Stock markets began the year riding the wave of the "Trump bump," which could be described as a surge in stock markets and economic optimism following President Trump's election and forthcoming policy announcements. The surge has largely dissipated and, in many ways, has turned into the "Trump slump" as the S&P 500 Index has dropped below pre-election levels. Of the administration's four main initiatives, extension of the 2017 Tax Cut & Jobs Act, deportation of illegal immigrants, tariffs, and DOGE, the tariff policies have been front and center and will remain so for quite some time.

Table 1 – Stock Index Total Returns – as of March 31, 2025

Equity	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year
MSCI Developed	-0.40	6.86	6.86	4.88	6.05	11.77	5.40
MSCI Emerging	0.63	2.93	3.80	8.09	1.44	7.94	3.71
Dow Jones Industrial	-4.06	-0.87	-0.87	7.40	8.75	16.20	11.43
S&P 500	-5.63	-4.27	-4.27	8.25	9.06	18.59	12.50
S&P 400	-5.47	-6.10	-6.10	-2.71	4.42	16.91	8.43
Russell 2000	-6.81	-9.48	-9.48	-4.01	0.52	13.27	6.30
NASDAQ	-8.14	-10.26	-10.26	6.37	7.61	18.48	14.52

One significant driver is the imposition of tariffs announced by Trump in early 2025 on imports from Canada, Mexico, and China. These tariffs, seen as a potential trigger for a global trade war, have raised concerns about higher prices, supply shortages, and increased recession risk, contributing to market declines. The other forthcoming tariff initiative stems from the February 13th Executive Order titled "Reciprocal Trade and Tariffs," which tasked the Commerce Department, alongside the U.S. Trade Representative (USTR) and other agencies, with investigating non-reciprocal trade arrangements that harm the United States.

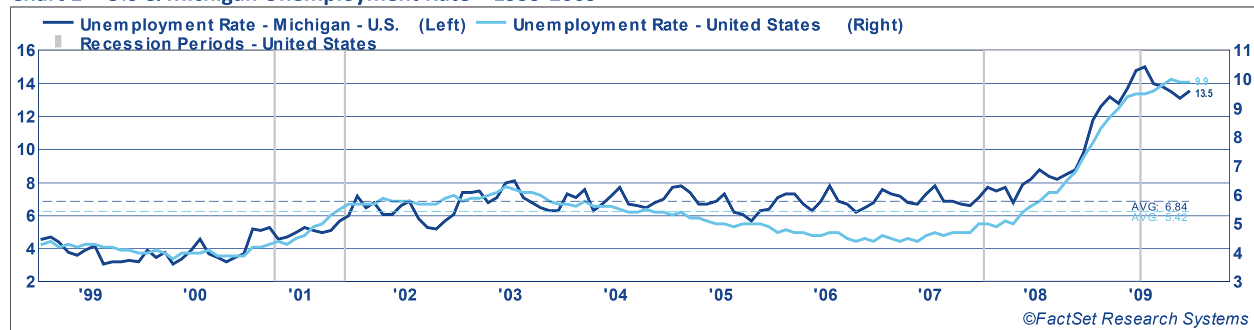
The goal is to address trade imbalances by aligning U.S. tariffs with those imposed by trading partners on American goods, while also considering other factors like value-added taxes (VATs) and non-tariff barriers. According to the February 13th memorandum:

> *"The United States has one of the most open economies and has among the lowest average weighted tariff rates in the world. The United States imposes fewer barriers to imports than other major world economies, including those with similar political and economic systems. For many years, the United States has been treated unfairly by trading partners, both friend and foe. This lack of reciprocity is one source of our country's large and persistent annual trade deficit in goods — closed markets abroad reduce United States exports and open markets at home result in significant imports.*
>
> *Our workers and industries bear the brunt of unfair practices and limited access to foreign markets. As noted in the Presidential Memorandum of January 20, 2025 (America First Trade Policy Memorandum), this situation is untenable. The trade deficit of the United States threatens our economic and national security, has hollowed out our industrial base, has reduced our overall national competitiveness, and has made our Nation dependent on other countries to meet our key security needs. By making trade more reciprocal and balanced, we can reduce the trade deficit; grow the United States economy; and improve our trade relationships with trading partners to the benefit of American workers, manufacturers, farmers, ranchers, entrepreneurs, and businesses."*

Indeed, the middle class in the U.S. has been under assault for decades but it was most evident after the passing of the North American Free Trade Agreement (NAFTA) in 1993 which saw millions of high-wage

jobs shipped overseas. According to the U.S. Department of Labor, in December 1999 the U.S. had approximately 17.3 million manufacturing jobs. By December 2009, this number had fallen to 11.5 million, resulting in a loss of about 5.8 million manufacturing jobs nationwide over that decade. During this time frame when the U.S. economy averaged modest growth and a decline in the unemployment rate, the Michigan economy lagged due to the loss of 436,000 manufacturing jobs. This period for Michigan truly was the Lost Decade which culminated with historic levels of job losses during the Great Recession.

Chart 1 – U.S & Michigan Unemployment Rate – 1999-2009



Various agencies are tasked with the research process which involves analyzing tariffs imposed by other countries on U.S. exports, as well as broader trade practices such as subsidies, regulatory barriers, and currency policies. For instance, the administration highlighted disparities like the European Union's 10% tariff on U.S. cars versus the U.S.' 2.5% tariff on EU cars, and the prevalence of VATs in Europe, which are seen as indirect trade barriers. These findings may also consider the economic implications of matching these foreign tariffs and VAT rates, with estimates suggesting a potential 13% increase in the U.S. effective tariff rate if fully implemented.

Similar to exiting the COVID lockdowns, the lack of tariff-related historical data or precedence makes forecasting much more difficult for analysts. Thus, the U.S. and global economy are entering a period of heightened uncertainty and volatility. Without support from meaningful tax cuts and deregulation to offset effects of tariffs, many analysts contend this could reduce consumer and business demand and lower GDP growth. In general, economic growth estimates are moving modestly lower, albeit still positive growth and not forecasting a recession, while inflation forecasts are moving moderately higher.

In March, the Federal Reserve provided their latest Summary of Economic Projections which lowered their 2025 economic growth outlook to 1.7% from 2.1% and increased their inflation estimate to 2.8% from 2.5%. The Fed basically determined that these changes offset and made no change to their rate-cut expectations which stand at a forecast of two more rate cuts in 2025. Currently, fed fund futures show a 65% probability for June being the first rate cut of 0.25%.

During Chair Powell's press conference, he noted that the economy is strong overall, that labor market conditions are solid, and inflation has moved closer to the Fed's goal of 2% long-term inflation rate. For now, the Fed plans to wait on the sidelines and watch how the administration's policies and initiatives play out, and the Fed will adjust accordingly to incoming data.

It is widely hoped that once President Trump announces the reciprocal tariff policy on April 2nd, aka "Liberation Day", that it will bring more clarity to market participants and an end to this period of

heightened uncertainty and volatility. Over the next few months having a somewhat more predictable environment should be easier to navigate and allow companies to start forward-thinking again.

Given all of the media attention on tariffs last quarter and U.S. stock market declines, one aspect that was overlooked was the benefit of having a well-diversified portfolio. As highlighted in Table 1, broad U.S. stock indices were down from -4.3% to -10.3%. However, international markets, commodities, and bonds posted positive returns. Below are broad-based bond index total returns.

Table 2 – Fixed Income Total Returns – as of March 31, 2025

Fixed Income	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year
Bloomberg U.S. Aggregate	0.04	2.78	2.78	4.88	0.52	-0.40	1.46
Bloomberg Inter Gov't/Credit	0.44	2.42	2.42	5.65	2.18	0.86	1.81
Bloomberg High Yield	-1.02	1.00	1.00	7.69	4.98	7.29	5.01
Barclays Michigan Muni	-1.54	0.07	0.07	1.56	1.50	1.07	2.30
Bloomberg Municipal	-1.69	-0.22	-0.22	1.22	1.53	1.07	2.13

Risks were mitigated through exposure to a range of asset classes with divergent performances, reducing overall volatility and enhancing risk-adjusted returns. This strategic approach underscores the enduring value of diversification in navigating complex market environments. Our blended benchmark by investment objective highlights how portfolio returns benefited in the first quarter 2025:

Table 3 – West Shore Bank Blended Benchmark Total Returns – as of March 31, 2025

	Income	Moderate Income	Balance Income	Balanced	Balanced Growth	Moderate Growth	Growth	Aggressive Growth
1Q25	+1.7%	+1.3%	+0.9%	+0.5%	+0.1%	-0.3%	-0.8%	-1.5%

The U.S. economy is already gradually weakening from the effects of inflation-related interest rate hikes. Tariff policies, and the constant vacillation thereof, has brought added pressure eroding consumer and business confidence. It has also impacted S&P 500 corporate earnings estimates for 2025 over the past few weeks. At the end of last year, 2025 S&P 500 earnings growth estimates stood at +14.8%. At present, they stand at 11.5%, a decline of -22.3%.

It is unclear how tariffs will ultimately play out, but economic activity is clearly slowing down. Given a slowing economy, weakening corporate earnings, lack of precedence, complexities, and likely unintended consequences surrounding tariffs, we have moved back to a neutral rating on stocks from overweight, with proceeds going to bonds and cash. For bonds, we continue to maintain a defensive, shorter duration strategy as we expect the yield curve to continue to steepen and spread relationships to normalize.

Prepared by Perry Adams – SVP & Director – West Shore Bank Wealth Management – April 3, 2025

Sources: FactSet, Federal Reserve, The White House, U.S. Department of Labor, U.S. Commerce Department, U.S. Trade Representative, Michigan Department of Treasury, Bureau of Labor Statistics

This publication is for informational purposes only and reflects the current opinions of West Shore Bank. Information contained herein is believed to be accurate but cannot be guaranteed. Opinions represented are not intended as an offer or solicitation with respect to the purchase or sale of any security and are subject to change without notice. Statements in this material should not be considered investment advice, a forecast or guarantee of future results. To the extent specific securities are referenced herein, they have been selected by the author on an objective basis to illustrate the views expressed in the commentary. Such references do not include all material information about such securities, including risks, and are not intended to be recommendations to take any action with respect to such securities. Indices are unmanaged, do not reflect the deduction of any fees normally associated with an investment management account, including investment advisory fees. Indices are not available for direct investment. This publication has been prepared without considering your objectives, financial situation, or needs. Before acting on this information, you should consider its appropriateness having regard to your objectives, financial situation, or needs. **Past performance is no guarantee of future results.** This publication is the property of West Shore Bank and is intended for the sole use of its clients, consultants, and other intended recipients. It should not be forwarded to any other person. Contents herein should be treated as proprietary information. This material may not be reproduced or used in any form or medium without express written permission. **INVESTMENTS: NOT FDIC INSURED - NO BANK OR FEDERAL GOVERNMENT GUARANTEE – MAY LOSE VALUE**