THE DANA VIEWPOINT

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Uncertainty

This word has become a cliché in the last two months, but it aptly describes what many investors view as the driver in the current environment. Trump entered office and immediately pushed forward aggressively on many fronts – immigration, government waste and deficits (DOGE), Ukraine, tariffs and all were areas of major policy change. He seems happy to let the courts ultimately decide if he has overstepped executive authority in some of these areas, but that will take time. It is certainly fair to call this the Trump correction.

Nevertheless, we all knew a correction was due; the only thing we didn't know was the proximate cause. In October of 2023, the S&P 500 Index barely touched down 10% before rallying. The same has been the case so far in March. Prior to these two limited downdrafts, the market has been on a fairly steady track upwards since the bottom of the bear market in October of 2022. The gain in the S&P 500 since October 2022 has been over 70%. Growth stocks have generally declined more than value stocks, narrowing some of the large valuation discrepancies that have existed for years. Because many of the largest companies in the capitalization weighted S&P 500 Index are growth companies, they have had a large impact on index returns. Indeed 60% of the stocks in the index are actually outperforming the index itself. Periodically, we need corrections to keep valuations closer to the ultimate future prospects for the companies involved. It shouldn't be as easy as buying NVIDIA and holding it forever.

Keep in mind that Trump wants to operate under unpredictable and uncertain circumstances. He doesn't want those that he is negotiating with to be able to predict his next move. He is actually most comfortable operating in an environment of uncertainty. It was his modus operandi as a businessperson for decades. He used unpredictability to negotiate permits, the size and scope of his projects, and many bankruptcies and restructurings (and there is the possibility that it will lead to beneficial outcomes in our government and economy as well). We should not expect this core Trumpian strategic and tactical approach to go away. It seems as if this realization, consciously or unconsciously, is being built into market expectations in the form of an uncertainty premium.

The major initiatives that Trump has taken on create other risks as well. Consumer confidence and investor bullishness have declined as economic uncertainty has risen with Trump policies. Auto loan and

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mortgage delinquencies have crept higher, and stubborn inflation around 3% has held down real income growth. A slowly softening job market will also be a brake on real income growth. The tariff uncertainty will put a damper on capital spending, at least in the short term, for businesses that may be affected by these policies. It may even reduce capital spending in the tech sector, as customers of these companies may limit expansion in their capital spending.

So, we are left at a crossroads where there are potentially both significant positive and significant negative outcomes from current policy. The risks being undertaken may be reasonable when measured against the possible success that can be achieved, but we still have to make it through this period of risk. The market decline may have already discounted the potential negatives. The erosion of confidence that is currently taking place both in the economy and the markets can feed on itself over time. These factors are interrelated, so we will monitor these developments closely. The goals of lower tariffs in the long run and a more efficient, less costly federal government are worthy and lofty goals. The voting public believed these goals were worth the risks last November, we hope that communal wisdom proves correct.

Random Thought: "A government big enough to give you everything you want is a government big enough to take away everything that you have." -Thomas Jefferson

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