BH | Beech Hill Advisors

March 31, 2025

Dear Clients,

The first quarter of '25 began with an optimistic tone regarding the economy and investors were enthused by a new administration focused on pro-business initiatives including reduced regulation, lower tax cuts, energy security, reshoring and a peaceful resolution to the Russia and Ukraine conflict. Tariffs were always going to be part of the agenda, but the general thinking was they were to be used as a negotiating tool. Investor sentiment began to moderate as uncertainty grew among both consumers and corporate leaders regarding future policy. Paired with the decline of the "Magnificent Seven"—Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla, and Meta, over competitive concerns with China's artificial-intelligence claims, equity markets declined into the final weeks of the quarter. All three major indexes lost ground this quarter, with the DJIA off 1.3%, the S&P 500 dropping 4.6% and the NASDAQ losing 10.2%. The events of the past two weeks make the first quarter seem a distant memory and we are breaking with our usual format and aptly addressing current market conditions and investment strategy.

As we commented in our piece earlier this week, the unveiling of the tariff plan unnerved investors globally and the ramifications continue to be expressed through extreme market volatility. An unexpected nuance in the tariff calculation penalizes countries with which the US has a large trade deficit in goods. These rates were significantly above expectations, aimed especially at low-cost manufacturing destinations primarily in Asia. The tariff situation remains fluid and uncertainties prevail, providing investors with little conviction and a wide range of outcomes. In the best case, is this the opening move of a broader negotiation or in the worst case, are these tariffs permanent? The sheer size of select tariff levels and initial engagement with other nations would favor the former with negotiations and an eventual market rebound the most likely outcome. However, as each day passes without negotiation progress or any improved clarity on policy, market volatility will persist, reacting to headlines and social media posts. Longer term, the risk increases that consumers reduce spending and businesses defer investment, thereby increasing the odds of a recession.

For now, economic indicators signaling weakness have mostly been confined to "soft" or survey data such as consumer sentiment, business confidence and forward expectations for income, business, and labor market conditions. These have clearly deteriorated in reaction to current tariff policy and persistent inflation. Hard data, measured data points, considered more reliable predictors, have remained supportive of ongoing economic expansion. These would include consumer figures including weekly jobless claims, retail sales, consumer spending, and household balance sheet strength, as well as macro markers such as monthly inflation and credit spreads (the difference in yield between corporate debt and US Treasuries). Any deterioration in hard data would be a cause for concern.

In context, at present levels, the S&P 500 has declined approximately 19% from its peak in February, less than the average recessionary decline of 23%, typically recovering within a year, and more than the frequent average correction of 13%, typically recovering in four months. As of now we are not in a recession, and it would be premature to declare it unavoidable as this is a reaction to a trade policy which could and most likely will be revised more positively. While this is not much comfort in the moment, we hope this helps to illustrate that the impact of these market declines has a negligible effect on long term investment and bolsters the case to refrain from emotional decisions and dramatic portfolio revisions during the chaos. It is best to think of your equity positions as businesses you own for the long-term and not wildly fluctuating stock prices.

There is a case to be made for a more positive investment outcome throughout the remainder of the year. If the bulk of current tariff policy is favorably resolved with mutually acceptable outcomes in negotiation, sentiment would pivot positively. Paired with planned tax cuts and reduced interest rates via projected Federal Reserve rate cuts, the backdrop for equity investment would be quite constructive.

Strategically, we continue to believe this is not the time to panic nor make dramatic portfolio decisions, especially during maximum turmoil and a complete lack of clarity. We will opportunistically add high quality positions at historically attractive valuations. We will sell businesses that may be structurally impaired upon the resolution of trade policy. We remain consistent in our methodology as we had executed during the pandemic, which enabled us to acquire positions at significantly discounted valuations thus improving portfolio performance. The current narrative on trade policy could change quickly and ideally restore investor confidence. The U.S. economy has proven to be remarkably resilient and has successfully evolved in response to all manner of setbacks, with this success translated into positively performing equity markets.

On a more personal note, individually, with clients, we discuss theoretical issues such as asset allocation, risk tolerance, historical average returns, and declines, and ideally match a strategy that is suited to your needs and expectations. However, once the theoretical possibility of decline becomes reality, it is an opportune time to reflect on your comfort level and possibly reset strategy. Recent events are unnerving to all, and if appropriate we would encourage you to contact us and review all, hopefully alleviate any anxiety and confirm your long-term goals and investment strategy remain aligned.

As always do not hesitate to contact us if you have any questions. Warmer and brighter days ahead!

Best regards,

Beech Hill Advisors