Through the Noise

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Markets continue to be jostled by rising economic uncertainty over tariffs. With numerous headlines about the imposition of tariffs on Canada, Mexico, the EU, and China, investors are growing concerned that consumers and businesses are holding back. The S&P 500 has dropped a little over 8% from its all-time high, and recently, investors have been shifting towards safer, more stable investments. However, the U.S. economy is still strong, and the Trump administration has often moderated its extreme positions in the past.

The increased focus on tariffs and trade disputes has created significant volatility in global markets. Investors are particularly concerned about the potential for a prolonged trade war, which could disrupt supply chains, increase business costs, and ultimately lower corporate earnings. As uncertainty grows, some companies are delaying capital investments, while others are considering raising prices to offset higher costs. Consumers may also feel the impact, as higher tariffs on imported goods could increase prices on everyday items ranging from electronics to automobiles. Forecasts for U.S. economic growth in 2025 have moderated considerably.

Despite these concerns, the U.S. economy has a strong foundation. Unemployment is near historic lows at 4.1%, wage growth has been steady, and consumer confidence remains relatively high. These factors have provided a buffer against the economic turbulence brought about by tariff disputes. Additionally, the Federal Reserve has adopted a more cautious stance, balancing the need to support economic growth with persistent pockets of inflation. If inflation continues to ease, the Fed may cut interest rates, providing further support to financial markets. However, policymakers remain vigilant and ready to adjust their approach based on evolving economic conditions.

From a market perspective, we have witnessed a notable shift in investor behavior. Defensive sectors, such as utilities, consumer staples, and healthcare, are generally stable and less affected by economic downturns. These sectors have outperformed more cyclical industries like technology and industrials, which are more sensitive to economic changes. This suggests that investors are bracing for potential economic challenges by favoring companies with stable cash flows and consistent demand.

However, history has shown that trade negotiations can be fluid, and the Trump administration has, on multiple occasions, softened its stance on tariffs following market backlash or strategic reassessments. While the rhetoric remains heated, there is still the possibility that ongoing trade discussions will result in compromises that could alleviate market fears. Furthermore, some businesses are already finding ways to mitigate the impact of tariffs through supply chain adjustments and strategic partnerships.

In the near term, market volatility is likely to persist as investors navigate the evolving trade landscape. However, the enduring strength of the U.S. economy and the potential for policy adjustments provide reasons for cautious optimism. We remain focused on owning high-quality, dividend-paying stocks that the world cannot live without. We believe investing in essential businesses with strong balance sheets and dependable cash flows is the best way to generate long-term value, regardless of short-term market turbulence.

Thanks,
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S&P 500: Standard & Poor's (S&P) 500 Index. The S&P 500 Index is an unmanaged, capitalization-weighted index designed to measure the performance of the broad U.S. economy through changes in the aggregate market value of 500 stocks representing all major industries.