40.95	86%	23.0%	28.4%	54.9%	84.3%	110.8%
12/12/2014	11.82	21.08	78%	2.6%	17.8%	41.0%	42.8%	74.0%
3/2/2007	10.58	18.61	76%	-2.2%	-44.6%	-14.9%	3.8%	9.6%
2/9/2018	17.31	29.06	68%	5.4%	32.1%	57.1%	84.5%	72.4%
12/11/2015	14.81	24.39	65%	14.8%	37.4%	39.1%	69.6%	103.1%
11/26/2021	17.91	28.62	60%	-11.0%	2.5%	36.1%		
3/23/2018	15.80	24.87	57%	10.4%	-7.3%	60.0%	85.1%	65.2%
2/2/2018	11.08	17.31	56%	-0.1%	21.5%	42.4%	72.4%	60.9%
10/10/2008	45.14	69.95	55%	22.3%	35.8%	37.4%	77.6%	110.0%
8/11/2017	10.03	15.51	55%	18.3%	24.3%	45.6%	95.7%	85.5%
2/4/1994	9.94	15.25	53%	4.8%	42.8%	80.4%	128.9%	203.3%
1/22/2010	17.91	27.31	52%	19.9%	25.5%	45.0%	83.3%	105.5%
10/31/1997	23.17	35.09	51%	22.0%	53.3%	57.0%	27.3%	5.0%
1/29/2021	21.91	33.09	51%	21.0%	13.0%	38.0%	74.5%	
1/21/2022	19.19	28.85	50%	-8.2%	13.7%	42.8%		
4/1/1994	13.67	20.45	50%	15.6%	52.7%	87.0%	169.2%	219.8%
9/6/2024	15.00	22.38	49%					
Average (20 Biggest 1-Week Spikes)				11.3%	23.9%	46.9%	77.6%	95.6%
Average All Other Periods				12.1%	25.2%	39.2%	55.8%	73.9%
Differential				-0.8%	-1.3%	7.7%	21.8%	21.8%

of 12 months out for the S&P 500 Index is 11.3% and three years out is 46.9%.[4]

Additionally, a bullish sign is that according to the American Association of Individual Investors (AAII), ***bearish sentiment is now at the third highest ever recorded***. The last time bearish sentiment was this high was on March 5, 2009, when it reached 70.3% amidst the turmoil of the financial crisis. Four days later the stock market bottomed and a powerful bull market began.

Prior to that, it peaked at 67% on October 18, 1990, a year of significant turbulence in the stock market and the world.[5] Over the next 12 months, to the surprise of many, the S&P 500 Index would rally approximately 30%.

So, time will tell, but I believe the set up for a stock market rally later this year looks good.

In closing, I'm reminded that our job is not only to be your portfolio/investment manager but to be your behavior manager especially during turbulent times such as these. We have received feedback that our client communication is straightforward, insightful and unique, and our clients seem to appreciate it. Most importantly, we structure durable, finely crafted portfolios built for long-term investment success and to weather challenging times such as these.

Stay invested, my friends.

Enjoy the springtime.

Best wishes,

Jim

James C. Burns, CFA
President

P.S. In these volatile and partisan times, I wanted to leave you with a final quote, this one from J.P. Morgan (see the next page):

J.P.Morgan
PRIVATE BANK

Here's the interesting thing about the stock market: it cannot be indicted, arrested or deported; it cannot be intimidated, threatened or bullied; it has no gender, ethnicity or religion; it cannot be fired, furloughed or defunded; it cannot be primaried before the next midterm elections; and it cannot be seized, nationalized or invaded. It's the ultimate voting machine, reflecting prospects for earnings growth, stability, liquidity, inflation, taxation and predictable rule of law.

1 Haverford. State of the Markets Commentary. 8 April 2025.
2 Fisher Investments. Volatility Still Calls for an Even Keel. 9 April 2025.
3 Farr Miller Washington. This Time is Different. 10 April 2025.
4 Creative Planning. Biggest Weekly Vix Spikes and Forward Returns. April 2025.
5 American Association of Individual Investors. Bearish Sentiment Climbs to Third-Highest Reading on Record. 4 April 2025.