Portfolio Management, LLC

Building Wealth Wisely

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The Tide Has Turned

April 2025

The tide has turned on what started off as a promising year. Virtually all financial markets looked healthy to begin the year. Then, in response to President Trump's increasing emphasis on tariffs, the U.S. equity market rapidly went into corrective mode. Fortunately, diversification has buffered the overall response in our client portfolios so far, with international stocks faring better than domestic stocks, and bonds offering a safe haven for many investors.

President Trump's focus on tariffs has dominated the economic news in 2025. His administration is trying to reduce the long-term trade deficit and compel other countries to lower their own protectionist measures. Many economists agree that using tariffs selectively to influence trade policy can be effective, but many also say imposing high and prolonged tariffs could start a new trade war that will be detrimental to the economy and financial markets.

Any significant and permanent increase in tariffs will most likely disrupt supply chains and increase prices. Business leaders, investors, and consumers tend to respond to uncertainty with caution, and caution often leads to less spending and a slower economy. It is difficult to tell if President Trump's recent moves are permanent in nature or represent negotiating tactics to obtain better long-term trade agreements and to bring more manufacturing and jobs back to the United Sates.

Markets recovered from trade uncertainty during Trump's first term

Value of $1k initial investment in S&P 500

Sources: Capital Group, Bureau of Labor Statistics, Peterson Institute for International Economics, Standard & Poor's. Value of a hypothetical investment in the S&P 500 reflects the total return of the index over the period from January 1, 2018, to December 31, 2019. Past results are not predictive of future performance. The index is unmanaged and, therefore, has no expenses. Investors cannot invest directly in an index.

The initial reaction to the erratic rollout of White House policy is signaling disruption, lower growth, lower profits, higher prices, and foreign boycotts. Trump's novel use of emergency orders to implement tariffs has unnerved markets. Tariffs are taxes, and the proposed size and scope of the taxes is unprecedented.

Coming off growth of 2.8% in 2024, the economy still seems sound but is susceptible to decelerating. The job market is healthy, but there has been a recent uptick in unemployment claims. Consumer debt is at healthy levels, but payment delinquencies are starting to increase. Inflation is stable with the prices of most goods coming down over the past year, but expectations for higher prices have risen. Consumer sentiment has been strong but has recently started to decline.

If President Trump shifts his attention to the issues of lower taxes and more deregulation in the coming months, then the current economic expansion should lead to continued productivity and profits. However, if the policy focus remains on higher tariffs, then the prospects for an economic slowdown, if not a recession, would continue to rise. If consumer and business sentiment turn negative, expectations could become a self-fulfilling prophecy. It has been five years since our last recession.

There is no need for an economic downturn, but it might be time to exercise some caution – and some discipline. The Federal Reserve Chairman, Jerome Powell, recently reiterated there is a "solid growth outlook." He remarked, "The economy is fine. It doesn't need us to do anything, really. And so we can wait." The Federal Reserve is in a position to lower interest rates, if needed, to bolster the U.S. economy. Most foreign central bank policies remain accommodative, and global economic growth is pointing toward expansion.

As a reminder, financial markets can decline at any time. Based on historical fluctuations as shown in the illustration below, we were overdue for some sort of correction at the start of this year. The stock market tends to decline over 10% in value about every 18 months and to drop over 15% in price around every three years. We have hit the 10 and 15 percent correction levels in recent weeks.

Market declines are a normal and frequent feature of investing

S&P 500 Index (1954-2024)

Size of decline	-5% or more	-10% or more	-15% or more	-20% or more
Average frequency	About twice per year	About once every 18 months	About once every 3 years	About once every 6 years
Average length (in days)	46	135	256	402
Last occurrence	July 2024	July 2023	August 2022	January 2022

Sources: Capital Group, RIMES, Standard & Poor's. As of December 31, 2024. Average frequency assumes 50% recovery of lost value. Average length measures market high to market low. Past results are not predictive of results in future periods.

Since 1990, we’ve had twelve corrections in the S&P 500 between -10% and -20% without a corresponding recession. This current correction could also fall into this category. Many analysts we follow indicate the chances of a recession are approaching 50 percent.

Our goal is to build and maintain diversified portfolios designed to meet the needs, circumstances, and risk tolerances of each client. Investment blueprints should not be based on current events or predictions of the future. Downturns should not deter investors from maintaining a long-term perspective. Trying to time the markets almost always leads to disappointing results.

For our more conservative clients, we have portfolios positioned heavily in bonds and with adequate cash to meet withdrawal needs and Required Minimum Distribution obligations this year. In keeping with client objectives, for more growth-oriented clients, declines provide an opportunity to rebalance portfolios and deploy capital at more favorable valuations.

Based on the long and storied history of our nation, our system of checks and balances should eventually right the ship. President Trump is now a lame duck president with a declining approval rating, and a lot of politicians are looking at reelection in less than two years.

For additional perspective on long-term investing, we encourage you to read the following article from Morningstar.

MORNINGSTAR

What We've Learned From 150 Years of Stock Market Crashes

Though they varied in length and severity, the market always recovered and went on to new highs.

April 1, 2025

When will the next bear market happen—and when it does, how long will it take to recover?

It took the US stock market 18 months to recover from its most recent bear market—the downturn of December 2021, which was spurred by the Russia-Ukraine war, intense inflation, and supply shortages.

The covid downturn of March 2020 was a much faster cycle. The initial drop was dramatic, with the US stock market losing nearly 8% in one day. But ultimately, the market recovered in just four months — the fastest recovery of any market crash over the past 150 years.

So, what have we learned from these recent crashes?

1. It's impossible to predict how long a stock market recovery will take.

2. If you don't panic and sell your stock holdings when the market crashes, you will be rewarded in the long run.

The Ukraine/inflation downturn and the covid crash may be the freshest memories, but these lessons also ring true when it comes to all other historical market crashes: Though they had varying lengths and levels of severity, the market always recovered and went on to new highs.

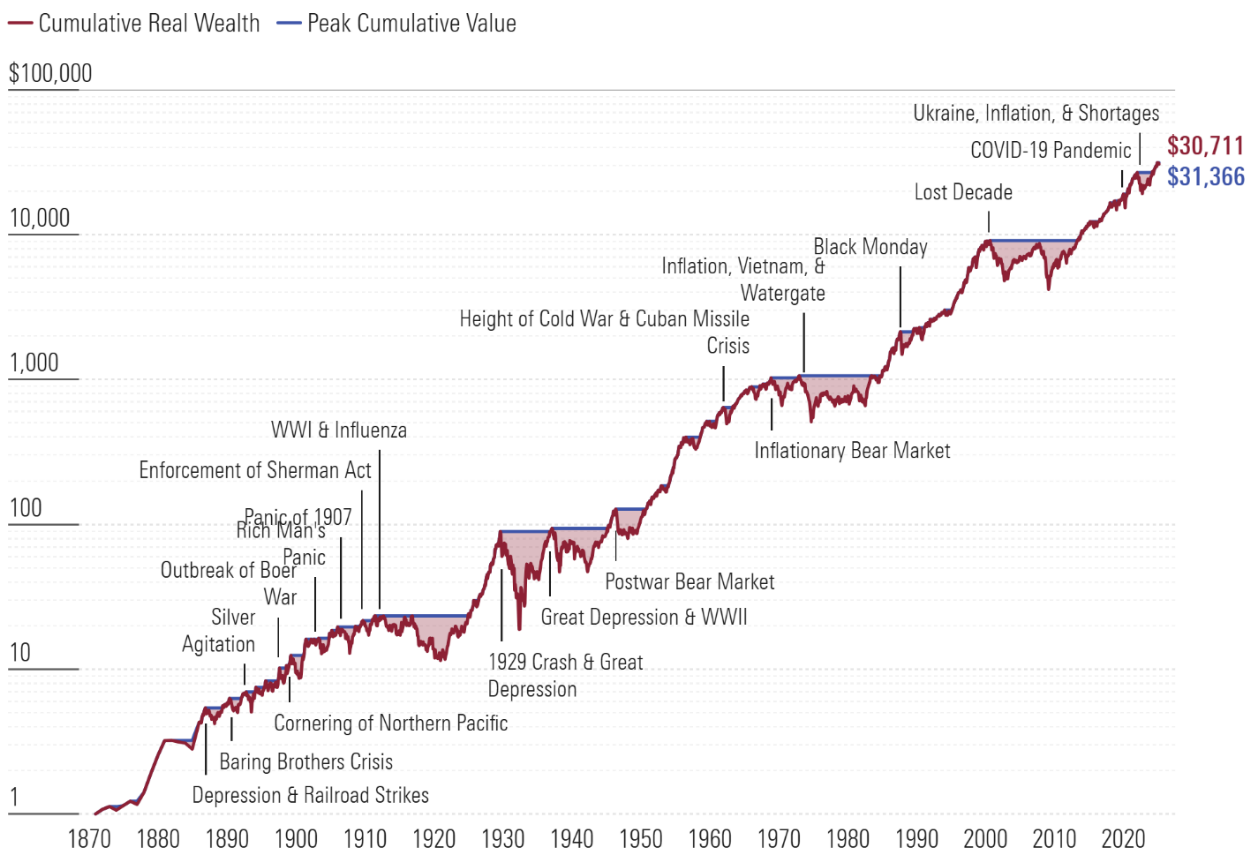
How Frequent Are Market Crashes?

The number of market crashes depends on how far back we go in history and how we identify them.

Here, we turn to data… that includes monthly US stock market returns going back to January 1886 and annual returns over the period from 1871-1885.

In the chart below, each bear-market episode is indicated with a horizontal line, which starts at the episode's peak cumulative value and ends when the cumulative value recovers to the previous peak. (Note that we use the term "market crash" interchangeably with bear market, which is generally defined as a decline of 20% or more.)

Market Crash Timeline: Growth of $1 and the US Stock Market's Real Peak Values



Logarithmic scale

Source: Kaplan et al. (2009); Ibbotson (2023); Morningstar Direct; Goetzmann, Ibbotson, and Peng (2000); Pierce (1982); www.econ.yale.edu/^shiller/data.htm, Ibbotson Associated SBBI US Large-Cap Stock Inflation Adjusted Total Return Extended Index, S&P 500 (2025), Bureau of Labor Statistics, Non-Seasonally Adjusted Consumer Price Index (2025). Data as of Feb. 28, 2025.

When you incorporate the effect of inflation, one dollar (in 1870 US dollars) invested in a hypothetical US stock market index in 1871 would have grown to $30,711 by the end of February 2025.

The substantial growth of that $1 highlights the enormous benefits of staying invested for the long term.

Still, it was far from a steady increase over that period. There were 19 market crashes along the way, with varying levels of severity...

These examples demonstrate the frequency of market crashes. Though these events are significant at the moment, they are indeed regularly occurring events that happen approximately once a decade...

Lessons Learned About Navigating Stock Market Volatility

So, what does this history tell us about navigating volatile markets? Mainly, that they're worth navigating.

The markets recovered after their stressful period in 2022—just as they did after a 79% decline in the early 1930s. And that's the point: Market crashes always feel scary when they happen, but there's no way to know in the moment if you're encountering a minor correction or looking down the barrel of the next Great Depression.

Still, even if you are looking down the barrel of the next Great Depression, history shows us that the market eventually recovers.

But since the path to recovery is so uncertain, the best way to be prepared is by owning a well-diversified portfolio that fits your time horizon and risk tolerance. Investors who stay invested in the market in the long run will reap rewards that make the turmoil worthwhile.