

**Q2 2025**

**QUARTERLY COMMENTARY**

What a difference a new president can make. Although President Donald Trump declared that April 2 will be America’s Liberation Day, so far stock investors have reached a different conclusion. Stock markets across the globe are experiencing some of their most volatile days in years due to tariff turmoil. Just now, Trump has once again dramatically altered his tariff policies, abruptly moving financial markets. Our President may ultimately ‘Make America Great Again’ but it is increasingly obvious that it will not happen without great financial consequences. In Trump 1.0, the President viewed the daily stock market as a barometer to measure how he was doing. He repeatedly boasted about the market on the good days. This time he has avoided commenting about the decline in the stock market and instead is now bragging about cheaper oil prices. Almost everyone desires lower commodity prices, but not at the expense of a waterfall decline in the U.S. stock market. The co-founder of the world’s largest hedge fund, Ray Dalio, exclaimed, “I agree with the problem. I’m concerned about the solution.”  Even Elon Musk is pleading with Trump to reverse his tariff policies. Fortunately for investors with diversified portfolios at ICC holding high quality bonds and other lower correlated asset classes, the strategy has cushioned the drop in U.S. stocks.

The economy has shown extraordinary resilience to domestic political uncertainty, geopolitical tensions, and much more. Economic indicators have suggested that the economy was not only far from recession territory but also showing signs of acceleration. But tariffs, far more punitive than even the most pessimistic economists expected, have risked pushing much of the world closer to a recession. Corporate profits are expected to shrink by 20% to 30%. Our nation’s gross domestic product or GDP (the total value of all goods and services produced in the U.S.) is now forecasted to fall from +2.5% to +1.5% or worse, unless negotiations prove successful or a material change in policy occurs soon. Although the Federal Reserve acknowledged it is prepared to address the fallout from global tariffs, circumstances presented by the current administration present bigger challenges for our nation’s central bank. This time the Fed cannot yet tell which enemy it must confront: inflation, deflation, or stagflation. The Fed has tools to alleviate increasing unemployment, deteriorating corporate profits, and even a stock market in decline, but it cannot act until economic data tells it what to do. In other words, it can come to the rescue and restore economic and financial stability when needed, but cannot act proactively, only reactively.

Offering some consolation an old stock market adage often holds true, “Stocks tend to pop after a drop.” That is why it’s too dangerous to dramatically increase or decrease stock allocation when volatility is high. The dilemma is that nobody knows when the scales will tip, reversing from more sellers to buyers. The recent slide in global equities is clearly tariff-driven. Once there is final agreement between the U.S. and other countries regarding tariffs, the move higher is likely to be explosive. Even indications of a de-escalation on tariffs result in a sharp snapback in equities. That is why timing the market is almost always futile and a fool’s errand. By the time those hoping to respond to the news and get back in, the market has already moved upward, leaving those underinvested far behind.

President Trump has repeatedly made the point, “The entire world is ripping us off!” The U.S. current account deficit measures the difference between our country’s inflows and outflows of goods and services, including income from interest and dividends. Emerging economies often run surpluses, and developed countries tend to run deficits. It should be no surprise that smaller countries cannot purchase and consume the same volume of goods and services as larger economies, especially the world’s largest economy, the United States. Yet the math formulated by Secretary of the Treasury, Scott Bessent, and others used this methodology to determine the degree of tariffs charged to countries according to Liz Anne Sonders, Chief Investment Strategist at Charles Schwab, and many others. Some of the highest tariffs imposed by Trump were directed at the smallest countries, such as Cambodia, Sri Lanka, Madagascar, and even uninhabited islands, agitating much of the global population to respond defiantly to the lack of precision in execution. CNBC reported that Ken Langone, Home Depot’s co-founder, called the number of import duties put on Vietnam, “B.S.,” stating “I don’t understand the formula. I believe the President has been poorly advised by his advisors about the trade situation and the formula they’re applying.”

But why don’t Americans ask the question, “Do we accrue any benefit by running a current account deficit?” Many people are increasingly aware that politicians tell us what they want us to hear, not what we need to hear. This is why our Company strives to provide you with a more clear and complete understanding of current wealth-related topics, especially where the media falls short, so you can remain better-informed investors. According to long-time industry leader, Ned Davis Research, **the flip side of the record current account deficit is the record financial account surplus.**A financial account surplus indicates a net inflow of capital into our country, meaning foreign buyers are purchasing more assets in the U.S. than we are purchasing in foreign countries. An example occurs when foreign investors buy more stocks and bonds in the U.S. (boosting prices) than U.S. investors buy in foreign markets. Such activity can lead to appreciation in our financial markets and strengthen the U.S. dollar.

To be fair, a persistent financial account surplus can signal potential issues, such as an over-reliance on foreign investment. Foreign governments and other investors purchasing U.S. Treasury securities help finance our growing national debt and push interest rates lower, a phenomenon that benefits Americans by lowering our debt service on our nation’s debt. Foreign investment has funded much of our economy and one-quarter of fixed assets, including businesses and real estate, not just U.S. stocks and bonds.As a result, household net worth has outpaced GDP. A stronger dollar has also helped to this end. This accumulation of U.S. financial assets by foreigners has been in an uptrend since the late 1960’s for equities and real estate helping Americans create greater wealth. But ownership of U.S. Treasury debt by foreigners has declined in recent years. **The benefits we accrue through our current financial account surplus noted here are almost certain to fade under Trump’s tariff policies**.

U.S. aggression against allies is eroding the dollar’s “global reserve” status. Confidence in U.S. long-term economic leadership and stability is fading. Comments by President Donald Trump such as, “The European Union was formed in order to screw the United States,” have only accelerated the motivation of foreign governments to find alternatives to become increasingly less dependent upon America. The U.S. is no longer the only game in town. With the continued fraying of the social fabric in the U.S., that marginal euro or marginal yen is looking to go elsewhere, according to NDR Research. That will likely result in a continued weaker U.S. dollar, a higher natural rate of interest (rising r-star), higher yield demanded by investors for holding U.S. government bonds (bigger term premium), and a higher hurdle for stocks to attract investors above a risk-free investment (higher equity risk premium). Already, foreign stock markets have outperformed ours by nearly double digits year-to-date, and the dollar has slid against major currencies, another phenomenon that has helped ICC clients with diversified portfolios.

New global developments will undoubtedly affect financial asset classes, investment strategies, and securities differently, requiring approaches more closely aligned with evolving opportunities. Chaos has its benefits and creates for new opportunities, especially on a relative basis. Investments are now being analyzed and then classified by their degree of direct tariff exposure, recession sensitivity, earnings growth expectations in a period of heightening risk aversion, and increasingly, relative valuation. ICC has an array of financial tools to draw from under various economic scenarios.

Over the ensuing months, the dispersion of investment results across the range of investment opportunities existing today can be huge, creating big winners and losers. It is our Company’s guiding principle that it is far more important to avoid being completely wrong than perfectly right. In other words, we win by not losing because financial markets move up over time, but not all the time. Every time there is market turmoil, we are guided by revered investor Sir John Templeton’s most famous quote, “The most dangerous words in the English language are it’s different this time.” ICC has successfully navigated our clients through every market decline since the 1980’s and is well prepared to guide our valued clients through this environment as well. We humbly thank you for your trust, confidence, and loyalty. You have made ICC the only advisor in Nevada ranked in the top 100 in the nation and the number one advisor in Nevada for over 10 years by the industry’s financial publications, Barron’s and The Wall Street Journal, and the highest-ranking wealth advisor in Nevada by Forbes. Every one of us at The Investment Counsel Company is proud of our long-standing relationships with our valued clients.

 

Sincerely,

Randy Garcia

Chief Executive Officer

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