THE DANA VIEWPOINT

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Snapback

Has this most recent market correction been that different than other recent corrections? We think not. In a typical correction, the market declines based on concerns about future prospects for the economy, for a time those fears feed on themselves, and subsequently new information or a change in expectations serves to partially or fully reverse those concerns. The concerns that initiate the correction are valid, but in time, they are resolved or turn out to be less onerous than expected. Often, market participants overestimate the potential damage that may be caused by the perceived risks. That certainly seems to have happened this time around.

Another way corrections are resolved is through adaptation to new information. President Trump may have expected China to roll over in response to the new tariffs, and they did not. Also, we have said before that there are curbs on Trump's tactics; the market, Congressional Republicans, and the electorate as a whole each have the power to force Trump to change tactics. That isn't necessarily the case with the China tariffs at this point, as both sides decided a cooling off period was warranted. Nevertheless, it appears that a path of de-escalation in the tariff wars has begun.

We have always believed that economic environments that are untenable or can't persist, won't for long. An economy with reciprocal tariffs of 100% or more between two global trading partners is one of those economic environments. It is also clear in hindsight that many economic participants realized that this tariff level could not remain on a longer-term basis. If importers expected the tariffs to remain longer term, they would have raised prices immediately to expand profits and cushion the shocks that were to come. This did not happen. Inflation, by many measures, has actually continued to decline over the past few months to new four-year lows.

As the stock market has moved back towards new highs and volatility has declined, the prospect of near-term rate cuts from the Federal Reserve Bank (Fed) has declined and short and long rates have drifted upwards. The Fed has continually warned about tariff-driven inflation, and as those fears subside, rate cuts in the back half of the year could add further support to both the equity and fixed income markets.

The rebound in the equity markets has roughly coincided with the majority of earnings announcements for the first quarter. There is no doubt that some of the rebound was due to an easing of tariff fears, but

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some must also be attributed to a strong first quarter earnings season. Many companies declined to give forward guidance due to potential tariff uncertainties, but first quarter results and lower stock prices were enough to bring in net buyers.

Intermediate maturity Treasuries maturing in two to seven years have moved lower in yield so far this year. This is a warning to us that many market participants still fear a recession, or fear that the Fed is holding short rates too high in the current environment. Inflation indicators have been moving lower over the past few months, and if that move is sustained, we expect the Fed to, perhaps grudgingly, cut rates this year. Expectations for second quarter GDP have moved back to the 2-3% range after the first quarter dip, again indicating resilience in the economy.

Focus now turns to Washington on tax policy. The market largely expects the income tax cuts to be sustained, but there may be other changes and gimmicks in the "big, beautiful bill." Tax law changes and the tinkering and horse trading involved can only serve as a net drag on growth and risk taking, as elected officials try to reward certain constituencies and punish others. It's not pretty, we can only hope for a minimum of distortions.

We are thankful that we have the opportunity to guide investments during a generation when the capital and investment markets in the United States are the most vibrant and resilient in the world.

It seems appropriate to remember a famous Warren Buffet quote as he nears the end of his career:

"Be fearful when others are greedy and greedy when others are fearful." -Warren Buffet

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