VAN LIEW TRUST COMPANY

AS WE SEE IT

SPRING 2025

Thoughts From Our Chairman - Alfred B. Van Liew

Spring is here! As trees and flowers bloom all around us, so too are we hopeful our economy, after recent disruption, will continue to grow. In this issue Wade Walbrun reviews the evolving details and concerns surrounding tariffs.

In the Land of Tariffs

Wade M. Walbrun

The US announcements beginning on April 2nd to impose significant tariffs on 180 countries around the world triggered a financial shockwave. Some investors, worried about the potential inflationary impacts on the prices of goods and services, accelerated shifting investments away from higher growth equities into traditional safe havens such as consumer staple companies, fixed income securities and gold. While the initial range of tariffs announced was moderated days later, precipitating a significant relief rally in the stock indexes, questions remain in investors' minds. What effect could tariffs have on consumers' behavior, US GDP growth, the labor market, and corporate earnings?

Tariffs are generally considered a tax on companies and consumers alike. Companies that produce goods from solely domestic sources should fare well from a cost standpoint, while those that rely on international supply chains for manufacturing inputs are likely to see prices increase. To maintain market share, companies experiencing higher costs may either accept lower profit margins with potentially lower earnings results, or choose to pass along price increases to consumers. Likewise, imported goods are expected to become more expensive too, as foreign manufacturers are forced to make similarly difficult pricing decisions. It is currently unclear if such price increases will encourage consumers to seek out less expensive alternatives, or discourage consumption.

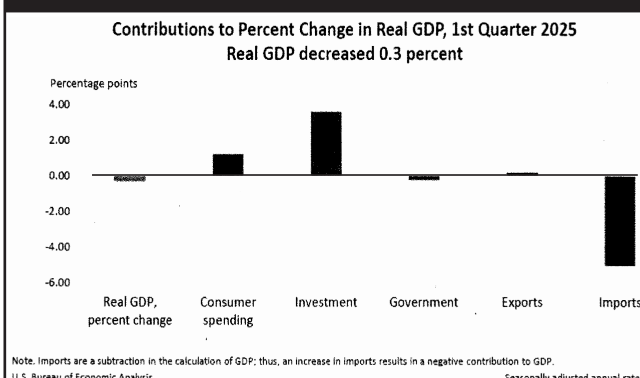
While price increases are expected for imports coming into the US, the extent of their broader effect on the US economy is hotly debated. Some opine the potential damage inflicted by tariffs may be less onerous than currently perceived, citing less dependence on imported goods in the US than other international counterparts are. The value of US imports is equal to a modest 13.9% of US GDP. Additionally, the US may not feel the full extent of tariff related price increases as two of our largest trading partners (Mexico and Canada) essentially sidestepped the blanket 10% tariffs via the existing USMCA trade agreement. Others fear recession is just around the corner and offer up a potentially deteriorating labor market as cause noting companies may resort to layoffs to cut costs to offset tariffs and/or reduced consumer demand. However, the Bureau of Labor Statistics reports unemployment currently at 4.2% rate, a level that has raised few cautionary red flags. Street analysts estimate the negative effect of tariffs on corporate earnings at between two and four percent for 2025, an outlook that appears reflected in the latest S&P 500 earnings growth estimates of 9.7%, down from 11.3% as of early April. Likewise, some economists think inflation could rise this year an additional 0.2% to 2% above the current 2.6% in the core Personal Consumption

Expenditures Index (PCE). Yet, the latest Federal Reserve meeting minutes show inflation expectations for 2026 falling back to 2.2% after a modest rise in 2025. With the recent report of 1Q25 US GDP (-0.3%) stoking fears of recession, and current consumer and business outlook surveys pointing to more gloomy outcomes, investors will keenly watch how this all plays out economically.

We expect generally unsettled market conditions will continue until investors gain a better sense of the scope of tariffs, how they may affect companies, consumers and the broader economy. Despite the general unease in the current markets, the pullback has brought overall stock valuations (19x forward Price Earnings ratio) back into line with historic averages, and there are some early bargain hunting buyers selectively nibbling on stocks. Similarly, the bond market has seen interest rates fall and prices rise in the 10-year government bond. Lower rates should be beneficial to the housing market, consumer loans, and capital spending.

How do we approach the markets today? We are focused on future efforts by the US to negotiate tariff rates downward and remove trade barriers. With the 90-day deadline looming and the historically slow and complex nature of trade deals, we think an announced deal with a significant trading partner could spur additional deals with other countries. Such incremental movement in the right direction may be just enough to improve overall economic sentiment and market conditions. We think companies with business models centered on strong free cash flow, pricing power and solid earnings in growth industries should be best able to weather this market unease until the trade deals are clearer. Additionally, in an environment over the last two years dominated by the Magnificent 7, investing in a broadly diversified portfolio of securities has fared the best so far this year. We think this strategy continues to be the best path forward.

T R E N D L I N E S



The latest US GDP growth report showed a contraction of 0.3% and raised fears of a recession. Yet, an oversized contribution from the purchase of Imports due to pending tariffs dragged down the result. Many point to the robust growth in private Investments as the important indicator to focus on in this report.

We would be delighted to meet with you to share comments about this article, or to review your portfolio in detail.

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