

SEEKING CERTAINTY

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Welcome to April! Each month, we aim to provide fresh insights into the financial markets and break down current headlines to help you cut through the noise and become a more informed investor. Your feedback and suggestions are always welcome, and if you know someone who might benefit from this piece, we encourage you to share it!

Without question, the past few weeks have been one of the more difficult stretches in recent memory – perhaps rivaling late 2008 when we were in the depths of the Financial Crisis. Then, as now, we found ourselves in a period of extreme uncertainty. In 2008, the dominant concerns centered on which financial institutions might file for bankruptcy or faced liquidity issues. Investors struggled with rampant speculation and rumors – many of them unfounded – further fueling volatility.

Today, it's all about tariffs. Ahead of Wednesday's highly anticipated announcement, investors worried that the Trump administration might move forward with tariffs on the automotive industry as well on Canadian and Mexican goods – potentially triggering broad retaliatory measures. Yet rather than providing clarity, Wednesday's announcement did very little to ease these fears, leaving many of us with the same unanswered questions we had hoped would finally be resolved.

But really, the issue isn't as much about the tariffs themselves as it is about the uncertainty surrounding them. Economists and analysts can easily plan and model their way around tariffs, yet it's another thing entirely to do so with the on-again, off-again game of roulette currently being played. The unpredictability creates an environment in which businesses, investors, and consumers alike struggle to make informed decisions.

To illustrate the point, let's consider a prominent U.S. consumer retailer. Since January, tariffs on Chinese goods have risen by 20%, with additional increases just announced¹. With approximately 60% of this retailer's products originating from China¹, the impact of these tariffs on its financials cannot be ignored. As-of last quarter, the company's gross profit margin stood at 24.6%, but after accounting for all expenses, that figure dropped to 6.2%¹, leaving the company with minimal buffer before tariffs affect profitability, potentially forcing them to make difficult strategic decisions. But here's the real issue: how can analysts project this company's future earnings – or any company's for that matter – when the potential tariff impact might be 50%...or zero...or could be changed at any moment? The answer is, they really can't.

But perhaps more concerning is the possibility that this uncertainty may no longer just be confined to the stock market and is now beginning to affect small businesses and consumers as well. The Uncertainty Index, a monthly survey of small businesses, surged to its second highest level in history in February². At the same time, the Consumer Optimism Index in March dropped to its lowest level in nearly three years². And beyond the surveys, anecdotal

evidence is beginning to suggest that consumer and business spending is softening. While most economists and strategists we follow do not yet consider recession to be a foregone conclusion, they acknowledge that prolonged uncertainty could further slow corporate and consumer spending to the point of stalling the economy into a legitimate contraction.

Where do we go from here? There is no denying that the recent correction has inflicted some damage on the financial markets. Year-to-date through March, the S&P 500 has given back -4.59%, the Nasdaq has lost -10.42%, and both indices have lost their upward momentum³. However, it is critical to recognize that neither index has definitively entered a sustained downtrend. This nuanced reality underscores our ongoing commitment to equities, albeit with a disciplined and selective approach. As unnerving as the present environment may be, we never advocate selling assets and retreating to the sidelines until conditions stabilize. Doing so is a risky gambit that often leads to costly, and sometimes irreversible mistakes.

Instead, we would do well to heed the wisdom of Warren Buffett, who famously observed that "the stock market is a device for transferring money from the impatient to the patient." History provides ample evidence of this truth. Over the past 75 years, investors have faced a continual onslaught of destabilizing events – wars, speculative bubbles, credit crises, pandemics, inflationary cycles, recessions, and now, tariff uncertainties. Yet through every period of disruption, one constant has remained: the long-term trajectory of the companies that form the backbone of America has been undeniably upward. The patient investor understands that volatility is never a signal to abandon a sound investment strategy, but rather an inherent characteristic of the financial markets.

Now is one of those times to remain patient. While this stretch may continue to be clouded by uncertainty, it is precisely in times like these that prudent decision-making and a steadfast commitment to our investment plans yields the greatest results. Staying the course and resisting the impulse to react emotionally to short-term volatility are not just guiding principles; they are the foundations of a successful investment strategy.

As we work our way through the current environment and as conditions continue to evolve, we will of course monitor developments closely and will provide thoughtful guidance along the way. We remain committed to helping you navigate this stretch with confidence and clarity.

Onward.

¹Birinyi Associates ²Yardeni Research ³FactSet Research

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