the 9:05 Bailard's Quarterly Newsletter Q1 2025

Tariff for Tat

Jon Manchester, CFA, CFP® (Senior Vice President, Chief Strategist, Wealth Management, and Portfolio Manager, Sustainable, Responsible and Impact Investing) reflects on the start of America with Benjamin Franklin and the role of, and impact on, these $100 bill "Benjamins" today on trade, negotiations, and tariffs.

Founding father Benjamin Franklin wore many hats for our nascent republic, both literally and figuratively. Often depicted wearing a tricorn hat—*de rigueur* for the colonial era—Franklin famously donned a fur cap when he traveled to France in late 1776 as the key member of America's first diplomatic delegation. Tasked with securing the vital support of Great Britain's arch rival following the Declaration of Independence, he methodically curried favor at Versailles and amongst French nobility. Using the skills he honed while representing the colonies in London, Franklin worked relentlessly to advance America's interests and procure France's military and financial backing.

His carefully cultivated homespun image, complete with the fur cap, won Franklin a great deal of popularity. Fur caps became fashionable in Paris, and his likeness was embossed on collectible candy dishes, stitched into clothing, and engraved into snuff boxes and walking sticks.[1] In February 1778, his efforts culminated in the signing of treaties that provided for a military alliance, recognized the United States as an independent nation, and established terms of commerce. It was a remarkable coup for our fledgling country and proved instrumental in winning the Revolutionary War. To Stacy Schiff, author of "Benjamin Franklin and the Birth of America," France's affection for Franklin was a critical factor: "Every other American envoy who approached Versailles bungled along the way. Franklin was inventing the foreign service out of whole cloth."[1]

Inside this edition:

For over a century now the $100 bill has featured Franklin's portrait, in honor of his indispensable role in America's push for freedom. Today, it could be said that U.S. foreign relations depend more than ever on Benjamins—meaning those crisp $100 bills that cross oceans in exchange for goods. After an extended period of globalization, the current U.S. administration appears determined to rapidly de-globalize. Longtime foreign allies are scrambling to adjust to this policy pivot and the new D.C. power brokers are clearly not afraid to ruffle diplomatic feathers. In this "America First" approach, relationships with foreign governments seem to be largely transactional in nature and ruled by protectionist instincts. It is indeed all about the Benjamins in this new world order.

As the economy struggles to adapt to this paradigm shift, even the agenda setters have warned of possible near-term pain. In a March 2025 interview with *CBS News*, Commerce Secretary Howard Lutnick said the administration's economic policies are worth it even if they lead to a recession. Many economists disagree,

1 *"Ben Franklin in Paris: How He Won France's Support for the Revolutionary War," www.history.com, 3/20/2024.*

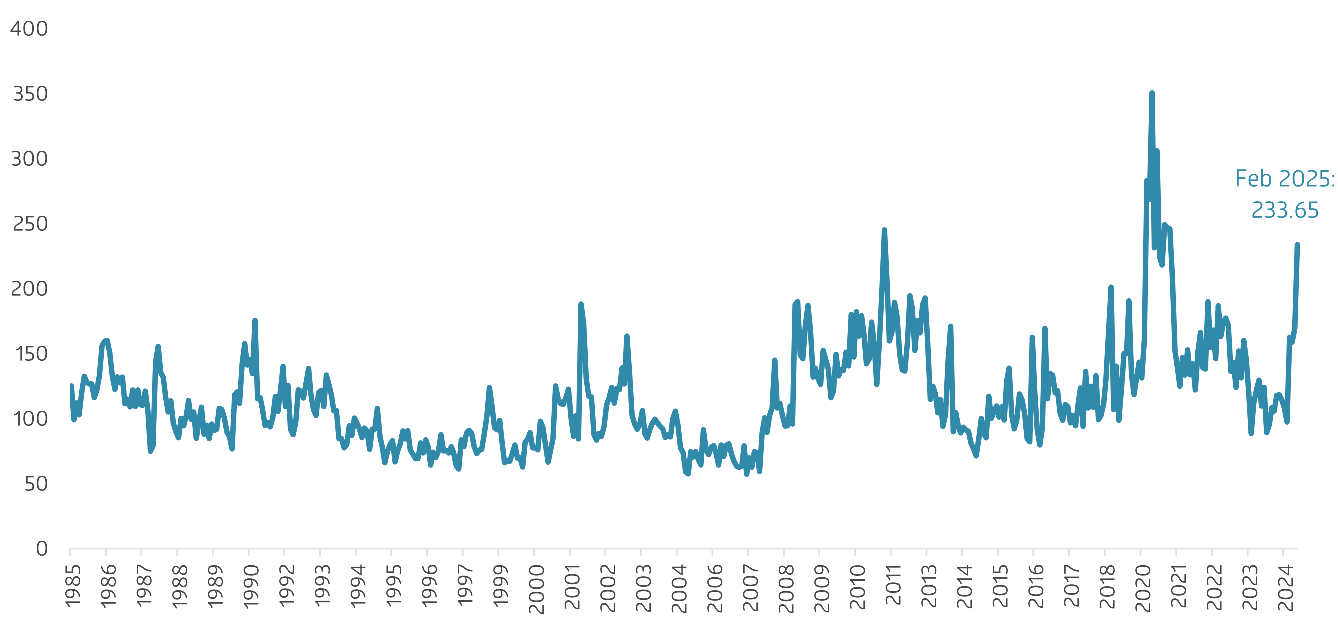
including former Treasury Secretary Larry Summers. He referred to tariffs as "a self-inflicted supply shock" and cautioned that inflation should move higher in response.[2] Michael Goldstein, managing partner at New York-based Empirical Research Partners, estimates that the direct tariff impacts—combined with the impact from the associated uncertainties—could reduce 2025 real GDP (Gross Domestic Product) growth to the 1.0% to 1.5% range, while adding 0.5% - 1.0% to inflation.[3] Similarly, Goldman Sachs hiked its 2025 core PCE (Personal Consumption Expenditures) inflation forecast to 3.5% due to tariffs, and lowered its 2025 GDP growth forecast to 0.5%.[4] In doing so, Goldman Sachs upped its twelve-month recession probability to 45%, citing the expectation for sluggish growth, a deterioration in household and business confidence, and statements from White House officials indicating a greater willingness to tolerate near-term economic weakness in pursuit of their policies.

The Tariff Gambit

If the daily barrage of tariff-related news has you confused, you're not alone. In fact, corporate executives feel the same. According to analysis from *MarketWatch*, 64 companies in the Standard & Poor's (S&P) 500 Index mentioned policy uncertainty on their quarterly earnings call with analysts, up from 33 in the prior quarter.[5] This lack of clarity could weigh on economic activity in the near-term, simply by slowing decision-making. Gill Segal, a University of North Carolina economist, observed that "Policy uncertainty, in particular, typically leads to lower business investment and lower future GDP, as a result."

Empirical Research Partners has taken to titling their recent notes "The Fog of War." A trade war is admittedly a different type of war, but it is sowing confusion. A trio of academics created an Economic Policy Uncertainty Index with data back to 1985. On their methodology, the level of uncertainty has only reached a higher level during the Great Financial Crisis (GFC) and the initial stages of the pandemic—both recessionary periods. Perhaps it's not surprising that consumer sentiment readings have moved sharply lower year to date. The March 2025 reading for the University of Michigan's Consumer Sentiment Index declined 28% year over year. In the release, Director Joanne Hsu said, "Consumers continue to worry about the potential for pain amid ongoing economic policy developments. Notably, two-thirds of consumers expect unemployment to rise in the year ahead,

Chart 1: Economic Policy Uncertainty Index



Source: Federal Reserve Economic Data, Federal Reserve Bank of St. Louis, 1/1/1985 through 2/1/2025.

2 *"Wall Street Journal editorial calls Trump tariffs 'dumbest trade war in history,' www.theguardian.com, 2/2/2025.*
3 *"Where We Stand: The Fog of War," Empirical Research Partners, March 2025.*
4 *"US Daily: Countdown to Recession," Goldman Sachs Investment Research, 4/6/2025.*
5 *"The word from U.S. companies to Wall Street in new Trump era is 'uncertainty'," www.morningstar.com, 3/20/2025.*

the highest reading since 2009."[6] Speaking at the U.S. Monetary Policy Forum in March, Federal Reserve (Fed) Chairman Jerome Powell assuaged these worries somewhat, noting that "Sentiment readings have not been a good predictor of consumption growth in recent years."

To the extent that the stock market is a daily scoreboard, the early votes are in on Trump's tariffs and it hasn't been a favorable reception. The "T is for Tariffs" playbook may rightly protect some industries, but the broad nature of the tariffs and the start-and-stop rollout clearly rattled the markets in the first quarter of 2025. Investors prefer greater degrees of predictability, making the erratic course that trade policy has followed less than ideal. They are also willing to pay more for perceived predictability, which is why the preference is often reflected in market valuations. For example, the S&P 500 Consumer Staples sector—filled with steady companies such as Costco Wholesale and Procter & Gamble—has traded at a forward price-to-earnings multiple nearly two points higher than the overall S&P 500 Index over the trailing 20 years.[7] This, despite posting below-average earnings growth. More cyclical sectors or industries typically trade at lower valuations, an acknowledgement of their greater earnings variability. As such, it is a natural reaction for equity valuations to decline in periods of higher uncertainty. We are seeing that currently, with the S&P 500 Index's forward price-to-earnings multiple about two points lower year to date. Still trading at roughly 20x forward earnings, the S&P 500 could see further multiple contraction without some fiscal and/or monetary policy relief.

Reboot Button

Historically, political risk has been a factor that carries more weight in emerging market countries. Broadly defined as the risk that investment returns could be impacted by country instability or political changes, it has leapt up the list of concerns for investors in 2025. We don't have to look too far back to see the political changes the market desires. In the wake of November's election, optimism reigned around tax-friendly legislation, deregulation, inflation relief, and directional improvement in our nation's fiscal fitness. Although the administration is working on each of those items, the checklist has clearly taken a backseat to an unwanted, deeply unpopular trade war. This is not the business-friendly approach that was promised. For a U.S. equity market that entered the year with high expectations built into valuations, this distraction (at best) has been enough to derail the market's momentum.

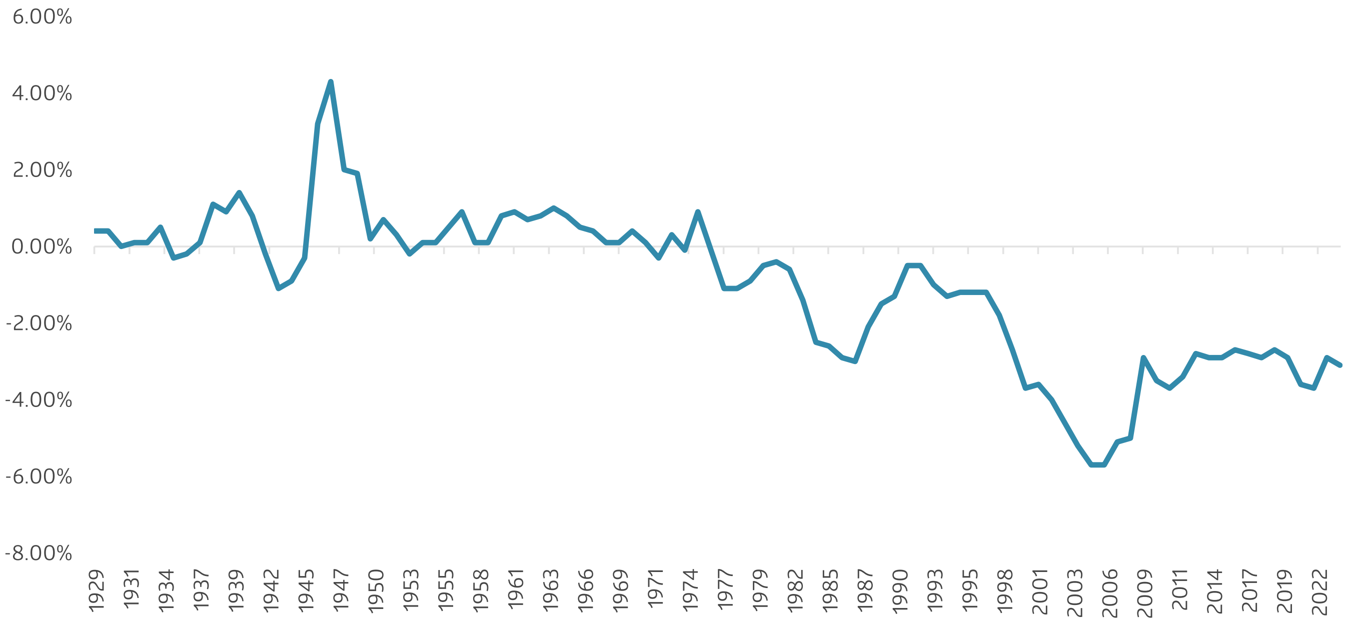
With the stroke of his pen—and President Trump has signed 109 executive orders alone thus far in his second term—we could see a realignment of the administration's priorities. It is not too much to hope for, although the tariff troubles have already gone much further than expected. This myopic focus on our balance of trade is a bit puzzling, looking at historical data. Net exports as a percentage of GDP have drifted around the -3% territory since the Great Financial Crisis. It does subtract from U.S. GDP growth, but from a big picture standpoint the headwind is not particularly impactful. It seems like there is more risk in killing the goose that lays the golden eggs, so to speak.

> *To the extent that the stock market is a daily scoreboard, the early votes are in on Trump's tariffs and it hasn't been a favorable reception.*

Ultimately the equity markets should refocus on corporate profits, the long-term driver of stock prices. Earnings expectations for 2025 have edged lower, but only by around two percent for the S&P 500 year to date. For the multinational companies that heavily populate the large-cap universe, it will be more challenging to maintain profitability with rising input costs and reciprocal tariffs. The quarterly S&P 500 operating margin averaged close to 12% last year—but its average since 2006 has been 9.6%.[8] To avoid an earnings shortfall versus expectations, corporations will need to carefully manage the trade off between passing prices along to customers and absorbing costs (sacrificing margins) to preserve sales. The foggy environment isn't helping with

6 "Surveys of Consumers," www.sca.isr.umich.edu, March 2025.
7 "Guide to the Markets," JPMorgan Asset Management, March 2025.
8 "S&P 500 Earnings and Estimate Report," www.spindices.com, 3/31/2025.

Chart 2: Net Exports as a Percentage of GDP



Source: Federal Reserve Economic Data, Federal Reserve Bank of St. Louis, 1/1/1929 through 1/1/2024.

that decision tree. Target Corporation, known for its bulls eye logo, announced in March that it will eschew offering quarterly guidance and move to only providing annual guidance numbers. Chief Financial Officer James Lee commented: "This change reflects our expectation of continued elevated volatility, which limits the effectiveness of quarterly forecasts."[9] Separately, Target said it would continue to move sourcing for its in-store brands, including All in Motion and Cat & Jack, away from China and toward Guatemala and Honduras.[10]

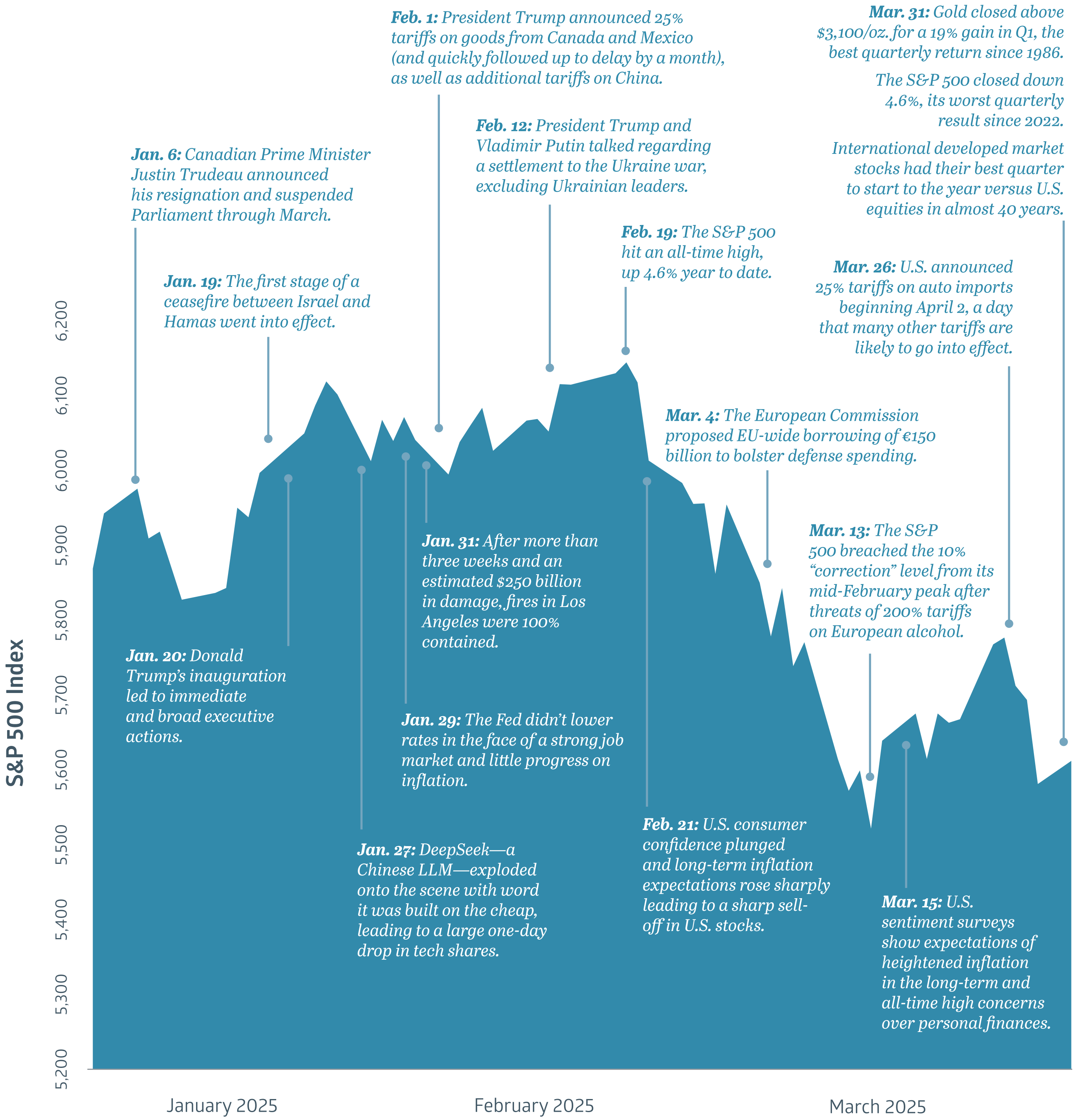
Amidst the tariff tumult, positives remain. Importantly, the labor market remains strong with the unemployment rate at 4.2% versus a 50-year average of 6.1%. Federal government layoffs remain front page news, but with roughly three million workers that sector is fairly small compared to a little over 170 million in the civilian labor force. Monetary policy could also help: the futures markets now lean toward a Fed Funds target rate of 3.5% by year-end, a full percent below its current level.

In November 1789, about five months before his death, Benjamin Franklin wrote a letter to a French scientist. In that letter, Franklin offered what is now a famous quote: "Our new constitution is now established, everything seems to promise it will be durable; but, in this world, nothing is certain except death and taxes."[11] A wise man, that Franklin.

9 Target Corporation Q4 2024 earnings call, 3/4/2025.
10 "Target braces for first-quarter profit pressure due to tariffs, low demand," www.reuters.com, 3/4/2025.
11 "Benjamin Franklin's last great quote and the Constitution," www.constitutioncenter.org, 11/13/2023.

Q1 2025 World Events

WITH THE S&P 500 INDEX AS THE BACKDROP



Source: Yahoo Finance, Bailard. **Past performance is no indication of future results. All investments involve the risk of loss.**

Financial Spring Cleaning: Small Steps for Big Impact

In a special feature this quarter, Lena McQuillen, CFP® (Vice President and Director of Financial Planning) and Dave Jones, JD, LLM, CFP® (Senior Vice President and Director of Estate Strategy) have joined forces and prepared a set of practical ways to refresh and organize your finances this season.

As the seasons change, it's an ideal time to refresh and organize different aspects of life—including your finances. Making improvements doesn't have to be overwhelming or time-consuming. The power of small, actionable steps is that they add up over time, leading to meaningful progress. Instead of tackling everything at once, focusing on quick, manageable tasks ensures steady progress without the stress of a complete financial overhaul.

Each of the following steps is simple to implement and provides a tangible benefit. Whether you take on one today and another next month or work through them gradually, every action moves you toward a stronger financial foundation. Setting aside just 15 to 30 minutes each week for financial check-ups can make these tasks feel effortless while strengthening your long-term financial peace of mind.

01 Use Everplans for important documents

Keeping important financial documents in order can make a significant difference in times of need. Yet, many people store essential papers in multiple places, making access difficult for them and their families. Everplans is a secure digital platform that allows you to safely store and organize important financial, legal, and personal documents in one place. This simple step helps ensure critical information is available when needed. How to get started:

- ☐ Upload estate planning documents—wills, trusts, powers of attorney, and advance directives.
- ☐ Store financial records, such as bank accounts, investment portfolios, and retirement plans.
- ☐ Keep personal records (birth certificates, marriage licenses, Social Security information) in a secure location.
- ☐ Don't forget to include legacy items like family recipes, cherished photos, and letters to loved ones.
- ☐ Assign access to trusted individuals, so they know how to retrieve documents when needed.

Time commitment: 30 to 45 minutes

KEY INSIGHT:

A centralized document storage system ensures your family can quickly access essential financial and legal information when they need it most.

02 Freeze Your Credit and Monitor Credit Reports

Identity theft can be financially and emotionally devastating, and prevention is much easier than recovery. One of the most effective ways to protect yourself is by freezing your credit, which blocks unauthorized access to your financial profile. It's free and quick to freeze your credit, and you can temporarily lift or remove the freeze when needed. Additionally, monitoring your credit report helps catch inaccuracies and signs of fraud early. How to take action:

- ☐ Contact each of the three major credit bureaus separately to place a freeze on your credit. They'll ask for your full name, date of birth, Social Security Number, and address, so be prepared.
    - ☐ Equifax – Call 1-800-349-9960
    - ☐ Experian – Call 1-888-397-3742
    - ☐ TransUnion – Call 1-800-680-7289
- ☐ Each bureau will issue a PIN or password, be sure to store this securely for future updates.
- ☐ Review your credit report annually to ensure accuracy.

Time commitment:
15 minutes

KEY INSIGHT:

A quick credit freeze can prevent fraud before it starts—ensuring your financial security remains in your control.

03 Streamline Subscriptions and Recurring Expenses

Monthly and annual subscriptions can quietly accumulate, leading to unnecessary spending. Many of these expenses go unnoticed or are no longer providing value. Taking a few minutes to review and optimize recurring charges can free up resources for more meaningful financial priorities.

Steps to simplify your subscriptions:

- ☐ Review recent bank and credit card statements to identify recurring charges.
- ☐ Cancel or downgrade subscriptions that are no longer used or needed.
- ☐ Set calendar reminders for renewals of major services to reassess their value before automatic charges occur.

Time commitment:
15 to 20 minutes

KEY INSIGHT:

Reducing unnecessary subscriptions and auto-renewals keeps your spending aligned with what truly adds value.

04 Update Digital Passwords and Security Measures

Cybersecurity threats continue to evolve, and financial accounts are prime targets for fraud. Strengthening your digital security doesn't require complicated tech skills—small updates can make a big difference in protecting your wealth.

Easy ways to enhance digital security:

- ☐ Update passwords for financial and personal accounts—if you've been using the same password for years, now is the time to change them.
- ☐ Avoid using the same password across multiple platforms.
- ☐ Enable two-factor authentication whenever possible to add an extra layer of protection against unauthorized access.
- ☐ Use a password manager to securely store login credentials rather than relying on memory or sticky notes.

Time commitment:
20 minutes

KEY INSIGHT:

A few minutes spent strengthening passwords today can prevent hours of frustration from identity theft tomorrow.

05 Conduct a Beneficiary Check-Up

Most financial institutions allow you to designate beneficiaries, which ensures that your assets transfer smoothly to the right individuals when the time comes. However, life events—such as marriages, divorces, or births—can impact your original choices. A quick check of your financial accounts, either online or with your provider, ensures that your assets are aligned with your wishes. This small but essential step prevents unnecessary legal complications down the road.

Where to check beneficiaries:

- ☐ Retirement accounts, including 401(k), IRA, and Roth IRA
- ☐ Life insurance policies
- ☐ Bank and investment accounts
- ☐ Estate planning documents

Time commitment:
15 to 20 minutes

KEY INSIGHT:

An outdated beneficiary designation can override your will—ensuring your accounts are up to date prevents future complications.

06 Review Annual Gifting and Charitable Contributions

Strategic annual gifting can help reduce estate tax burdens while allowing you to support your loved ones and favorite causes. Whether giving to family, friends, or charities, a structured approach can ensure your generosity is both intentional and efficient.

How to approach gifting:

- ☐ Review annual exclusions – You can gift up to $19,000 per recipient in 2025 without incurring gift taxes.
- ☐ Evaluate Donor-Advised Funds (DAFs) or direct charitable gifts to optimize tax efficiency.
- ☐ Plan the timing of gifts, as early-year contributions may provide greater impact.

Time commitment: 30 minutes

KEY INSIGHT:

Strategic gifting today can reduce tax burdens and ensure your wealth is directed toward the people and causes that matter most.

07 Ensure Proper Titling of Accounts and Assets

Properly titling your financial accounts and assets is one of the simplest, yet most effective ways to ensure your estate plan functions as intended. Incorrect titling can cause future headaches like probate delays, tax inefficiencies, or unintended asset distribution.

What to review:

- ☐ Confirm that bank, brokerage, and investment accounts are correctly titled.
- ☐ Ensure real estate properties are held under the appropriate ownership structure.
- ☐ If you have a trust, check that assets are titled in the trust's name to help avoid delays and ensure your intentions are honored.

Time commitment: 30 to 45 minutes

KEY INSIGHT:

Ensuring accounts are properly titled today can help prevent probate delays and unintended consequences for your estate.

Final Thoughts: Small Steps, Big Impact

Taking small, thoughtful steps today can make a significant difference in your financial security. Whether you tackle one item this month or make financial check-ups a regular habit, each action helps build a stronger, more organized financial future.

As always, your Investment Counselor is here to help with any of these steps. If you have questions or need guidance, don't hesitate to reach out.

A few minutes each week can go a long way, keep track by checking off each step below.

- ☐ Use Everplans for important documents
- ☐ Freeze Your Credit and Monitor Your Credit Report
- ☐ Streamline Subscriptions and Recurring Expenses
- ☐ Update Digital Passwords and Security Measures
- ☐ Conduct a Beneficiary Check-Up
- ☐ Review Annual Gifting and Charitable Contributions
- ☐ Ensure Proper Titling of Accounts and Assets

key insight:

Financial well-being isn't achieved overnight—it's built step by step. Small, proactive actions today help secure long-term success.

Market Performance
As of March 31, 2025

U.S. Interest Rates	6/30/2024	9/30/2024	12/31/2024	3/31/2025
Cash Equivalents				
90-Day Treasury Bills	5.32%	4.59%	4.32%	4.20%
Federal Funds Target	5.50%	5.00%	4.50%	4.50%
Bank Prime Rate	8.50%	8.00%	7.50%	7.50%
Money Market Funds	5.28%	4.88%	4.37%	4.24%
Bonds				
10-Year U.S. Treasury	3.98%	3.78%	4.57%	4.17%
10-Year AA Municipal	3.08%	2.77%	2.95%	3.37%

U.S. Bond Market Total Returns (US$) through 3/31/2025	QUARTER	SIX MONTHS	YEAR TO DATE	ONE YEAR
U.S. Bonds				
Bloomberg U.S. Treasury Index	2.92%	-0.31%	2.92%	4.51%
Bloomberg U.S. Corporate Index	2.31%	-0.80%	2.31%	4.90%
Bloomberg U.S. Aggregate Index	2.78%	-0.37%	2.78%	4.88%
Bloomberg U.S. 1-15 Municipal Blend Index	0.39%	-0.68%	0.39%	1.57%

Global Stock Market Total Returns (US$) through 3/31/2025	QUARTER	SIX MONTHS	YEAR TO DATE	ONE YEAR
U.S. Stocks				
S&P 500 Index	-4.28%	-1.99%	-4.28%	8.23%
Morningstar U.S. Small Value Index	-3.74%	-3.00%	-3.74%	0.90%
Morningstar U.S. Small Growth Index	-8.43%	-6.79%	-8.43%	-1.82%
Morningstar U.S. Large Growth Index	-7.53%	0.69%	-7.53%	7.79%
Morningstar U.S. Large Value Index	5.95%	3.29%	5.95%	11.59%
International Stocks				
MSCI EAFE (Europe, Australasia, Far East) Index, net dividends	6.86%	-1.81%	6.86%	4.88%
MSCI Emerging Markets Index, net dividends	2.93%	-5.31%	2.93%	8.09%

Alternatives (US$) through 3/31/2025	QUARTER	SIX MONTHS	YEAR TO DATE	ONE YEAR
NFI-ODCE Index*	1.16%	2.33%	1.16%	2.13%
Gold Spot	19.02%	18.56%	19.02%	40.08%
WTI (West Texas Intermediate) Crude Oil	-0.33%	4.86%	-0.33%	-14.06%

**Q1 2025 data not yet released. The first quarter return assumed to be same as the Q4 2024 return.*

Sources: FactSet, the National Council of Real Estate Investment Fiduciaries, ICE.
Past performance is no indication of future results*. All investments have the risk of loss.*

ABOUT *THE 9:05*

Since 1978, we've held a weekly company-wide meeting during which we talk about the prior week's activities and those anticipated in the week to come. We refer to this meeting, which begins just after nine each Monday morning, as "the 9:05." Just as the 9:05 enables us to share our knowledge and insights with each other, this newsletter provides us with a valuable means of communicating with our clients. Hence its title: *the 9:05*.

Disclosures

The information in this publication is based primarily on data available as of March 31, 2025 and has been obtained from sources believed to be reliable, but its accuracy, completeness, and interpretation are not guaranteed. We do not think it should necessarily be relied on as a sole source of information and opinion.

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