



Perspective in a Noisy World

The word for the recent volatility in our eyes is "*Perspective*". Macro news, like what we are seeing with tariffs, can seem and feel overwhelming, but just remember, the market is not the economy and it's still all about stocks, which are all about an underlying business.

It's no secret that there is volatility all around us; market, geopolitical, societal, etc., and while it may be difficult to see how today's situation resolves itself in a tidy fashion, let's start with a little bit of optimism. Warren Buffett wrote this in a 2008 annual letter:

"In the 20th century alone, we dealt with two great wars (one of which we initially appeared to be losing); a dozen or so panics and recessions; virulent inflation that led to a 21.5% prime rate in 1980; and the Great Depression of the 1930s, when unemployment ranged between 15% and 25% for many years. America has had no shortage of challenges. Without fail, however, we've overcome them. In the face of those obstacles -- and many others -- the real standard of living for Americans improved nearly seven-fold during the 1900s, while the Dow Jones Industrials rose from 66 to 11,497."

Just remember, **it pays to be a rational optimist**. Pessimism about the long-term does not align in any way with a historic worldview. Investors can choose to believe that right now is the beginning of the end, but that is a bet against all of human history and against human nature itself. As has always been the case, progress occurs against an inevitable backdrop of catastrophe. Always has, always will. Invariably, you can always find what you go looking for and your investment results will probably mimic that worldview.

Let's Begin... with an "Executive Summary" because this one's long.

Executive Summary: Perspective in a Noisy World

The recent wave of tariff headlines has added to an already noisy macro backdrop. It's easy to feel overwhelmed, but it's worth zooming out. The market is not the economy, and stocks are still businesses — driven by earnings, not emotions. We're not claiming to be trade experts, and we're definitely not pretending to know how this all plays out. But we do know markets, and we know how to separate signals from noise. Right now, there's a lot of noise.

Tariffs are part of the game now, like it or not. And while they could create short-term drag on sentiment and earnings expectations, we should remember two things:

1. The U.S. economy remains more insulated than others, with only 14% of GDP tied to imports; and
2. Markets and businesses crave certainty. Lack of it can weigh on capex and hiring decisions, but so far, momentum has held up.

The short-term may be bumpy, but long-term impacts are still a mystery. Nobody knows if these tariffs are the end of the world or just the start of negotiations. What matters for investors is not how they feel about trade policy, but how they react to it.

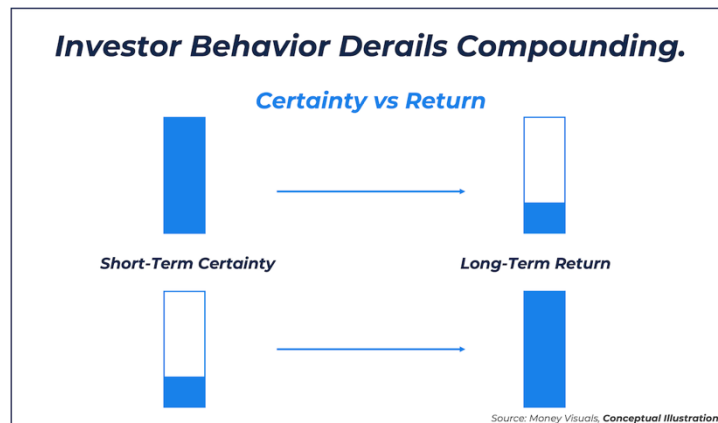
To borrow a favorite analogy: tariffs are the spinach. Tax reform, deregulation, and lower energy prices are the dessert. The market's choking down the spinach now, but the second course could help balance things out. In the

meantime, don't confuse market drawdowns with economic collapse. Don't let headlines dictate strategy. Stay focused on the long-term. It's not volatility that breaks compounding, it's how investors respond to it.

Keep perspective.

Liberation Day to Obliteration Day

It feels like everyone is now a macroeconomist and global trade expert. I can tell you that I am neither, but I am good at reading/understanding markets, remaining calm, and recognizing what is noise and what is relevant. To be frank, I have zero clue what the optimal solution is, but I always find it interesting when smart people on both sides of the argument have so much conviction in their beliefs – and are unwilling to budge. Simply said, there are too many problems that need to be solved, too many moving pieces of changing information, and too many variables at play to have any certainty around an outcome. Remember that certainty tends to lead to suboptimal solutions.



Personally, I think that many assumed that April 2nd would be a clearing event for the market. It likely did the opposite, but negotiations should move quickly from this point in time. Yes, the announced tariffs could be challenged on legality - the US Senate voted to remove the tariffs, but the House is unlikely to allow this to pass. This just shows that there may be some initial cracks in the Republican party on this topic. But, investors must play the hand of cards that they've been dealt, and tariffs is the current bower.

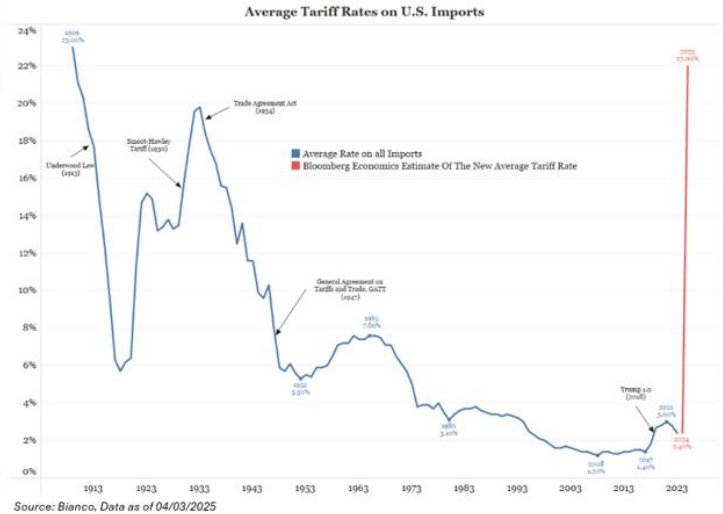
Nonetheless, the rules of engagement have officially been announced, but that does not mean that this will create certainty in the market. The focus now turns to the downstream effects from a sentiment perspective on what will happen to consumer's spending habits. The base is a 10% tariff on all imported goods (goes into effect on April 5th). Additional tariffs were imposed based on a ratio of the trade gap with individual countries to the total trade with those countries (goes into effect on April 9th). The aim is to address trade imbalances. Outside of spending, the other big question is if the more business friendly policies, i.e., taxes and de-regulation, will be able to trump the effects of tariffs in the near-term.

It would be a mistake to think the tariffs announced on April 2nd will not affect the US economy. The 2018 tariffs on China — one trade partner, albeit a big one — caused a significant, though short-lived, economic slowdown. This time, the economic impact will be bigger. The inflation impact will be different this time, too. The

Commerce Department is right that the 2018 tariffs did not cause significant inflation, but that was at least in part because the US quickly switched from Chinese suppliers for many goods to other international suppliers. But for now, political, emotional, and likely market volatility may remain.

Trading Partner	Import 2024 (\$bn)	Effective Tariff Rate 2024 (%)	Change in Country-level Tariff Rate by Tariff Package (pp)					Effective Reciprocal Tariff With Reciprocal Exclusions (pp)	Total Tariff Increase, Announced as of April 2 2025 (pp)
			20% China (pp)	25% CA/MX non-USMCA (pp)	25% Steel & Aluminum (pp)	25% Autos & Auto Parts (pp)	Announced Reciprocal Tariff (pp)		
EU	606	1.4					20.0	10.8	13.5
Mexico	506	0.5		2.4	0.9	4.1			7.3
China	439	10.9	20		0.5	0.7	34.0	26.3	47.5
Canada	413	0.3		2.2	1.2	2.2			5.5
Japan	148	1.7			0.7	7.6	24.0	11.7	20.0
Vietnam	137	4.1			0.4	5.9	46.0	40.4	46.7
Korea	132	0.4			1.1	0.5	25.0	14.0	15.6
Taiwan	116	1.1			0.6	0.7	36.0	26.4	27.8
India	87	2.6			0.6	0.5	26.0	18.5	19.5
LatAm FTAs	76	0.4			0.2	3.9	10.0	8.2	12.3
UK	68	1.2			0.5	0.0	10.0	5.6	6.1
Switzerland	63	0.8			0.1	0.6	31.0	18.5	19.2
Thailand	63	1.8			0.5	0.1	36.0	29.4	30.1
Malaysia	53	0.8			0.3	0.0	24.0	16.1	16.4
Singapore	43	0.3			0.1	0.4	10.0	4.9	5.3
Brazil	42	1.5			1.9	0.3	10.0	6.5	8.6
Indonesia	28	5.1			0.3	0.1	32.0	28.1	28.5
Israel	22	0.3			0.2	1.2	17.0	10.0	11.3
Turkey	17	3.5			1.6	0.2	10.0	7.9	9.7
Australia	17	0.3			0.7	3.7	10.0	8.0	12.5
South Africa	15	0.5			0.8	1.6	30.0	14.8	17.2
Philippines	14	1.5			0.1	0.0	17.0	13.1	13.2
Saudi Arabia	13	0.6			0.2	0.0	10.0	3.4	3.6
Cambodia	13	7.2			0.1	0.0	49.0	41.3	41.4
Ecuador	9	0.6			0.2	0.0	10.0	5.6	5.8
Bangladesh	8	15.4			0.0	0.3	37.0	36.6	36.9
United Arab Emirates	7	2.4			4.8	0.1	10.0	4.9	9.8
Argentina	7	1.3			1.9	0.0	10.0	5.7	7.6
Norway	7	0.8			0.3	0.1	10.0	7.1	7.5
New Zealand	6	1.3			0.2	0.0	10.0	9.0	9.3
Pakistan	5	0.6			0.1	0.3	29.0	28.5	28.9
Other	88	1.4			0.5	0.3	14.0	7.8	8.6
Total or average, import weights	3267	2.5	2.4	0.6	0.7	2.2	18.2	12.5	18.7

Source: Goldman Sachs, Data as of 04/03/2025



Source: Bianco, Data as of 04/03/2025

The genesis of today’s economic angst is trade policy coming out of Washington, but two realities would suggest the U.S. will be far from the economy most acutely impacted.

- The U.S. is the most insular major economy. Trade makes up 96%, 73% and 37% of gross domestic product (GDP) for the EU, Mexico and China, respectively, compared to just 25% for the U.S. Although these countries have varying degrees of reliance on the U.S. specifically, trade disruptions are likely to echo throughout supply chains, impacting those economies most exposed to trade; and
- The U.S. had the strongest economy coming into this episode. U.S. GDP has grown consistently between 2.5% and 3.5% for the past two years and came into 2025 with solid momentum. Many other economies, including China and many in Europe, appeared fragile even prior to the onset of tariff risks, leaving them more exposed to its impacts.

Let's keep tariffs in perspective. According to the World Bank, imports of goods and services (% of GDP) in the U.S. was about 14% in 2023. The other 86% is domestic. In other words, Trump's tariffs are impacting 14% of GDP (directly). If there is some softening, there is a whole other side of our economy that can help support the demand destruction. Then there's the potential for deregulation and tax cuts to help insulate the damage.

Lastly, the market is not the economy. While the economy and market live in the same house, they reside on different floors. The S&P 500 sources ~1/3rd of its revenue from international customers, while exports only make up about 13.7% of U.S national income. Said differently, while the market drawdown may be more appropriate for worsening prospects, investors should not assume the recent market are also the identical moves in the underlying economy.

Where to Focus

At the end of the day, the name of the game for market returns is all about domestic economic growth.



The Retirement Specialist

Short-Term Growth: There could very much be some short-term pain, driven solely by sentiment. Like the market, businesses love certainty. When they make business decisions, they want to have as much certainty as possible, as they weigh the risks and the potential rewards of an investment (i.e., capex, hiring, etc.). So, a resetting of EPS expectations is likely coming during the first-quarter reporting season, which could lead to additional downward pressure on equities. Looking at the quarterly estimates, it's clear that EPS growth has been revised lower for both the first and second quarters, while expectations for the second half of the year have largely remained unchanged --> meaning that the duration of the worst-case scenario is one of the key factors moving forward.

- Luckily, there has been a great deal of inertia in our economy from a growth perspective. Going back to Q1 2023, 7 of the last 8 quarters have exceeded 2% in real GDP growth, as the S&P 500 continues to outkick its coverage from an earnings perspective.
- We're not naïve enough to believe that this heightened uncertainty won't cause this inertia to slow, but we still don't have enough information to make a call that the economy will come to a screeching halt.

Long-Term Growth: Who's to say? Let's ask some questions:

- Will the tariffs announced yesterday immediately affect your spending habits?;
- Are these tariffs considered the "worst case" starting point
- Will the tariffs cause permanent impairment on US growth and GDP?
- Is there an opportunity to use tariffs as a revenue aspect to lower taxes and the deficit?

Simply said; we have no idea the answers to all of these questions. It's an unsolved mystery. Only time will tell, and until the answers show themselves, the rules of engagement are likely to be completely different than today.

Tariffs are the unwanted policies out of D.C., while tax reform and deregulation are the most desirable policies. If we call the former spinach, then we'll call the latter dessert. Much like at the dinner table growing up, you don't get dessert unless you eat your unwanted vegetables. The market is just navigating the first part of this dinner transaction because we need to think holistically - there's two sides to the ledger: spinach and dessert. Said another way, to counter these disruptive economic policies, extending tax cuts, lower energy prices, and lower corp., tax rates will be needed.

Whether one believes the formula used in the tariff's equation or not, Trump's ultimate goal was to earn \$600B and the current architecture does just that. With this newfound revenue source, Congress can now have the ability to deliver on large scale tax cuts to sterilize the negative impact on higher tariff rates. Per Strategas, the government will collect more from tariffs this year than the corporate income tax revenue in total. So, this is very meaningful.

Another byproduct of some of the tariffs is that it could push interest rates lower in the near-term (I won't make any assumptions on the long-end, as that's very complicated, but shorter-term rates will move lower with more rate cut expectations). This will be a direct benefit to the fiscal deficit, as nearly 1/3rd of our debt is coming due in the next twelve months + 54% due in the next three years. Honestly, substantial reshoring from tariff policy in the near-term is highly unlikely because policy could change around midterms or in 2028's presidential election. The market isn't going to witness TV's to be made in Boring, Oregon. BUT, if yields can come down materially, we can start to refinance our debt on more favorable terms, potentially saving hundreds of billions of dollars.

This is why perspective is key because consumer behavior is simple: investors hate losses and have little patience for Washington D.C. policies that might not immediately contribute positively to stock market returns. We're just



focused on the spinach right now because it tastes horrible. Let's hope we can finish it to be able to get to the dessert.

Conclusion

It pays to keep one's eye on the prize, and that's long-term compounded returns. And old macro wisdom states that economics (and earnings) supersede politics (and geopolitics). Always have and always will.

Investors will rarely know how the market is going to react in the short-term; how can anyone read anything we see in the news immediately and infer any LT impact without first questioning whether it'll actually stick or not anymore? As it relates to the long-term, consider the table below, which simply juxtaposes sector returns under Trump's first term vs Obama's two terms:

Annualized Return by Sectors W/ in S&P 500		
Sector	Trump 1.0	Obama
	Jan '17 - Jan '21	Jan '09 - Jan '17
Information Technology	31.0%	20.0%
Cons. Discretionary	21.0%	22.0%
Health Care	16.0%	16.0%
Materials	13.0%	15.0%
Industrials	11.0%	17.0%
Utilities	10.0%	11.0%
Financials	10.0%	19.0%
Comm. Services	10.0%	13.0%
Cons. Staples	9.0%	14.0%
Real Estate	8.0%	19.0%
Energy	-8.0%	8.0%

Source: Bloomberg, Data as of 3/31/2025

As you'll see, despite a very distinct set of policies and philosophies, the top of the leaderboard was very similar, as was the bottom.

Personally, I don't have much time for people who criticize tariffs on academia or any other aspect of the trade policy. We invest in the world that we live in; not the one that we want. As investors, we need to play the game with the cards that we've been dealt. If you do that, you'll be much better off than questioning the rules of a game where you are not the puppet master. This is one of the toughest lessons that investors need to learn --> Follow the tape, follow what the market is telling you because at the end of the day, it's the only arbiter in town.

As always, there will be winners and losers. But remember, the losers could be the previous winners who offshored our jobs and wealth while importing cheap labor before. But the easiest way to lose the long game is to let your emotions get the best of you.

It is not adverse market conditions that derail compounding; it's investors' reactions to them.



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