

As we enter the fourth quarter of the “Year of the Tariff”, equity markets continue to establish record highs, helping portfolio values achieve new high-water marks. The euphoria from the current bull run makes it hard to believe that it was only two quarters ago when markets began their extreme roller-coaster ride. As we look into the rear-view mirror, we see little evidence of such volatility. Absent of any past concerns as we gaze into that mirror, we find ourselves sideswiped by this past week’s news regarding the re-emergence of hostile trade talk between the U.S. and China. We believe this is the fourth round of dispute, to be followed by another anticipated truce based on prior patterns.

Trading patterns have been consistent with ongoing social media narratives, but we should not lose sight of the need for caution in the near term, where the expression “Past performance is not indicative of future results” comes to mind. We believe that predictable short-term trading trends may become less reliable as further clarification emerges regarding corporate fundamentals and the broader economic outlook. Market focus may shift from sentiment to actual fundamentals, especially if signs of concern begin to surface. As long-term investors, we continue to view market pullbacks as opportunities for the future despite near-term volatility.

We reiterate that any positive clarification or favorable development will reinforce stated market support levels and may provide additional fuel for positive sentiment, potentially driving capital markets further into overbought territory. The severe downturn followed by a gravity-defying upturn illustrates how quickly we transitioned from economic uncertainty to an extremely positive market environment, largely driven by a constant bombardment of AI-related news. Lofty valuations across many technology companies remain questionable when viewed through a fundamental lens, and only upcoming earnings reports will provide the evidence needed to justify current P/E multiples.

Another catalyst influencing both equity and bond markets is the recent announcement of a 25-basis-point reduction in the Federal Funds rate, the first of several anticipated cuts for 2025. We believe that gradual decreases in 25-basis-point increments represent a sound, cautionary approach while economic uncertainty persists, particularly given the ongoing impact of tariffs and the absence of economic data during the current government shutdown.

We expect inflationary pressures to be driven more by tariff implementation than by an overheated economy. As we “watch the pot boil,” CPI and PPI readings have not surprised us with any extreme results. This outcome is logical given the significant front-loading of trade and purchases earlier this year in anticipation of tariffs. Lag times for key indicators will likely be determined by both the size of inventory build-ups and the pace of their drawdowns.

Many economic indicators have been skewed due to front-loading activity in advance of tariffs. We have identified three areas of focus to filter out potential “noise”:

- U.S. Exports (goods only): An improvement in the trade deficit is meaningless if exports experience a negative impact.
- Domestic GDP (ex-trade): Assessing corporations’ ability to pass higher costs associated with tariffs on to consumers.
- Jobs: Evaluating the true “net” impact on job creation as manufacturing activity potentially shifts back to the U.S.

As always, please continue to communicate with your advisor if you have any questions or concerns regarding your investment portfolio or financial plan.