



FINANCIAL INSIGHTS

FIRST QUARTER COMMENTARY 2025

It is hard to believe the first quarter of 2025 has ended. The year started with record highs in the market and the S&P 500 ended the quarter down -4.27%. However, with the announcement on tariffs on Wednesday, March 2nd, the S&P 500 was down another -10.76% for a total of -15.03%. It has since partially recovered and closed -8.62% as of April 11, 2025. The equity markets, economists, corporate America, and investors are not happy with the proposed tariff policy. The heightened volatility of the last few weeks is due to the uncertainty of whether these tariffs will be beneficial or detrimental for the US economy.

There are five major components to President Trump's economic agenda: Trade & Tariffs, Fiscal & Monetary Strategies, Tax Policy, Regulatory Environment, and Energy Policy. There are a lot of moving parts for this agenda, which will translate to disruption of the status quo. There could be successes, failures, and unintended consequences.

Trade & Tariffs

Trade and Tariffs is having the largest impact on equity markets because they are extremely disruptive for the world economy and the impact on the economy is uncertain. In 2024, the US trade deficit was \$918.4 billion dollars. For perspective, a car manufactured in the US sells in Europe for 25% to 35% more. However, a car manufactured in Europe and sold in the US, sells for 5% to 15% less than the cost despite the added shipping expense.

During COVID, when the world shut down, the US realized that critical strategic materials and products were not manufactured in the US. Trade policy is being designed to encourage more domestic production of essential materials and products to ensure that the US is less at risk of being short of critical products.

The primary purpose of the proposed tariff plan is to transform free trade to fair trade and be less dependent on foreign suppliers for critical strategic materials and products. The impact of tariffs on the world economy and inflation is still unclear.

Fiscal Strategies

The US National Debt is \$36.1 trillion, this is unsustainable long-term. The Department of Government Efficiency (DOGE) was formed by the administration and aims to make recommendations on ways the federal government can spend more efficiently by finding areas that can be cut from federal spending. Government spending of US taxpayer dollars does need to be under better control, and the goal of DOGE is to find ways to reduce any inefficiency in the Federal budget. Whether this is happening properly or efficiently, is certainly unclear at this early stage.

Tax Policy

The primary agenda item regarding tax policy is to make the 2017 Tax Cuts and Jobs Act permanent, which is likely to be approved. It is also likely that the SALT tax deduction cap will be increased, and other tax reduction policies may be adopted.

Regulatory Environment

The present regulatory environment is seen as stifling to both businesses and citizens. President Trump has proposals to improve regulatory reform. The fear is that his policies may prove to be too lax; thus, having unintended consequences.

Energy Policy

The energy policy is focused on expanding traditional energy sources like oil, gas, and coal. The benefits are energy independence from OPEC and the potentially reduced energy costs to consumers. The negative is that there is a de-emphasis on developing alternative, more environmentally friendly energy sources.

In closing, there are many moving parts to the economic policies, and this will continue to evolve. Short term there is more uncertainty due to ever changing tariff negotiations. The hope is that eventually there will be a reasonable compromise as the US is by far the largest lucrative market in the world. Longer term we are positive on US economic development. The impact of Artificial Intelligence will likely be profound and could yield significant productivity gains. While AI presents vast opportunities for economic growth, it does come with challenges, leading to complex changes in the job market and economic structures.

In the last quarter of 2024, we made significant changes to the portfolio by adding several new alternative investments. The purpose of these investments is to provide better risk adjusted returns. The allocation to these investments was modest so their effectiveness in the portfolio could be assessed. They have proven to be quite successful; therefore, there will be an increase in the allocation early in the second quarter. In the near future, there will be an increase in trading activity as we complete a global rebalance.

As always, we invite you to contact your advisor with any specific questions that you may have.

All our best,

The Socha Financial Group Team

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