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Markets remain off balance amid uncertainty over tariffs, economic growth, and the course for inflation. After a brief recovery, the S&P 500 is once again close to hitting a new low for the year. Initial relief from the administration's more moderate stance on reciprocal tariffs has shifted to renewed anxiety following the announcement of heavy tariffs on automobiles and components. While current estimates are subject to change, they suggest that all proposed tariffs could cost $300 billion, which is about 1% of the GDP. We continue to favor the highest quality stocks in this environment.

So far, the actual effect of tariffs on the economy has been minimal. The unemployment rate remains near historic lows at 4.1%. For an economy driven mostly by consumers, this is good news. However, there has been a noticeable decline in consumer and business confidence. The concern is that this negative outlook will soon lead to lower spending and investment, affecting corporate earnings. At the beginning of the year, analysts expected earnings to grow by 10-11%. A meaningful downgrade could be a tough hurdle for stocks to overcome.

Inflation also remains stubborn. The Federal Reserve's official core measure of inflation increased 2.8% year-over-year in February, which was slightly higher than anticipated and well above the 2% target. While the long-term impact is uncertain, tariffs will likely increase inflation in the short term. For example, some economists estimate that the average price of a new vehicle could increase by over $4,000 if tariffs are imposed as announced. The threat of higher inflation limits the Fed's ability to cut rates to support economic growth.

However, it is important to recognize that the Trump administration often pivots rapidly in response to changing conditions. Most of the proposed tariffs are expected to take effect on April 2, but they will likely differ from the original announcements. President Trump has often moderated his extreme positions in the past, leaving room for potential positive surprises.

Still, amid such uncertainty, we favor high-quality, dividend-paying stocks. These companies are more resilient during economic turbulence, helping to protect against both inflation and market fluctuations. Financially strong companies provide a solid foundation for balancing risk with the potential for long-term growth.

Thanks,
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