Retirement Income Solutions
Helping to grow and preserve your wealth

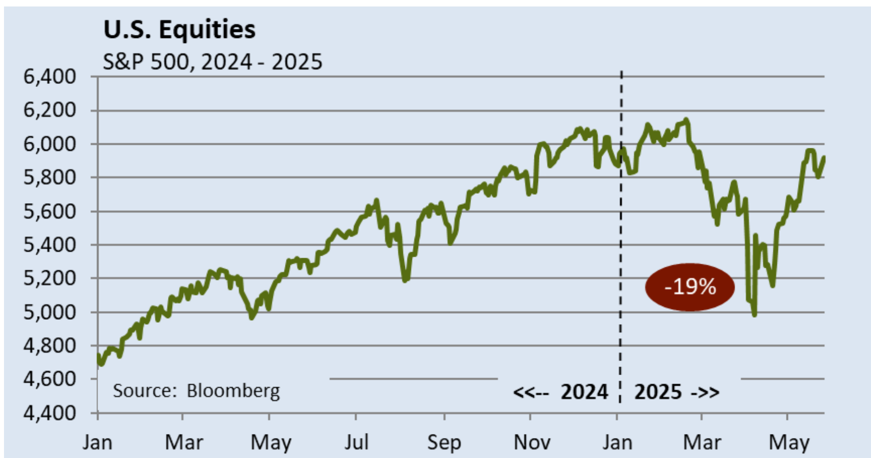
SUPPORTING OUR COMMUNITY FOR OVER 30 Years

A Fundamental Reordering of Global Trade

May 2025

Summary

Since February, financial markets have been quite volatile as investors grappled with the numerous changes coming from the Trump Administration. The main source of volatility was a major reset to global trade, with significant uncertainty over the approach, endgame and impacts on the economy. One out of three trading days in 2025 has seen a 1% or greater swing, positive or negative. The opening tariff approach triggered a 19% drawdown in March and April. As tariff tensions eased, markets recovered nicely, and U.S. stocks are now within 4% of all-time highs.



The beginning of 2025 was marked with many crosscurrents. With so many major changes happening all at once, it is difficult for business, individuals and financial markets to absorb. Below are a few important considerations as the focus shifts to the second half of the year:

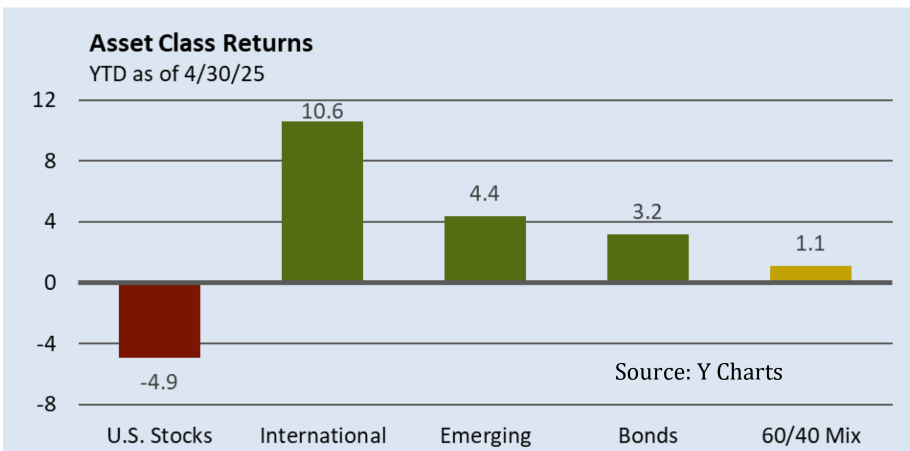
- **Diversification is back!** While U.S. stocks were down significantly in March and April, many other investment allocations were positive and stabilized overall portfolio returns.
- **Numerous risks exist as the economy adjusts to the highest tariffs since the 1930s.** On average, duties collected from tariffs are expected to jump from 3% to 15-20%.
- Whether one agrees with the tariff approach or not, **the public negotiation did not happen by accident…** somehow a mere 30% tariff on Chinese imports now seems quite palatable.
- **Many economic indicators remain steady** – employment, wages and inflation look solid, but only a few months have passed since the onset of the global trade reset.
- **Consumer confidence was shaken early in the year** as the Conference Board's Expectations Index plummeted to its lowest reading since 2011.

Investing during news-driven markets can be uncertain, and it seems likely that volatility will continue throughout the year. The announcement of 50% tariffs on the EU last Friday did not even last through Memorial Day, a good reminder that market-moving news can arrive at any time and send markets in any direction. Until global economic policy, trade uncertainty, and the associated economic consequences are clearer, it seems prudent to reduce risk in portfolios. This week, client portfolios were moved to their Neutral equity positions.

The Return of Diversification

U.S. stocks have carried investor portfolios for most of the last decade. The S&P 500 averaged a 13% annual return from 2015 through 2024, while international equities and bonds posted 5% and 1.5% annualized gains, respectively. Despite their relative underperformance to domestic stocks, overseas equities and bonds continue to play an important role in diversifying a portfolio, particularly when U.S. stocks fall, which was the case in the first four months of 2025.

In March and April, President Trump's unprecedented tariff announcements sent U.S. stocks tumbling. The S&P 500 lost 4.9% from the start of 2025 through April 30 (including a heart-stopping two-day drop of 10% on April 3rd and 4th), but to many investors' surprise, other investments held up well. International equities gained 9.0%, and bonds increased 3.2%. As a result, a diversified portfolio—like one that contains 60% stocks (both U.S. and international) and 40% bonds—would have outperformed the S&P 500. The chart below shows that a 60/40 portfolio gained 1.1%, which was 6.0% better than the S&P 500.



* The investment return data shown does not include the full U.S. market recovery over the past few weeks to demonstrate the value of other investments when U.S. equity markets are negative.

International equities have outperformed U.S. stocks this year for a few reasons. First, many strategists indicated that overseas equities were undervalued relative to their domestic counterparts, so they had less room to fall amid trade tensions. Second, tariff-induced worries over slower economic growth disproportionately hurt domestic stocks and thus made international equities more attractive alternatives. Third, most major foreign currencies rose relative to the U.S. dollar, which helped international stocks when U.S. investors converted their foreign currency returns to dollar terms. The solid returns from international equities are welcome after years of relative underperformance.

Bonds flexed their defensive strengths against stock market volatility and provided reliable income thanks to interest rates at levels not seen in more than a decade. The contribution from bonds stands out given their dismal performance in 2022. Stocks fell in 2022 amid the Federal Reserve's rapid interest rate hikes to combat inflation. Bonds were notably absent as a ballast that year, as they suffered their worst year in history, compounding the losses from stocks. With bonds making a positive contribution in 2025, diversified portfolios have been relatively stable. Notable though is the fact that bonds have also seen some volatility this year as bond prices can be sensitive to interest rate changes.

Trade & tariffs

The global trade landscape is undergoing a significant transformation due to the imposition of U.S. tariffs, which are reshaping supply chains, altering currency markets, and introducing new economic uncertainties. In April, the U.S. reinstated sweeping tariffs, including a 10% duty on all imported goods and increased rates up to 50% on products from 57 countries. These measures have disrupted established trade relationships, particularly with China. Overall, the use of tariffs is not just a temporary policy shift but a catalyst for a fundamental reordering of global trade, with long-term implications for economic growth, supply chain strategies, and international relations.

Numerous risks exist as the economy adjusts to the highest tariffs since the 1930s. On average, duties collected from tariffs are expected to jump from 3% to 15-20% (measured as a percentage of total imports). While the revenue from tariffs is planned to reduce budget deficits, if the economy softens, it is unclear if the total impact to deficits will be positive or negative. Non-partisan sources indicate that tariffs could reduce disposable income for the median U.S. household by 2-4% per year (roughly $1500-$3000). The impact is larger for low-income families as they spend a larger percentage of their income on goods.

Uncertainty from tariffs can have negative impacts on businesses. When companies are unsure about future trade policies, costs, or market access, it becomes difficult to make strategic decisions regarding investment, pricing, hiring, and supply chain planning. Many firms delay or scale back capital expenditures, opting to wait for clarity on direction or higher likelihood of permanence of the approach.

Sources: Budget Lab at Yale, The Tax Foundation, Peterson Institute

Negotiations and/or political theater

The public negotiation of tariffs created a lot of uncertainty for investors. The goal, duration, and timing were all unclear. When viewed in retrospect, it seems more apparent what occurred. Kyla Scanlon, an economic commentator, described the process as follows,

> *"What we witnessed in the recent US-China trade negotiations was political theater. The Trump administration threatened apocalyptic tariff rates, complete economic decoupling, the works. Against that manufactured crisis, the actual outcome - a reduction from Trump's proposed 145% tariffs down to 30% (with China reciprocating from 125% to 10%) - looks like blessed relief."* – May 15, 2025

Whether one agrees with the tariff approach or not, the public negotiation did not happen by accident. After the threat of 145% tariffs that would shut down global trade, a mere 30% tariff on Chinese imports seems quite palatable. In negotiations, anchoring is the psychological phenomenon where people tend to place excessive weight on the first piece of information presented. Consider the world now re-anchored. While the latest deal could be viewed as roughly a five-fold increase and include the highest aggregate tariffs in almost 100 years, instead there is a sense of relief as it appears the worst-case trade scenario has been avoided.

The Wall Street Journal Editorial Board, known for its conservative political views, summarized relief for financial markets and investors as follows,

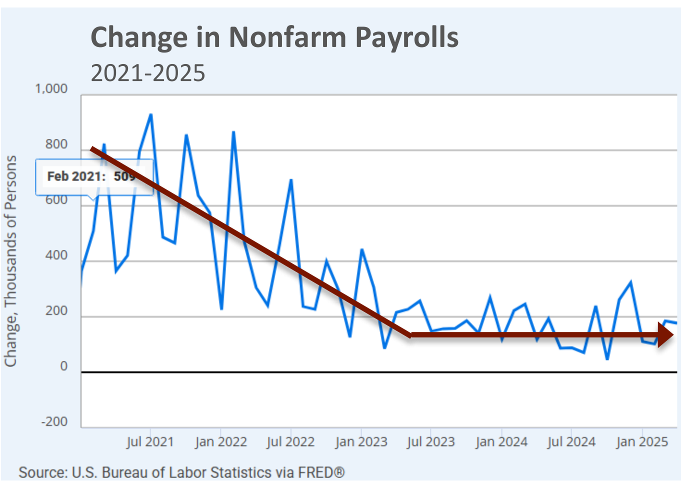
> *"Investors are cheering at this border-tax reprieve, since this is a step back from mutual assured trade destruction... The 30% tariff is still exceptionally high for a major trading partner, but the 90-day rollback spares both sides from what looked like an impending economic crackup."* – May 12, 2025

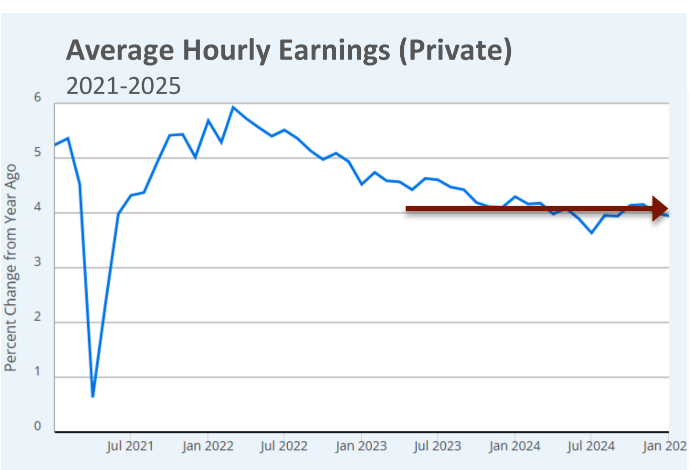
Economic data remains steady

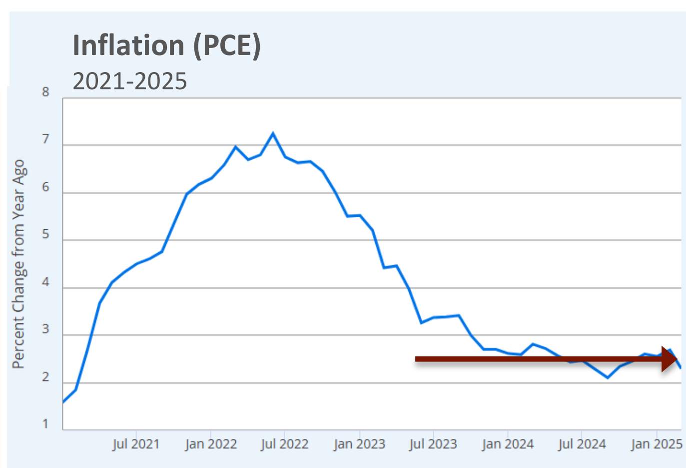
In contrast to the volatile and policy-driven markets, many economic indicators remain steady. The employment situation was positive in 2024, and that trend continues today. Nonfarm payrolls, the number of jobs added or lost each month in the private sector and government, has been steady for the past two years. Initial jobless claims have also been quite stable at roughly 225,000 per week. Subsequently, unemployment has remained low. In 2023, unemployment reached its lowest rate in 70 years; over the last two years, the measure ticked up slightly to 4.2%.

The steady employment situation has been supportive of solid earnings improvement as well. Wage gains have been consistent with a roughly 4% increase over the prior year for the last 18 months. Many workers' real wages (after adjusting for inflation) have improved since inflation has come down significantly. Measures of inflation have not quite reached the Fed's target of 2%, but they are much closer today than just two years ago.

While current conditions are solid, plenty of concern remains that tariffs, large declines in immigration, and government workforce reductions will slow down the economy. It is likely too early to see negative impacts in the data since the global trade reset has only been underway for three months.





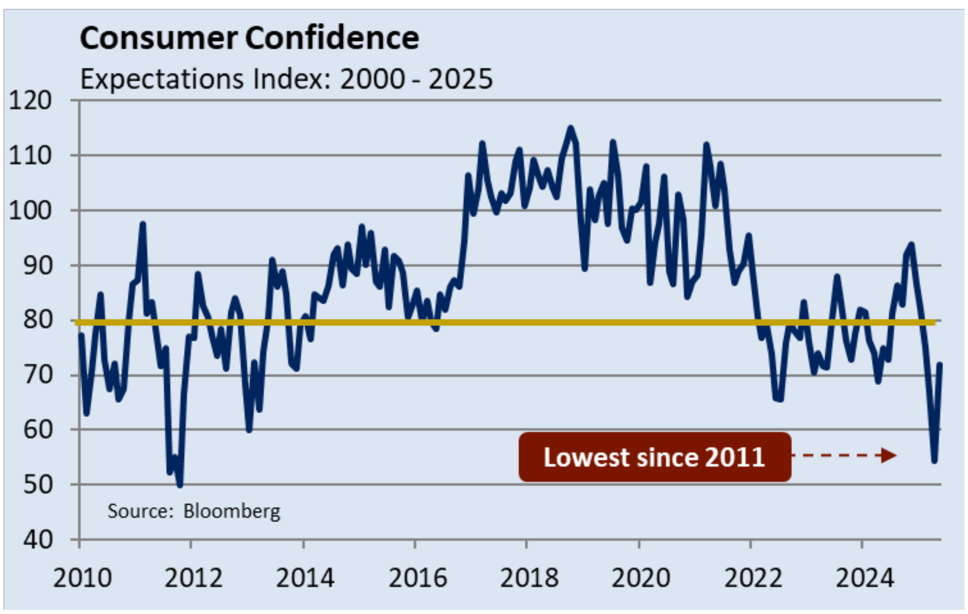


Consumer sentiment shaken

Tariff and trade policy has had a big impact on consumer sentiment, which is how consumers feel about the economy and their outlook for the future. The anxiety created by policies not utilized in over 100 years caused the Conference Board's Consumer Expectations Index to realize the largest swings since the European Debt Crisis in 2011-2012. The Expectations Index measures a six-month outlook for the overall economy and how it affects consumers.

Uncertainty from tariff policies announced in March and April caused the Expectations Index to plummet. The reading on consumers' view of the future fell by almost 30 points in three months, the largest drop since the 2001 Technology Bubble. After the Trump administration paused the aggressive tariff approach, consumer confidence rebounded, and the May reading saw the largest jump since the 2009 Financial Crisis.

The April commentary addressed some of the history of consumer surveys, which tend to be contrary indicators. When consumers feel great about the economy, they are often complacent (and at risk of disappointment). When consumers are negative, they are often too pessimistic, setting the stage for strong forward returns. While clearer in hindsight, the contrarian nature of consumer sentiment appears to be a constructive signal this year. After the Expectations Index fell to 54.4, the lowest reading since 2011, the U.S. stock market recovered meaningfully, to within 3.5% of the all-time high.



The swiftly moving survey data raises an important question… to what extent will the weakness in the soft (survey) data be followed by weakness in the hard (economic) data? When the tariffs hit, to what extent will there be negative impacts to prices, employment, corporate earnings, currencies, and inflation expectations? In many cases, consumer sentiment is a lagging indicator, but the longer uncertainty remains, the more it could weigh on economic growth and employment.

Final thoughts

The fundamental reordering of global trade has created an environment where traditional investment approaches face new challenges, but it has also demonstrated the enduring value of diversification. As evidenced this year, when U.S. markets stumbled under tariff uncertainty, international equities and bonds provided crucial portfolio stability. This reinforces our disciplined approach – one that adapts to emerging realities while maintaining strategic balance across asset classes.

There are plenty of risks to monitor, such as a resumption of the tariff war, geopolitical stress in the Middle East, a full-blown fiscal crisis or a sudden stop in the U.S. economy related to policy uncertainty. Attention has recently been focused on the U.S. fiscal picture after a ratings downgrade from Moody's and a deficit-challenged series of proposals that President Trump refers to as the "Big Beautiful Bill." Global doubts about U.S. debt sustainability add a layer of complexity. An unsettled time, to be sure. Most of the risks to monitor are low-likelihood events, but the extreme lack of visibility warrants a neutral approach.

While policy uncertainty and trade tensions may continue to drive volatility, the underlying economic fundamentals remain relatively steady. Portfolio positioning reflects this complex landscape, and we remain committed to navigating these crosscurrents with you, making thoughtful adjustments based on facts and data rather than headlines and speculation.

If you have questions on the investment environment or your portfolio, please call us at 734-769-7727. To find electronic copies of commentaries, please visit our website at www.risadvisory.com.

Brock Todd Karen John
Evan Megan Lyn Hank

Brock E. Hastie Managing Partner	Todd Kephart Managing Partner	Karen Chapell Managing Partner	John Goff Managing Partner
Evan LeRoy VP Wealth Advisor	Megan Flynn VP Wealth Advisor	Lyn Breen Wealth Advisor	Hank Peyser Wealth Advisor