



May 7, 2025

Dear Valued Investor,

The latest recovery is another reminder that periods of turmoil can often create opportunities. Although stocks may pull back after their strong rally since the April 8 lows — especially if trade deals and tariff reductions don't materialize soon — the lesson is clear: in our view, staying the course during downturns is almost always the best strategy.

Several factors are at play in the market's recent recovery:

- 1. Optimism about trade and tariffs.** The White House has signaled progress on deals with several countries, including India, South Korea, Japan, and the U.K. President Trump has also hinted at reductions in China's tariffs, while Treasury Secretary Scott Bessent will meet with senior Chinese trade officials in Switzerland this week.
- 2. Resilient economic fundamentals.** The U.S. economy added 177,000 new jobs in April, keeping unemployment low at 4.2%. Consumer spending grew 1.8% in inflation-adjusted terms in the first quarter, while business investment surged over 20% annually — bright spots that were overshadowed by concerns about the 0.3% dip in gross domestic product (GDP) caused by surging pre-tariff imports. A rebound in second-quarter GDP should prevent consecutive quarters of contraction.
- 3. Easing inflation delayed but still coming.** While tariffs may slow further improvement, we and the markets expect inflation to resume its downward trend toward the Federal Reserve's (Fed) 2% target by 2026. Falling oil prices and declining long-term Treasury yields since January are also helping.
- 4. Strong corporate profits.** S&P 500 firms are on track for over 13% first-quarter earnings growth, roughly double expectations when earnings season began. Leading technology companies have reaffirmed or increased capital spending plans despite trade uncertainty, committing to a more than 30% increase in 2025 over 2024, underpinned by confidence in the potential payoffs of artificial intelligence.

Looking ahead, stocks may need a bit of a breather after making up so much ground quickly. Stagflation risks cannot be dismissed as growth slows and tariffs loom. While the U.S. economy and corporate America remain in excellent shape, we suggest investors maintain exposure to equities and fixed income in line with long-term targets. Better entry points to add equities may present themselves with trade uncertainty still very high.

Despite periodic short-term disruptions, markets are inherently resilient. History shows they may recover regardless of the threat. Stocks tend to reward disciplined, long-term investors. Few exemplify this discipline better than Warren Buffett, who announced he will step down as CEO (effective year end) of Berkshire Hathaway (BRK/A) after 60 years in that seat and will remain Chairman. His track record — 16% annualized return for BRK/A since November 1987 compared to 10.9% for the S&P 500 — will be tough to beat. We wish him well in his "retirement" at the age of 94.

Thank you for your continued trust.

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All data is provided as of April 1, 2025.

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All index data from FactSet.

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