The Impact of U.S. Tariffs on Equity Markets

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Overview
2025 has unfolded with a unique and potent mix of economic headwinds and long-term investment opportunity. Amid a shaky first quarter and heightened trade tensions, U.S. equity markets—especially large-cap growth—have been thrust into a turbulent environment. The catalyst: renewed tariff measures and geopolitical reshuffling of global trade, spearheaded by the Trump administration's latest announcements.

Tariffs and the New Trade Order
The year began with optimism—solid economic data, resilient consumer spending, and strong corporate earnings. Yet the reimposition of tariffs in late March disrupted this narrative. Asian business activity came to a near standstill, and uncertainty clouded global supply chains. A recently announced 90-day pause in tariff escalation has temporarily soothed markets, but the broader issue remains: we are witnessing a seismic shift in global trade.

We believe 2025 will be defined by a "global trade rebalancing." Smart companies anticipated this and have already started exiting China, redirecting capacity to tariff-friendly countries. This exodus is not temporary—it marks the beginning of a longer-term realignment. While the near-term effect will be a drag on earnings and decision-making, we do not view this as a structural impediment to long-term U.S. economic leadership.

Short-Term Pain, Long-Term Gain
This reordering in global trade will result in a unique economic pattern for 2025: GDP will likely outpace corporate earnings—an inversion of the last decade, where tech-driven margin expansion saw earnings routinely exceed GDP growth. As companies adjust to new supply chains and inflation pressures, margins will come under pressure. Yet, once the tariff impacts are absorbed and the economy finds a new equilibrium, we expect a return to the previous trajectory: earnings growth outpacing GDP, led once again by U.S. large-cap growth. The near-term weakness in stock prices, particularly in large-cap growth, is creating an unusually attractive entry point. This category—previously expensive relative to European equities or value stocks—has become compelling again, especially considering its structural advantages in innovation and earnings power.

The Mega-cap Reset and an Active Management Opportunity
The "Magnificent Seven" mega-cap tech stocks have diverged.[1] Tesla and Apple face direct impacts from tariffs and consumer backlash in China. Others, such as Meta and Microsoft, will experience second- and third-order impacts[2], from changing advertising dynamics to supply chain adjustments. We no longer see the mega-cap cohort moving in lockstep. This decoupling marks a return to stock-picking—great news for active managers. As earnings dispersion grows and macro volatility persists, we believe active strategies have the potential to capture idiosyncratic growth.

Valuations: Attractive Again
Growth stocks are now trading below their five-year average relative to value. This pullback offers a rare chance to accumulate high-quality companies at attractive prices. For the first time in years, investors can access the world's best earnings compounders without the premium valuations.

AI: The Real Long-Term Catalyst

The true game changer is not tariffs. It's AI. As the global economy digitizes, the winners will be companies that use AI—not just sell it. AI is reshaping operating margins, workflows, and customer engagement across sectors. From Netflix to UnitedHealth, leaders are using AI to cut costs, personalize offerings, and expand profitably. And this transformation is just beginning.

Positioning Across Growth Styles

Our portfolio is diversified across three earnings growth profiles: cyclical, dynamic, and consistent. In the current environment, we're overweight consistent growth—those who can weather volatility and still grow earnings reliably. We've rotated somewhat out of semiconductors and infrastructure-related cyclicals, where much of the AI-fueled upside has already played out. We expect to reallocate back toward cyclicals and dynamic names as visibility improves, but we're being disciplined. The next AI-driven winners may not be those building infrastructure—but those leveraging AI to scale more effectively.

Final Thoughts

Market corrections are never fun. But they bring clarity—and opportunity. As prices fall, we see better businesses trading at more reasonable valuations. That's not a time to retreat. It's a time to lean in. Large-cap growth currently offers strong margin structures, earnings potential, and innovation leadership. With valuations reset, we believe the path forward is compelling. Tariffs may dominate the headlines, but AI, innovation, and American enterprise may continue to be significant drivers. This is not the end of the story—it's just a turbulent chapter in a much bigger book. And that book, we believe, may end with growth, resilience, and reward for disciplined investors.

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[1] The "Magnificent 7" refers to a group of seven dominant U.S. tech-related companies that have driven much of the market's growth recently: Apple, Microsoft, Amazon, Alphabet (Google), Meta, Nvidia and Tesla.

[2] Second- and third-order impacts describe the ripple effects of an event or decision. 1st being direct effect, 2nd being the reaction to the direct effect and 3rd being the longer-term impact or indirect impact of the event.

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About Risk:
All investments are subject to risk and will fluctuate in value**.** Growth-oriented common stocks and other equity type securities (such as preferred stocks, convertible preferred stocks and convertible bonds) may involve larger price swings and greater potential for loss than other types of investments.

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