MARKET UPDATE

LETTER FROM OUR CIO

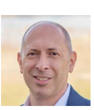
APRIL 4, 2025

Summary of Events:
Over the past two days, the U.S. equity markets witnessed significant declines due to escalating trade tensions. On Thursday and Friday, the S&P 500 plunged by a combined -10.9%, closing at 5,074.1. The Nasdaq Composite fell by -12.6% to 15,587.8, and the Dow Jones Industrial Average tumbled -8.7%, ending at 38,314.9. The sell-off was primarily driven by the Trump administration's announcement of significant tariffs on imports from China, Japan, and Europe, prompting retaliatory measures from these countries. The anxiety of an impending trade war, coupled with a potential slowdown in global economic growth and uncertain impact on corporate profits, has left investors jittery.

President Donald Trump's decision to impose sweeping tariffs on imports from major U.S. trading partners was met with immediate backlash, sparking fears of an escalating global trade war. President Trump unveiled a series of tariffs targeting imports from major trading partners, including China and Japan, with initial rates set at 10% for all and additional duties varying by country. Notably, Chinese goods are subject to a 34% tariff, while Japanese items face a 24% tariff. European Union and UK goods will see tariffs of 20% and 10%, respectively. China imposed a retaliatory 34% tariff on U.S. products, effective April 10 and Canada announced a 25% tariff on certain U.S. vehicles. Economic analysts suggested that these tariffs could reduce global GDP growth by at least 50 basis points. This aggressive trade policy has raised fears of retaliatory measures, exacerbating worries of a broad economic slowdown.

Impact on Corporate Earnings:
The market response underscores the potential impact of the tariffs on corporate earnings, especially for sectors reliant on global trade. Companies in the technology and manufacturing sectors, which have complex international supply chains, are expected to be hard-hit. Firms like Apple Inc. (AAPL), Dell Technologies (DELL), and HP Inc. (HPQ) are among those identified as most vulnerable, given their substantial reliance on Southeast Asian manufacturing. Retailers and manufacturers are expected to absorb substantial costs due to the tariffs, with potential knock-on effects on prices for consumers. The Anderson Economic Group suggests that auto tariffs alone could cost U.S. car buyers roughly $30 billion in the first year, assuming that manufacturers absorb some costs.

Conclusion:
The recent market volatility can be attributed to heightened tariff tensions, which have introduced uncertainty about future global economic conditions and corporate earnings. As companies and investors brace for the impact, the reverberations of these tariffs could affect corporate earnings and broader economic growth. With the possibility of further retaliatory actions from other countries and the potential complication of monetary policy decisions, investors are exercising caution. Q1 earnings season begins next week, though reports are not expected to be weak. However, the market will be focused on how US corporations guide analysts' expectations for Q2 earnings and beyond. The longer the tariff policy is in place, the larger the impact will be on future earnings expectations. Long-term fundamentals remain strong for both the economy and corporate balance sheets, but the near-term volatility created by the uncertainty in earnings will linger. We are closely watching the upcoming earnings reports and more importantly, the guidance for future earnings that will be provided in the coming weeks and will evaluate current investment strategy accordingly.



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