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Tariffs, Pause, Tariffs, Pause, Exemptions.....

Points of Interest:

- * Tariffs
- * Pause
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- * DOGE
- * The Fed
- * Immigration
- * Employment
- * Earnings
- * Recession

With the S&P 500 up almost 5 percent in the first 50 days of the year, we had optimism of a three-peat in 20+ percent yearly returns for the index. Then came policy announcements regarding tariffs and further chaos in the Department of Government Efficiency's (DOGE) efforts to reduce federal spending. By the end of the quarter the S&P 500 was down almost 5 percent. International holdings and bonds did their part to hold up diversified portfolios, both up 6.86 and 2.78 percent respectively. As we roll into earnings season, we will likely be faced with more questions than answers as companies withhold guidance due to uncertainty about the

impact of tariffs. DOGE's suggestions to reduce federal spending has caused widespread uncertainty in federal, healthcare, education and research employment. Immigration policies likely will lead to a tight labor pool and could be a drag on future economic growth.

Blanket tariffs are causing chaos in the global economy and our financial markets. Virtually all economists agree that tariffs are not an effective tool to enact change, our president is attempting to prove them wrong. If his end goal is to negotiate a better deal with trading partners and to bring appropriate manufacturing to the US, I truly hope for

success. The costs of tariffs are passed on to consumers and will have a more dramatic impact on lower-income Americans since more than 30 percent of their income is spent on goods. (turn page over)



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Stay the Course

As I write this, the S&P is down about 14 percent from its high reached mid-February. This index is off of its lows, but still well within correction territory. The Nasdaq and Russell 2000 are both in bear markets, meaning they have fallen 20 percent from their recent highs. When we see market volatility like this, many investors feel the need to sell equities. Historically, this has been the worst decision. Sticking with your long term asset allocation plan has always gotten investors through

difficult times, and I believe this will be true again. For investors that have a mix of equities and bonds, diversification is working. Within stocks, international markets are up over 6 percent and bonds are up over 2 percent. In our upcoming meetings, the model allocation will likely point to adding to equities in your portfolio and I know this may be scary. We have enjoyed many more good years than bad ones and have taken profits, now may be the time to seek opportunities.

Tariffs, Pause, Tariffs, Pause, Exemptions.....

The rollout of tariffs has been anything but smooth. They have been announced, paused, paused again and then exemptions to some tariffs have been granted. President Trump's Liberation Day was April 2nd, and it kicked off a two-day fall in the S&P 500 of -10.5 percent, which was the 10th worst slide going back to the Great Depression. What seemed to catch the markets so off-guard was that leading up to the announcement, the tariffs were advertised as reciprocal. A main definition of reciprocal by Webster's is 'as a return in kind'. When Biden left office tariffs on imported goods averaged around 2.5 percent while tariffs imposed on US exports averaged around 4.5 percent. When President Trump announced a 10 percent base-line tariffs on all imports and additional ones imposed on some countries, that added up to an average tariff for all imports of around 23 percent. It is easy to understand why the markets sold off so much. Shortly after, Trump announced a 90 day pause on the additional tariffs, while maintaining the 10 percent base. China had not been granted any exemptions until recently when smartphones, computers and semiconductors were temporarily granted full exemptions. All other goods imported from China are subject to a 145 percent tariff. Pauses and exemptions have given some relief to markets. Negotiations will be active in the coming weeks and months; I am hopeful that trading parties can agree on rates well below where they currently stand. Absent from the conversation on the US's side is that while we run a large deficit on goods, we have a massive surplus in services like investment banking and technology.

I think all would agree with reducing government fraud and inefficiencies. There are currently around 3 million federal employees. JP Morgan estimates that DOGE will trim this workforce by around 300,000. If the average salary of those trimmed was \$100,000, that would amount to about \$30 billion. We are currently running an annual \$1.8 trillion dollar deficit, which makes the savings seem small. Federal funding for education, research and healthcare are under pressure as well. Research in science, medicine and technology has contributed immensely to American exceptionalism. Uncertainty surrounding employment for federal workers, non-profits, research, healthcare and education have all contributed to the US's consumer sentiment reading of 50.4 percent, which was the second lowest ever since the University of Michigan started tracking it.

Undocumented immigration had dramatically slowed under the Biden administration in the year leading up to the election, under President Trump, it has stopped. Trump's goal of deporting around 1 million per year is on pace to be around 250,000. Legal channels for migration seem to still be moving at the same pace as under the Biden administration, which is around 400,000 per year. Our workforce aged 18-64 is reducing by 30-40,000 per month due to retirements. Given this and limited supply of new workers, employers may be challenged to plan and grow moving forward. Displaced employees from DOGE efforts will hopefully adapt to available employment opportunities.

Through this, the Fed has remained mostly muted. They have not raised rates since before Trump's inauguration, citing the unknown effect of his policies on the workforce and inflation. It is predicted that the Fed will lower rates by about 1 percent this calendar year. We will get our GDP number April 30th, and it is predicted to be flat at best. If the economy weakens too much, along with a reverse in employment, we could see the Fed lower rates more than predicted. Market forces seem to be in control of longer-term rates, so it is unknown what impact this will have on meaningful rates like mortgages and business lending.

I may have come across as more negative on things than you are used to reading from me. I know some good will come of the changes underway and that it will take time for them to sort it out. I am critical of the implementation in that it does not seem well thought out or strategized, imagine trying to run a business around all this uncertainty. A recent poll showed that 62 percent of CEO's predict a recession in the next 6 months. Some soft economic data like travel and sentiment show weakness, hard data still do not indicate a looming recession. We have entered these policy changes with an underlying economy that is strong. We have had multiple predictions of imminent recessions over the past several years, only to be avoided by this resilient economy. As always, I look forward to discussing how economic conditions may impact your investments and am available to discuss differing opinions on things.

If you need additional copies of this newsletter for friends, family or neighbors please let me know. I am grateful for any opportunity to get in front of other investors like yourselves. Please keep me in mind to help others you know that may need financial advisory assistance.